Minutes of the Lehigh County Retirement Board Meeting

Lehigh County Government Center Public Hearing Room

Thursday, February 4, 2016

9:30 A.M.

A meeting of the Lehigh County Employees' Retirement Board was held at 9:30 A.M. in the Public Hearing Room of the Lehigh County Government Center. Members present were David Bausch, Tom Creighton, Glenn Eckhart, Daniel McCarthy, Thomas Muller and Tim Reeves.

Brad Osborne was not present.

Kevin Karpuk from Cornerstone also attended.

Thomas Muller, County Executive, called the meeting to order at 9:30 A.M.

OLD BUSINESS

There are no minutes available at this meeting.

NEW BUSINESS

Kevin Karpuk (Cornerstone Consulting) – We want to wrap up 2015 and give you a brief update of what's happening so far in 2016. Obviously 2016 has started off with a relative thud rather than coming in with a bang. Look at the 12/31 data on Page 1 of the handouts -- again, this is the information at the end of the year – all the actuarial reports, etc. are based on these numbers so it's important to keep track of it. These are all different benchmarks and indexes we cover for different asset classes. If you look at the one year return column – it's the fourth from the left of numbers – if you look at the S&P for the year, the market was up about 1.4% and that includes dividends so for the year the actual average stock price was down, dividends pushed back positive. There's an acronym going around called FANG – Facebook, Amazon, Netflix, and Google. If you didn't own those four stocks and own a lot of them, you probably didn't make much money at all in the year. It's a very thin market in terms of stocks moving forward. So for the year, the top four rows are domestic equities. If you drop down to the second gray shaded areas – international equities where you see developed international markets were down .81% but emerging markets were down about 15%. A lot of that has to do with the issues coming out of China and how that will impact those economies. You drop down two more lines to the commodities. Everyone here who drives and knows you're paying less than $2.00 for gas right now. That's good for the consumer but if you invest in commodities you lost about 25% in that sleeve last year. The real important numbers are in the last gray shaded area, the top line – Barclays US Aggregate Bond index. That's the safe investments – we're buying bonds which are fixed income investments. For past several years, everybody has hated bonds thinking that you can't make money because interest rates are too low. Bonds actually returned about .6% and we have a little less than one-third percent of the portfolio in bonds. When you look at the January returns, you're going to see why we own them even though we don't expect them to have fantastic returns going forward.
That's what was happening in the market.

If you turn to page 2, you'll see the performance of the actual retirement fund through the end of the year. For the last quarter of the year, the portfolio is up 2.76% slightly underneath the benchmark of 3.1%. Again we have this portfolio defensively positioned. When the market goes up rapidly, we will under-perform a little bit on the flipside when the market drops like it did in January, we have this built to protect principle for the long term.

At the bottom of page 2 where you see the letter B in the gray boxes – that's the return of the portfolio over different time periods. For those of you that were at the meeting last week the discussion was the loss of .4% last year. Over three years the return has been 6.9%, as of five years 6.4%, over ten years 5.24%. Again, that is against the target of 7.5%. A lot of the discussions at the last meeting were based off of these numbers.

Overall the portfolio is holding value quite nicely especially against other folks in the public plan arena.

Page 3 -- The important thing is the top left of this page where you can see how much we have allocated to the different asset classes. Between domestic equity and international equity we have about 56% of the portfolio; in fixed income (safer assets) 28%; in liquid alternatives about 15% and in cash about 1.5%. That cash is used to pay the monthly benefits and we try to keep it as low as possible because cash doesn't make any money but make sure there's always liquidity when we need it to pay the retirees.

Page 4 – If you look at the top right, you can see since January 2013 the growth in the portfolio between income and change in market value has been about \$60-\$70 million so the portfolio has been growing. The mountain chart at the bottom shows the portfolio value has been staying pretty consistent. Payments are going out and folks are getting paid on time. We're making good progress controlling the risk inside the portfolio while making good returns.

Page 5 – This is our manager matrix. You can see how we have the money invested by investment manager or mutual fund. We do have investments in Vanguard index funds but we also have active managers - professionals that are hired to try to beat the benchmarks. The fourth quarter was relatively weak but over the past year those numbers have been firming up. Various managers are doing their jobs. There are a couple who are under-performing. Cornerstone is undertaking due diligence and has the authority to make decisions to make changes as necessary. We report to the Board as to what changes were made. It is our job to make sure that the folks who are under-performing and we don't see a good way out get removed from the plan and new folks get put in.

