

Minutes of the
Monthly Meeting of the
Lancaster County Retirement Board
October 11, 2019

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 Craig Lehman, Treasurer Amber Martin, and Controller Brian Hurter.

Others Present: Harry Klinger (left at 10:40 a.m. and returned at 11:30 a.m.), Lawrence George, Ray D'Agostino (left at 10:15 a.m.), Michael Shone and Lee Martin, Marquette Associates (arrived at 10:15 a.m. and left at 11:45 a.m.), and Diana Rivera.

Not Present: Commissioner Dennis Stuckey.

Controller Hurter moved to approve the August 16, 2019 Retirement Board Minutes as circulated. Commissioner Lehman seconded. The motion carried unanimously.

As approved by the Board at the August 16, 2019 meeting, three investment consultant firms attended the meeting to review their Request for Proposal (RFP).

Chris Brokaw, Tim Walters, and Steve Gordon from AndCo. Consulting attended the meeting to answer the Board's questions and give a presentation on the plan overview, transition and annual process, and client service approach. Following their presentation, Mr. Brokaw, Mr. Walters, and Mr. Gordon left the meeting at 9:38 a.m. The Board thanked them for their overview of services.

Malcolm Cowen II and Christopher Lakatosh from Cornerstone Independent Asset Management attended the meeting to answer the Board's questions and give a presentation on the plan overview, transition and annual process, and client service approach. Following their presentation, Mr. Cowen and Mr. Lakatosh left the meeting at 10:13 a.m. The Board thanked them for their overview of services.

Michael Shone and Lee Martin from Marquette Associates attended the meeting to answer the Board's questions and give a presentation on the plan overview, transition and annual process, and client service approach. Following their presentation which ended at 10:38 a.m., the Board thanked them for their overview of services.

Michael Shone and Lee Martin reviewed the performance update for September 30, 2019. The total Retirement Fund was valued at approximately \$302,684,611 with a third quarter net return of .8% compared to a policy index return of .6%. Mr. Martin reported that the year-to-date total fund composite return was 13.9% compared to a policy index of 13.7%. Mr. Shone reviewed the individual managers' performance. He noted that after the stock market downturn in the fourth quarter 2018, the stock market has rebounded in 2019.

Controller Hurter asked about future projections for real estate investments which for the quarter were below their benchmark at .8% and 2.9% year-to-date compared to fixed income investments which were equal to their benchmark at 1.4% for the quarter and 5.6% year-to-date. Mr. Martin stated that this year's returns were due to unique market conditions, but the expectation is real estate investments returns will be higher in the long-term compared to fixed income returns.

Controller Hurter stated that he provided Korn Ferry with the September 30, 2019 Fund balance and requested that they provide the 2020 estimated Actuarially Determined Contribution (ADC). Korn Ferry has the information needed to determine the estimated ADC and is working on the calculation. Controller Hurter noted that the estimated ADC is typically received towards the end of October or beginning of November and he plans on presenting it at the November Board meeting.

Controller Hurter reviewed the projected operating cash balance for the Retirement Fund. He reported that the County's final 2019 ADC contribution of \$1,048,000 was made in August and the County's 2019 ADC of \$5,048,000 has been fully funded. Controller Hurter stated that \$1.5 million was transferred from the EmStone Advisors Short Duration U.S. Fixed Income fund to meet cash needs through September.

Controller Hurter stated that the immediate cash need for October is \$1.1 million and he estimates a cash need of \$6.3 million between now and March 2020. Controller Hurter noted that the County typically begins making the ADC contributions in April. He stated that he will further discuss cash needs at the November Board meeting but requested approval to fund the immediate cash need of \$1.1 million for October. Following discussion, Treasurer Martin moved to transfer \$1.1 million from the EmStone Advisors Short Duration U.S. Fixed Income fund to meet cash needs. Commissioner Parsons seconded. The motion carried unanimously.

As a follow-up to the discussion at the August Retirement Board meeting regarding the divestiture of the EmStone CIT investment, Mr. Shone stated that EmStone reported there was a \$965,675 quarterly cash distribution from the CIT in October 2019. He noted that this amount is slightly over 25% of the balance due. He stated that he is expecting another distribution at the end of December 2019 and for these payments to continue on a quarterly basis until the CIT is closed. These payments will be added to the fixed income investment ladder within the EmStone fund to meet our cash flow needs.

