

The Minutes of the
Meeting of the
Lancaster County Retirement Board
August 17, 2018

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

Members Present: Commissioner Joshua Parsons, Commissioner Dennis Stuckey, Commissioner Craig Lehman, Treasurer Amber Martin, and Controller Brian Hurter.

Others Present: Michael Shone (Marquette Associates) and Kathy Kunkel.

Commissioner Parsons moved to approve the May 11, 2018, Retirement Board minutes as circulated. Commissioner Stuckey seconded. The motion carried unanimously.

Mr. Shone reviewed the current market environment, the U.S. economy and U.S. monetary policy, and the global economy and global asset class performance. He stated that in the current environment of low unemployment and accelerating GDP growth, there could be further increases in wage growth and higher inflation in the near future.

Mr. Shone presented the Fund's performance report for June 30, 2018. The total Retirement Fund was valued at approximately \$290,822,214 with a second quarter net return of 1.2%. He reported that the second quarter net investment return was \$3,589,191. Mr. Shone noted that the annualized portfolio returns for the past 3 years were 6.9%, for the past 5 years were 8.2%, and for the past 7 years were 7.7%. He reviewed the Fund's asset allocation vs. target and reported that all asset classes were within the policy range.

In reviewing the past quarter, Mr. Shone noted that the Emerald Advisors Mid Cap Growth portfolio and the Lord Abbett Value Opportunities fund returns continue to lag relative to their respective benchmarks and that the Board may want to consider making changes.

Controller Hurter noted that as a result of some investment changes with the Fund, additional investments were made into the Vanguard S&P 500 fund over the past several years. The Vanguard S&P 500 fund holdings are now \$70,518,263, which is 25% of the total Fund.

Mr. Shone suggested that the Board decide to either review the other asset classes first or the small cap investments. He stated that if the Board reviews small cap first the Vanguard S&P 500 fund holdings can be dealt with at the same time if the Board chooses. One option would be to index all the domestic equity investments. Currently, the Fund has actively managed domestic equity investments from the global investment

managers. Mr. Shone stated another option would be to look at small or mid cap managers if the Board did not want to index these funds. He also suggested that if the Board is concerned about the amount invested in Vanguard, they could split the funds with another index fund, such as Fidelity. The consensus of the Board was to look at options that included portfolios with a small cap active manager, as well as mixes that just include indexed funds.

Controller Hurter reviewed the projected operating cash balance for the Retirement Fund. He stated that the final 2018 ADC payment of \$399,055 will be paid by the end of August. He stated that now through March of 2019, the funding needs will be approximately \$7.6 million. He estimated an operating cash balance, after the final ADC payment, of approximately \$800,000, with a monthly cash need of approximately \$1,300,000. Controller Hurter stated that there are several large option 4 pension payouts in the next couple weeks totaling approximately \$343,000. Controller Hurter noted that there is approximately \$708,000 in cash in the mutual fund account which comes from dividends from the Vanguard S&P 500 fund. He stated that transferring the \$708,000 to the operating account will meet the cash needs for August. In addition, he noted that the Fulton asked him about getting standard instructions to automatically transfer the cash balance in the mutual fund account to operating cash at the end of each month.

Controller Hurter moved to approve transferring the current cash balance of approximately \$708,000 from the mutual fund account into the operating account. Commissioner Parsons seconded. The motion carried unanimously.

Controller Hurter moved to give Fulton instructions to transfer at the end of every month, on an ongoing basis, all residual cash in the mutual fund account to the operating account. Commissioner Lehman seconded. The motion carried unanimously.

Controller Hurter stated that JP Morgan sent a cash call for \$3,000,000 for purchase of the JP Morgan Strategic Property Fund as approved at a previous Board Meeting. Controller Hurter also stated that up to \$1,300,000 is needed to meet the cash needs for September. Mr. Shone presented two rebalancing options to fund the cash call amount and operating cash needs. The first option was to take \$3,000,000 from Federated Investors Fixed Income fund and \$1,300,000 from EmStone Advisors Fixed Income fund. The second option was to take \$1,500,000 from the Vanguard S&P 500 fund, \$675,000 from the Vanguard Mid Cap Value Index fund, \$825,000 from the Federated Investors Fixed Income fund, and \$1,300,000 from the EmStone Advisors Fixed Income fund. The consensus of the Board was to choose option 2 and rebalance back to the targets.