Page 6 – This is an update from January. The portfolio is down about 3.25%. The relative good news is the benchmark was down even more. The managers and asset allocation helped in the month. When you look at the bottom line performance, the portfolio is down about \$16 million for January. A couple million of that was in distributions. When we met last week, the portfolio was down about \$10 million more than it ended the month. In the depths of the market following – the market value was off quite a bit more than where we ended. While we don't ever enjoy having a month where we lose money - much less 3% - it's certainly within historic norms. It's something we're not panicking about. We don't think this 3% will be followed by 5, 10 or 12%. We don't see this being 2008 again. We have this very well positioned to make money in the rising markets but really to protect assets in falling markets.

All-in-all January didn't start out very well but we think the portfolio is in good shape. Hopefully the markets firm up from here.

Tom Muller asked for any questions on the information Kevin just presented.
No questions.

Tom Muller asked if there were any motions from the Board.
No motions.

Tom Muller asked if there were any questions from our retirees or future retirees.
No questions.

There was no further business or Citizen's Input.

Tom Muller called for a motion to adjourn.

David Bausch made the motion to adjourn.

Glenn Eckhart seconded the motion.

Tom Muller called for a voice vote.

All were in favor.

Meeting was adjourned at 9:40 A.M.

Glenn Eckhart, Secretary

Asset Class Index Performance

	Return								Std Dev 3 Yr (Mo-End)
	MTD	QTD	YTD	1 Year	3 Year	5 Year	7 Year	10 Yr	
Not Classified									
S&P 500 TR USD	-1.58	7.04	1.38	1.38	15.13	12.57	14.81	7.31	10.62
Russell 3000 TR USD	-2.05	6.27	0.48	0.48	14.74	12.18	15.04	7.35	10.73
NASDAQ Composite TR USD	-1.91	8.71	6.96	6.96	19.81	14.91	19.28	9.65	11.97
DJ Industrial Average TR USD	-1.52	7.70	0.21	0.21	12.66	11.30	13.26	7.75	10.94
Russell 1000 Value TR USD	-2.15	5.64	-3.83	-3.83	13.08	11.27	13.04	6.16	10.83
Russell 1000 Growth TR USD	-1.47	7.32	5.67	5.67	16.83	13.53	17.11	8.53	10.85
Russell 2000 Value TR USD	-5.27	2.88	-7.47	-7.47	9.06	7.67	11.72	5.57	13.65
Russell 2000 TR USD	-5.02	3.59	-4.41	-4.41	11.65	9.19	14.01	6.80	14.16
Russell 2000 Growth TR USD	-4.77	4.32	-1.38	-1.38	14.28	10.67	16.33	7.95	15.16
MSCI EAFE NR USD	-1.35	4.71	-0.81	-0.81	5.01	3.60	7.83	3.03	12.64
MSCI ACWI Ex USA NR USD	-1.88	3.24	-5.66	-5.66	1.50	1.06	7.48	2.92	12.30
MSCI EM NR USD	-2.23	0.66	-14.92	-14.92	-6.76	-4.81	7.50	3.61	14.25
DJ Composite All REIT TR USD	1.11	7.05	1.76	1.76	9.75	10.98	15.55	6.54	13.54
Bloomberg Commodity TR USD	-3.09	-10.52	-24.66	-24.66	-17.29	-13.47	-5.48	-6.43	12.69
BofAML ABS Master Floating Rate TR USD	0.01	0.00	-0.54	-0.54	0.78	1.16	2.78	-0.91	0.84
BofAML Convertible Bonds All Qualities	-2.10	1.67	-1.15	-1.15	11.23	8.52	14.22	7.62	8.67
S&P Preferred Stock TR USD	0.31	3.30	5.47	5.47	6.30	7.09	12.97	5.21	4.09
Barclays US Treasury US TIPS TR USD	-0.79	-0.64	-1.44	-1.44	-2.27	2.55	4.31	3.93	5.07
Barclays US Agg Bond TR USD	-0.32	-0.57	0.55	0.55	1.44	3.25	4.09	4.51	2.92
Barclays US HY Interm TR USD	-2.52	-2.06	-4.52	-4.52	1.52	4.78	12.29	6.66	5.28
Barclays Municipal 1-10Y Blend 1-12Y TR	0.34	0.79	2.45	2.45	2.24	3.56	4.01	4.08	2.14
Barclays Global Aggregate TR USD	0.53	-0.92	-3.15	-3.15	-1.74	0.90	2.39	3.74	3.96

