

The Minutes of the
Meeting of the
Lancaster County Retirement Board
October 8, 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 (Marquette Associates), Larry George, and Kathy Kunkel.

Controller Hurter moved to approve the August 20, 2021 Retirement Board minutes as circulated. Treasurer Martin seconded. The motion carried unanimously.

Lee Martin, Marquette Associates, presented a Performance Update as of September 30, 2021. The total Fund was valued at approximately \$374 million. Mr. Martin stated the Fund lost 3.1% for the month of September; however, the Fund still has a year-to-date return of 8.5% through September 30, 2021. Mr. Martin reviewed the individual managers' performance for September.

Controller Hurter reviewed the projected operating cash balance for the Retirement Fund. Controller Hurter stated that the operating cash balance was approximately \$1 million as of September 30, 2021. He stated that the reason for the lower cash balance was due to higher-than-average payouts during the month of September and an increase in the monthly annuity payment amount. Controller Hurter noted that with the projected October proceeds and expenditures, he estimates there would be an operating cash balance of \$40,000 at October 31, 2021. Controller Hurter stated that he will work with Marquette Associates monthly to maintain a projected operating cash balance of at least \$1.5 million, as approved at the August Retirement Board meeting, to match the average monthly annuity payment amount. He stated that they would rebalance as needed and as defined in the Investment Policy Statement (IPS) to meet the projected cash needs of the Plan. Controller Hurter stated that he will provide Marquette with the amount needed to meet the projected operating cash balance so any necessary funds could be transferred the week of the 15th each month. He stated the amount to be transferred for October would be \$1.5 million and estimated that between now and March 31, 2022, the Fund will need to transfer \$7.3 million. This is in addition to the \$1.6 million that was transferred in September, for a total of \$8.9 million expected to be transferred between September 2021 and March 2022.

As a follow up to the August meeting, Mr. Martin provided the Board with an updated Asset Allocation Review & Education booklet and a rebalancing proposal. Mr. Martin reviewed defensive equity, private equity, and private debt strategies and noted:

Defensive equity is designed to capitalize on the overpricing of index options, and aims to reduce volatility while being transparent, with no leverage, a low fee, and is liquid by exchange trading. Historically, defensive equity has experienced less volatility risk than hedge funds.

Private equity has a competitive advantage to invest in private markets to eventually sell off the assets. Capital is invested by a private equity fund over time, producing large initial fund outflows and generating a negative return during the early years and positive returns in the later years. As the investments mature and exit, they form a j-curve. This can be reduced by using open-ended fund of funds where capital is deployed immediately, eliminating the j-curve. Private equity investments are used as a diversifier to traditional asset classes and have had historically strong returns.

Private debt are loans originated by non-bank lenders for private and public companies. Over the past decade, private debt has provided +8% returns, yielding more than public fixed income. Due to the floating nature of asset classes, private debt offers an interest rate hedge while having a duration of three to five years. Strong private equity demand and significant debt refinancing with overall U.S. market maturities that will terminate by 2025, will create additional opportunity for private debt managers.

Mr. Martin reviewed the current target allocation in the IPS and options to increase the return/volatility ratio. Mr. Martin reviewed four options to increase the return/volatility ratio by investing in defensive equity, private equity, private debt, or a combination of all three while reducing the investment in U.S. equity, non-U.S. equity, and fixed income. He noted that investments in defensive equity, private equity, and private debt would require a change to the IPS as the current IPS does not allow for investments in those asset classes. Mr. Martin stated that he will provide additional educational information in the next few weeks for the Board to review prior to the November Board meeting and that he will provide additional information on the investment options at the November Board meeting. In addition, he offered to invite an associate from the Marquette Private Market Group to call in to the meeting to provide additional information if the Board thought it would be useful.

As a follow up to the August meeting, during which the Board approved to utilize Marquette Associates' Outsourced Chief Investment Officer (OCIO) model contingent upon the final contract review including the County Solicitor's Office, Controller Hurter stated he, the County Solicitor's Office, and Marquette's legal team had all finalized their review of the contract. He noted that all parties agreed with the updated language of the agreement. He noted that they included the length of the previously approved contract to include two one-year extensions. Controller Hurter stated that he would sign the OCIO contract with Marquette following this meeting. Mr. Martin noted that any new investment managers selected for investment through a separate account or commingled CIT vehicle, will still require someone from the Lancaster County Retirement Board to execute the contract.

Mr. Martin reviewed a list of the OCIO proposed lineup of funds. He provided the current funds, their targets, and their fees and compared the total annual fee with the total annual fee of the proposed list of funds and their targets and fees. He noted the proposed OCIO model saves two basis points in fees for an annual savings of \$75,304. Following discussion, it was the consensus of the Board that Mr. Martin provide an updated IPS with new targets, including infrastructure, for approval at the November Board meeting. The Board also noted that they would like to review the list of proposed investment changes at

the November meeting. Mr. Martin stated that he will provide monthly updates to the Board on any changes on managers or targets.

Controller Hurter stated that he received information on a pension calculator for employees to use as an alternative to the current on-line pension calculator provided by Korn Ferry, using information provided through PeopleSoft self-service. He stated that the new pension calculator would only require the employee to log into the calculator and would not require any additional information to be input. Controller Hurter noted that due to the information being pre-entered instead of needing to be input by the employees, it may be easier for employees and more user friendly. Controller Hurter stated the annual cost would be between \$10,000 to \$15,000. Following discussion regarding the current pension calculator, it was suggested to obtain utilization information for the current pension calculator, that the Board attempt to use the current pension calculator before the next meeting, for Controller Hurter to reach out to the company to review testing and pricing options, and for the Board to review this information at the November Board meeting.

Controller Hurter asked the Board for their preference on the 2022 Retirement Board meeting schedule. He asked the Board if they wished to return to quarterly meetings due to the implementation of the OCIO contract; keep the current schedule for six meetings, with possibly changing the meeting months; or review any other options. It was the consensus of the Board to keep the current six meeting schedule of February, April, May, August, October, and November for 2022.

Treasurer Martin moved to adjourn the meeting at 11:20 a.m. Commissioner Parsons seconded. The motion carried unanimously. The next meeting is November 12, 2021, at 9:00 a.m.

Respectfully submitted,

Brian K. Hurter
Secretary