

Minutes of the Lehigh County Retirement Board Meeting

Lehigh County Government Center Public Hearing Room

Thursday, November 9, 2017

9:30 A.M.

A meeting of the Lehigh County Employees' Retirement Board was held at 9:30 A.M. in Lehigh County Government Center Public Hearing Room. Members present were Percy Dougherty, Glenn Eckhart, Judith Johnston, Tom Muller, Tim Reeves and Ed Sweeney.

Marty Nothstein was not present.

Chris Lakatosh from Cornerstone Advisors Asset Management also attended.

Tom Muller, County Executive, called the meeting to order at 9:33 A.M.

OLD BUSINESS

Meeting minutes for approval from August 10, 2017 meeting.

Tom Muller asked if there were any questions or corrections to the August 10, 2017 meeting minutes.

Tom Muller called for a motion for approval.

Judy Johnston made a motion to approve the August 10, 2017 Retirement Board minutes.

Percy Dougherty seconded the motion.

No corrections or questions.

Tom Muller called for a voice vote.

All were in favor. 6-0 vote. Motion passed unanimously.

NEW BUSINESS

Chris Lakatosh from Cornerstone gave the Third Quarter pension update.

The market continues to be incredibly hot and returns are very, very strong. The portfolio is doing incredibly well.

Page 1 (Net Portfolio Performance) – In the third quarter, the pension plan was up 3.3%. Relative to the blended benchmark which is up 3.38%. Basically right on target. Relative to other public pension plans, Lehigh County pension plan was in the top 30th percentile. It's beaten 70% of all other public pension plans in its peer group. Over the last year-to-date it's in the top 39th percentile. Since the inception in the hiring of Cornerstone, your public pension plan at the County is in the top 28th percentile. Again basically beating 72% of all other public pension plans. The performance and the returns have not only been incredibly strong but the overall risk we're taking in the portfolio is relatively light as well.

Page 2 (Asset Allocation) – I'll focus on the top left chart. The ending weights and domestic equities was about 38%. International equities was about 18%. Fixed income was 27%. Alternatives at about 15% and cash a little under 1.5%. Essentially we were about 56% in stocks between domestic and international and the rest in fixed income and alternatives. Relative to your peer groups this is much more conservative. Not only are we getting outperformance on the upside of the marketplace but we are being more conservative than the peers as well.

Page 3 (Historical Cash Flow) – I'll focus on the top right chart which is the appreciation of the plan in both income terms and relative market appreciation. Since the inception of Cornerstone's involvement with Lehigh County, income derived from the investments in the portfolio was approximately \$64.8 million and market appreciation has been about \$162 million. The combination of that is the better part of \$226 million in attribution of the overall account value since we have been working with Lehigh County.

Page 4 (Manager Performance) – This gives you a list of returns on all the investments. I'll focus on the returns column. Of the 19 investments we have in the plan, all of them have had a positive return in the third quarter of 2017. Fourteen of the 19 investments that are in there have exceeded their benchmark counterpart. All performance has been incredibly strong. All the managers have done an exceptional job and the portfolio continues to perform very, very well.

Page 5 (Monthly Flash Report) – This is an up-to-date mathematical component of the performance. If you look at the bottom of the Monthly Flash Report - this is as of the end of October - you can see the net portfolio performance was 12.21% YTD 2017. The blended benchmark is at 12%. Not only are we outperforming all of the actuarial assumptions; but we are 20 basis points ahead of the index net of all fees. You have a grand total ending balance of \$489 million. As of two days ago, it was \$491 million and by the end of the week, we'll exceed a half-billion dollars. The contributions are going in the County pension plan for the first time will be above a half-billion dollars. This has been a virtuous cycle for the pension plan in terms of market performance return and low volatility in terms of the portfolio itself. All things look very good.

No questions or motions.

Glenn Eckhart, Controller – Currently the value of the fund is at 86.4%. We did pass a recommendation that future cost of living increases will be discussed when we get to 104% so in 2018 there will be no cost of living increase for retirees.

Tom Muller, County Executive – We need to set the dates for the 2018 Retirement Board Meetings. These dates have been checked out with everyone's calendar. Any questions or concerns?

