

Minutes of the Lehigh County Retirement Board Meeting

Lehigh County Government Center Public Hearing Room

Thursday, February 8, 2018

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 Phillips Armstrong, Glenn Eckhart, Judith Johnston, Marty Nothstein, Tim Reeves and Ed Sweeney.

Percy Dougherty was not present.

Kevin Karpuk from Cornerstone Advisors Asset Management also attended.

Glenn Eckhart, Retirement Board Secretary, called the meeting to order at 9:35 A.M.

This meeting is being taped for public record.

**OLD BUSINESS**

**Meeting minutes for approval from January 25, 2017 meeting.**

Glenn Eckhart asked if there were any questions or corrections to the January 25, 2018 meeting minutes.

Glenn Eckhart called for a motion for approval.

Judy Johnston made a motion to approve.

Marty Nothstein seconded the motion.

No corrections or questions.

Glenn Eckhart called for a voice vote.

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

**NEW BUSINESS**

Cornerstone -- 2017 4<sup>th</sup> Quarter update.

Kevin Karpuk from Cornerstone began the review of the portfolio by reviewing the performance of the funds, which was positive 3.75% for the quarter, slightly underperforming the Benchmark, but the portfolio end-of-the-year \$511 million compared to public funds around the country, the fund has been performing quite nicely last quarter in the 13th percentile, last during the 31st percentile, outperforming its Benchmark and longer term over five years and seven years, it's been in the 34th and 39th percentile, respectively, although it's slightly trailing its Benchmark.

In looking at page 2, you will see the asset allocation of the portfolio, which we discuss with the board regularly. It is very important to keep this position, so that there can be growth of the fund, but also to make sure that there isn't too much risk in the fund, and if you look at top two lines under IPS Target Weight, there is a 50% allocation to equities. We currently are at about 56% with about 28% in fixed income, 15% in alternatives, and just a little bit of cash, and if you'll at the bottom of page 2, what you'll see is the longer-term asset allocation has been very consistent over time, which is important in creating value over the long term.

On page 3 at the top right, between income and change of market value since September 30, 2010, the portfolio has grown by about \$250 million. Remember that between employee and employer contributions, compared to distributions to retirees, the fund sends out more money than it brings in every year, so that \$250 is how we got up to \$510 million.

Page 4 has the manager's specific information. Here you can see how each manager performed. I think most importantly is if you look at page 5, which is the Index Flash Report for January, you can see that the portfolio performed quite nicely at the end of January just a little under \$520 million. The market has been very volatile over the past couple days. To give an idea of that level volatility, as of two days ago, the portfolio closed at \$505 million, which is if you take two sets of monthly payments into effect, it is roughly back to where it began. We are quite pleased with the portfolio's performance over the past couple years.

Kevin Karpuk then turned it back over to Glenn. Glenn asked for any comments and had two questions for Kevin. One, asking to explain the Benchmark that we discussed and the importance of beating the Benchmark. The importance of beating the Benchmark is that that is what you could invest in if you didn't have any active management, and it is important to be above that because that shows that there is value being added over and above what you could get elsewhere. Glenn then mentioned that Cornerstone had outperformed the Benchmark six out of the last seven years and said that Cornerstone has been doing a good job.

Glenn then followed-up and asked Kevin to talk a little bit about some recognitions that Kevin had shared with the Board at the Executive Session. Thank you, Glenn, over the past year Cornerstone has been named as a top advisor in a lot of places, the Wallstreet Journal, Barron's Pensions and Investments, and several others, but one of the things we're most proud of is being named for the second year in a row as one of the "Best Places to Work in Money Management" by Pensions and Investments. The reason this means so much to us is because our team is committed to coming into the office every day to work hard for our clients, and they enjoy doing that, but just like winning a super bowl, you have to go out and earn that award every year, and our team certainly is in a position to do that.

Glenn Eckhart -- Election policy update

There will be no vote today. We plan to have the final draft ready for the May 10 meeting.

Glenn asked if there were any more motions.

