

The Minutes of the  
Meeting of the  
Lancaster County Retirement Board  
October 12, 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, Controller Brian Hurter, and Treasurer Amber Martin.

Others Present: Michael Shone, Marquette Associates, and Kathy Kunkel.

Commissioner Parsons moved to approve the August 17, 2018 Retirement Board minutes as circulated. Commissioner Stuckey seconded. The motion carried unanimously.

Mr. Shone presented a summary of the Retirement Fund's investment performance report as of September 30, 2018. The total Fund was valued at \$299,447,829 with a third quarter return of 3.7% and a year-to-date return of 4.5%. The return is net of investment fees. He reviewed both the quarterly and the cumulative returns of the individual fund managers as of September 30, 2018. He noted that the positive contribution for the quarter, compared to their benchmark, was from Lord Abbett, MFS, and the fixed income funds: C.S. McKee, Federated Investors, and EmStone Advisers. Mr. Shone stated that a fund's quarterly performance should not be used to project an annual return.

Controller Hurter asked about the timing of the next cash call from Morgan Stanley. Mr. Shone stated that their cash calls are issued quarterly and it could be at the end of the fourth quarter 2018.

As discussed by the Board at the August 17, 2018 meeting, Mr. Shone sent information to the Board regarding several investment managers for their review. Mr. Shone invited three managers selected by the Board to make presentations.

Jack McPherson, President and Portfolio Manager, and Keri Hepburn, Vice President, from Aristotle Capital, attended the meeting to give a presentation on their Small & Small/Mid Cap Equity funds. They discussed investment philosophy, the management team, portfolio holdings, and investment performance of the funds. Following their presentation, Mr. McPherson and Ms. Hepburn left the meeting at 9:50 a.m. The Board thanked them for their in-depth presentation.

William "Mac" Nickey, Director of the Public Funds Institutional Group, and Tom Wackerlin, Equity Strategist of the Quantitative Strategies Group, from Northern Trust, attended the meeting to give a presentation on their Quality Small Cap Core Strategy

fund. They discussed investment philosophy, the management team, portfolio holdings, and investment performance of this fund. Following their presentation, Mr. Nickey and Mr. Wackerlin left the meeting at 10:25 a.m. The Board thanked them for their in-depth presentation.

Mark Schlegel, Senior Vice President, Stacey Sears, Senior Vice President, and Ken Mertz, Chief Investment Officer and President, from Emerald Advisers, attended the meeting to give a presentation on their Small Cap Growth product. They discussed investment philosophy, portfolio holdings, the management team, and investment performance of this product. Following their presentation, Mr. Schlegel, Ms. Sears, and Mr. Mertz left the meeting at 11:20 a.m. The Board thanked them for their in-depth presentation.

Controller Hurter reviewed the projected operating cash balance for the Retirement Fund. Controller Hurter projected a cash need of approximately \$1 million at the end of October 2018. Following discussion, Commissioner Parsons moved to transfer up to \$1 million from EmStone to meet our current cash needs. Commissioner Stuckey seconded. The motion carried unanimously. Controller Hurter stated that additional rebalancing and funding options can be discussed at the November meeting.

Controller Hurter reported that Craig Moyer, EmStone Advisers, asked if they are falling outside the Investment Policy Index with their Short Duration U.S. Fixed Income fund. Controller Hurter noted that initially there was an investment ladder plan for a five-year period; however, as the Fund's cash needs have increased, the duration of EmStone's portfolio has gotten shorter to meet those needs. Mr. Moyer is concerned that the duration falls outside the Investment Policy Statement and wondered if it needed to be addressed. Controller Hurter stated that EmStone is clearly doing what was intended when they were selected as an investment manager for the Fund. Mr. Shone said that the current policy allows for an average duration of 50% less to 25% greater than the effective duration of the policy benchmark and he did not believe it was an issue. When the concern was raised by EmStone, they were concerned that the policy allowed for a duration of 80% less to 120% greater than the benchmark. Mr. Shone stated that he emailed EmStone to try to get a copy of what they were looking at but has not heard back from them yet. Mr. Shone stated that he will work with EmStone to review the issue and determine if it needs to be addressed at a future meeting.

Controller Hurter reported that J.P. Morgan is asking clients to complete a document that allows their firm to include additional types of institutional investors to invest in their Strategic Property fund. He noted that Pat Wing, Marquette Associates, stated that this presents no significant change for the Retirement Fund. Mr. Shone agreed with this comment. Controller Hurter stated that we have the option to complete the requested paperwork before December 1, 2018 and if there is no response by that date it will go

into effect by default. It was the consensus of the Board to take no action, and let it go into effect by default.

Controller Hurter reported that he received an email from Amy White, Fulton Financial, regarding one of the Fund's portfolio monitoring litigation firms, Chimicles & Tikellis LLP, requesting Fulton to add users to their account to monitor the stocks held by the investment managers in our Fund. The portfolio monitoring litigation firms review the investments of the Fund for potential class actions suits and litigation claims. There is no cost to the County for these services. The email addresses that Chimicles & Tikellis requested to add, appeared to be from the firm Broadridge. Controller Hurter stated that he was concerned the request went to Fulton and not the Retirement Board. In addition, he did not understand why it appeared Broadridge was going to be reviewing the investments and not Chimicles & Tikellis. Following discussion, Controller Hurter will check with Fulton and the portfolio monitoring litigation firm, Kessler Topaz Meltzer & Check to see how they are handling the portfolio monitoring. Controller Hurter stated that he will report back to the Board at the November 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 consulting services with Marquette Associates. He discussed the need for a Request for Proposal (RFP) for retirement consulting services and asked the Board what services they would want included in the RFP if there is one issued. Following discussion, members of the Board discussed that due to the upcoming election in November 2019, there is a potential for new members on the Retirement Board in January 2020 when the new contract would go into effect. There was discussion on whether it would be better to issue an RFP under the new Board. The Board discussed the option of continuing to work with Marquette Associates for an additional year under the existing contract but noted that the current contract would need to be reviewed to determine if that is an option. Controller Hurter stated that he would review the contract and put the topic on the November agenda for additional discussion.

Following the earlier presentations of the three managers, the Board discussed three options: to index all domestic equity, hire a new firm Aristotle or Northern Trust, or move to Emerald Advisers' small cap fund. The Board briefly discussed the manager presentations. Mr. Shone reviewed a report "Lancaster County Manager Search", which provided information on the investment managers and funds that were presented. The report provided data on the investment manager risk and return profile, asset class returns, fee schedule, style analysis, and portfolio performance. It was the consensus of the Board that members review the information presented and further discuss this report at the November Board meeting.

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Commissioner Lehman moved to adjourn the meeting at 12:03 p.m. Commissioner Stuckey seconded. The motion carried unanimously. The next meeting is November 9, 2018 at 9:00 a.m.

Respectfully submitted,

Brian K. Hurter  
Secretary