Blended Index Performance

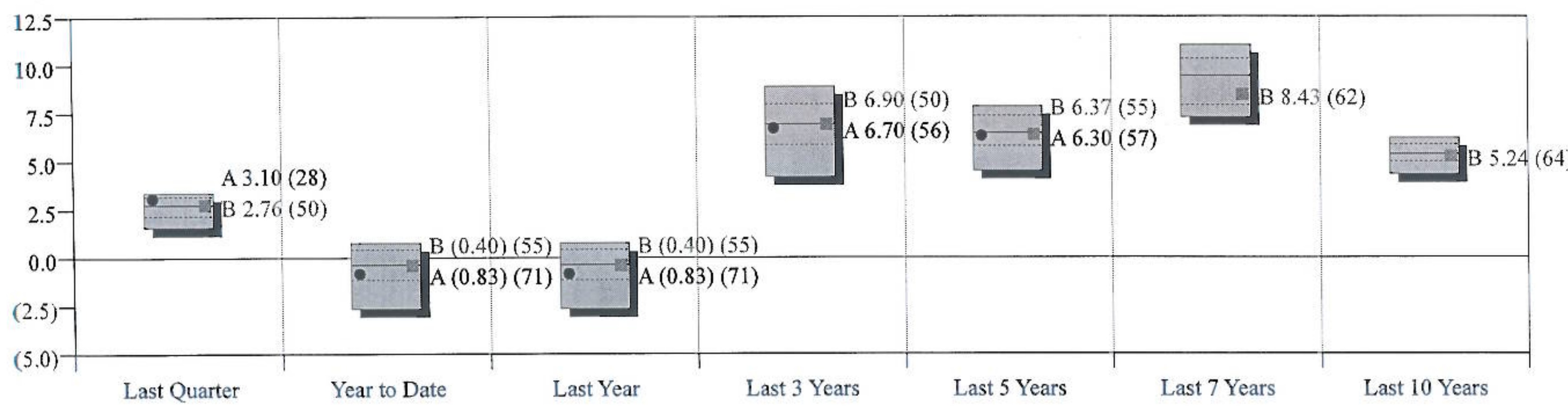
	Return								Std Dev 3 Yr (Mo-End)
	MTD	QTD	YTD	1 Year	3 Year	5 Year	7 Year	10 Yr	
Not Classified									
100% Equity (70.30)	-2.00	5.36	-1.35	-1.35	10.67	8.79	12.80	6.09	10.71
80% Equity, 20% Fixed Income	-1.67	4.20	-0.82	-0.82	8.86	7.81	11.22	6.01	8.62
60% Equity, 40% Fixed Income	-1.33	3.02	-0.37	-0.37	7.04	6.76	9.56	5.80	6.60
40% Equity, 60% Fixed Income	-0.99	1.83	0.01	0.01	5.19	5.65	7.82	5.48	4.72
20% Equity, 80% Fixed Income	-0.66	0.64	0.32	0.32	3.32	4.48	5.99	5.05	3.25

Lehigh County Retirement Fund
Net Portfolio Performance

3 Months ending December 31, 2015

	Ending Weight	Returns	Beginning Market Value	Ending Market Value
Domestic Equity	39.8%	5.59%	$172,233,435	$177,944,355
International Equity	16.3%	3.02%	$67,012,547	$72,851,467
Domestic Fixed Income	26.9%	(0.36%)	$120,479,666	$120,047,380
Alternative	15.3%	0.91%	$64,271,797	$68,460,764
Cash & Equivalents	1.7%	0.08%	$6,547,949	$7,629,806
Total Portfolio	**100.0%**	**2.76%**	**$430,545,393**	**$446,933,772**
Lehigh County Blended BM		*3.10%*		

Net of Fee Returns for Period Ending December 31, 2015
Group: CAI Public Fund - Mid (100mm-1B)