No motions.

Glenn asked if there was any citizen/employee input.

No citizen/employee input.

No further business.

Glenn called for a motion to adjourn.

Judy Johnstone made the motion.

Mary Nothstein seconded.

Meeting adjourned at 9:51 A.M.

Next Retirement Board meeting is on May 10, 2018 at 9:30 A.M. in the Public Hearing Room.



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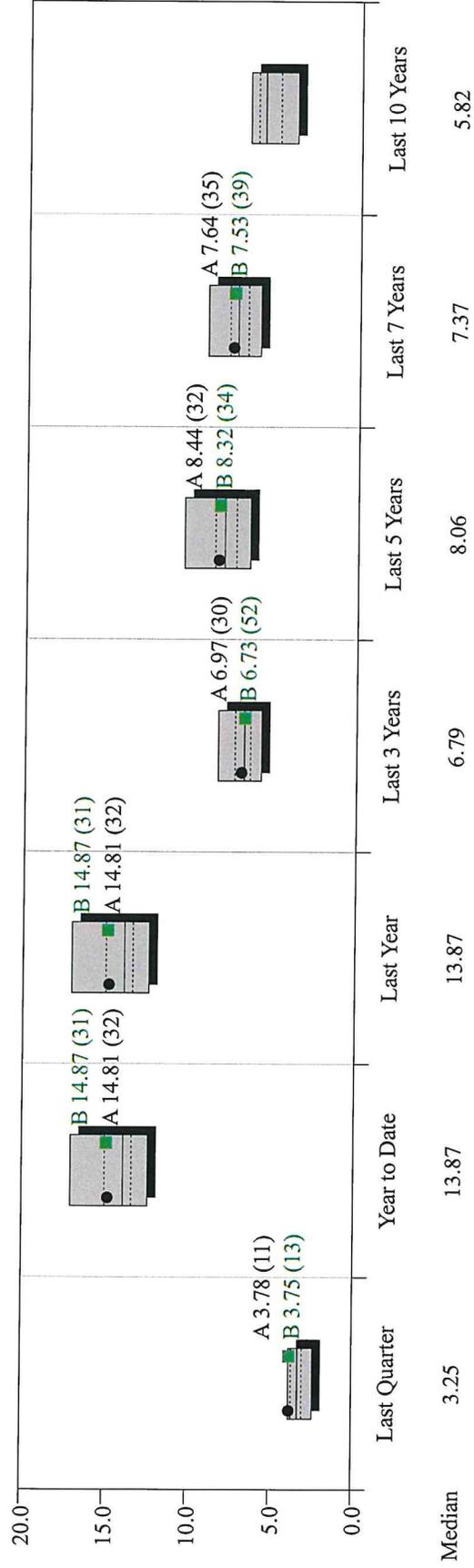
Glenn Eckhart, Secretary

## Lehigh County Retirement Fund Net Portfolio Performance

3 Months ending December 31, 2017

	Ending Weight	Returns	Beginning Market Value	Ending Market Value
Domestic Equity	37.8%	6.51%	\$184,536,489	\$193,066,907
International Equity	18.2%	4.16%	\$89,516,067	\$93,238,308
Domestic Fixed Income	28.3%	0.56%	\$133,882,972	\$144,699,266
Alternative	14.9%	2.58%	\$74,327,729	\$75,991,892
Cash & Equivalents	0.8%	0.49%	\$6,671,187	\$4,310,687
<b>Total Portfolio</b>	<b>100.0%</b>	<b>3.75%</b>	<b>\$488,934,445</b>	<b>\$511,307,060</b>
<i>Lehigh County Blended BM</i>				
		3.78%		

Net of Fee Returns for Period Ending December 31, 2017  
Group: Callan Public Fund Spons- Mid (100M-1B)



