

The Minutes of the  
Meeting of the  
Lancaster County Retirement Board  
April 12, 2019

The meeting was called to order by Commissioner Dennis Stuckey at 9:00 a.m. in Conference Room 703 at the Lancaster County Offices, 150 N. Queen Street.

Members Present: Commissioner Dennis Stuckey, Commissioner Craig Lehman (arrived at 9:10 a.m.), Controller Brian Hurter, and Treasurer Amber Martin.

Others Present: Michael Shone and Lee Martin, Marquette Associates, Lawrence George (left at 10:00 a.m.), and Kathy Kunkel.

Commissioner Joshua Parsons was unable to attend the meeting.

Controller Hurter moved to approve the February 8, 2019 Retirement Board minutes as circulated. Treasurer Martin seconded. The motion carried unanimously.

Mr. Shone presented the Fund's performance update report for March 31, 2019. The total Retirement Fund was valued at \$291,178,617 (real estate values were December 31, 2018 values) with a first quarter net return of 9.0%. The policy index return was 9.4%. He reported that the first quarter 2019 investment gain made up most of the 4<sup>th</sup> quarter 2018 loss. The total fund at December 31, 2018 was valued at \$269,789,088. Mr. Shone noted that due to five-year actuarial asset smoothing the fund did not have to absorb the entire 4<sup>th</sup> quarter loss in one year as it is smoothed over 5 years. With the market rebound in the first quarter of 2019, the impact may only be felt for one year.

Mr. Shone noted that most equity managers matched or exceeded their benchmarks with the exception of Aristotle and Acadian. This was expected in a strong up market as these managers usually do well in down markets but not as well in up markets. The first quarter returns for the real estate funds were not available. He reviewed the Fund's asset allocation vs. target and reported that all asset classes were within the policy range.

Controller Hurter stated that he met with Craig Moyer, Emstone Advisors, to review the Short Duration U.S. Fixed Income maturities schedule and to structure how to cover the cash needs from September 2019 through March of 2020. Controller Hurter also discussed with him about the fixed income fund underperforming. Mr. Moyer noted that the collective investment trust (CIT) portion of the fund impacted the last six month's returns, while the traditional fixed income investments in the fund have been at the benchmark. In addition, Mr. Moyer noted that there were a few write-offs (non-collectible accounts) written down to zero but are likely to be collectible in the future. Mr. Moyer noted that he believes the CIT portion of the fund will be fine. Controller

Hurter stated that he would continue to watch the fund and let the Board know of any issues.

Mr. Shone noted that the Board's focus last year was on equities and in the future the Board may want to review the fixed income structure of the Fund. He stated that the Fund's fixed income allocations are short to intermediate duration and we may want to look at longer duration intermediate fixed income treasury investments, such as a treasury index bond fund. The Board agreed that it is important to ensure that the fixed income investments provide the liquidity needed for the Fund and meet the earnings expectations of the investment class.

The Board discussed two current fixed income managers, C.S. McKee and Federated Investors. Following discussion, it was the consensus of the Board to review the fixed income structure at the May meeting including the investment performance of C.S. McKee and Federated. The Board discussed the possibility of bringing them in for a presentation at a future Board meeting.

Controller Hurter reviewed the projected operating cash balance for the Retirement Fund. He noted that the trends continue in 2019 with the total monthly payouts averaging approximately \$1.3 million. He stated that the operating cash balance was approximately \$1.2 million as of April 5, 2019 which is \$100,000 less than the \$1.3 million the Board likes to have in operating cash. In April 2019, the County will begin making the 2019 Actuarially Determined Contribution (ADC) contributions of \$1 million per month to the Fund. The ADC is preliminarily estimated at \$5 million. These transfers should cover cash needs of the Fund through August. Controller Hurter estimated an operating cash balance at the end of August of approximately \$1.2 million. Controller Hurter noted that he will work with the Treasurer's Office to make sure the ADC contributions are available and funded.

Controller Hurter noted that Emstone will structure their fixed income portfolio so that they have \$7 million available between September 2019 and March 2020, in case it is needed to meet the Fund's liquidity needs. There is currently \$18 million invested with Emstone. The overall funding for liquidity needs will be reviewed and discussed at the August Board meeting.

Controller Hurter reported that he received an updated ADC from Korn Ferry of \$5,050,000. This is a \$90,000 increase from the original ADC estimate of \$4,960,000 provided in October 2018. The increase is due to the poor market returns during the 4th quarter of 2018. Controller Hurter stated that he spoke with Maggie Weidinger, IT Budget Director, and she felt that the increase could be absorbed in the County's 2019 budget.

