

The Minutes of the  
Meeting of the  
Lancaster County Retirement Board  
February 9, 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 N. Queen Street.

Members Present: Commissioner Joshua Parsons (left at 10:30 a.m. and returned at 10:50 a.m.), Commissioner Dennis Stuckey, Commissioner Craig Lehman, Treasurer Amber Martin, and Controller Brian Hurter.

Others Present: Lee Martin, Marquette Associates, County Solicitor Christina Hausner (left at 9:12 a.m.), and Kathy Kunkel.

Commissioner Lehman moved to approve the November 17, 2017 Retirement Board minutes as circulated. Treasurer Martin seconded. The motion carried unanimously.

Controller Hurter invited County Solicitor Christina Hausner to the meeting to discuss the Acadian Global Managed Volatility fund investment documentation. Controller Hurter stated that all the paperwork was completed for the rebalancing and the funds have been invested as approved at the last meeting, but the firm is requesting that the County complete an IRS form and power of attorney forms. Mr. Martin stated that the Acadian Global Managed Volatility fund is investing overseas and outsources with a company to claim taxes and reinvest them back into the fund. Ms. Hausner asked the purpose of the power of attorney forms. Mr. Martin stated that the paperwork is to provide them authorization to claim and invest the funds on our behalf. Following discussion, Mr. Martin said he would reach out to Acadian hoping to have additional information before the end of this meeting.

Mr. Martin presented the Retirement Fund's investment performance report as of December 31, 2017. The total Fund was valued at \$291,062,641 with a fourth quarter gain of \$12,068,850 and returning 4.3% for the quarter and a one year gain of \$40,000,214 and returning 15.5% for the year. 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 MFS International. The negative contribution to return for the quarter, compared to their benchmark, was from Lord Abbett, Dodge & Cox, American Funds, and Acadian.

Mr. Martin reviewed Lancaster County's Retirement Fund accomplishments during 2017: The Board increased the international equity target allocation by 4% and lowered the domestic equity target allocation by 4%; continued to lower investment management fees; set up transition to a new portfolio structure by shifting from the Acadian U.S. Managed Volatility fund to the Acadian Global Managed Volatility fund, adding the Artisan Global Opportunities fund, and adding the Fidelity Total International Index fund; terminated American Funds International fund.

Mr. Martin reviewed the economic and financial environment including information on equities, fixed income, and inflation-sensitive assets. Mr. Martin reviewed the five-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 December 31, 2017. In addition, he reviewed the preliminary returns for the month of January 2018.

Controller Hurter reviewed the projected operating cash balance for the Retirement Fund. He noted that the trends continue in 2018 with the total monthly payouts averaging approximately \$1.3 million. He stated that the operating cash balance was approximately \$1.0 million at the end of January 2018. Controller Hurter estimated the cash needs of the Fund through March 2018 to be between \$2.5 million and \$3 million. Beginning in April 2018, the County will begin making the Actuarially Determined Contribution (ADC) to the Fund which is preliminarily estimated at \$4.5 million. Controller Hurter noted that since the Board approved the rebalancing in November 2017 and voted to close out the Acadian U.S. Managed Volatility fund and the American Funds International fund, both funds saw additional gains and the Fund ended up with more cash than anticipated. He stated that the Fund has approximately \$4.1 million that can be used for cash needs or be reinvested. Controller Hurter stated that he estimates the following for 2018: Employee contributions to the Fund of approximately \$5.4 million; the ADC paid by the County to be approximately \$4.5 million; approximately \$15.6 million in total Fund expenses; leaving a cash shortfall of approximately \$5.7 million which can be covered by the EmStone fund or pulled from other funds if that is determined to be best option for the Fund.

Mr. Martin reviewed a proposed portfolio rebalancing chart. The proposed rebalancing moved \$1.6 million from the mutual fund (cash) account to the cash operating account to meet the current cash needs of the Fund and adds \$2.5 million to the C.S. McKee Fixed Income fund. In addition, the proposal meets the March cash needs of the Fund by transferring \$1.3 million from the EmStone fund to the cash operating account in March 2018. Controller Hurter noted that EmStone is being used as the liquidity manager for the Fund and was targeted to have a balance of approximately \$20 million. As of February 2018, EmStone had a balance of approximately \$22.3 million. Controller Hurter suggested to move \$4.1 million from the mutual fund (cash) account, transfer \$1.6 million into the cash operating account, transfer \$2.5 million to the C.S. McKee Fixed Income fund, and provide the Controller the ability to transfer up to \$1.3 million from the EmStone fund to the cash operating account as needed.

