

Minutes of the Lehigh County Retirement Board Meeting

Lehigh County Government Center Public Hearing Room

Thursday, November 10, 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, Tom Muller, Brad Osborne and Tim Reeves.

Chris Lakatosh from Cornerstone also attended.

Tom Muller, County Executive, called the meeting to order at 9:32 A.M.

Tom Muller announced that Daniel McCarthy has moved to become a judge. He was sitting in a seat that is now appointed to Judy Johnston.

OLD BUSINESS

Meeting minutes for approval from August 4, 2016.

Tom Muller asked if there were any questions or corrections to the August 4, 2016 meeting minutes.

Tom Muller called for a motion for approval.

Brad Osborne made a motion to accept the August 4, 2016 Retirement Board minutes.

Tom Creighton seconded the motion.

Tom Muller called for a voice vote. All were in favor.

Minutes were approved unanimously.

NEW BUSINESS

Chris Lakatosh from Cornerstone Consulting gave an update on the third quarter 2016.

It's been a pretty good year in the market so far. We had some volatility this year. If you look on the handout, we'll talk through some of the market flows that we have seen. The third column from the left on the September 30 Index Report (YTD) you'll see the top line is the S&P 500 - which is up. That's typically a good gauge of how the market's been doing. It's almost 8% year-to-date as of September 30. We have had a lot of really strong markets for the first nine months of the year.

What has been a little bit surprising is if you go about 4 lines down you'll see the Russell 1000 Value which is our value part of the large part of the market was up about 10%. The Russell 1000 Growth which is the growth oriented part of the large cap part of the market is up 6%. Correlations between growth and value have been pretty wide – about 400 basis points or 4% large cap value and large cap growth. It's actually amplified. When you look at the small companies in the marketplace – the Russell 2000 Value was up about 15-1/2% and the Russell 2000 Growth was up only 7-1/2%. It's an 8% difference if you're investing small cap value vs. small cap growth.

Internationally most of the market has been flat. The emerging markets are up about 16% so pretty strong rebound for emerging market stocks.

The surprise of the year, so far, has been fixed income. It's the fourth line from the bottom of the index chart which is the Barclays US Agg Bond market. It was up almost 6% for the year. It's a little bit surprising -- typically when your stock market is doing really well, your bond market isn't doing as well but this year has been a little bit of an anomaly with the bond market being up about 5.8%.

Strong markets across the board whether your equities or fixed income. Everything for the most part has been making money in 2016.

On Page 2 you'll see that the performance for the Quarter is slightly under the blended benchmark. The portfolio did 3% for the 90-day period. In the third Quarter it was up 3.04%, blended benchmark was up 3.18% so it hovered right around but slightly underneath. If you look at the bottom part of page 2, the last year the portfolio returned about 9%. Over the last three years it has been up 5.6%; over the last five years 8.5% and over the last seven years it's been up almost 7.5% which is basically what the actuaries expected from a performance perspective -- really strong in this market rebound that we've seen since the bottom of 2009. The portfolio has been able to capture a lot of that up market.

On the Page 3 you'll note the asset allocation of the portfolio. Equity-wise we are about 55% equity; about 26% fixed income or bonds; 15% alternative investments and just shy of 3% cash. We have a little bit more of a conservative stance than some other municipal pension plans. We have been able to attract a lot of return by being a little bit more conservative.

On Page 4 if you look at the top right that's the best representation on how the fund has done since Cornerstone has been involved with managing the portfolio. You'll see income derived from the portfolio with about \$54 million dollars. A change in market value and appreciation in the pension of \$122 million dollars. Basically, \$177 million dollars in market value appreciation since 2010 when Cornerstone began managing this portfolio. Really strong market value performance.

Jumping to Page 6 you get an idea where October ended up. The market was pretty volatile in October. We had a little bit of a down market. The portfolio was down 1.79%. The blended benchmark was down 1.58%. We were slightly underneath by 20 basis points. The ending market value was \$450,792,049.

There were no questions for Chris.

Vote on the 2017 Cost of Living Increase for retirees.

