

The Minutes of the  
Meeting of the  
Lancaster County Retirement Board  
November 18, 2016

The meeting was called to order by Commissioner Dennis Stuckey at 9:07 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, Controller Brian Hurter, and Treasurer Amber Green.

Others Present: Michael Shone, Peirce Park Group (PPG), and Kathy Kunkel.

Commissioner Parsons moved to approve the October 14, 2016 Retirement Board minutes as circulated. Commissioner Lehman seconded. The motion carried unanimously.

Mr. Shone stated that annually, Peirce Park Group “gives back to the community” by donating \$1,000 to charities in each Pennsylvania County they serve. He stated that he will send a letter to each Board Member asking if they would like to recommend a local organization.

Mr. Shone presented the Retirement Fund’s investment performance report as of September 30, 2016. The total Fund was valued at \$257,074,760 with a third quarter gain of \$8,480,921 and a one year gain of \$22,989,468. He reported a third quarter return of 3.4% and a year-to-date return of 6.5%. 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. Shone reviewed the economic and financial environment including information on equities, fixed income, and inflation-sensitive assets. Mr. Shone 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 September 30, 2016. He also noted that the investment manager changes made by the Board made a significant reduction in management fees this past year.

Mr. Shone noted that as a follow-up to some questions raised at October Retirement Board Meeting regarding the Asset Liability Study Summary Report, he provided a new document with a revision to the chart on page 21. He noted that as discussed last month, this report provides insight and projections to help the Board answer a range of questions including but not limited to: how much to budget for pension contributions (1, 5, and 10 years), the funding approach for pension benefits, possible changes to the actuarial assumptions, and options for the pension asset investment policy.

Controller Hurter reviewed the projected operating cash balance for the Retirement Plan and noted that the trends have changed and the monthly payouts of approximately \$1 million have increased to approximately \$1.3 million. The County's Actuarially Determined Contribution (ADC) of \$1,000,000 per month from April through July and \$580,199 in August were paid in full. The cash balance at the end of October was approximately \$1,500,000 and is projected to be approximately \$840,000 at the end of November.

Controller Hurter moved to approve a transfer of up to \$4,000,000 from the StoneRidge Investment Fixed Income Fund into the operating cash account as needed, to replenish the cash balance over the period of November 2016 through March 2017. Commissioner Lehman seconded. The motion carried unanimously.

Controller Hurter noted the County's 2017 ADC contributions will begin in April and the 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. Shone distributed the Fixed Income Investment Structure education piece for the Board's review. He reviewed the current fixed income structure and options to move from the current "bullet" structure (intermediate-term 3-7 year government bonds and spread sectors) to a "barbell" structure (intermediate-term 5-10 year government bonds and short-term spread sectors). He provided summary information to compare the current fixed income managers, C. S. McKee and Federated Investors. In addition, Mr. Shone reviewed a chart of barbell options and manager allocations. Moving from the current fixed income structure would also include an investment allocation to the Fidelity 5-10 Year Treasury Bond Index. The Board reviewed the options of keeping the current fixed income manager allocations or using one of the barbell approach options which replace the current C. S. McKee and Federated investments with their short intermediate government credit investments and add the Fidelity 5-10 Year Treasury Bond Index. Mr. Shone noted that the current manager allocations have the potential for higher returns that may outweigh the estimated savings in investment fees of the barbell approach. Following discussion, it was the consensus of the Board to keep the current manager allocations with C. S. McKee and Federated Investors.

Controller Hurter said that the proposed Investment Policy Statement (IPS) will not need to be revised based on the decision to keep the current portfolio allocations. He noted that Peirce Park will provide the updated version of the IPS to Controller Hurter for distribution to the Board and the County Solicitor for review. The Board will discuss at a future meeting.

Commissioner Lehman moved to set the 2017 pension plan interest rate to be paid on the members' retirement accounts at 4%. Commissioner Stuckey seconded. The motion carried unanimously.

Controller Hurter reviewed information on a cost of living adjustment (COLA) for retirees for 2017. The consensus of the Board was to take no action. The last time the Board took an official vote was November 2014.

Controller Hurter stated that the Controller's Office will again plan on working with Korn Ferry HayGroup to provide the information necessary to issue the Employee Pension Benefit Statements as was done the past two years. The cost is \$1.85 per statement and is paid from the Plan. Following discussion on the benefits of providing this information to the employees, Controller Hurter moved to approve. Commissioner Stuckey seconded. The motion carried unanimously.

The Board discussed the planned meeting dates for 2017. Treasurer Green moved to approve the following Retirement Board Meeting dates for 2017: February 10, April 7, May 12, August 18, October 13, and November 17, all to be held at 9:00 a.m. Commissioner Stuckey seconded. The motion carried unanimously.

Mr. Shone presented a report Other Post-Employment Benefits (OPEB) Funds - Accounting and Managing the Liability. Mr. Shone noted that these liabilities are less predictable than pension liabilities as they are tied to medical cost trend rates. He highlighted issues such as: GASB 74 & 75 accounting requirements, liability valuation, benefit design, funding policy, asset investing, and setting up an OPEB trust. He 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 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. The Board discussed the options of the traditional contract model and the Outsourced Chief Investment Officer (OCIO) model. Mr. Shone stated that they offer a third option which falls in between these two options. The Board requested that Mr. Shone provide additional information on the options at the February Board Meeting. Following discussion, it was the consensus of the Board to discuss at the next meeting.

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Commissioner Stuckey moved to adjourn the meeting at 11:24 a.m. Commissioner Lehman seconded. The motion carried unanimously. The next meeting is February 10, 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