

Minutes of the Lehigh County Retirement Board Meeting

Lehigh County Government Center Public Hearing Room

Thursday, May 7, 2015

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, Glenn Eckhart, Daniel McCarthy, Thomas Muller and Tim Reeves. Chris Lakatos and Kevin Karpuk from Cornerstone also attended.

Vic Mazziotti and Brad Osborne were not present.

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

Old Business

Thomas Muller called for a motion for acceptance of the minutes.

Glenn Eckhart made a motion to accept the February 5, 2015 Retirement Board minutes.

Tim Reeves seconded the motion.

Thomas Muller called for a voice vote for approval of the minutes from the February 5, 2015 Retirement Board Meeting.

All were in favor.

Minutes were approved unanimously.

Tim Reeves discussed the computer system is up and back on-line for figuring out retirement quotes. Our IT Department did a great job of getting it together. It took allot longer than we anticipated but the product that we have now is phenomenal. It's very close to what we get directly from Hay. It gives more accurate quotes. It gives you the ability pick a date versus end of the year. I want to congratulate those guys for the job they did.

Glenn Eckhart thanked Tim Reeves for his recommendation for purchase of that software.

New Business

Chris Lakatosh from Cornerstone discussed the market plan. Referring to the handout you'll see the S&P 500 is our large cap domestic stock market. Year-to-date the domestic market has been up about 1% this year. A little bit softer than what we've seen in previous quarters. Over the last one year it's been up about 12.7% and over the last three years up 16% per year. Really strong, healthy returns in the overall equity market in the U.S. The international markets come back a little bit stronger than the domestic markets for the first quarter of this year. Year-to-date our bonds are up 1.6%. Across the board positive returns in the domestic economy market, international market and the fixed income market have all been really strong.

Next are our returns. Last quarter the county pension against the national peer group was in the top 26%. So that means essentially it beat out 74% of all other national pension plans with its retirement in the last quarter.

The portfolio is up 2.66% for the month. The indexes as a blended weight was up 1.92% so we have almost 3/4 of a percent better performance in the first quarter of 2015. The market ending value for the first quarter as of 3/31 was \$466,792,563. The actual composite makeup of the portfolio is domestic equities/U.S. stocks was 40%, international stocks 16.3%, alternative investments 14.5%, fixed income in safe bonds 26%, cash position was 2.7%. Overall we have a 55% equity exposure and the rest in alternatives and fixed income.

Return for the month. We typically send a monthly return number to the pension board to give them an idea of what's happening month-to-month. We're basically again right on that blended benchmark index return. Portfolio is up about 1/2% and the indexes as a blended percentage was up about .56 as well. Ending value as of the end of April is \$467,934,738. Year-to-date the portfolio as of April was up 3.17% - as a blended benchmark index return of 2.5%. so we continued to see performance from the portfolio better than index.

Glenn Eckhart made some comments:

- Page 2 – last quarter – where the first quarter of performance was better than 3/4 of the peers because of the choppy market. That's what Cornerstone was hired for. During these choppy markets they will retain our cash and that's what they're being paid for. You can see that as the market began to suffer they performed better than most. That's why they were hired. Clearly it looks like they're definitely performing.
- Page 5 – Portfolio year-to-date as was mentioned 70 basis points better than the index again. This Proves that while other municipalities in our peer group are seeing returns lower than we're getting right now. Again, that is the reason why Cornerstone was hired originally to stabilize things and keep our cash in a choppy market.

I want to thank them again and this shows what these guys are doing and the proof is there.

Tom Muller asked for any motions.

Glenn Eckhart made a motion that for 2016 we authorize the payment from the retirement fund of the salary and benefits cost for an Accountant I position who works exclusively on retirement matters. The cost for 2016 will be approximately \$70,000.

Tom Muller asked if Glenn Eckhart would like to expand on that. Glenn explained the reason for this is currently the position is in the cost allocation plan and the salary is being paid through every part of the county including county tax dollars. Under this plan the cost would come directly from the pension fund which is exclusively what that job is. It's a cleaner way of doing it and simplifying the process and we'll save some county tax dollars in the long run.