Tom Muller – As you know, at the August 4, 2016 meeting we agreed and passed a number of rules moving forward. While we are supposed to look at the cost of living increase every three years, we said we would look at it every year at our November meeting. If there are no questions, I would look for a motion to be no cost of living increase formally for next year.

Glenn Eckhart – If anyone on the Board or the audience has no questions, the Board will make a motion that there will not be an increase next year because we are 88.2% funded in our current pension plan. We set rules at the August 4, 2016 meeting that we would not look to fund a cost of living increase unless we are 104% funded in our pension plan. We are not funded at 104% thus we are not recommending a cost of living increase for 2017.

Tom Muller called for a second to the motion.

Tom Creighton seconded the motion.

There was no further discussion.

Tom Muller called for a voice vote.

All were in favor.

Vote was unanimous for no cost of living increase for 2017.

Set dates for 2017 Retirement Board meetings

Tom Muller – I was just advised that there may be an issue with the January 26, 2017 date. If that has to change, we will get information to you as soon as possible. There's one potential major conflict that day for a number of members of the Board.

Tom Muller called for a motion.

Glenn Eckhart – I suggest we approve these dates. If it is not the January 26 date, it will be earlier that week because we have to vote on the interest rate at the January meeting. Thus, it would be Tuesday or Wednesday that week. For now we'll keep it on Thursday until told otherwise. The dates will be posted in the newspaper on January 1, 2017 for the five regular scheduled Retirement Board meetings for 2017.

Tom Muller called for a second to the motion.

Brad Osborne seconded the motion.

Tom Muller called for a voice vote.

All in favor.

Vote was unanimous for 2017 Retirement Board meeting dates.

Asset Class Benchmark Performance Summary

	MTD	QTD	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
S&P 500 TR USD	0.02	3.85	7.84	15.43	11.16	16.37	13.17	7.24
Russell 3000 TR USD	0.16	4.40	8.18	14.96	10.44	16.36	13.18	7.37
NASDAQ Composite TR USD	1.96	10.02	7.09	16.42	13.45	16.54	15.33	10.08
DJ Industrial Average TR USD	-0.41	2.78	7.21	15.46	9.23	13.77	12.34	7.39
Russell 1000 Value TR USD	-0.21	3.48	10.00	16.20	9.70	16.15	12.34	5.85
Russell 1000 Growth TR USD	0.37	4.58	6.00	13.76	11.83	16.60	14.11	8.85
Russell 2000 Value TR USD	0.79	8.87	15.49	18.81	6.77	15.45	11.60	5.78
Russell 2000 TR USD	1.11	9.05	11.46	15.47	6.71	15.82	12.49	7.07
Russell 2000 Growth TR USD	1.44	9.22	7.48	12.12	6.58	16.15	13.32	8.29
MSCI EAFE NR USD	1.23	6.43	1.73	6.52	0.48	7.39	4.24	1.82
MSCI EAFE Value NR USD	0.97	7.99	0.82	3.52	-1.49	5.99	2.44	0.44
MSCI EAFE Growth NR USD	1.49	4.96	2.63	9.47	2.39	8.73	5.99	3.14
MSCI ACWI Ex USA NR USD	1.23	6.91	5.82	9.26	0.18	6.04	3.66	2.16
MSCI EM NR USD	1.29	9.03	16.02	16.78	-0.56	3.03	2.27	3.95
HFRI Absolute Return USD	0.33	0.89	0.66	0.88	2.01	1.77	0.71	-0.38
DJ Composite All REIT TR USD	-1.38	-0.90	12.82	20.76	13.44	15.20	14.74	5.64
Bloomberg Commodity TR USD	3.13	-3.86	8.87	-2.58	-12.34	-9.37	-5.50	-5.33
Barclays US Treasury US TIPS TR USD	0.55	0.96	7.27	6.58	2.40	1.93	4.00	4.48
Barclays US Agg Bond TR USD	-0.06	0.46	5.80	5.19	4.03	3.08	4.10	4.79
Barclays US HY Interm TR USD	0.65	5.35	14.44	12.08	4.84	8.00	8.36	7.38
Barclays Municipal 1-10Y Blend 1-12Y TR	-0.30	-0.11	2.58	3.40	3.34	2.95	3.35	4.04
Barclays Global Aggregate TR USD	0.55	0.82	9.85	8.83	2.13	1.74	2.66	4.26