# Lehigh County Retirement Fund

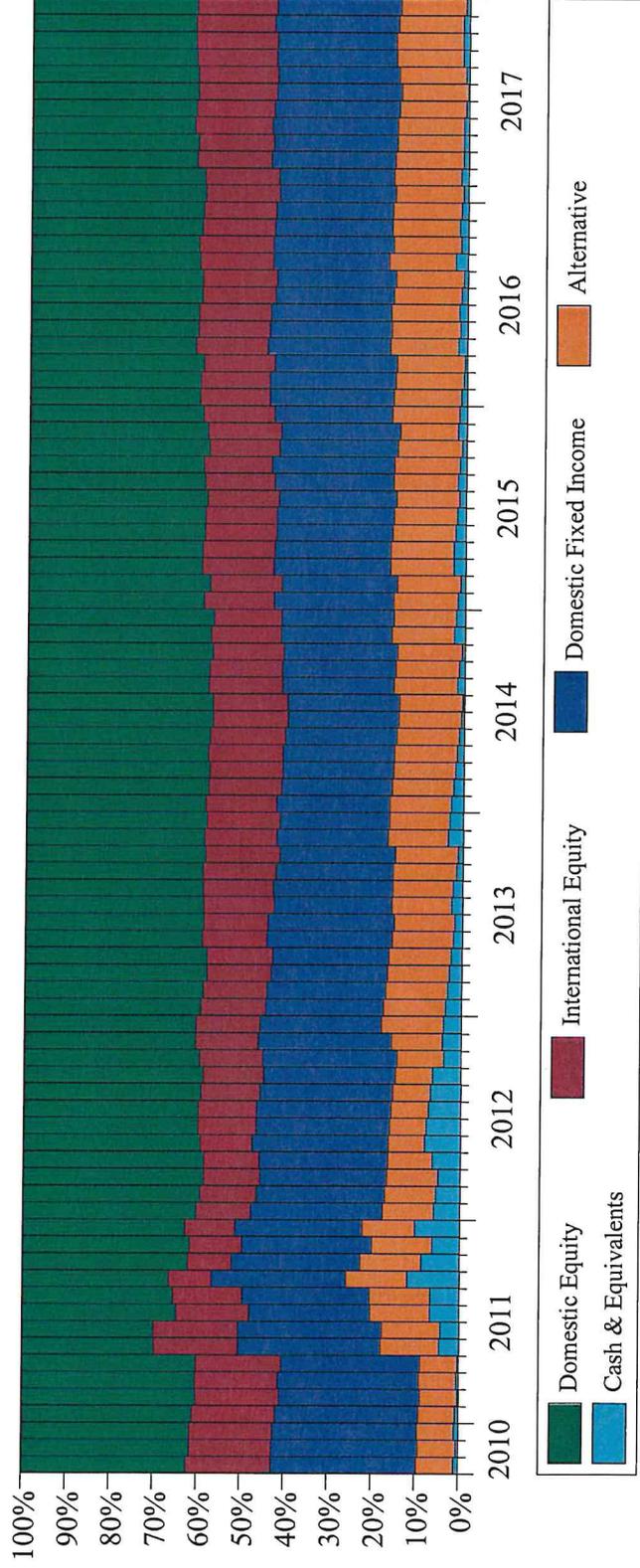
## Asset Allocation

October 1, 2017 to December 31, 2017

	Beginning Weight	Ending Weight	IPS Tgt Weight	Deviation
Domestic Equity	37.7%	37.8%	35.0%	2.8%
International Equity	18.3%	18.2%	15.0%	3.2%
Domestic Fixed Income	27.4%	28.3%	35.0%	(6.7%)
Alternative	15.2%	14.9%	10.0%	4.9%
Cash & Equivalents	1.4%	0.8%	5.0%	(4.2%)
<b>Total Portfolio</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	

	Beginning Market Value	Ending Market Value	Transfers
Domestic Equity	\$184,536,489	\$193,066,907	(\$3,500,000)
International Equity	\$89,516,067	\$93,238,308	\$0
Domestic Fixed Income	\$133,882,972	\$144,699,266	\$10,012,812
Alternative	\$74,327,729	\$75,991,892	(\$307,862)
Cash & Equivalents	\$6,671,187	\$4,310,687	(\$6,204,951)
<b>Total Portfolio</b>	<b>\$488,934,445</b>	<b>\$511,307,060</b>	<b>\$0</b>