Tom Muller asked if Glenn Eckhart checked what other counties are doing.

Glenn Eckhart answered yes other counties are doing this so this is nothing different. In fact, I don't understand why we didn't do it sooner. But we are finally doing it and I want to thank everybody for supporting doing this.

Daniel McCarthy seconded the motion.

Question:

Carol Barrett – MH/ID – Are you talking about the position that Kim has now?

Answer:

Glenn Eckhart – Yes. In other words her salary would be paid directly out of the pension fund because her work is exclusively on the pension system. So it's just like another cost to the pension system so the money is coming out of the pension system instead of through county tax dollars and through Cedarbrook and through all the other places.

David Bausch - Her salary comes out of the county. She's a county employee. We're Reimbursing the county for the services that are rendered for the pension fund. She is a county employee that's being reimbursed by another source.

Glenn Eckhart – This comes out of the pension fund instead of from the other sources that they currently go through.

Carol Barrett – So she'll still be a county employee. She still would be?

Glenn Eckhart – Yes. It's just that the money coming out of the pension fund because her work is an expense of the pension fund. In order to have a pension fund, you need expenses -- some are Cornerstone, some are trades, some are other things. We felt that it would be best that since her full-time job is working with the pension fund it would make sense that she would be paid out of it -- as an expense. Does that make sense?

Carol Barrett – Yes.

Question:

Tim Boyer – Human Services – Does that mean our in-directs will go down?

Answer:

Tim Reeves – Slightly

Glenn Eckhart – Yes. We talked through this pretty thoroughly – Tim Reeves and I feel a little but in the long run her job is work on pension. In order for the pension fund to operate and make sure that people are able to retire, her job is 100% in the pension system. So it is an expense that is allowed by law for her salary to be paid out of the pension fund.

Question:

Carol Barrett – MH/ID – Just briefly I'd like to hear from anybody as to what's the downside to that? Other than it costs money. You said what the upside is.

Answer:

Glenn Eckhart – Tim and I did and we don't see any. I don't want to speak for Tim.

Time Reeves – Overall, it's really a minor expense of the retirement fund and we think it more accurately depicts where her time is being spent and so forth. I think to Glenn's point that nothing is changing as far as Kim is still doing everything that she did. It just the source of where those funds are coming from. Typically in most of the counties this is the way it's handled. We never did that and based on some of the things we're looking at budgetary, we believe this is a more accurate depiction of where her time is spent and it frees up some other opportunities then for positions and things like that that we need to address.

I just want to take one second and I don't want to put Kim on the spot but we had allot of retirements in 2014, as everyone knows, and Kim and Mary Prutzman in my office pretty much handled all of that activity throughout that time. I know that this motion isn't to congratulate them specifically but I do want to mention that they did a phenomenal job getting through that 2014 retirement boom that we had and continue to do that. I think that's important.

Question:

Glenn Eckhart, County Controller – We have to vote on this every year, right Catharine?

Answer:

Catharine Roseberry, Law Department – Yes.

Glenn Eckhart – Our actuarial basically decides if this is a proper expense. So he has given Us an email saying this is a legitimate expense of the pension fund, which is the Hay Group, And said that we can do this. As long as the actuarial agrees that this is a legitimate expense Of the pension fund, this can be done. If forever any reason that the pension fund would be

Short or something, he would disallow it and we would go back to the other way. Other Counties are doing it. It's just redirecting how we are paying for the position. That might help a little bit budgetary, especially in Tim's office.

Tom Muller – The only thing that I would add is that Glenn did an excellent job of reaching out to the Controllers around the state to see what they do on many fronts not just on the pension fund. This surfaced through that reach out.

David Bausch – When we started the pension fund so many years ago, it was all done out of the Treasurer's Office and it was just an extra job. But the total trust was only \$75,000. Now we're Talking millions of dollars and it's a different ballgame altogether and we really need somebody there to watch over that. I think it's a good move and it's a fair move on behalf of the county to be reimbursed for the expenses they have.