No questions or concerns.

Tom Muller asked for a motion to approve the dates.

Glenn Eckhart moved to set the 2018 meetings for Thursday, January 25 at 9:30 A.M.; Thursday, February 8 at 9:30 A.M.; Thursday, May 10 at 9:30 A.M.; Thursday, August 9 at 9:30 A.M. and Thursday, November 8 at 9:30 A.M. We will draft a notice for the newspaper. It will be posted in the newspaper on January 1 covering all these dates and announcing all these meetings.

Tim Reeves seconded the motion.

Tom Muller called for a voice vote.

All in favor. 6-0 vote. Motion passed unanimously.

Tom Muller, County Executive – There was a fourth item listed on the Agenda – Discussion and vote on election policy changes. This item needs more discussion and work. It's being be tabled for this meeting and will be on the agenda for the next meeting.

No motions.

No citizen, retiree, or employee input.

Tom Muller asked for a motion to adjourn.

Percy Dougherty – so moved.

Glenn Eckhart – seconded.

Tom Muller called for a voice vote.

All in favor. 6-0 vote. Motion passed unanimously.

Meeting adjourned at 9:45 A.M.

A handwritten signature in dark ink, appearing to read 'Glenn Eckhart', written over a horizontal line.

Glenn Eckhart, Secretary

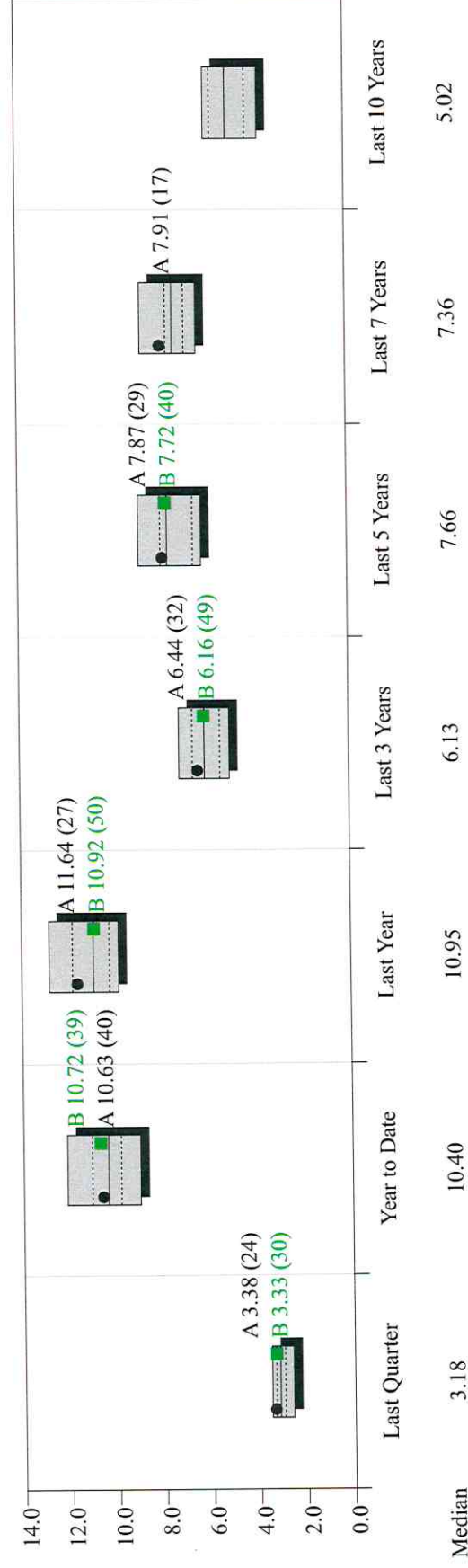
Lehigh County Retirement Fund

Net Portfolio Performance

3 Months ending September 30, 2017

	Ending Weight	Returns	Beginning Market Value	Ending Market Value
Domestic Equity	37.7%	4.31%	\$181,218,684	\$184,536,489
International Equity	18.3%	6.04%	\$85,362,524	\$89,516,067
Domestic Fixed Income	27.4%	0.96%	\$137,561,407	\$133,882,972
Alternative	15.2%	2.50%	\$72,519,102	\$74,327,729
Cash & Equivalents	1.4%	0.42%	\$3,320,079	\$6,671,187
Total Portfolio	100.0%	3.33%	\$479,981,796	\$488,934,445
<i>Lehigh County Blended BM</i>				
		3.38%		

