The Minutes of the
Meeting of the
Lancaster County Retirement Board
May 11, 2018

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

Members Present: Commissioner Dennis Stuckey, Commissioner Craig Lehman, and Controller Brian Hurter.

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

Commissioner Joshua Parsons and Treasurer Amber Martin were unable to attend the meeting.

Controller Hurter moved to approve the April 13, 2018, Retirement Board minutes as circulated. Commissioner Lehman seconded. The motion carried unanimously.

Hank Stiehl presented a draft of the Lancaster County Employees' Retirement System Report on the 2018 Actuarial Valuation Including Determination of the County's Actuarially Determined Contribution for 2018. Mr. Stiehl reported that the calculated actuarially determined contribution (ADC) for 2018 is $3,762,102 using the current investment return assumption of 7.35% and the current salary increases assumption of 3.75%. This is a decrease in the ADC from the 2017 contribution which was $4,580,199.

Mr. Stiehl noted that the Lancaster County Retirement Plan unfunded actuarial liability is trending downward and the funded ratio is trending upward. As of January 1, 2018, the actuarial funded ratio was 92.8% using the current return and salary assumptions. 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, 2018 valuation report showing the impact of making changes to the return and salary assumptions. The Board discussed lowering the return assumption from the current rate of 7.35% and the impact it would have on the County's ADC, funded ratio, and 2018 budget. The Board also discussed the impact of increasing the salary assumption. The first chart summary provided comparisons when changing only the current rate of return assumption of 7.35% to 7.25% and 7.00%. The second chart summary provided comparisons when changing return and salary assumptions, increasing the salary assumption to 4.00%. The combinations presented included a return assumption of 7.35% with a salary assumption of 4.00%, a return assumption of 7.25% with a salary assumption of 4.00%, and a return assumption of 7.00% with a salary assumption of

4.00%. Following a lengthy discussion of these options, with consideration of the upcoming implementation of the compensation study and current market projections, it was the consensus of the Board to lower the rate of return assumption from 7.35% to 7.25% and increase the salary increases assumption from 3.75% to 4.00%. Mr. Stiehl noted that this would increase the ADC to $4,399,055 and lower the funded ratio to 91.4%. Controller Hurter noted that the 2018 budget for the ADC payments is a little over $4.6 million.

Commissioner Stuckey moved to lower the rate of return assumption to 7.25% and increase the salary increases assumption to 4.00%. Commissioner Lehman seconded. The motion carried unanimously. The 2018 ADC will be $4,399,055 which is below the 2018 budget estimate.

Mr. Stiehl stated that with the Board's decision to implement the return assumption of 7.25% and salary assumption of 4.00%, he can issue the final 2018 Actuarial Valuation report next week.

Mr. Stiehl reported that there has been continued discussion on updating mortality tables for pension plans on a more regular basis. He also noted that there could be new mortality tables released for government employees. Mr. Stiehl will keep the Board updated on the progress of new mortality tables as needed.

Mr. Stiehl provided an update on the Pension calculator. He stated the backend, which is the part that does the calculations and generates the quotations, is almost done. He stated that he still does not have approval from Korn Ferry HayGroup management to place the pension calculator on-line. He said they have a concern about public facing pages and potential liability. Mr. Stiehl said that he made another proposal to them two weeks ago and if he gets approval he has to find out how long it will take for their IT department to implement. He stated that he finds it difficult to understand that having an on-line pension calculator creates additional liability, since providing clients with information on their pensions is what they do. Mr. Stiehl said he will keep the Board up-to-date on the progress.

The Board thanked Mr. Stiehl for the Actuarial Valuation and other updates. Mr. Stiehl left the meeting at 10:15 a.m.

Mr. Shone stated that it has been a year and a half since Peirce Park merged into Marquette Associates. He said that Marquette Associates has given their team added depth and quality information to provide clients. As an example, he stated that they provide even more extensive research of asset classes and managers.

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 in the current environment of low unemployment and accelerating GDP growth, there is a greater likelihood for higher increases in inflation in the future.