Median	2.76	(0.36)	(0.36)	6.90	6.46	9.41	5.35

Cornerstone
undivided loyalty

Lehigh County Retirement Fund

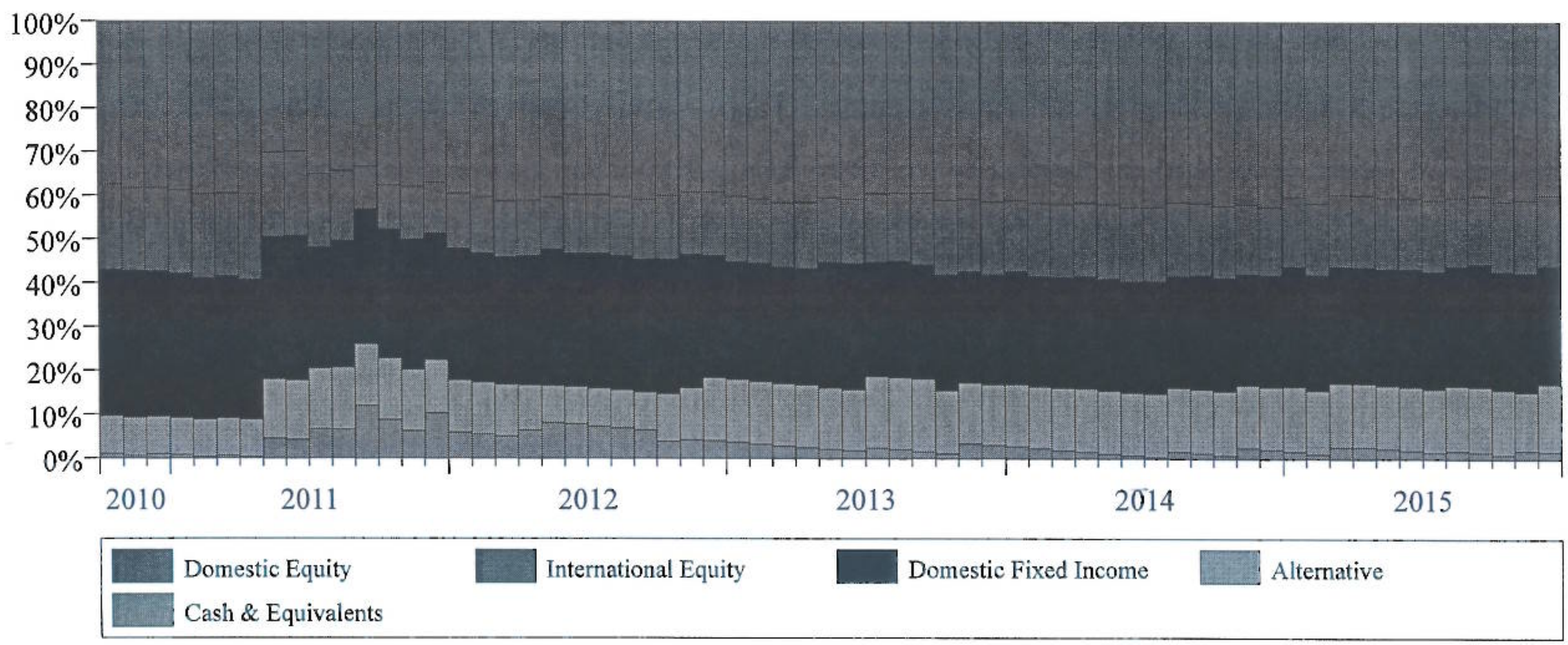
Asset Allocation

October 1, 2015 to December 31, 2015

	Beginning Weight	Ending Weight	IPS Tgt Weight	Deviation
Domestic Equity	40.0%	39.8%	35.0%	4.8%
International Equity	15.6%	16.3%	15.0%	1.3%
Domestic Fixed Income	28.0%	26.9%	35.0%	(8.1%)
Alternative	14.9%	15.3%	10.0%	5.3%
Cash & Equivalents	1.5%	1.7%	5.0%	(3.3%)
Total Portfolio	**100.0%**	**100.0%**	**100.0%**	

