

Minutes of the Lehigh County Retirement Board Meeting
Lehigh County Government Center Conference Room #43B

Tuesday, February 28, 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 Conference Room #43B. Members present were Percy Dougherty, Glenn Eckhart, Judy Johnston, Tom Muller, Marty Nothstein and Tim Reeves.

David Bausch was not present.

Kevin Karpuk from Cornerstone Consulting also attended.

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

OLD BUSINESS

Meeting minutes for approval from January 26, 2017.

Tom Muller asked if there were any questions or corrections to the January 26, 2017 meeting minutes.

Tom Muller called for a motion for approval.

Marty Nothstein made a motion to approve the January 26, 2017 Retirement Board minutes.

Tim Reeves seconded the motion.

Tom Muller called for a voice vote.

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

NEW BUSINESS

Kevin Karpuk gave the 4th Quarter update.

Net Portfolio Performance (Page 1 of the handout) - The pension is at an all-time high. As of the close two days ago, it was at \$470,740,000. Including some benefit payments that happened since the end of the quarter, the portfolio is up another \$10 million year-to-date. Last year the portfolio was up just about

6.3% net of fees so it was a decent year but also a rocky year. If you remember about a year ago when we sat down the portfolio was off pretty significantly and had a really nice rebound especially coming out of post-election moves in the market.

Asset Allocation (Page 2) – The portfolio is defensively positioned. It will still grow as the market goes up but we are trying to protect against downside. We currently are right about 57% in equities, 27% in fixed income, 16% in non-correlated assets and 2% in cash.

Historical Cash Flow (Page 3) - There's about \$2 million per month going out of the portfolio in benefit payments for retirees so we typically keep about one quarter (3 months) worth in cash just in case something happens in the market we don't have to sell into it. The handout will show that. In the top left you can see about \$5-6 million worth of benefit payments (the bars that go down). Then you see the County's contribution (the larger numbers to the positive) which is typically made annually.

There is a really good chart on the top right to show you the power of compounding investments. Since Cornerstone was retained, between income and change in market value, the portfolio has grown about \$178 million worth. That has been part of the effect of having a really good market since then. To give you an idea the size that certainly is significant.

At the bottom (the gray bars) we would have the highest bar in history if we were to draw that today.

Manager Performance (Page 4) – This is a breakdown of the manager matrix. The real point to take away from here is the portfolio is well diversified. It has a good mix of passive and active management. If you follow financial reporting or any kind of investments, there has been a lot of talk about that. Overall the manager matrix shows 10 out of 13 of these managers out-performed more than half of their peers over the last year.

Monthly Flash Report (Page 5) – This is through the end of January. We will have the new flash report going out to the Board tomorrow since today is the last day of the month. The portfolio is up 1.64% for the quarter -- besting the benchmark by about one-quarter percent. That number should be pretty close to being similar for February as the market continued moving up.

Overall things are going well. We have discretion to move assets around. As the market continues hitting all-time highs, we will probably be trimming a little bit from equities that protect to the downside.

Tom Muller asked for any motions.

No motions.

Tom Muller asked for citizen/employee/retiree input.

Gus Liadis (Human Services) – Last time I heard we were at 88% funded. Where are we now?

Glenn Eckhart – We get those numbers once a year -- in July. The Fiscal Office will put together various information and give it to the actuary. The actuary will do the calculations and generate a new number. We are currently at 88.2%. Last year we were at 88.4%. Come July we will know where we are at for the upcoming year.

Tom Muller – We will get those numbers to do the budget for next year.

There was no further business.

Tom Muller called for a motion to adjourn.

Glenn Eckhart made the motion to adjourn.

Tom Muller called for a voice vote. All in favor. 6-0 vote. Motion passed unanimously.

Meeting adjourned at 9:36 A.M.