Net of Fee Returns for Period Ending September 30, 2017
Group: Callan Public Fund Spons- Mid (100M-1B)



Lehigh County Retirement Fund

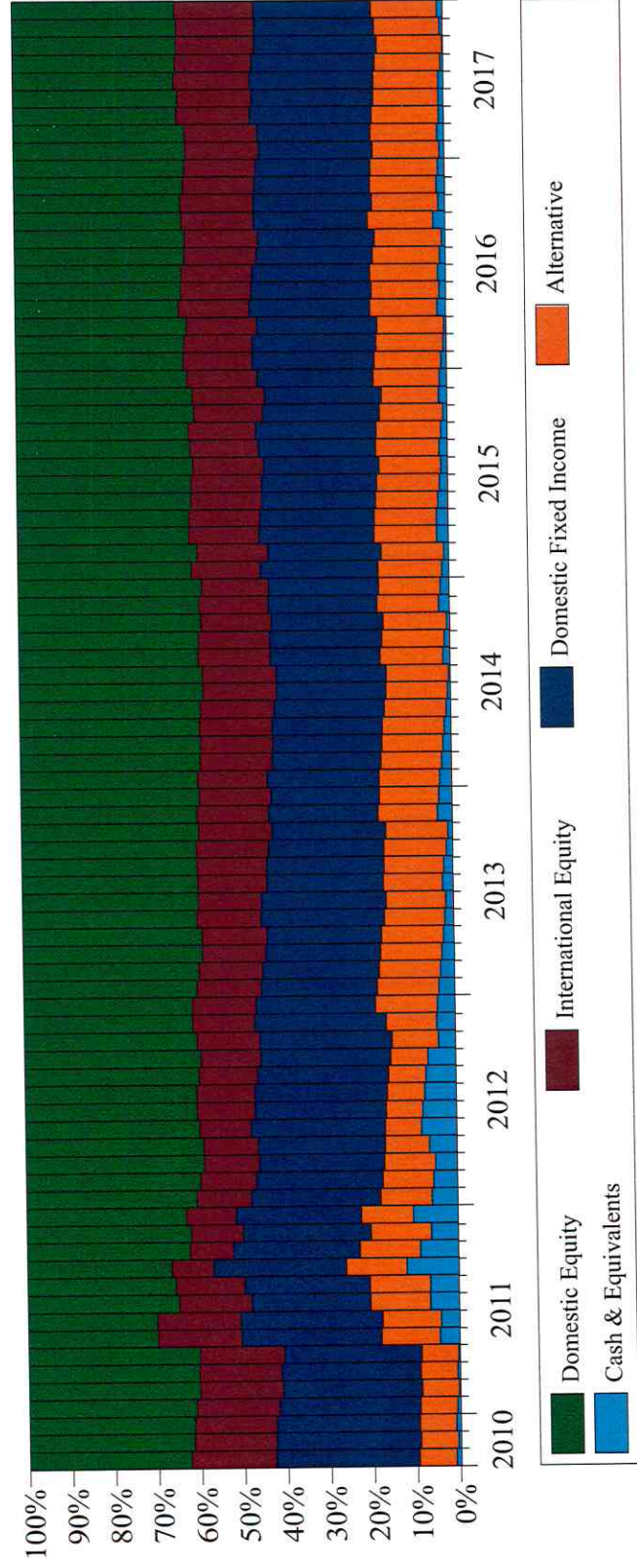
Asset Allocation

July 1, 2017 to September 30, 2017

	Beginning Weight	Ending Weight	IPS Tgt Weight	Deviation
Domestic Equity	37.8%	37.7%	35.0%	2.7%
International Equity	17.8%	18.3%	15.0%	3.3%
Domestic Fixed Income	28.7%	27.4%	35.0%	(7.6%)
Alternative	15.1%	15.2%	10.0%	5.2%
Cash & Equivalents	0.7%	1.4%	5.0%	(3.6%)
Total Portfolio	100.0%	100.0%	100.0%	