	Beginning Market Value	Ending Market Value	Transfers
Domestic Equity	$172,233,435	$177,944,355	($4,000,000)
International Equity	$67,012,547	$72,851,467	$4,000,000
Domestic Fixed Income	$120,479,666	$120,047,380	$651
Alternative	$64,271,797	$68,460,764	$3,278,915
Cash & Equivalents	$6,547,949	$7,629,806	($3,279,566)
Total Portfolio	**$430,545,393**	**$446,933,772**	**$0**

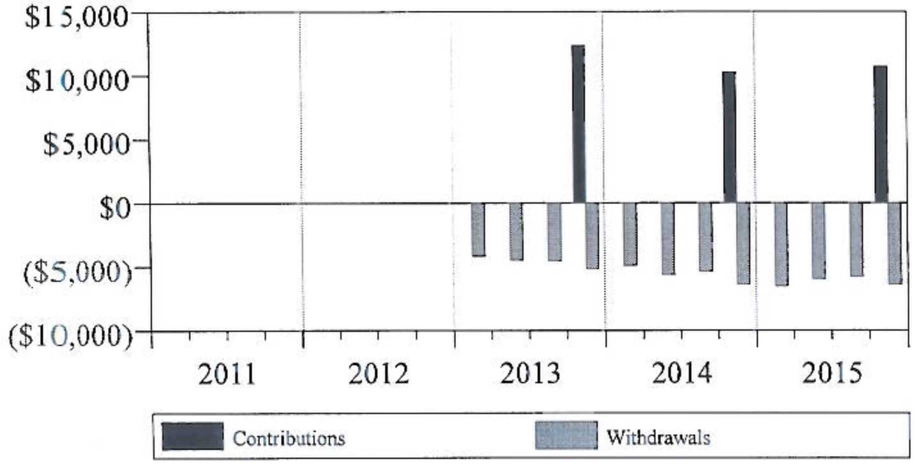
Actual Allocation for Since Inception Ended December 31, 2015



