The Minutes of the
Meeting of the
Lancaster County Retirement Board
May 10, 2019

The meeting was called to order by Commissioner Joshua Parsons at 9:05 a.m. in Conference Room 703, at the Lancaster County Offices, 150 North Queen Street.

Members Present: Commissioner Joshua Parsons (left at 11:20 a.m.), Commissioner Dennis Stuckey (arrived at 9:07 a.m.), Commissioner Craig Lehman (arrived at 10:45 a.m.), Treasurer Amber Martin, and Controller Brian Hurter.

Others Present: Michael Shone (Marquette Associates), Hank Stiehl and David Riecker (Korn Ferry HayGroup), and Kathy Kunkel.

Treasurer Martin moved to approve the April 12, 2019 Retirement Board minutes as circulated. Commissioner Parsons seconded. The motion carried unanimously.

Hank Stiehl presented a draft of the Lancaster County Employees' Retirement System Report on the 2019 Actuarial Valuation Including Determination of the County's Actuarially Determined Contribution for 2019. Mr. Stiehl reported that the calculated actuarially determined contribution (ADC) for 2019 is $5,048,536 using the current investment return assumption of 7.25% and the current salary increases assumption of 4.00%. This is an increase of $90,000 from the projected 2019 ADC of $4,960,000. The 2018 ADC contribution was $4,399,055.

Mr. Stiehl noted that the Lancaster County Retirement Plan unfunded actuarial accrued liability (AAL) is up compared to the prior year and the funded ratio is down. As of January 1, 2019, the unfunded AAL was $32,190,649 and the actuarial funded ratio was 89.9%, using the current return and salary assumptions. Mr. Stiehl noted that even though the market was down for the fourth quarter of 2018, smoothing helped in the calculation of the actuarial value of assets at $287,876,891. The market value of assets at January 1, 2019 was $269,730,523. He stated that Lancaster County has done a good job of investing funds, as well as containing costs. He stated that Lancaster County is keeping salary increases down which also helps to reduce liabilities.

Mr. Stiehl then provided information to the Board for the January 1, 2019 valuation report showing the impact of making changes to the return assumption. The Board discussed lowering the return assumption from the current rate of 7.25% to 7.00%, retaining the current salary assumption rate 4.00%, and the impact it would have on the County's ADC and funded ratio. The Board also discussed the impact of implementing the public sector mortality tables and discounting accumulated deductions. Lowering the return assumption to 7.00% adds approximately $1,100,000 to the ADC. Implementing the new mortality tables would increase the ADC by $2,300,000. Discounting accumulated deductions would lower the ADC by $1,700,000. It was the consensus of the Board to look at three potential changes for next year. The three changes are lowering the return assumption from the current rate of 7.25%, the impact of implementing the public sector mortality tables, and discounting accumulated deductions.

Controller Hurter stated that he received a draft of the GASB 67 / 68 report from Korn Ferry and needs supplemental information from Marquette. He also noted that he needs to implement GASB 75 for the December 31, 2018 financial statements. He stated that he has not received the OPEB report yet from Korn Ferry.

Controller Hurter provided an update on the pension calculator. He stated that his staff have been testing the Korn Ferry site and are making some final changes in order that the information provided to the employees is the information they need to do the calculation. He hopes to get the new pension calculator to the employees in the near future.

The Board thanked Mr. Stiehl for the Actuarial Valuation and other updates. Mr. Stiehl and Mr. Reichert left the meeting at 10:40 a.m.

Mr. Shone reviewed the current market environment, the U.S. economy and U.S. markets, and the global economy and global asset class performance. He said that after economic activity continued to decelerate in the fourth quarter, the economy rebounded in the first quarter.

Mr. Shone presented the Fund's performance report for March 31, 2019. The total Retirement Fund was valued at approximately $291,336,576 with a first quarter net return of 9.1% compared to a policy index return of 9.5%. He reported that the first quarter net investment gain was $24,547,519. Mr. Shone noted the following portfolio returns: 1 year 8.4%, 3 years 8.4%, 5 years 6.1%, and 7 years 7.6%. He stated that 40% of the increase in market value over the past seven years was from investment returns.

Mr. Shone reviewed the real estate investments for the first quarter. He noted that JP Morgan underperformed compared to its benchmark. Mr. Shone stated the JP Morgan usually protects better in a down market than other funds, but usually does not do well in stronger real estate markets, relative to other funds. He suggested that the Board watch the fund closely over the next year. Morgan Stanley exceeded its benchmark.

Mr. Shone reviewed a performance update as of April 30, 2019. He noted that the Acadian Global Managed Volatility Equity fund did not meet its benchmark. Mr. Shone said that the fund is more defensive and expected to protect in a down market.

Controller Hurter reviewed the projected operating cash balance for the Retirement Fund. He reported that County ADC contributions of $1,000,000 per month will continue through August. At that time, the Board can review the cash balance of the Fund and discuss a transfer of funds to meet any cash needs. The County's 2019 ADC of $5,050,000 is expected to be fully funded in August. Controller Hurter will coordinate the monthly payments with his staff and the Treasurer's Office.