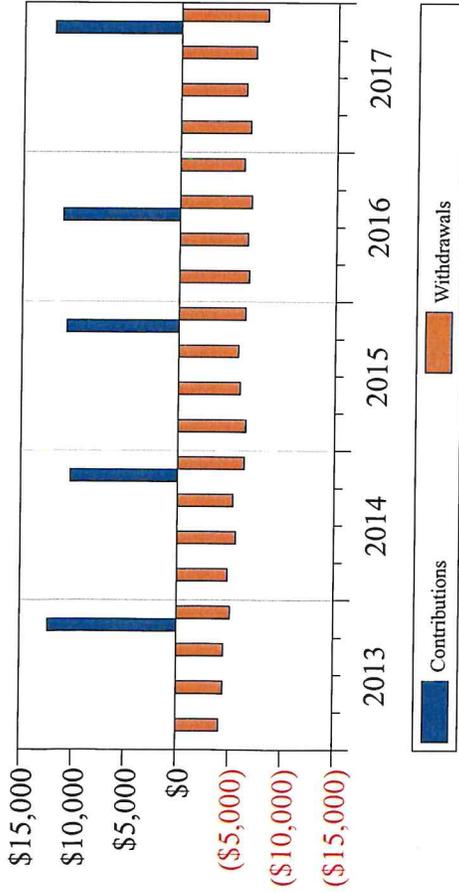
Actual Allocation for Since Inception Ended December 31, 2017