	Beginning Market Value	Ending Market Value	Transfers
Domestic Equity	\$181,218,684	\$184,536,489	(\$4,500,000)
International Equity	\$85,362,524	\$89,516,067	(\$1,000,000)
Domestic Fixed Income	\$137,561,407	\$133,882,972	(\$5,011,721)
Alternative	\$72,519,102	\$74,327,729	\$791
Cash & Equivalents	\$3,320,079	\$6,671,187	\$10,510,930
Total Portfolio	\$479,981,796	\$488,934,445	\$0

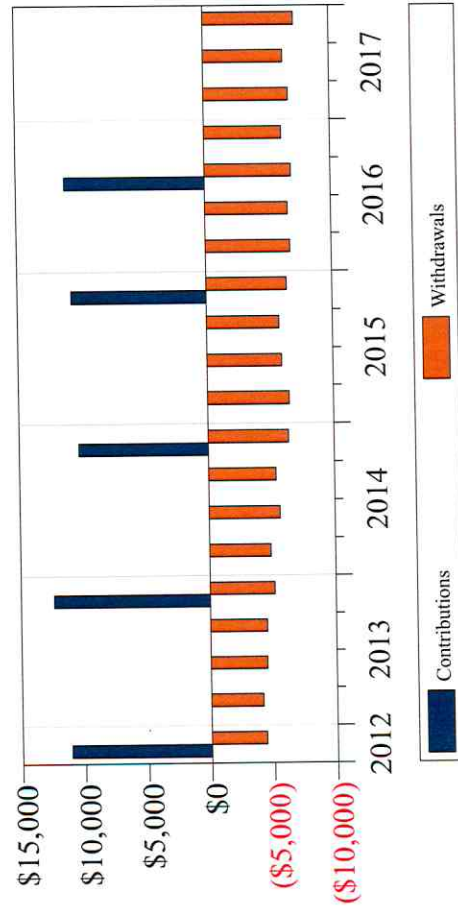
Actual Allocation for Since Inception Ended September 30, 2017