Controller Hurter stated that the motion at the May 11, 2018 meeting to take \$3,000,000 from the C.S. McKee Fixed Income fund and \$3,000,000 from the Federated Investors

Fixed Income fund and invest an additional \$3,000,000 in the JP Morgan Strategic Property fund and an additional \$3,000,000 in the Morgan Stanley Prime Property fund, would need to be modified. He requested that any amount of the \$6,000,000 that is not funded from equities be split evenly between C.S. McKee and Federated. As a result of transferring \$2,175,000 of equities, \$1,500,000 of the Vanguard S&P 500 fund and \$675,000 of the Vanguard Mid Cap Value Index fund, the remaining amount to be funded of \$3,825,000 would be split evenly between C.S. McKee and Federated. This would be a total of \$1,912,500 from each fund. In addition, transfer up to \$1,300,000 from the EmStone Advisors Fixed Income fund to meet the September cash needs.

Following discussion, Controller Hurter moved to fund the \$3,000,000 cash call from JP Morgan by transferring \$1,500,000 from the Vanguard S&P 500 fund, \$675,000 from the Vanguard Mid Cap Value Index fund, and \$825,000 from the Federated Investors Fixed Income fund. In addition, revising the previous motion to split \$6,000,000 evenly from C.S. McKee and Federated and reduce the \$6,000,000 by the \$2,175,000 of equities as part of this motion and split the remaining amount of \$3,825,000 evenly between C.S. McKee and Federated at \$1,912,500 each. Commissioner Stuckey seconded. The motion carried unanimously.

Controller Hurter moved to transfer up to \$1,300,000 from the EmStone Advisors Fixed Income fund as needed to meet the cash needs in September. Treasurer Martin seconded. The motion carried unanimously.

Controller Hurter stated that he will work with Marquette Associates to draw-up the paperwork to make the transfers.

As a follow-up from the May Board Meeting, Mr. Shone presented an education piece on timberland, farmland, and infrastructure investments. The Board requested that Mr. Shone look at options to invest 3% of the Fund into one of the options. For each type of investment fund, he provided the broad definition of investment, sources of return, benefits and risks, and the geographic opportunity. He 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.

Mr. Shone reviewed several managers for timberland, farmland, and infrastructure investment funds. The consensus of the Board was they were most interested in the Hancock Natural Resources Group timberland/farmland investment. Following discussion, the consensus of the Board was to table discussion of timberland/farmland investment and focus on the equity investments.

Controller Hurter stated that he received a letter regarding the assignment from Emerald Advisors to 1251 Capital. 1251 Capital is a firm that owns investment firms. Controller

Hurter requested that the Board approve signing the document to acknowledge the assignment in order continue the investment with Emerald Advisors and EmStone Advisors. Commissioner Stuckey moved to approve. Commissioner Parsons seconded. The motion carried unanimously.

Following discussion on reviewing the domestic equity investments, the Board requested that Mr. Shone provide a list of index funds and small or smid cap managers to review prior to the October meeting. The Board can then make a decision, via email, as to which managers they want to make presentations at the October Board meeting.

As a follow-up to the email he sent to the Board, Controller Hurter stated that Alka Singal from Dodge & Cox was in the area and wanted to meet to provide an update and overview of their Dodge & Cox Global Equity fund. He reported Dodge & Cox was happy with their performance and feel the fund is well positioned for the future. Controller Hurter stated that he has copies of their materials if anyone on the Board wants to review them.

Controller Hurter provided an update on the Pension calculator. He talked with Hank Stiehl and David Riechert at the summer Controller's conference, and they stated that Korn Ferry HayGroup now has approval from upper management to place the pension calculator on-line. They stated they are moving forward to have it in place by January 1, 2019.

Commissioner Parsons moved to adjourn the meeting at 11:40 a.m. Commissioner Stuckey seconded. The motion carried unanimously. The next regular meeting is October 12, 2018, at 9:00 a.m.

Respectfully submitted,

Brian K. Hurter
Secretary