Blended Benchmark Performance Summary

	MTD	QTD	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
100% Equity (70.30)	0.48	5.15	7.50	13.26	7.31	13.24	10.31	5.87
80% Equity, 20% Fixed Income	0.37	4.20	7.25	11.75	6.76	11.26	9.22	5.89
60% Equity, 40% Fixed Income	0.26	3.26	6.96	10.19	6.15	9.26	8.05	5.79
40% Equity, 60% Fixed Income	0.16	2.32	6.62	8.57	5.49	7.23	6.81	5.57
20% Equity, 80% Fixed Income	0.05	1.39	6.23	6.91	4.78	5.17	5.49	5.24

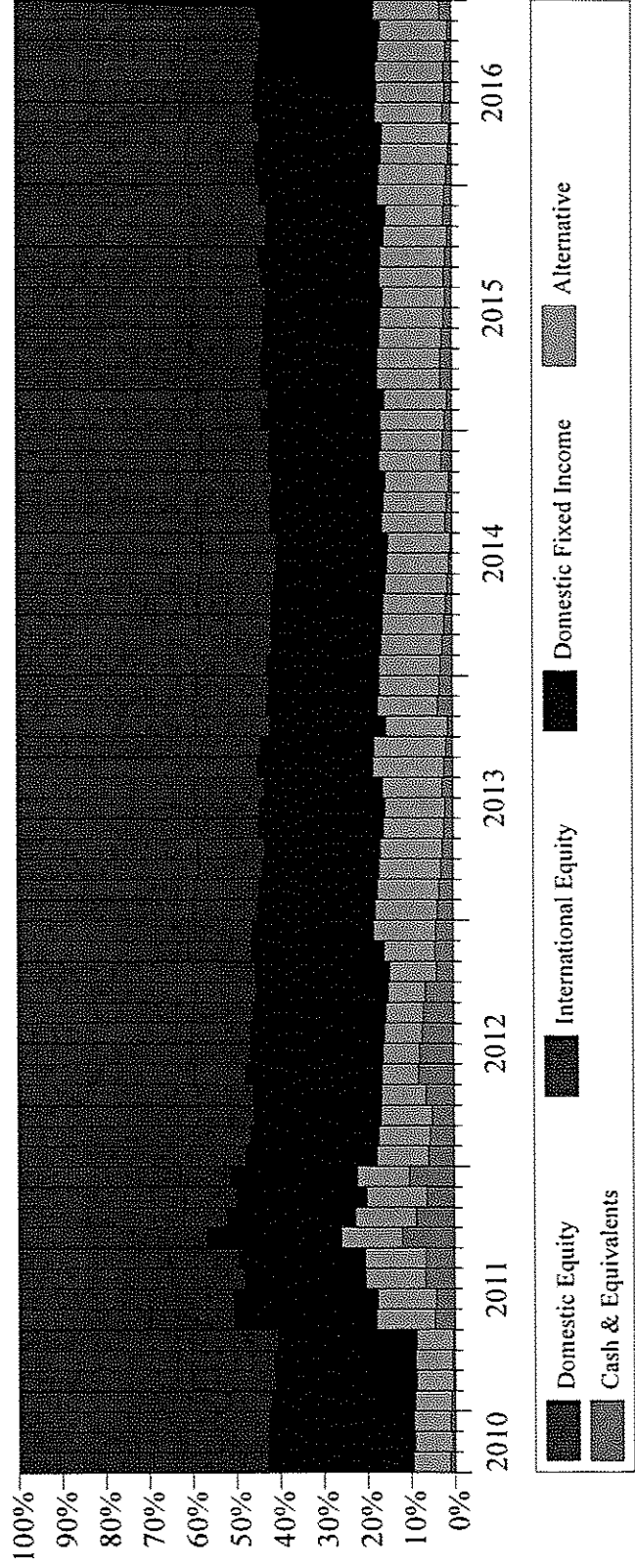
Lehigh County Retirement Fund Asset Allocation