Glenn Eckhart – That was the idea. It seems to me everyone else is doing it so I think we should do it as well and again it gives some options for Tim's office as far as funding sources budgetary.

Question:

Tom Cunningham – Retiree – Do the county commissioners have to vote on this being it's over \$10,000 ?

Answer:

Glenn Eckhart – No. According to Catharine, no.

Catharine Roseberry – It's not an outside contract.

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

The motion for 2016 we authorize the payment from the retirement fund of the salary and benefits cost for an Accountant I position who works exclusively on retirement matters was approved unanimously.

Citizen Input

Question:

Gus Liadis – Aging - How close are we to being fully funded in the retirement fund?

Answer:

Tim Reeves – 89.3%

Glenn Eckhart – Once a year we get our actuarial report. We get it in July. So by July, August we will know where we're at.

Tom Muller – One of the interesting things you run into is it's not to the county's or the tax payer's advantage for us to pay up, which some counties have done. We do not get any Reimbursement on anything over and above what we're required to put in each year. The County has always put in what's required for that year and we are moving towards 100%. There is no reason to try to jump ahead to that point now. Right now we are essentially reimbursed for roughly half of our money we have to put into the pension fund.

Glenn Eckhart – With that, the County Executive did ask me to poll several counties months ago and I did. Of the twenty counties that were willing to get back to me, Lehigh County is in the top five as far as the amount funded. We are, again, in that first quartile of where we should be when compared to other counties.

There was no other business.

Thomas Muller called for a motion to adjourn.

Glenn Eckhart made the motion to adjourn.

Daniel McCarthy seconded the motion.

Thomas Muller called for a voice vote. All in favor.

Meeting was adjourned at 9:50 A.M.


Glenn Eckhart, Secretary

Lehigh County Employees' Retirement Plan

Monthly Flash Report

	<i>Monthly Return April-2015</i>	<i>Market Value Beginning of Period</i>	<i>Market Value End of Period</i>
Lomax	2.45%	\$25,844,753	\$26,476,770
Russell 1000 Value	0.94%		
Vanguard Institutional Index	0.95%	\$43,041,567	\$43,451,834
S&P 500	0.96%		
Philadelphia Trust	0.03%	\$49,694,949	\$49,708,845
S&P 500	0.96%		
Sustainable Growth Advisors	1.75%	\$27,172,997	\$27,647,329
Russell 1000 Growth	0.50%		
Vanguard SCV Index	-1.26%	\$20,045,925	\$19,794,015
Russell 2000 Value	-2.14%		
Emerald	-1.78%	\$9,474,901	\$9,305,917
Russell Mid-Cap Growth	-0.70%		
Emerald Advisors	-3.17%	\$10,652,157	\$10,314,505
Russell 2000 Growth	-2.94%		
American Funds EuroPac	2.77%	\$24,670,778	\$25,354,152
MSCI EAFE	4.16%		
Vanguard Developed Mkt Idx I	4.14%	\$24,368,119	\$25,377,111
MSCI EAFE	4.16%		
CSMcKee	-0.41%	\$58,995,370	\$58,755,618
Barclays Capital Aggregate	-0.36%		
Agincourt	-0.38%	\$54,709,586	\$54,501,567
Barclays Capital Aggregate	-0.36%		
CBRE Clarion	-5.55%	\$12,524,010	\$11,828,961
Dow Jones US Total Market REIT Index	-4.85%		
Liquid Alternatives	1.59%	\$54,804,443	\$55,453,932
Blended Alternatives Benchmark	1.77%		
Vanguard ST Investment Grade	0.25%	\$9,898,291	\$9,923,609
Barclays US Corp 1-3 YR	0.17%		
Cash Account	0.00%	\$12,707,406	\$12,816,378
30 Day MM Yield	0.00%		
Weighted	0.50%	\$438,605,250	\$440,710,541
Rate of Return	0.56%		

Assets Not Valued Daily

	<i>Market Value Beginning of Period</i>	<i>Market Value End of Period</i>
Mondrian Intl	\$27,816,674	\$27,224,197

Grand Total	\$466,421,925	\$467,934,738
--------------------	----------------------	----------------------

2015 YTD Performance

Portfolio	3.17%
Net Portfolio	3.09%
Index	2.49%

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.