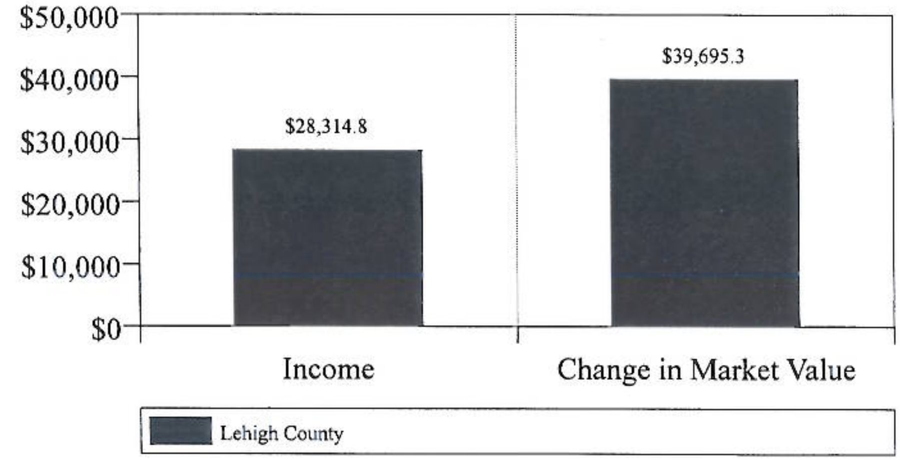
Lehigh County Retirement Fund

Historical Cash Flow

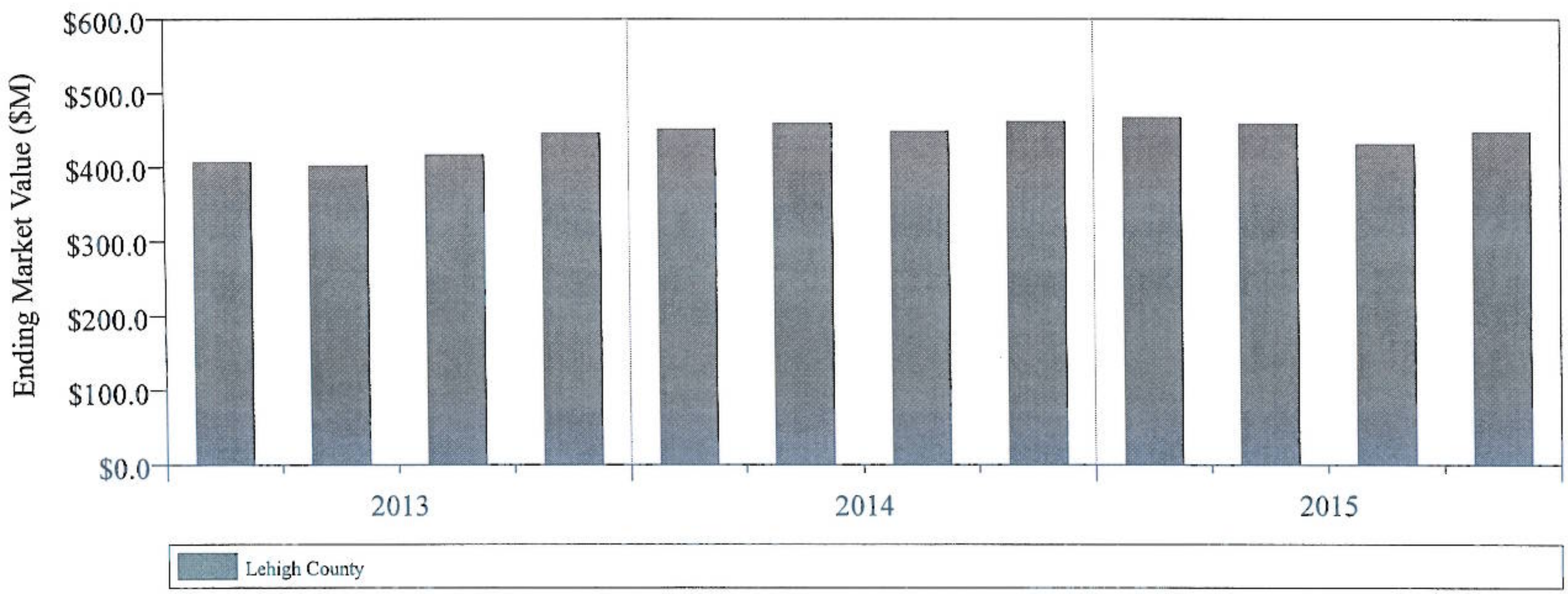
Quarterly Cash Flows for 5 Years ($K)



Portfolio Appreciation ($K) Since Inception



Ending Market Value Since Inception (January 1, 2013)



Cornerstone
undivided loyalty

Lehigh County Retirement Fund

Manager Performance

3 Months ending December 31, 2015

	Benchmark Name	Ending Weight	Returns	Excess Return	Beginning Market Value	Ending Market Value
Lomax Large Value	Russell:1000 Value	5.6%	5.26%	(0.37%)	$23,740,928	$24,990,584
Phila Trust GARP	S&P:500	9.8%	5.82%	(1.22%)	$44,951,808	$43,630,412
Vanguard Instl Indx	S&P:500	9.7%	7.05%	--	$40,378,451	$43,223,846
SGA Large Growth	Russell:1000 Growth	6.5%	9.16%	1.84%	$26,418,527	$28,838,577
Emerald Mid Growth	Russell:Midcap Growth	1.9%	1.65%	(2.47%)	$8,519,604	$8,660,108
Emerald Small Growth	Russell:2000 Growth	2.3%	(1.14%)	(5.46%)	$10,253,083	$10,136,013
Vanguard SC Val Ins	Russell:2000 Value	4.1%	2.75%	(0.13%)	$17,971,035	$18,464,816
Vanguard Dev Mkts	MSCI:EAFE US$	5.2%	3.95%	(0.76%)	$22,171,767	$23,047,327
Mondrian International	MSCI:ACWI ex US	5.1%	2.25%	(1.05%)	$22,353,826	$22,813,475
American Funds EuroPac;F-2	MSCI:ACWI ex US	6.0%	2.95%	(0.35%)	$22,486,954	$26,990,664
Agincourt Core Fixed	Barclays:Aggregate Index	12.2%	(0.60%)	(0.03%)	$54,831,611	$54,504,790
CSMcKee Core Fixed	Barclays:Aggregate Index	13.2%	(0.15%)	0.42%	$59,195,559	$59,107,853
Vanguard Sh-Tm Inv	Barclays:Credit 1-3 Yr Bd	1.4%	(0.28%)	(0.07%)	$6,452,495	$6,434,737
Arbitrage Fund;I	CS:Risk Arb	2.7%	1.76%	0.95%	$11,963,510	$12,113,471
J Hancock II:G Ab Rt;I	HFRX Global Hedge Fund In	2.7%	0.81%	1.41%	$12,248,838	$11,906,113
Crdt Suis Cmdty Rtn;Inst	BLMBRG:Commdty Idx	0.0%	(10.34%)	0.21%	$9,839,196	$0
ALPS/CC Mgt CC S;I	BLMBRG:Commdty Idx	2.3%	--	--	--	$10,148,631
CBRE Clarion RE	NAREIT All Equity Index	2.7%	7.79%	0.11%	$11,603,230	$12,099,580
Nuveen Pref Secs	S&P:US Pref Index	2.7%	2.23%	(1.07%)	$12,419,523	$12,192,970
MS Structured Note	MS Structured Note	0.0%	--	--	$6,197,500	$0
JPM Structured Note	JPM Structured Note Idx	2.2%	--	--	$0	$10,000,000
Misc Cash	3 Month T-Bill	0.2%	0.01%	(0.03%)	$4,132,090	$852,825
Cash	3 Month T-Bill	1.5%	0.80%	0.77%	$2,415,859	$6,776,981