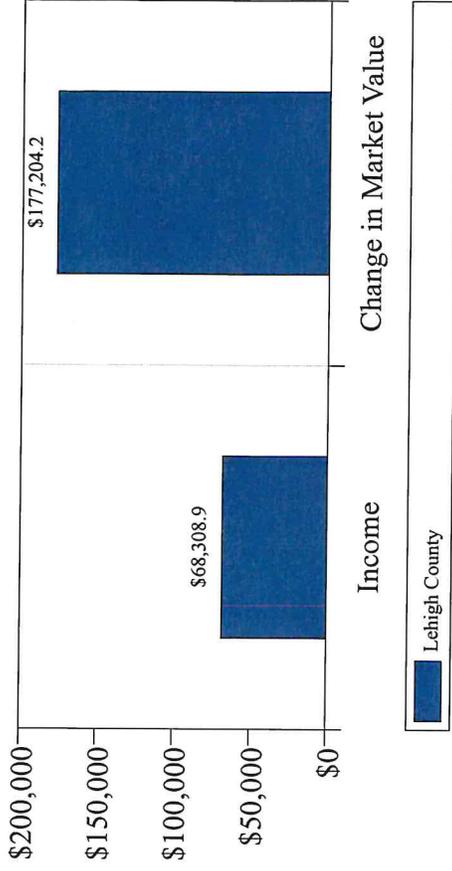
# Lehigh County Retirement Fund

## Historical Cash Flow

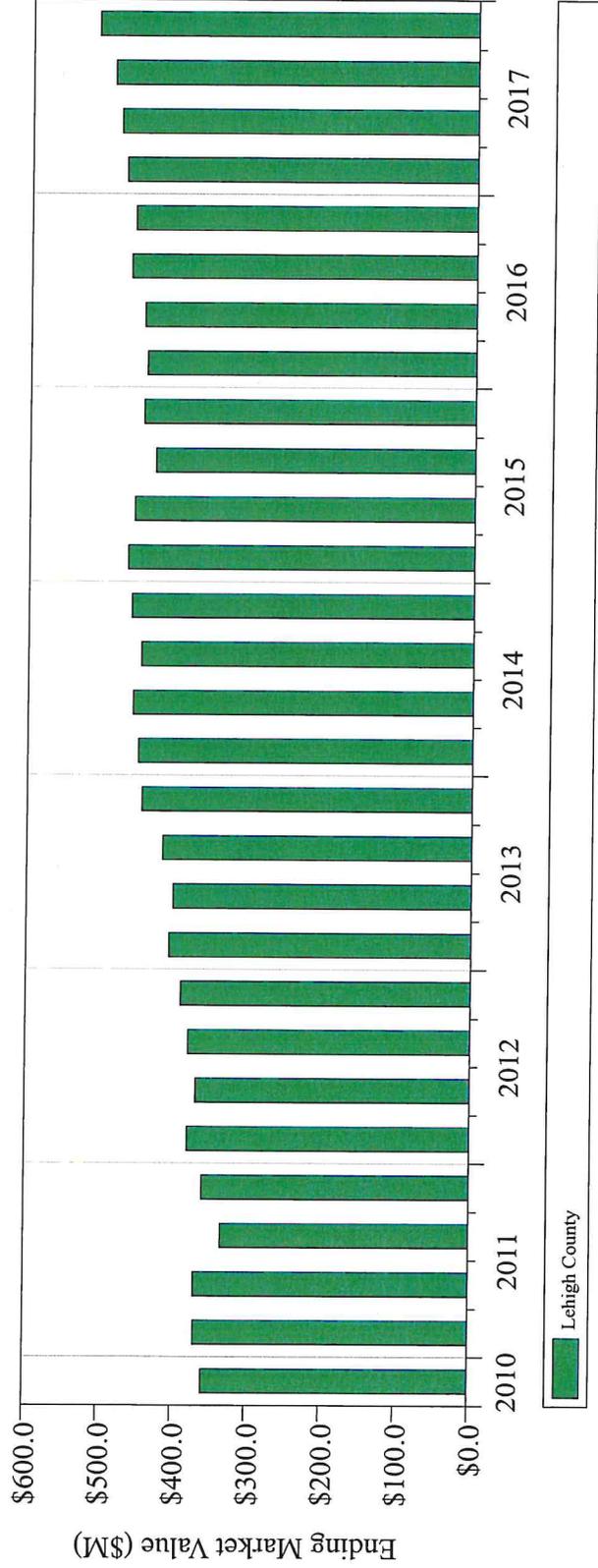
Quarterly Cash Flows for 5 Years (\$K)



Portfolio Appreciation (\$K) Since Inception



Ending Market Value Since Inception (October 1, 2010)