Mr. Shone presented an education piece on Fixed Income Structure. He discussed the main roles of fixed income and what is important to consider given the current market environment. He noted the main functions include diversification from equities, protection against economic deflation, liquidity (short term bonds), and maximizing total return (corporates, high yield bonds). Mr. Shone reviewed average bond performance and annualized returns since 1987. He noted that bonds provide portfolio protection and can help lower the impact when the stock market is down.

Mr. Shone noted that yields are near lows on government and credit investments. He suggested that adding a 5-10 year treasury index fund and terminating one of the two active fixed income managers can lower portfolio declines and increase liquidity during stress periods. In addition, he advised to lower or eliminate the peer to peer lending portion of the Emstone investment. Mr. Shone presented options for a new fixed income structure to include intermediate treasury bonds. Following a lengthy discussion, the consensus of the Board was the option (#2) to realign the fixed income holdings to: C.S. McKee Fixed Income fund at 45%, Federated Investors Fixed Income fund at 0%, Emstone Advisors Short Duration U.S. Fixed Income fund at 30%, and Fidelity Intermediate Treasury Bond Index at 25%, and to terminate the peer to peer relationship within the Emstone.

Controller Hurter moved to terminate the peer to peer relationship within Emstone, terminate our relationship with Federated Investors, update the investment policy statement (IPS) with proposed changes, and transfer monies from the Federated Investors Fixed Income fund into the Fidelity Intermediate Treasury Bond Index and the C.S. McKee Fixed Income fund. Commissioner Stuckey seconded. The motion carried unanimously.

Mr. Shone stated that Marquette will put together the paperwork to transfer the funds from the Federated Investors Fixed Income fund to the C.S. McKee Fixed Income fund and the Fidelity Intermediate Treasury Bond Index.

Controller Hurter stated that he will contact Craig Moyer at Emstone to redeem its investments in the EmStone Managed Yield Plus Collective Investment Trust (CIT) and work with Marquette Associates on the addendum for the updated IPS.

In addition, Controller Hurter requested approval of an addendum to the C.S. McKee contract fee schedule, lowering the fees, effective May 6, 2019. Commissioner Parsons moved to approve. Commissioner Stuckey seconded. The motion carried 4 to 0 with one abstention. Commissioner Lehman abstained as he arrived at 10:30 a.m. and was not present for the discussion.

As a follow-up to the request at the April Board meeting for more information on infrastructure investments, Marquette emailed an information paper (white paper) to the Board on infrastructure investments for review. Following discussion regarding that information, it was the consensus of the Board that in looking at alternatives there does not appear to be a specific proposal for either the funds to invest in or the funds to pull from. Mr. Shone suggested that he present an asset allocation study at the August meeting, to include current allocations with expected returns and expected volatility with options for change. Controller Hurter asked that in addition to current allocations, that the report include adding 3% to real estate and remaining at 7% for real estate with investing 3% in infrastructure, with the return assumptions of each. He also asked that the report show how each of the three scenarios affects diversification with regards to the correlation to equities.

Controller Hurter reviewed the report on fiduciary liability insurance quotes provided by Murray Securus from Travelers Insurance and Chubb Insurance for a one-year contract. He noted that the current contract with Chubb is for $1,000,000 of coverage with a $15,000 deductible for a premium of $10,625. Following discussion, it was the consensus of the Board to continue with Chubb. Controller Hurter moved to approve a one-year contract for fiduciary liability insurance with Chubb Insurance Company for $1,000,000 of coverage with a $15,000 deductible for a premium of $9,610. Commissioner Stuckey seconded. The motion carried unanimously.

Controller Hurter reviewed the draft and timeline of the Request for Proposal (RFP) for Investment Consultant Services for the Employees' Retirement System for the County of Lancaster. The Board selected the option one timeline for advertisement of the RFP by June 12, 2019, a final selection date of November 8, 2019, and contract effective date of January 1, 2020. The Board discussed the options for consultant service models; traditional, full management, and hybrid. They also discussed ways for the consultants to explain their experience with Act 96, rather than including Act 96 experience as part of the contractor qualifications. Controller Hurter stated that the RFP would follow the traditional model but allow for the vendor to provide information on the service model they think best fits the needs of the Plan and explain why they feel it is the best for the Plan.

Commissioner Stuckey moved to undertake a Request for Proposal for Investment Consultant Services for the Employees' Retirement System for the County of Lancaster as proposed, to be concluded by January 1, 2020. Commissioner Lehman seconded. The motion carried unanimously.

Controller Hurter will make the changes to the RFP as discussed and copy the Board when he sends the proposal to Purchasing and the Solicitor's Office for review.

Commissioner Stuckey moved to adjourn the meeting at 11:22 a.m. Commissioner Lehman seconded. The motion carried unanimously. The next regular meeting is August 16, 2019, at 9:00 a.m.

Respectfully submitted,

Brian K. Hurter
Secretary