Lehigh County Employees' Retirement Plan

Monthly Flash Report

		Monthly Return January-2016	*Market Value Beginning of Period*	*Market Value End of Period*
Lomax		**-3.79%**	**$24,952,823**	**$24,008,289**
Russell 1000 Value		-5.17%		
Vanguard Institutional Index		**-4.97%**	**$43,223,846**	**$41,076,782**
S&P 500		-4.96%		
Philadelphia Trust		**-5.23%**	**$43,613,193**	**$41,331,061**
S&P 500		-4.96%		
Sustainable Growth Advisors		**-6.04%**	**$28,804,621**	**$27,064,697**
Russell 1000 Growth		-5.58%		
Vanguard SCV Index		**-6.45%**	**$18,464,816**	**$17,274,290**
Russell 2000 Value		-6.72%		
Emerald		**-11.29%**	**$8,657,395**	**$7,679,642**
Russell Mid-Cap Growth		-7.57%		
Emerald Advisors		**-10.29%**	**$10,141,084**	**$9,097,468**
Russell 2000 Growth		-10.84%		
American Funds EuroPac		**-6.08%**	**$26,990,664**	**$25,350,348**
MSCI ACWI ex US		-6.80%		
Vanguard Developed Mkt Idx I		**-5.75%**	**$23,047,327**	**$21,722,544**
MSCI EAFE		-7.22%		
CSMcKee		**1.23%**	**$58,704,518**	**$59,425,620**
Barclays Capital Aggregate		1.38%		
Agincourt		**1.06%**	**$54,034,484**	**$54,607,145**
Barclays Capital Aggregate		1.38%		
CBRE Clarion		**-3.43%**	**$12,017,904**	**$11,605,224**
Dow Jones US Total Market REIT Index		-4.03%		
Liquid Alternatives		**-2.44%**	**$56,243,676**	**$54,871,471**
Blended Alternatives Benchmark		-3.33%		
Vanguard ST Investment Grade		**0.55%**	**$6,411,164**	**$6,447,607**
Barclays US Corp 1-3 YR		0.45%		
Cash Account		**0.00%**	**$7,641,713**	**$5,593,290**
30 Day MM Yield		0.00%		
Weighted	Portfolio	**-3.25%**	**$422,949,230**	**$407,155,479**
Rate of Return	Index	-3.42%		

Assets Not Valued Daily

	Market Value Beginning of Period	*Market Value End of Period*
Mondrian Intl	**$23,251,289**	**$22,813,475**
Grand Total	**$446,200,519**	**$429,968,954**

2016 YTD Performance

Portfolio	**-3.23%**
Net Portfolio	**-3.25%**
Index	-3.42%

The values on this report are collected from electronic interfaces and released before an audit function can occur. These values are not final. Differences may include, but are not limited to, pending trades, accruals, mispricing, or custodian error.