# Lehigh County Retirement Fund

## Manager Performance

3 Months ending December 31, 2017

	Benchmark Name	Ending Weight	Returns	Excess Return	Beginning Market Value	Ending Market Value
Lomax Large Value	Russell:1000 Value	7.8%	7.52%	2.19%	\$38,556,481	\$39,888,952
Vanguard Instl Indx;Inst	S&P:500	10.3%	6.63%	(0.01%)	\$68,698,482	\$52,510,348
Invesco Eq-Wtd 500;R6	S&P 500 Eq Wt	4.1%	--	--	\$0	\$20,914,583
SGA Large Growth	Russell:1000 Growth	7.6%	5.50%	(2.36%)	\$37,838,132	\$38,884,866
Emerald Mid Growth	Russell:Midcap Growth	2.2%	7.41%	0.61%	\$10,388,788	\$11,159,101
Emerald Small Growth	Russell:2000 Growth	2.1%	8.09%	3.50%	\$11,130,533	\$10,968,083
Vanguard SC Val Idx;Ins	CRSP:U.S. Small Cap Value	3.7%	4.56%	0.00%	\$17,924,074	\$18,740,973
Vanguard Dev Mkt;Adm	FTSE:Dev AC ex US Idx	6.4%	4.45%	(0.46%)	\$31,421,572	\$32,820,022
American Funds EuPc;F-3	MSCI:ACWI ex US	6.3%	4.23%	(0.77%)	\$30,848,341	\$32,153,117
Vitoria Long/Short Intl	MSCI:EAFE	5.5%	3.74%	(0.49%)	\$27,246,154	\$28,265,169
Agincourt Core Fixed	Blmbg:Aggregate Index	11.5%	0.63%	0.24%	\$58,442,765	\$58,810,938
CSMcKee Core Fixed	Blmbg:Aggregate Index	11.6%	0.55%	0.16%	\$58,859,351	\$59,180,371
BlackRock:Str Inc Opp;K	Blmbg:Aggregate Index	3.0%	0.88%	0.49%	\$10,270,979	\$15,401,805
Vanguard Sh-Tm Inv;Adm	Blmbg:Credit 1-3 Yr Bd	2.2%	(0.05%)	0.03%	\$6,309,878	\$11,306,151
Gabelli Merger Arbitrage	CS:Risk Arb	2.5%	0.35%	0.26%	\$12,518,540	\$12,562,357
J Hancock II:G Ab Rt;I	CS:All Hedge Idx	2.4%	1.74%	(1.37%)	\$12,130,443	\$12,341,611
ALPS/CC Mgt CC S;I	Blmbg:Commnty Idx	2.5%	6.18%	1.79%	\$12,491,357	\$13,000,672
CBRE Clarion RE	FTSE:NAREIT All Eq Index	2.5%	2.87%	0.39%	\$12,212,499	\$12,563,250
Nuveen Pref Secs;I	S&P:US Pref Index	2.5%	1.18%	1.09%	\$12,704,891	\$12,854,001
JPM Structured Note	JPM Structured Note Idx	2.5%	3.26%	(0.01%)	\$12,270,000	\$12,670,000

## Lehigh County Employees' Retirement Plan Monthly Flash Report

	<i>Monthly Return January-2018</i>	<i>Market Value Beginning of Period</i>	<i>Market Value End of Period</i>
<b>Lomax</b>	<b>3.66%</b>	<b>\$39,854,399</b>	<b>\$41,311,202</b>
Russell 1000 Value	3.87%		
<b>Vanguard Institutional Index</b>	<b>5.72%</b>	<b>\$52,510,348</b>	<b>\$50,372,575</b>
S&P 500	5.72%		
<b>Invesco Equally-Wtd S&amp;P 500 R6</b>	<b>4.46%</b>	<b>\$20,914,583</b>	<b>\$19,809,350</b>
S&P 500 Equal Weighted Tr Usd	4.47%		
<b>Sustainable Growth Advisors</b>	<b>6.40%</b>	<b>\$38,854,685</b>	<b>\$41,341,223</b>
Russell 1000 Growth	7.08%		
<b>Vanguard SCV Index</b>	<b>1.98%</b>	<b>\$18,740,973</b>	<b>\$19,111,441</b>
CRSP US Small Cap Value	1.97%		
<b>Emerald</b>	<b>5.08%</b>	<b>\$11,157,546</b>	<b>\$11,723,847</b>
Russell Mid-Cap Growth	5.66%		
<b>Emerald Advisors</b>	<b>2.16%</b>	<b>\$10,966,429</b>	<b>\$10,203,081</b>
Russell 2000 Growth	3.90%		
<b>American Funds Europacific Growth F3</b>	<b>6.14%</b>	<b>\$32,153,117</b>	<b>\$34,127,281</b>
MSCI ACWI ex US	5.57%		
<b>Vanguard Developed Mkt Idx I</b>	<b>4.85%</b>	<b>\$32,820,022</b>	<b>\$34,412,123</b>
FTSE AW ex US	5.48%		
<b>CSMcKee</b>	<b>0.06%</b>	<b>\$58,839,562</b>	<b>\$58,872,849</b>
Agincourt	-1.10%	\$58,335,610	\$57,693,836
<b>BlackRock Strategic Income Opps K</b>	<b>1.24%</b>	<b>\$15,359,061</b>	<b>\$15,556,287</b>
Barclays Capital Aggregate	-1.15%		
<b>CBRE Clarion</b>	<b>-2.90%</b>	<b>\$12,498,066</b>	<b>\$12,135,002</b>
FTSE NAREIT Equity REITs	-4.18%		
<b>Liquid Alternatives</b>	<b>2.43%</b>	<b>\$50,750,330</b>	<b>\$50,974,294</b>
Blended Alternatives Benchmark	1.88%		
<b>Vanguard ST Investment Grade</b>	<b>-0.37%</b>	<b>\$11,273,040</b>	<b>\$17,202,690</b>
BbgBarc US Corp 1-3 Yr	-0.18%		
<b>Disbursement Account</b>	<b>0.12%</b>	<b>\$4,328,195</b>	<b>\$5,337,920</b>
30 Day MM Yield	0.12%		
<b>Weighted</b>	<b>2.78%</b>	<b>\$469,355,966</b>	<b>\$480,184,999</b>
<b>Rate of Return</b>	<b>2.59%</b>		