As of 3/31/2015

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	0.95	0.95	12.73	16.11	14.47	8.95	8.01	9.59
Russell 3000 TR USD	-1.02	1.80	1.80	12.37	16.43	14.71	9.37	8.38	9.77
NASDAQ Composite TR USD	-1.17	3.79	3.79	18.12	18.11	16.72	12.79	10.46	11.34
DJ Industrial Average TR USD	-1.85	0.33	0.33	10.57	13.18	13.23	8.34	8.17	9.97
Russell 1000 Value TR USD	-1.36	-0.72	-0.72	9.33	16.44	13.75	7.73	7.21	9.96
Russell 1000 Growth TR USD	-1.14	3.84	3.84	16.09	16.34	15.63	10.68	9.36	9.87
Russell 2000 Value TR USD	1.69	1.98	1.98	4.43	14.79	12.54	8.94	7.53	13.11
Russell 2000 TR USD	1.74	4.32	4.32	8.21	16.27	14.57	10.47	8.82	13.41
Russell 2000 Growth TR USD	1.80	6.63	6.63	12.06	17.74	16.58	11.90	10.02	14.12
MSCI EAFE NR USD	-1.52	4.88	4.88	-0.92	9.02	6.16	1.55	4.95	13.04
MSCI ACWI Ex USA NR USD	-1.62	3.49	3.49	-1.01	6.40	4.82	1.24	5.46	12.48
MSCI EM NR USD	-1.42	2.24	2.24	0.44	0.31	1.75	0.63	8.48	13.32
DJ Composite All REIT TR USD	1.02	3.91	3.91	21.46	13.48	14.88	8.37	8.47	12.41
Bloomberg Commodity TR USD	-5.14	-5.94	-5.94	-27.04	-11.52	-5.71	-9.58	-3.56	12.69
BofAML ABS Master Floating Rate TR USD	0.10	0.23	0.23	1.10	1.77	1.81	0.01	-0.56	0.72
BofAML Convertible Bonds All Qualities	-0.02	3.42	3.42	9.04	14.24	11.73	10.12	8.68	7.81
S&P Preferred Stock TR USD	0.44	2.96	2.96	9.83	8.08	8.15	7.36	5.26	3.99
Barclays US Treasury US TIPS TR USD	-0.47	1.42	1.42	3.11	0.63	4.29	3.63	4.55	5.42
Barclays US Agg Bond TR USD	0.46	1.61	1.61	5.72	3.10	4.41	4.69	4.93	2.93
Barclays US HY Intern TR USD	-0.59	2.36	2.36	1.39	7.10	8.22	9.19	7.87	4.30
Barclays Municipal 1-10Y Blend 1-12Y TR	0.13	0.83	0.83	3.87	2.71	3.69	4.17	4.17	2.34
Barclays Global Aggregate TR USD	-0.96	-1.92	-1.92	-3.66	-0.21	2.31	2.32	3.61	3.90
Blended Index Performance									

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)	-1.20	2.31	2.31	8.24	13.40	11.73	6.95	7.58	10.07
80% Equity, 20% Fixed Income	-0.86	2.22	2.22	7.80	11.37	10.42	6.78	7.28	8.01
60% Equity, 40% Fixed Income	-0.53	2.10	2.10	7.33	9.32	9.03	6.47	6.85	6.03
Cornerstone Base Case	-0.55	1.79	1.79	6.05	7.92	8.02	5.66	6.20	5.42
40% Equity, 60% Fixed Income	-0.20	1.96	1.96	6.83	7.26	7.56	6.01	6.32	4.22
20% Equity, 80% Fixed Income	0.13	1.80	1.80	6.29	5.19	6.02	5.42	5.67	2.91
Liquid Alternatives	-0.71	0.25	0.25	0.00	2.28	3.94	2.10	2.99	4.57