Mr. Shone presented the Fund's performance report for March 31, 2018. The total Retirement Fund was valued at approximately $287,119,382 with a first quarter net return of -0.4%. He reported that the first quarter net investment change was negative $981,171. Mr. Shone noted that even though there was a return of -0.4% during a down market environment, the Policy Index was -0.6%. He noted that the portfolio returns for 1 year were 10.1%, 3 years 6.6%, and 5 years 8.1%. 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 Marquette Associates clients received a fee reduction from Acadian from 36 to 32 basis points. This represents a savings of approximately $12,000 per year. He also noted that during the first quarter the Board terminated the American Funds International Growth & Income fund, added the Artisan Global Opportunities fund, and switched from the Acadian U.S. Managed Volatility fund to their Global Managed Volatility fund.

Mr. Shone reviewed the performance report as of April 30, 2018. He noted that the Emerald Advisors Mid Cap Growth fund and the Lord Abbett Value Opportunities fund have not been meeting their benchmark and their performance should continue to be reviewed closely.

Mr. Shone then discussed what can be done in the event of higher inflation. He said that the Board has taken several positive steps already to protect against higher inflation. He noted the Fund is invested in shorter term bonds which tend to do better than intermediate and longer term bonds in an increasing interest rate environment. He also noted that the Fund has invested in real estate which can act as a partial hedge against increasing inflation. He stated that equities on a long term basis are the best defense against inflation but that they have a fairly high volatility in return. He noted currently there are lower equity return expectations and low interest rates which may lead to subdued returns over the next 5-10 years.

As a follow-up from the April Board Meeting, Mr. Shone discussed inflation sensitive investing and reviewed a rebalancing sheet that increases real estate investment from 5% to 7%, taking the funds from fixed income. Mr. Shone also discussed adjusting the Investment Policy Statement if this rebalancing is approved. Following discussion, Commissioner Lehman moved to move $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 and adjusting the Investment

Policy Statement as needed. Commissioner Stuckey seconded. The motion carried unanimously.

Mr. Shone stated that Marquette will put together the paperwork to transfer the funds from the C.S. McKee Fixed Income and Federated Investors Fixed Income funds to the JP Morgan Strategic Property and Morgan Stanley Prime Property funds and forward it to the Controller's Office. He noted that there is a queue to invest in the real estate funds and the process may take six to nine months or more to complete. Mr. Shone provided an amendment to the Investment Policy Statement to increase real estate investments by 2% and decrease fixed income investments by 2%. The update to the investment policy will take place when the monies are transferred.

The Board requested that Mr. Shone present an education piece on farmland/timberland and infrastructure investments at the August Board meeting. The Board requested that Mr. Shone look at options to invest 3% of the Fund into one of the options.

Controller Hurter reviewed the projected operating cash balance for the Retirement Fund. He reported an operating cash balance of approximately $2,000,000 as of the first week of May with projected payouts including Pension Option 4 payments bringing the balance down to approximately $1,300,000 at the end of May. County pension ADC contributions of $1,000,000 per month will continue through July with the final contribution of $399,055 being made in August. At that time, the Board can discuss a transfer of funds from the EmStone fund in addition to the last ADC payment of $399,055 if it is needed. The County's 2018 ADC of $4,399,055 is expected to be fully funded in August. Controller Hurter will coordinate the monthly payments with his staff and the Treasurer's Office.

Controller Hurter requested approval of a one-year contract for fiduciary liability insurance with Chubb Insurance Company for $500,000 of coverage that is up for renewal in June. He noted that the current premium for $500,000 of coverage with a $2,500 deductible is $8,356 and the renewal amount is $8,451. In addition, Chubb Insurance offered $1,000,000 of coverage with a $15,000 deductible for a premium of $10,625 and $2,000,000 of coverage with a $25,000 deductible for a premium of $15,642. Following discussion, Commissioner Stuckey moved to approve increasing coverage to $1,000,000 with a $15,000 deductible for a premium of $10,625. Commissioner Lehman seconded. The motion carried unanimously.

Commissioner Stuckey moved to adjourn the meeting at 11:15 a.m. Commissioner Lehman seconded. The motion carried unanimously. The next regular meeting is August 17, 2018, at 9:00 a.m.

Respectfully submitted,

Brian K. Hurter
Secretary