

The Minutes of the
Meeting of the
Lancaster County Retirement Board
August 20, 2021

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 Ray D'Agostino, Commissioner Craig Lehman, Controller Brian Hurter, and Treasurer Amber Martin.

Others Present: Lee Martin and Sam Frymier (Marquette Associates), Lisa Colon, and Diana Rivera.

Treasurer Martin moved to approve the May 14, 2021 Retirement Board minutes as circulated. Commissioner D'Agostino seconded. The motion carried unanimously.

Michelle Gallo and Angie Rivera, Human Resources, attended the meeting to request approval of a vested County employee (19096) for retirement disability income effective December 1, 2018. Information regarding this vested employee is retained in the Human Resources Office. Following discussion, Treasurer Martin moved to approve. Commissioner D'Agostino seconded. The motion carried unanimously. Following their request, Ms. Gallo and Ms. Rivera left the meeting.

Controller Hurter presented the Domestic Relations Order for John Nicklas II vs. Michelle Nicklas, dated as ordered July 12, 2021, by the Court of Common Pleas, Judge Joseph C. Adams. Treasurer Martin moved to approve. Commissioner D'Agostino seconded. The motion carried unanimously.

Lee Martin, Marquette Associates, presented the Retirement Fund's Quarterly Performance Report as of June 30, 2021. The total Fund was valued at approximately \$378 million. Mr. Martin stated the Fund gained \$20.4 million, returning 5.7% (net), for the second quarter of 2021. Positive attribution for the quarter was driven by global and international equities along with fixed income. Negative attribution for the quarter was driven by the domestic equity structure (underweight large cap) and real estate. Mr. Martin noted the portfolio return over the past 5 years was 11.2% (net). Mr. Martin reviewed the individual managers' performance as of June 30, 2021.

Controller Hurter reviewed the projected operating cash balance for the Retirement Fund. He noted that as approved at the May 14, 2021 meeting, the remaining balance of the EmStone Advisors Short Duration U.S. Fixed Income investment was transferred to the C.S. McKee Fixed Income fund. Controller Hurter stated the operating cash balance was approximately \$1,058,000 as of July 31, 2021. Controller Hurter noted the reason for the lower cash balance was due to higher-than-average payouts in addition to an increase in the monthly annuity payment amount. Controller Hurter stated that

there is approximately \$1,142,000 remaining to make the full Actuarially Determined Contribution (ADC) payment for 2021. Following discussion, Controller Hurter moved to make the final ADC payment of the year in the amount of \$1,142,723 in August. Treasurer Martin seconded. The motion carried unanimously.

Controller Hurter stated that in the past, the goal was to maintain an operating cash balance of approximately \$1.3 million which was equal to the monthly annuity payment amount. He noted that the recent monthly annuity payments have increased to approximately \$1.5 million. Following discussion, Controller Hurter moved to maintain an operating cash balance of \$1.5 million to match the average monthly annuity payment amount. Controller Hurter stated that he will work with Marquette Associates on a monthly basis to maintain a projected operating cash balance of at least \$1.5 million to meet the projected cash needs of the Plan and to rebalance as needed and as defined in the Investment Policy Statement (IPS). In addition, it was the consensus of the Board that the monthly operating cash amount should be reviewed on an annual basis. Treasurer Martin seconded. The motion carried unanimously.