### Assets Not Valued Daily

	<i>Market Value Beginning of Period</i>	<i>Market Value End of Period</i>
Vittoria Intl Long/Short	\$27,202,634	\$27,202,634
Gabelli Merger Arbitrage	\$12,491,067	\$12,562,357

<b>Grand Total</b>	<b>\$509,049,667</b>	<b>\$519,949,991</b>
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### 2018 YTD Performance

Net Portfolio	2.78%
Index	2.59%

Net of Fee Returns for Periods Ended December 31, 2017

	Last 10 Years	Last 15 Years	Last 20 Years
Lehigh County (CR report)	5.2	7.2	6.1

Net of Fee Returns for Periods Ended December 31, 2016

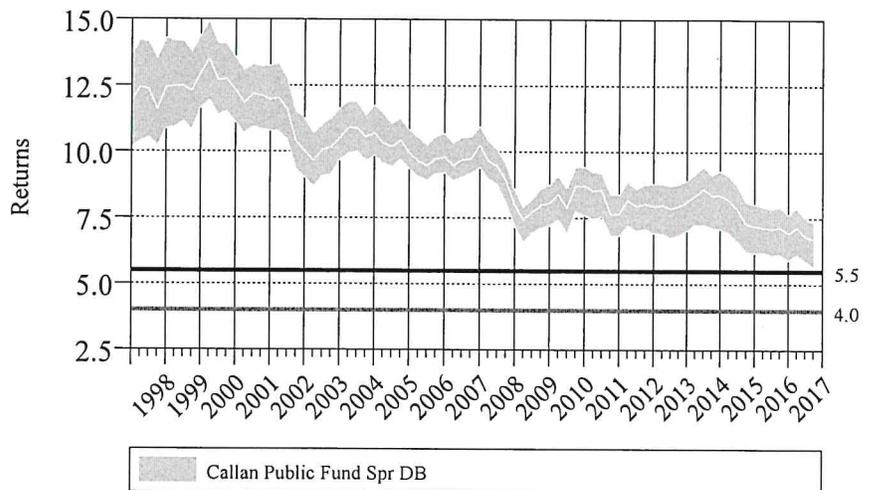
	10 Years Ending December 31, 2016	15 Years Ending December 31, 2016	20 Years Ending December 31, 2016
Lehigh County (CR report)	4.5	5.5	6.4

Lehigh County (CR report) Net of Fee Returns for ending December 31, 2017

	Returns*
2017	15.0
2016	6.3
2015	(0.2)
2014	6.1
2013	15.6
2012	10.1
2011	1.2
2010	10.7
2009	16.9
<b>2008</b>	<b>(22.9)</b>
2007	7.5
2006	14.1
2005	6.3
2004	9.3
<b>2003</b>	<b>20.0</b>
2002	(9.3)
2001	(3.3)
2000	(0.8)
1999	14.7
<b>1998</b>	<b>15.6</b>
1997	20.1

\*Bold and italicized returns indicate years to be rolled off in current year for 10 year, 15 year and 20 year measurements.

Rolling 20 Year Returns for 20 Years Ended December 31, 2017



Rolling 15 Year Returns for 20 Years Ended December 31, 2017