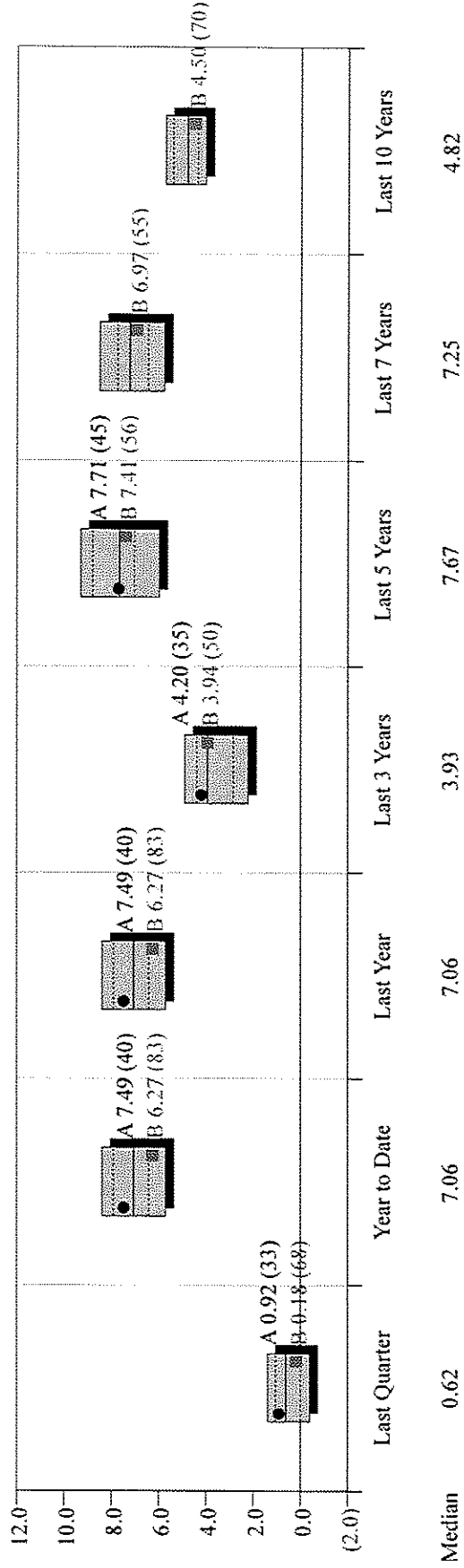
Glenn Eckhart, Secretary

Lehigh County Retirement Fund Net Portfolio Performance

3 Months ending December 31, 2016

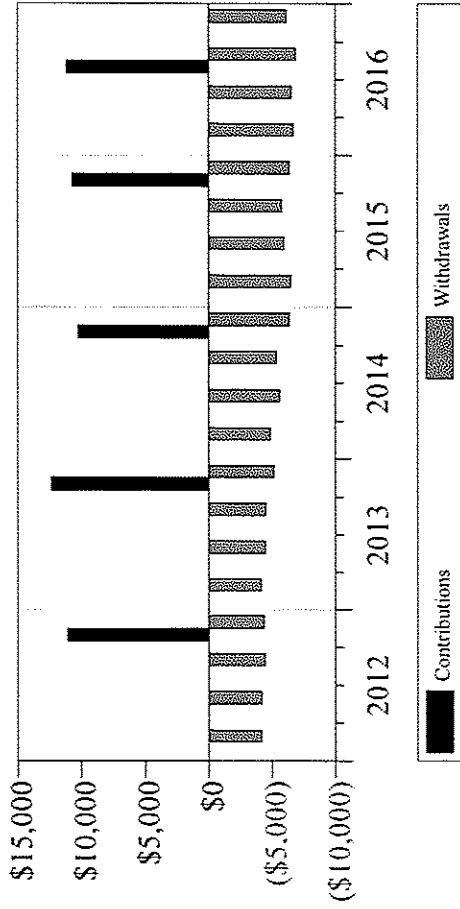
| | Ending Weight | Returns | Beginning Market Value | Ending Market Value |
|---------------------------------|---------------|--------------|------------------------|----------------------|
| Domestic Equity | 39.6% | 3.06% | \$180,642,123 | \$182,218,943 |
| International Equity | 16.6% | (3.47%) | \$77,869,202 | \$76,189,774 |
| Domestic Fixed Income | 26.6% | (2.59%) | \$123,292,749 | \$122,554,030 |
| Alternative | 15.6% | 1.26% | \$70,507,038 | \$71,789,735 |
| Cash & Equivalents | 1.6% | 0.08% | \$12,805,480 | \$7,250,950 |
| Total Portfolio | 100.0% | 0.18% | \$465,116,592 | \$460,003,432 |
| <i>Lehigh County Blended BM</i> | | | | |
| | | <i>0.92%</i> | | |

Net of Fee Returns for Period Ending December 31, 2016
Group: CAI Public Fund Sponsor - Mid (100M-1B)