As a follow up to the April meeting, Mr. Martin distributed a report on the Outsourced Chief Investment Officer (OCIO) model and reviewed it with the Board. Mr. Martin noted some advantages of the OCIO model compared to the traditional model. The OCIO model provides for the opportunity of improved investment performance through more frequent oversight and timely decision making for rebalancing throughout any market volatility. The OCIO model reduces the burden of day-to-day administration tasks, while allowing the Board to focus on the overall policy and allowing the investment consultant to focus on the managers. The current annual cost for the traditional investment consultant services provided by Marquette is \$107,500. Plus, there is an additional fee of \$24,000 for the 52 Advantage Plan provided by Marquette, for a total annual cost of \$131,500. This fee continues to increase throughout the contract. Mr. Martin stated that Marquette's fee for the OCIO model would be 6.5 basis points on the first \$300 million under management and 4 basis points on the remaining amount under management. This would equate to an annual fee of approximately \$218,200 based on the current assets in the Fund. Controller Hurter noted after reviewing the investment manager fees with Mr. Martin, there is expected to be manager fee savings between \$50,000 and \$70,000, which would help offset some of the additional cost. Controller Hurter also noted, given the additional flexibility that the OCIO model provides and the market volatility that occurred during 2020, Marquette was able to add value to their OCIO clients due to the ability to be nimble in the market. He hopes that by using the OCIO model it provides that opportunity for Lancaster County in the future. Controller Hurter and Treasurer Martin stated that they spoke to the Controllers and Treasurers in other counties, and they all had very positive things to say about Marquette's OCIO model. Following discussion, Treasurer Martin moved to approve utilizing Marquette's OCIO model contingent upon the final contract review by the County Solicitor's Office with an understanding that the Board will approve the final

contract at the October 8, 2021 Retirement Board meeting. Commissioner D'Agostino seconded. The motion carried unanimously. Mr. Martin stated that he will provide a draft of their OCIO contract for the County's review.

As a follow up to the May meeting, Mr. Martin provided an updated Asset Allocation Review & Education booklet and a rebalancing proposal to the Board. Mr. Martin reviewed the current target allocation in the IPS and options to increase the return/volatility ratio. The Board continued the discussion from the previous Board meeting about adding infrastructure to the Fund. Following discussion on the investment manager presentations at the May Board meeting, Mr. Martin suggested one option would be splitting the infrastructure investment evenly between the two managers, IFM Investors and J.P. Morgan. Following discussion, Controller Hurter moved to add a 5% allocation to global infrastructure while taking 3% from U.S. equity and 2% from fixed income and updating the IPS to reflect the changes. Treasurer Martin seconded. The motion carried unanimously.

During the discussion it was noted that both the IFM Investors IFM Global Infrastructure Fund and the J.P. Morgan Infrastructure Investments Fund have lengthy queues before the monies would be called and the investments would be made to the funds. The Board discussed the importance of getting into the queues before the end of the third quarter. Following further discussion, Controller Hurter moved to complete the paperwork to get into the investment queue for the IFM Investors and J.P. Morgan infrastructure funds with an allocation of \$12 million for each fund; however, when the actual investment is made it will not exceed the percentage as approved on the IPS. Commissioner Parsons seconded. The motion carried unanimously.

Following the approval, Mr. Martin stated that due to the lengthy queues and until such time as the monies can be transferred to the IFM Investors and J.P. Morgan infrastructure funds, that monies could be invested into an infrastructure mutual fund. He noted that once the OCIO contract is approved and the IPS is updated, Marquette will have the option to consider investing in infrastructure.

Controller Hurter reviewed the Retirement Board contracts and the contract period dates with the Board. The Board agreed to keep contracts in place for the investment consultant, actuarial services, custodial services, insurance, the investment managers, transition management, and the two security litigation firms. Controller Hurter stated that the contract with Korn Ferry Hay Group for actuarial services will need to be reviewed next year. The Board agreed to the possibility of reviewing security litigation firms in the future and at that time they will consider adding a third firm. The Board discussed doing the future review of security litigation firms through some sort of RFP process. In addition, the Board will consider the need to review the contract for transition management. Controller Hurter noted that due to the current investment managers and the structure of their accounts, there has been no commission recapture

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received for a period of time. Following discussion, Commissioner Lehman moved to terminate the contract with Cowen/ConvergEx for commission recapture. Treasurer Martin seconded. The motion carried unanimously.

Commissioner D'Agostino moved to adjourn the meeting at 11:12 a.m. Commissioner Parsons seconded. The motion carried unanimously. The next meeting is October 8, 2021 at 9:00 a.m.

Respectfully submitted,

Brian K. Hurter
Secretary