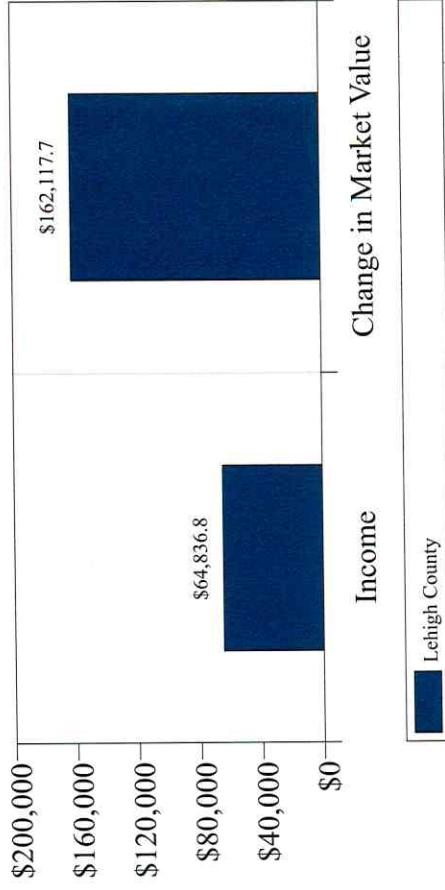
Lehigh County Retirement Fund

Historical Cash Flow

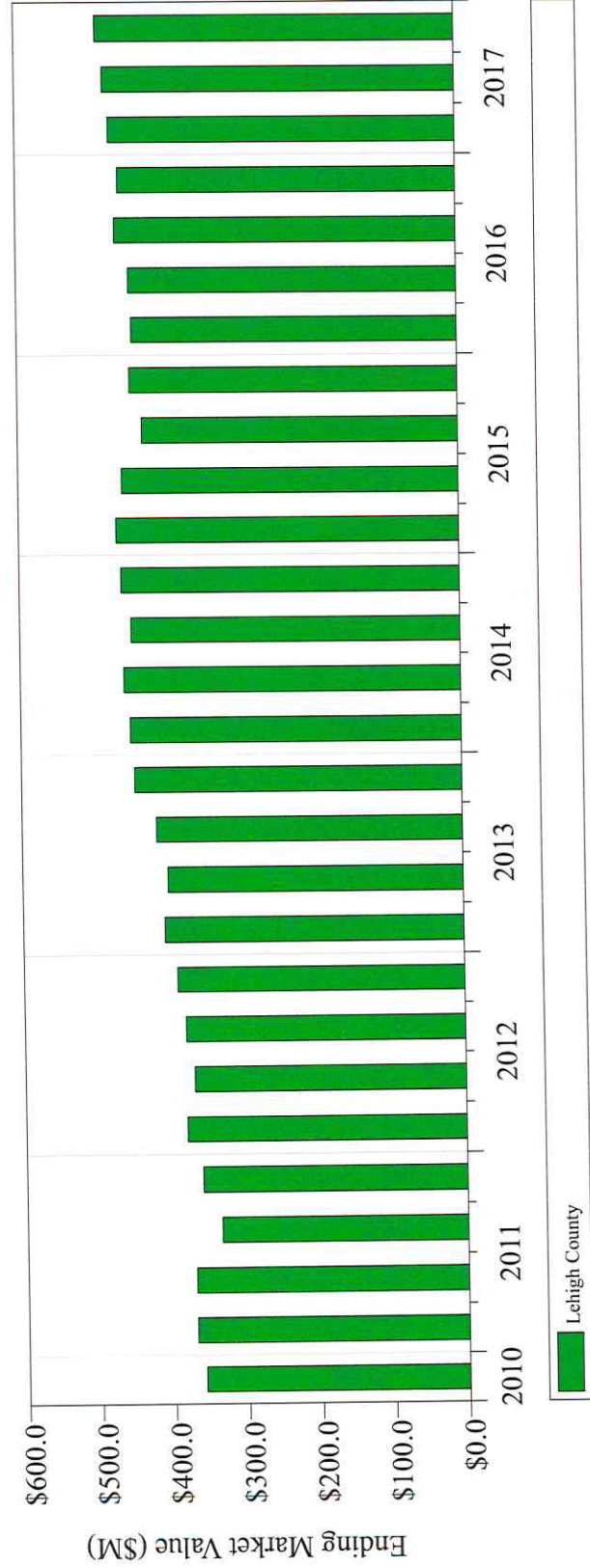
Quarterly Cash Flows for 5 Years (\$K)



Portfolio Appreciation (\$K) Since Inception



Ending Market Value Since Inception (October 1, 2010)