Controller Hurter stated that the EmStone Advisors Short Duration U.S. Fixed Income fund is set up to provide for the Fund's cash needs and stated that he does not see any issues with liquidity at this time. He noted that he recently met with Craig Moyer, EmStone Advisors, to review the future cash needs of the Fund and Mr. Moyer felt they were in good position to meet those needs.

As a follow-up to the discussion at the August meeting regarding asset allocation and options for rebalancing, Mr. Shone presented two rebalancing proposals to increase real estate from 7% to 10% with taking 3% from fixed income and to increase real estate from

7% to 10% with taking 2% from fixed income and 1% from international stocks. The proposals reflected investing more in real estate by adding monies to Morgan Stanley rather than JP Morgan. In addition, the rebalancing proposals provided a breakdown for transferring a portion of the mid cap investments to the Vanguard S&P 500 ETF fund and some transfers to better align the Fund with the Investment Policy Statement (IPS) as discussed at the August Board meeting.

Following discussion, Controller Hurter moved to execute the Option 1 rebalancing proposal that Marquette put together. The motion proposed investing \$8,650,000 in the Morgan Stanley Prime Property fund, \$6,100,000 in the Vanguard S&P 500 ETF fund, and \$1,500,000 in the MFS International Value fund and transferring \$10,000,000 from the Vanguard Mid Cap Index fund, \$5,250,000 from the Fidelity Total International Index fund, and \$1,000,000 from the Fidelity Intermediate Treasury Bond Index fund. Treasurer Martin seconded. In addition, the motion includes changing the targets and revising the IPS. The motion carried unanimously.

Controller Hurter stated that he will work with Mr. Shone on the paperwork for the transition of funds and revising the IPS as approved by the Board.

Mr. Shone presented an education piece "ADC Review" that included graphs of the County's ADC contributions for 2005-2019 and the funded ratios for 2007-2018 along with several schedules from Korn Ferry's 2019 actuarial report. In addition, he reviewed a sample projected contribution graph showing the impact of changing the actuarial assumptions. Mr. Shone provided a summary of options to consider for next year which will have an impact on the ADC. The items noted for consideration are a change in mortality tables, discounting accumulated deductions, market returns, and actuarial assumptions. Mr. Shone noted that this is just something for the Board to be thinking about but there is no action that needs to be taken at this time.

As discussed at the August Board meeting, Controller Hurter sent an email to members of the Controller's Association regarding a letter he received from Bolton, an employee benefits, actuarial, and investment consulting firm, recommending that pension plans have an actuarial audit conducted at least once every five years per GFOA recommendation. Controller Hurter stated the feedback he received from the other counties was that Bolton and similar firms were providing an experience study. He noted that a couple counties have performed an experience study, but the majority have not. Since the consensus of the Board at the August meeting was that services provided by Korn Ferry were adequate, and an outside audit was not needed, Controller Hurter felt there is no need to respond to Bolton.

Mr. Shone and Mr. Martin left the meeting at 11:45 a.m.

The Board discussed today's presentations of the Request for Proposal (RFP) for Investment Consultant Services for the Employees' Retirement System for the County of Lancaster. Harry Klinger, Purchasing Director, attended the meeting at 11:30 a.m. to facilitate any questions about the process. Controller Hurter asked if any of the Board

members had any follow-up questions for the consultants. Mr. Klinger suggested that the Board send a follow-up letter to the three firms; AndCo Consulting, Cornerstone Independent Asset Management, and Marquette Associates thanking them for their presentations. The final selection of an investment consultant will occur at the November 8, 2019 Board meeting, and the effective date of the contract will be January 1, 2020.

Commissioner Lehman moved to adjourn the meeting at 12:03 p.m. Commissioner Parsons seconded. The motion carried unanimously.

The next regular Retirement Board meeting is scheduled for November 8, 2019 at 9:00 a.m. in Conference Room 703 at the Lancaster County Offices, 150 North Queen Street.

Respectfully submitted,

Brian K. Hurter
Secretary