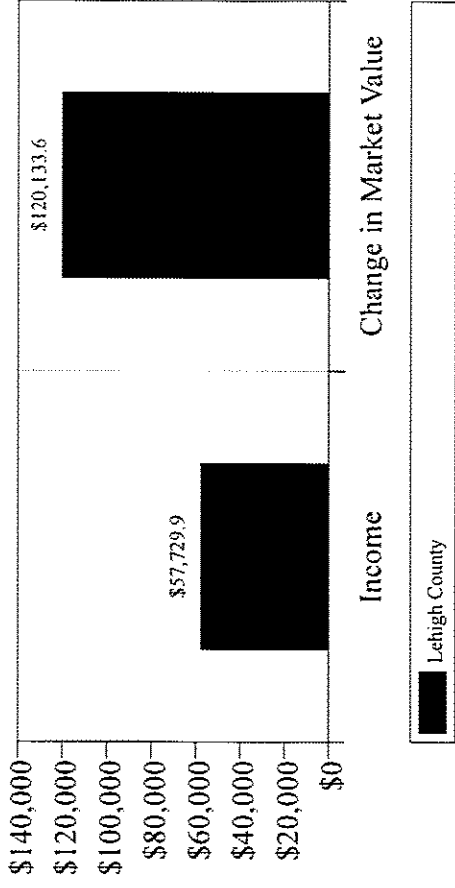


Lehigh County Retirement Fund Historical Cash Flow

Quarterly Cash Flows for 5 Years (\$K)



Portfolio Appreciation (\$K) Since Inception



Ending Market Value Since Inception (October 1, 2010)



Lehigh County Employees' Retirement Plan

Monthly Flash Report

| | <i>Monthly Return January-2017</i> | <i>Market Value Beginning of Period</i> | <i>Market Value End of Period</i> |
|--------------------------------------|--|---|---------------------------------------|
| Lomax | 2.08% | \$38,708,307 | \$39,513,575 |
| Russell 1000 Value | 0.71% | | |
| Vanguard Institutional Index | 1.89% | \$65,774,153 | \$67,019,741 |
| S&P 500 | 1.90% | | |
| Sustainable Growth Advisors | 4.13% | \$37,702,801 | \$39,261,012 |
| Russell 1000 Growth | 3.37% | | |
| Vanguard SCV Index | 0.69% | \$20,165,583 | \$20,304,417 |
| CRSP US Small Value | 0.68% | | |
| Emerald | 4.17% | \$9,031,607 | \$9,408,011 |
| Russell Mid-Cap Growth | 3.33% | | |
| Emerald Advisors | 1.62% | \$10,171,410 | \$10,336,460 |
| Russell 2000 Growth | 1.62% | | |
| American Funds EuroPac | 4.43% | \$27,237,779 | \$28,443,098 |
| MSCI ACWI ex US | 3.54% | | |
| Vanguard Developed Mkt Idx I | 3.66% | \$25,951,995 | \$26,901,728 |
| FTSE AW ex US | 3.43% | | |
| CSMcKee | 0.15% | \$56,661,315 | \$56,744,222 |
| Barclays Capital Aggregate | 0.20% | | |
| Agincourt | 0.12% | \$55,978,204 | \$56,046,937 |
| Barclays Capital Aggregate | 0.20% | | |
| CBRE Clarion | 0.42% | \$12,646,765 | \$12,699,264 |
| Dow Jones US Total Market REIT Index | 0.23% | | |
| Liquid Alternatives | 0.55% | \$46,685,544 | \$46,942,967 |
| Blended Alternatives Benchmark | 0.87% | | |
| Vanguard ST Investment Grade | 0.34% | \$9,073,783 | \$9,105,196 |
| Barclays US Corp 1-3 YR | 0.28% | | |
| Cash Account | 0.01% | \$7,262,894 | \$5,236,464 |
| 30 Day MM Yield | 0.01% | | |
| Weighted | 1.64% | \$423,052,140 | \$427,963,091 |
| Rate of Return | 1.40% | | |

Assets Not Valued Daily

| | <i>Market Value Beginning of Period</i> | <i>Market Value End of Period</i> |
|--------------------------|---|---------------------------------------|
| Vittoria Intl Long/Short | \$23,000,000 | \$23,000,000 |
| Gabelli Merger Arbitrage | \$12,151,116 | \$12,247,262 |

| | | |
|--------------------|----------------------|----------------------|
| Grand Total | \$458,203,256 | \$463,210,353 |
|--------------------|----------------------|----------------------|

2017 YTD Performance

| | |
|---------------|-------|
| Net Portfolio | 1.64% |
| Index | 1.40% |

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.