Lehigh County Retirement Fund

Manager Performance

3 Months ending September 30, 2017

	Benchmark Name	Ending Weight	Returns	Excess Return	Beginning Market Value	Ending Market Value
Lomax Large Value	Russell:1000 Value	7.9%	5.59%	2.48%	\$38,881,561	\$38,556,481
Vanguard Instl Indx;Inst	S&P:500	14.1%	4.48%	0.00%	\$65,755,320	\$68,698,482
SGA Large Growth	Russell:1000 Growth	7.7%	2.07%	(3.83%)	\$39,028,764	\$37,838,132
Emerald Mid Growth	Russell:Midcap Growth	2.1%	4.04%	(1.24%)	\$9,984,978	\$10,388,788
Emerald Small Growth	Russell:2000 Growth	2.3%	7.02%	0.80%	\$10,400,381	\$11,130,533
Vanguard SC Val Idx;Ins	CRSP:U.S. Small Cap Value	3.7%	4.41%	(0.01%)	\$17,167,680	\$17,924,074
Vanguard Dev Mkt;Adm	FTSE:Dev AC ex US Idx	6.4%	5.49%	(0.16%)	\$29,766,152	\$31,421,572
American Funds EuPc;F-3	MSCI:ACWI ex US	6.3%	6.85%	0.69%	\$29,825,123	\$30,848,341
Vittoria Long/Short Intl	MSCI:EAFE	5.6%	5.72%	0.32%	\$25,771,249	\$27,246,154
Agincourt Core Fixed	Blmbg:Aggregate Index	12.0%	0.98%	0.13%	\$57,877,679	\$58,442,765
CSMcKee Core Fixed	Blmbg:Aggregate Index	12.0%	0.94%	0.09%	\$58,313,982	\$58,859,351
BlackRock:Str Inc Opp;K	Blmbg:Aggregate Index	2.1%	1.52%	0.67%	\$10,117,303	\$10,270,979
Vanguard Sh-Tm Inv;Adm	Blmbg:Credit 1-3 Yr Bd	1.3%	0.59%	0.06%	\$11,252,443	\$6,309,878
Gabelli Merger Arbitrage	CS:Risk Arb	2.6%	0.29%	(1.38%)	\$12,482,538	\$12,518,540
J Hancock II:G Ab Rt;I	CS:All Hedge Idx	2.5%	0.29%	0.10%	\$12,095,248	\$12,130,443
ALPS/CC Mgt CC S;I	Blmbg:Commdty Idx	2.6%	6.99%	4.74%	\$11,675,255	\$12,491,357
CBRE Clarion RE	FTSE:NAREIT All Eq Index	2.5%	0.52%	(0.58%)	\$12,149,072	\$12,212,499
Nuveen Pref Secs;I	S&P:US Pref Index	2.6%	1.67%	0.86%	\$12,496,989	\$12,704,891
JPM Structured Note	JPM Structured Note Idx	2.5%	5.59%	(0.01%)	\$11,620,000	\$12,270,000

Lehigh County Employees' Retirement Plan

Monthly Flash Report

	<i>Monthly Return October-2017</i>	<i>Market Value Beginning of Period</i>	<i>Market Value End of Period</i>
Lomax	1.37%	\$38,510,659	\$38,039,884
Russell 1000 Value	0.73%		
Vanguard Institutional Index	2.33%	\$68,698,482	\$70,297,235
S&P 500	2.33%		
Sustainable Growth Advisors	1.89%	\$37,802,689	\$37,515,968
Russell 1000 Growth	3.87%		
Vanguard SCV Index	0.88%	\$17,924,074	\$18,081,815
CRSP US Small Cap Value	0.86%		
Emerald	2.81%	\$10,383,029	\$10,675,268
Russell Mid-Cap Growth	2.80%		
Emerald Advisors	1.71%	\$11,130,180	\$10,321,043
Russell 2000 Growth	0.54%		
American Funds Europacific Growth F3	3.06%	\$30,848,341	\$31,792,734
MSCI ACWI ex US	1.88%		
Vanguard Developed Mkt Idx I	1.79%	\$31,421,572	\$31,984,683
FTSE AW ex US	1.95%		
CSMcKee	0.05%	\$58,558,073	\$58,588,973
Agincourt	0.19%	\$57,983,046	\$58,093,006
BlackRock Strategic Income Opps K	0.33%	\$10,242,951	\$10,270,979
Barclays Capital Aggregate	0.06%		
CBRE Clarion	0.19%	\$12,161,783	\$12,184,487
FTSE NAREIT Equity REITs	-0.96%		
Liquid Alternatives	1.71%	\$49,479,368	\$50,069,779
Blended Alternatives Benchmark	1.10%		
Vanguard ST Investment Grade	0.15%	\$6,289,579	\$6,298,417
BbgBarc US Corp 1-3 Yr	0.09%		
Disbursement Account	0.09%	\$6,733,358	\$7,333,815
30 Day MM Yield	0.09%		
Weighted	Portfolio	\$448,167,185	\$451,548,087
Rate of Return	Index		

Assets Not Valued Daily

	<i>Market Value Beginning of Period</i>	<i>Market Value End of Period</i>
Vittoria Intl Long/Short	\$25,874,790	\$25,874,790
Gabelli Merger Arbitrage	\$12,518,540	\$12,518,540

Grand Total	\$486,560,515	\$489,941,417
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2017 YTD Performance

Net Portfolio	12.21%
Index	12.00%