Controller Hurter provided an update on the online pension calculator to be provided by Korn Ferry. He stated that the calculator is on Korn Ferry's website and he and his staff have tested the pension calculator with a data sample that would be in provided in self-service for the employees to drop into the calculator. After testing the pension calculator, Controller Hurter is suggesting that Korn Ferry make several updates to the calculator based on the testing results. Once this is updated Controller Hurter will notify the employees and the form will be available in PeopleSoft self-service. He stated that the process is moving along and hoped it would be available for employees in the near future.

As discussed at the February Board meeting, Controller Hurter stated that December 31, 2019 will be the end of the current 3-year contract (2015-2017) with two one-year extensions (2018-2019) that the County had for retirement fund consulting services with Marquette Associates. It was the consensus of the Board to continue moving forward with the plan to issue an RFP for retirement consulting services during 2019. Controller Hurter stated that he will put together a preliminary RFP and proposed timeline and will provide it to the Board at the May meeting for discussion.

Mr. Shone discussed some changes that may impact the calculation of the ADC. He noted the mortality tables are expected to be updated and a change may be recommended by the actuary for 2020. If the new mortality tables are implemented it will increase liabilities and cause the ADC to increase. He suggested that the market returns over the next 10 years are expected to be below the current actuarial assumed return (AAR) which could cause the ADC to increase. He stated that the actuary is also considering changing the method for calculating the member reserve liability. This would be consistent with GASB 67 and 68. Making a change to this calculation would lower the liability and ADC. Mr. Shone felt the combination of these changes, if made together, would lower liabilities and the ADC. He also suggested that in making these changes there may be an opportunity to lower the return assumption and absorb the cost within the current budgeted amount. Controller Hurter noted that in the past, a reduction to the return assumption of .25% would cause an increase to the ADC of approximately \$1 million. Mr. Shone suggested that by lowering the return assumption the Board could potentially discuss de-risking the portfolio. He suggested that this may be something we want to have Korn Ferry review and project before we get to next year.

Controller Hurter noted that Korn Ferry will be on the agenda for the May Board meeting to present a draft of the 2019 Actuarial Valuation Including Determination of County Actuarially Determined Contribution. The draft report will include a calculation for the ADC based on the current assumptions. Korn Ferry can also answer any questions on the change in mortality tables or ADC calculation.

Controller Hurter stated that due to no longer having funds in the Emerald Advisors Mid Cap Growth fund, we do not have any investments that are receiving commission recapture. He noted that we have a contract for commission recapture with Cowen and asked the Board if we should terminate the contract or leave it in place. Following discussion, it was the consensus of the Board to keep the contract in place as there is no cost.

Controller Hurter stated the contract for fiduciary liability insurance with Chubb Insurance Company for \$1,000,000 in coverage is up for renewal in June. The policy is reviewed and presented by Murray Securus. Controller Hurter asked the Board if they wanted him to move forward with continuing the coverage with Chubb or have Murray Securus get quotes from additional providers. The consensus of the Board was for Controller Hurter to contact Murray Securus and request getting quotes from additional providers, including the coverage provided and cost. Controller Hurter stated that he would reach out to Murray Securus with the goal of having information at the May meeting.

Mr. Shone and Mr. Martin presented an education piece "Further Diversification" on asset classes and asset allocation. Mr. Shone provided an overview of the asset class roles to maximize return at an appropriate level of risk. Mr. Shone noted that equities generate the highest real returns over the long term; however, a high inflation environment can cause both equities and fixed income to perform poorly. Mr. Shone reviewed charts comparing the risk/return characteristics, diversification correlations, and annual returns for: U.S. equities, non-U.S. equities, fixed income, core real estate, timberland, farmland, core infrastructure, global listed infrastructure, and commodities. Mr. Shone also reviewed the investment options correlation to inflation. Mr. Martin then provided an overview on timberland, farmland, and infrastructure investments. For each type of investment, he provided the broad definition of the investment, sources of return, benefits and risks, and the geographic opportunity. Mr. Martin noted each of the investment types are a long-term investment, provide diversification, and are a large growing opportunity set. In addition, he noted that they provide some inflation hedge but are less liquid than equities and fixed income. He provided several options of portfolio mixes and the impact these investments could have on the Fund looking at return and volatility. Mr. Shone reviewed several managers of timberland, farmland, and infrastructure investment funds. The consensus of the Board was that Mr. Martin provide a white paper on infrastructure and discuss these investment types at a future meeting.

Commissioner Lehman moved to adjourn the meeting at 11:35 a.m. Commissioner Stuckey seconded. The motion carried unanimously. The next meeting is May 10, 2019 at 9:00 a.m.

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Respectfully submitted,

Brian K. Hurter  
Secretary