

**The Minutes of the
Meeting of the
Lancaster County Retirement Board
February 10, 2017**

The meeting was called to order by Commissioner Dennis Stuckey at 9:05 a.m. in Conference Room 703 at the Lancaster County Offices, 150 N. Queen Street.

Members Present: Commissioner Dennis Stuckey, Commissioner Joshua Parsons, Commissioner Craig Lehman (arrived at 9:25 a.m. and left at 10:55 a.m.), and Controller Brian Hurter.

Others Present: Lee Martin, Peirce Park Group (PPG), and Kathy Kunkel.

Treasurer Amber Green was unable to attend the meeting.

Commissioner Parsons moved to approve the November 18, 2017, Retirement Board minutes as circulated. Controller Hurter seconded. The motion carried unanimously.

Mr. Martin presented the Retirement Fund's investment performance report as of December 31, 2016. The total Fund was valued at \$257,799,086 with a third quarter gain of \$3,343,766 and a one year gain of \$19,203,074. The return is net of investment manager fees including mutual funds. He noted that the positive contribution for the quarter, compared to their benchmark, was from Federated Investors, Emerald Advisors, and Dodge & Cox. The negative contribution to return for the quarter, compared to their benchmark, was from MFS International, Lord Abbett, and Acadian.

Mr. Martin reviewed Lancaster County's retirement investment accomplishments during 2016: The Board approved to terminate the C.S. McKee large cap equity fund and invested those proceeds in an S&P 500 index fund; negotiated a lower C.S. McKee fixed income fee schedule; conducted an asset liability study; real estate education and allocating 5% of investment portfolio split between J.P. Morgan and Morgan Stanley; and agreed to adjusted asset allocation targets for a new Investment Policy Statement (IPS) for review at the February 2017 meeting.

Mr. Martin reviewed the economic and financial environment including information on equities, fixed income, and inflation-sensitive assets. Mr. Martin reviewed the 5-year summary of cash flows, asset allocation history, and percentile ranking for Lancaster County. He also reviewed the cumulative returns of the individual fund managers as of December 31, 2017. In addition, he reviewed the preliminary returns for the month of January 2017.

Controller Hurter discussed the County's projected annual Actuarially Determined Contributions (ADC) and 2016 fund return provided by Mr. Martin. He noted that the 2017 budget for ADC payments is \$4.6 million and based on the asset liability study he expects the ADC to be \$4 million or under. He suggested having Korn Ferry prepare a

calculation for an ADC estimate based on the return assumption being lowered from 7.50 to 7.25. He stated the Board should consider reducing the return assumption especially if it can be decreased without having an impact on the budget. Mr. Martin stated that it is a good idea to maintain a 3 point spread in the delta between the salary assumption and the return assumption. The return assumption is currently 7.5 and the salary assumption is 3.75.

Controller Hurter stated that his office would try to provide Korn Ferry with the active data valuation files prior to the April Board meeting so that Korn Ferry can include any revised assumptions in the actuarial report at the May meeting.

Controller Hurter stated that the Board should review setting up a trust for the Other Post Employment Benefits (OPEB). Mr. Martin stated that other counties have found that by setting up a trust and even putting in a minimal amount of assets, they have been able to reduce the overall OPEB liability. Mr. Martin stated that it is the Board of Commissioners decision for the benefit design and whether or not to prefund the OPEB liability.

Controller Hurter reviewed the projected operating cash balance for the Retirement Plan. He noted that the trends have changed during 2016 and the monthly payouts averaged approximately \$1.3 million for the year. He stated that the County's payments toward the ADC will start April 2017. Controller Hurter stated that dividends of \$2.4 million were transferred into the Plan's cash account and that there was not a need to complete the expected \$1 million transfer for February. He stated an additional \$300,000 - \$500,000 may need to be transferred in March.

Controller Hurter noted the County's contributions towards the 2017 ADC will begin in April and he will work with the Treasurer's Office to make sure the funds are available. He stated that he would like to review the balance of the StoneRidge Fund and discuss rebalancing and funding options at a future meeting in conjunction with the funding of the new real estate investments.

Mr. Martin distributed the new Investment Policy Statement (IPS) and a separate report Investment Policy Statement Comparison. He noted that the current IPS was effective August 12, 2011 and was amended four times (2012, 2013, and twice in 2014). He reviewed the key differences between the current and new IPS as it relates to general stipulations, and holdings in equities, fixed income, and real estate. In addition, the report included a comparison of the current IPS asset allocation to the new IPS which includes real estate. Controller Hurter noted that the new IPS has been reviewed by the County Solicitor's Office and they did not see any issues. Following discussion, Commissioner Parsons moved to approve the new IPS. Commissioner Stuckey seconded. The motion carried unanimously.

Controller Hurter discussed the transaction between Peirce Park Group and Marquette Associates. Controller Hurter reported that the Solicitor's Office advised that the Board acknowledge the merger. Following discussion, Commissioner Stuckey moved to approve that the Board acknowledges that the transaction took place. Commissioner Parsons seconded. The motion carried unanimously. Controller Hurter will draft a letter to send to Peirce Park Group acknowledging the change.

Mr. Martin reviewed the Marquette Associates Firm Overview. He discussed their range of consulting services, their approach, how they serve clients, their client retention rate, and their research team.

Controller Hurter reviewed the terms of the current contracts for Peirce Park Group and Korn Ferry HayGroup. Both contracts were approved for a 3-year period with an option for two, one year extensions. The initial 3-year period covers January 1, 2015 through December 31, 2017. Controller Hurter asked the Board how they would like to move forward with these contracts. The options are to put out a Request for Proposals (RFP) for retirement consulting services and/or the retirement related actuarial services or take an extension based on the current contracts.

Mr. Martin provided a review of Peirce Park Group Service consulting offerings. He compared the four options: traditional consulting, the 52 advantage, collaborative consulting, and consulting plus.

Following discussion, Commissioner Stuckey moved to issue an RFP for retirement actuarial services, effective January 1, 2018. Commissioner Lehman moved to approve. The motion carried unanimously.

Commissioner Parsons moved to issue an RFP for retirement consulting services. The motion died for lack of a second. It was the consensus of the Board to execute the option for a one year extension.

Controller Hurter did not second the motion because he felt that from his past experience in 2014 when two RFP's were issued concurrently for retirement consulting and actuarial services, it is a lot to manage and it would be best to do one at a time. In addition, Commissioner Lehman and Commissioner Stuckey thought the Board should wait a year before issuing an RFP for retirement consulting services. This will give them time to review Peirce Park's policies and performance in consideration of their recent merger with Marquette Associates.

Controller Hurter reported that we received the ConvergEx litigation settlement check for \$79,445.68 on November 21, 2016.

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In reviewing Plan goals for Peirce Park in 2017, Mr. Martin predicted that we may enter a period of rising inflation and interest rates. He suggested that they review the fund's overall asset allocation and consider strategies that may increase income during this type of period. He also suggested that the Board consider increasing its allocation in international investments due to the relative valuation of world equities and strength of the U.S. dollar.

Commissioner Stuckey moved to adjourn the meeting at 11:03 a.m. Commissioner Parsons seconded. The motion carried unanimously. The next meeting is April 7, 2017, at 9:00 a.m. in Conference Room 703 at the Lancaster County Offices, 150 N. Queen Street.

Respectfully submitted,

Brian K. Hurter
Secretary