

**The Minutes of the
Meeting of the
Lancaster County Retirement Board
August 19, 2016**

The meeting was called to order by Commissioner Dennis Stuckey at 9:10 a.m. in conference room 703 at the Lancaster County Offices, 150 N. Queen Street.

Members Present: Commissioner Dennis Stuckey, Commissioner Joshua Parsons (arrived at 9:30 a.m.), Commissioner Craig Lehman, Controller Brian Hurter, and Treasurer Amber Green (left at 11:35 a.m.).

Others Present: Michael Shone, Peirce Park Group (PPG) (left at 12:35 p.m.), and Kathy Kunkel.

Controller Hurter moved to approve the May 13, 2016, Retirement Board minutes as circulated. Commissioner Lehman seconded. The motion carried unanimously.

Michael Heck, Investor Services, and Megan Golder, Investor Services, from Morgan Stanley Real Estate Investing, attended the meeting to give a presentation on their Prime Property Fund. They discussed investment philosophy, target allocations, and investment performance of this fund.

Following their presentation, Mr. Heck and Ms. Golder left the meeting at 9:50 a.m. The Board thanked them for their in-depth presentation.

Rebekah Brown, Executive Director Global Real Assets - Client Service, and Peter Kenny, Vice President - Institutional Client Advisor, from JP Morgan Asset Management, attended the meeting to give a presentation on their Strategic Property Fund. They discussed investment philosophy, target allocations, and investment performance of this fund.

Following their presentation, Ms. Brown and Mr. Kenny left the meeting at 10:31 a.m. The Board thanked them for their in-depth presentation.

The Board discussed Morgan Stanley and JP Morgan Real Estate Funds with regards to Peirce Park's Asset Liability Study report summarized by Mr. Shone. He reviewed the section on our Portfolio Asset Allocation mix with projected annual contributions in an average and poor market scenario. The charts reflected portfolios with: 1 - current investment; 2 - decrease in equities; 3 - increase in equities; and 4 - adding real estate.

Controller Hurter noted that the agenda item listed on the disability retirement did not need to be discussed, as the Controller and Human Resources resolved the situation.

Mr. Shone presented the Fund's investment performance report for June 30, 2016. The total Retirement Fund was valued at approximately \$249,369,601 with a second

quarter return of 1.9%. The return is gross of fees including mutual funds. He reported that the second quarter investment gain was approximately \$4.5 million. He noted that the positive contribution for the quarter, compared to their benchmark, was from MFS International and Acadian. The negative contribution to return for the quarter, compared to their benchmark, was from Emerald Advisors and Dodge & Cox. Mr. Shone also provided performance update of preliminary returns of the Fund as of July 31, 2016.

Mr. Shone reviewed the market environment as it pertains to equities, fixed income, and inflation-sensitive assets. He reviewed the seven year summary of cash flows and growth of the portfolio, the asset allocation vs. target, and the total fund ranking vs. the policy index.

Mr. Shone reviewed the cumulative returns of the individual fund managers. He reported that in the past the returns are gross of investment manager fees and in the future the returns will be shown net of investment manager fees.

Controller Hurter reviewed the projected Retirement Plan cash account balance for the Retirement Plan and noted that the trends have changed and the monthly payouts of approximately \$1,000,000 have increased to between \$1.2 and \$1.4 million. The County contributions of \$1,000,000 per month were paid through July and the final actuarially determined contribution of \$580,199 will be paid in August. The cash balance is projected to be \$872,000 at the end of August. In September there is projected to be a negative cash balance without a transfer of funds into the account. There is not a build-up of cash in the operating fund as there was in previous years due to the increase in monthly payouts.

Following a lengthy discussion on funding options, Controller Hurter moved to transfer \$5,200,000 from the Vanguard S&P 500 ETF, transfer \$10,300,000 from fixed asset funds to be determined, transfer \$2,500,000 into the operating cash account and purchase \$13,000,000 in real estate funds to be determined. Commissioner Stuckey seconded. The motion carried unanimously.

Controller Hurter moved to transfer \$10,300,000 from fixed income investments as follows: \$4,000,000 from CS McKee Fixed Income and \$6,300,000 from Federated Investors Fixed Income. Commissioner Stuckey seconded. The motion carried unanimously.

Controller Hurter moved to invest \$13,000,000 in Core Real Estate as follows: \$6,500,000 in the JP Morgan Strategic Property Fund and \$6,500,000 in the Morgan Stanley Prime Property Fund. Commissioner Stuckey seconded. The motion carried unanimously.

Controller Hurter moved to amend the targets for the Investment Policy Statement (IPS) to include Core Real Estate as follows:

52%	Domestic Equity
18 %	International Equity
5%	Real Estate
24%	Fixed Income
1%	Cash

Commissioner Lehman seconded. The motion carried unanimously.

Mr. Shone will send a new IPS statement to Controller Hurter for distribution to the Board. He noted that Peirce Park would also provide an electronic version of the updated version of the IPS to Controller Hurter for distribution to the Board and Solicitor's Office.

Mr. Shone distributed the Fixed Income Investment Structure report for the Board's review. This topic will be discussed at a future Board meeting.

Mr. Shone reviewed the preliminary Asset Liability Study and discussed policies for funding, benefit design, and asset allocation. He provided insight into the range of answers to "what if" questions under different scenarios as they relate to interest rates, return assumptions, contributions, and inflation. The report provided a baseline case for projected annual contributions and funded ratio using current assumptions. Mr. Shone stated that Lancaster County has a well-funded Plan with a 90% actuarial funded ratio and an 88% accounting funded ratio, as of the end of 2015. He stated that for the next 10 years expect: a) lower than average investment returns (requiring higher contributions), b) lower inflation and therefore likely lower salary increases than the actuarial assumption (requiring lower contributions). Overall, he estimated that likely higher contributions caused by lower investment returns will have a greater impact than lower salary increases.

Following discussion on additional items the Board would like to see in the report, Controller Hurter asked to see a chart on what the impact would be to raise the salary assumption by 1/4% from 3.75 to 4.00 and lower the return assumption from 7.50 to 7.25. He also asked for a report with numbers on the bottom in addition to graph charts. Mr. Shone will also provide a report on the changes voted on today that will provide information on the delta change in equities.

Controller Hurter discussed the change in the actuarial firm name from the HayGroup to Korn Ferry HayGroup. Following discussion regarding the need for a new contract, the Board requested information on the terms of the merger. Commissioner Hurter will

Retirement Board Minutes
August 19, 2016
Page 4

contact the HayGroup and work with the Solicitor's Office to determine what they recommend. He said he would provide the information at the October Board Meeting.

The Board discussed voluntary and involuntary termination and how that affects eligibility for pension benefits.

Controller Hurter moved to adjourn the meeting at 12:45 p.m. Commissioner Lehman seconded. The motion carried unanimously. The next meeting is October 14, 2016, at 9:00 a.m.

Respectfully submitted,

Brian K. Hurter
Secretary