Following discussion, Commissioner Stuckey moved to take \$4.1 million from the mutual fund (cash) account and transfer \$1.6 million of that to the operating account to meet February cash needs and replenish the reserve and move \$2.5 million to the C.S. McKee Fixed Income fund. Commissioner Lehman seconded. The motion carried unanimously.

Commissioner Lehman moved to approve Controller Hurter to transfer up to \$1.3 million from the EmStone fund to meet the March 2018 cash needs for the Fund. Treasurer Martin seconded. The motion carried unanimously.

Controller Hurter stated that he will work with Marquette Associates to make the transfers. Controller Hurter noted the County's contributions towards the 2018 ADC will begin in April and he will work with the Treasurer's Office to make sure the funds are available and funded.

Controller Hurter reported that the Korn Ferry HayGroup pension agreement approved at last month's meeting had some administrative changes after it was reviewed by the County Solicitor and Korn Ferry HayGroup's legal department. He stated that he felt none of the changes made were significant in nature. Following discussion, it was consensus of the Board that Controller Hurter circulate the revised agreement to the Board and if they do not have any concerns, the agreement should be signed before the April meeting. Otherwise, the agreement can be voted on at the next meeting.

Following discussion on the questions the Board raised at the beginning of the meeting on the Acadian Global Managed Volatility fund's investment documentation and with the additional information received by Mr. Martin, Treasurer Martin moved to approve the global tax services power of attorney agreement pending approval of the Lancaster County Solicitor's Office and the completion of the IRS documentation. Commissioner Stuckey seconded. The motion carried unanimously.

Controller Hurter provided an update on the County's Retirement Summary Plan Description which was last updated in 2012. He stated that this document is based on the Plan Document but is more reader friendly than the Plan Document. The Summary Plan Description is given to new employees when they enroll in the Plan. Controller Hurter stated that the County has updated the Plan Document a couple of times and has received two IRS determination letters since the last time the Summary Plan Description was updated. He stated that the front page of the Summary Plan Description was updated with the current Retirement Board Members and investment managers but there have been no other changes to the document. Controller Hurter said in the past that Korn Ferry HayGroup stated it would cost \$500 to update the Summary Plan Description. Controller Hurter thought it was a good idea to have the Korn Ferry HayGroup attorney ensure that any changes to the Plan Document and newest IRS determination are included in the Summary Plan Description. Commissioner Lehman moved to enter into an agreement with Korn Ferry HayGroup to update the Summary Plan Description. Commissioner Stuckey seconded. The motion carried unanimously. Controller Hurter stated that if the cost would exceed \$500 he would let the Board know.

In reviewing Retirement Board goals for 2018, Mr. Martin predicted that we may enter a period of rising inflation and interest rates. He suggested that the Board review the Fund's overall asset allocation and consider strategies that may increase or help to hedge this type of environment. Mr. Martin discussed some options in asset classes outside of stocks and bonds including real estate, timber, farmland, infrastructure, and some hedges that could be beneficial in a rising inflation environment. Following discussion, the Board requested additional information on real estate and infrastructure at the next meeting.

Mr. Martin offered to present an asset allocation study for the April meeting. The study would review the potential expected risk-adjusted return and benefits of increasing diversification in the Fund.

The Board discussed the Emerald Advisors Mid Cap Growth fund and that the fund has, at times, failed to meet the benchmark. Following discussion, Mr. Martin stated that they would contact Emerald Advisors and request they attend the April Board meeting to give a presentation and provide an update on their Mid Cap Growth fund. Following discussion on the small-cap and mid-cap investments in the Fund, Mr. Martin also stated that he would review, provide analysis, and present options to the Board for small-cap and mid-cap investments at the April meeting.

Commissioner Lehman requested that there be a discussion at the April meeting on the impact to the ADC by reducing the current return assumption from 7.35%. Controller Hurter stated that he would contact the Korn Ferry HayGroup and request that they provide an estimated ADC if the return assumption was reduced from 7.35% to 7.25% and 7.00%. Controller Hurter also stated that he would request an estimated ADC if the salary assumption was increased from 3.75% to 4.00%.

Controller Hurter stated that Korn Ferry HayGroup will be on the agenda for the May Retirement Board meeting to present a draft of the 2018 Actuarial Valuation Including Determination of the ADC.

Treasurer Martin moved to adjourn the meeting at 11:05 a.m. Commissioner Stuckey seconded. The motion carried unanimously. The next meeting is scheduled for April 13, 2018 at 9:00 a.m. in Conference Room 703 at the Lancaster County Offices, 150 N. Queen Street.

Respectfully submitted,

Brian K. Hurter  
Secretary