July 1, 2016 to September 30, 2016

	Beginning Weight	Ending Weight	IPS Tgt Weight	Deviation
Domestic Equity	38.7%	38.8%	35.0%	3.8%
International Equity	16.4%	16.7%	15.0%	1.7%
Domestic Fixed Income	27.4%	26.5%	35.0%	(8.5%)
Alternative	15.6%	15.2%	10.0%	5.2%
Cash & Equivalents	1.9%	2.8%	5.0%	(2.2%)
Total Portfolio	100.0%	100.0%	100.0%	

	Beginning Market Value	Ending Market Value	Transfers
Domestic Equity	\$172,875,430	\$180,642,123	(\$1,657)
International Equity	\$73,306,850	\$77,869,202	\$0
Domestic Fixed Income	\$122,533,829	\$123,292,749	(\$3,885)
Alternative	\$69,789,956	\$70,507,038	\$862
Cash & Equivalents	\$8,489,514	\$12,805,480	\$4,680
Total Portfolio	\$446,995,579	\$465,116,592	\$0

Actual Allocation for Since Inception Ended September 30, 2016



Lehigh County Retirement Fund Manager Performance

3 Months ending September 30, 2016

	Benchmark Name	Ending Weight	Returns	Excess Return	Beginning Market Value	Ending Market Value
Lomax Large Value	Russell:1000 Value	8.3%	2.05%	(1.43%)	\$37,938,147	\$38,716,115
Vanguard Inst Indx;Inst	S&P:500	13.6%	3.85%	(0.01%)	\$61,009,250	\$63,355,261
SGA Large Growth	Russell:1000 Growth	8.5%	5.06%	0.48%	\$37,704,474	\$39,610,846
Emerald Mid Growth	Russell:Midcap Growth	1.9%	8.46%	3.87%	\$8,266,790	\$8,965,961
Emerald Small Growth	Russell:2000 Growth	2.3%	10.19%	0.96%	\$9,738,699	\$10,730,642
Vanguard SC Val Idx;Ins	Russell:2000 Value	4.1%	5.74%	(3.13%)	\$18,218,070	\$19,263,298
Vanguard Dev Mkt;Adm	MSCI:EAFE	5.4%	6.40%	(0.03%)	\$23,829,133	\$25,331,432
Mondrian International	MSCI:ACWI;US Gross	5.2%	4.10%	(2.91%)	\$23,208,792	\$24,115,557
American Funds EuPc;F-2	MSCI:ACWI;US Gross	6.1%	8.20%	1.20%	\$26,268,925	\$28,422,213
Agincoart Core Fixed	BB Barclays:Aggregate Idx	12.5%	0.71%	0.26%	\$57,638,220	\$58,050,219
CSMcKee Core Fixed	BB Barclays:Aggregate Idx	12.6%	0.53%	0.07%	\$58,262,396	\$58,571,826
Vanguard Sh-Tm Inv;Adm	BB Barclays:Credit 1-3 Yr	1.4%	0.57%	0.31%	\$6,633,212	\$6,670,704
Arbitrage Fund;J	CS:Risk Arb	2.5%	0.76%	(1.54%)	\$11,616,080	\$11,704,549
J Hancock II:G Ab Rt;J	CS:AllHedge Ix	2.5%	0.20%	(1.51%)	\$11,390,944	\$11,413,841
ALPS/CC Mgt CC S;J	BLMBRG:Commdy Idx	2.5%	(0.54%)	3.40%	\$11,463,621	\$11,401,739
CBRE Clarion RE	FTSE:NAREIT All Eq Index	2.9%	(1.37%)	(0.16%)	\$13,484,932	\$13,300,608
Nuveen Pref Secs;J	S&P:US Pref Index	2.8%	3.48%	2.74%	\$12,464,380	\$12,896,301
JPM Structured Note	JPM Structured Note Idx	2.1%	4.48%	0.00%	\$9,370,000	\$9,790,000