

Minutes of the Lehigh County Retirement Board Meeting

Lehigh County Government Center Public Hearing Room

Thursday, November 5, 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, Thomas Muller, Brad Osborne, and Tim Reeves.

Vic Mazziotti and Daniel McCarthy were not present.

Skip Cowan, Kevin Karpuk and Chris Lakatosh from Cornerstone also attended.

Thomas Muller, County Executive, called the meeting to order at 9:31 A.M.

OLD BUSINESS

Thomas Muller asked if there were any questions or corrections to the August 6, 2015 meeting minutes. Due to busy schedules, the minutes were not distributed prior to today's meeting. Per Catharine Roseberry's suggestion, the approval of the August 6, 2015 meeting minutes will be postponed until the next Retirement Board meeting so everyone will have a chance to review them.

Glenn Eckhart (County Controller) - Based on Tom Cunningham's question from the last meeting and then another question that came up, I put together a Legal Service Requisition and let the Board members take a look at it before I turned the Legal Service Requisition in to the Law Department. There was discussion that there may have been some people who didn't get to vote in the election. The response back from the legal requisition was it wouldn't have been enough number of votes to change the outcome of the election. So the law department felt that there was no need to redo the election. But I know our Board took it very seriously and wanted to make sure that we individually understand the process in the future to make sure this is prevented. If any such questions come up in the future, we are all aware of what the process is. I think that's what everybody agrees with up here.

The other part actually came up from an employee regarding the Legal Service Requisition on why an employee gets to vote for a retiree representative and a retiree gets to vote for an employee representative. It is in the Home Rule Charter that way. Unfortunately unless there's a Charter change or fortunately you will continue to vote for each other's representations – unless there's strong feelings from either the retirees or the employees to change that. If so, then we would communicate that back to the Executive Branch and the Commissioners to actually formally change the Charter. If not, things will continue to be this way.

Tom Cunningham (Retiree) – My part in the last meeting had nothing to do with counting the absentee ballots. My part was the fact that the retirees did not get their ballots mailed to them. That is what I felt really skewed the election. I have spoken to a good number of retirees and to be honest with you, I have gotten only one comment, the same comment from all of them – I guess the damn Board doesn't care about us anymore.

Glenn Eckhart – First of all, I think that is where we have now taken an active role in making sure this is prevented in the future. I know Judy Johnston who is the head of Human Resources wants to speak. She on her department has been in charge of the process in the past. If there were any changes in the past, we as a Board were not aware of it.

Judy Johnston (Director of Human Resources) – There was a change in the process. As you all know, we have to conduct an election and have it fair for everybody -- so everybody has to vote in the same manner. We have a whole process and procedure in place. As I discussed with Glenn, we'd be happy to give you the changes to it working that transition. But we have to provide the same type of voting for everybody in an election. It would be like if we decided Allentown was going to vote and we'd send absentee ballots to the rest of the County. So we have notification people did apply for absentee ballots, we have sign in votes for people to vote so we pretty much follow the same rules and regulations that the Election Board does. We work in conjunction with them in setting up the machines and that type of thing. But there was an inconsistency in how the election was being conducted and by making the change it was consistent for everyone.

Tom Muller – Any further comments?

Tom Cunningham – I'm sorry I disagree with her. When I ran for the position of employee representative, *ALL* the retirees received an absentee ballot. I was there when they counted the ballots. For me, the stack was a good two inches high. I doubt that many people applied for an absentee ballot. They were *All. Sent. Ballots*. I'm sorry that's wrong, I worked here.

Sid Mahler (Retiree) – I'll vouch for that.

NEW BUSINESS

Skip Cowan from Cornerstone gave the third quarter review. Third quarter was a very challenging quarter in the capital markets. S&P 500 was down about 6 ½% in a 90-day period of time. We had significant volatility for all of different reasons – decelerating global growth, China devalued their currencies, commodity bust – commodity prices were really struggling, stress in the emerging markets, and we had a very decisive federal reserve that contributed to the problem – in our opinion. That's the bad news.

The good news is the portfolio held up relatively well. We beat the benchmark by a measurable margin. As far as the quarter was concerned, our blended benchmark was down about 5.27%. The Portfolio was only down about 4.91% so we had a favorable down market capture statistic in the period.

Peer group rankings relative to a national database of public plans around the country under a billion dollars in assets - the 5 year number in that group - the return being in the top half of that peer group 43 percentile nationally. The volatility that we have in the portfolio – the risk – is in the bottom 60th

percentile. You'd think 60th percentile risk, you should have 60th percentile performance. It's actually significantly better than that -- 60th percentile risk, 40th percentile return. We're pleased with what we're seeing in the portfolio. Year-to-date numbers are doing quite well.

Excess returns that were generated in the portfolio during which was a very difficult quarter - other than Philadelphia Trust and Emerald midcap, the Manager Matrix held up quite nicely. This is what we pay these guys to do -- preserve capital in down markets. From our perspective, they succeeded in accomplishing that.

Movement of funds during the quarter. We monetized some of the fixed income portfolio, added the cash so we could continue to pay benefits to the retirees.

October flash report -- we had a rapid recovery in values during which was a very difficult third quarter. We're basically back to where we started prior to the quarter. The portfolio underperformed about 14 basis points. We earned 4.38% just in the month of October. Benchmark was 14.5% so there was a little underperformance. We expect to underperform a little when the market is rising. We're much more concerned that we do better when the market is declining. That's what happened in the third quarter performance.

Year-to-date numbers -- the portfolio is exceeding expectations by about 70 basis points for the calendar year 2015.

There were no questions or observations on performance.

Tom Muller -- One point here that you should be aware of is despite our encouraging results over the last month, we are clearly headed for a year where we are not going to get our actuarial assumption, which will be a factor for the County.

Skip Cowan (Cornerstone Consulting) - We would have to have an extraordinary November and December for the portfolio to deliver 7½ % return. Good news is we're meeting our benchmarks. The market is not cooperating in terms of generating total return for the year that gets us to the actuarial assumption.

Gus Liadis (Aging) -- In dollars and cents, how much are we off? Not percentage.

Glenn Eckhart -- Our assumption is 7 ½%

Gus Liadis -- What does that come out to in dollars?

Skip Cowan -- Let me give you a sense in terms of where we're at as of right now. We started the third quarter at \$458 million in the portfolio. We got to a low point of \$430 million at the end of the low point at the end of the third quarter. Today we are at \$448 million. We're almost back to where we started the third quarter when you take into account we had some withdrawals and paid benefits.

Glenn Eckhart - We were as high as \$460 million, right?

Gus Liadis -- Where do you want to be at the end of the year?

Tom Muller -- We're going to be \$20-25 million short -- ballpark.

Gus Liadis – Is that what the taxpayers will have to put in?

Tom Muller – No, we will have to put in \$20-25 million from the county standpoint. We're going to be off on what we thought our assumptions were. Our assumptions are built-in for every year.

Glenn Eckhart - That's done in July when they do the actuarial. Contribution is 10.75 this year, Tim?

Tim Reeves – Contribution is 10.7 this year.

Glenn Eckhart – We'll know in July next year what this year cost us. It will go up if we finish below the 7.5%. It will be probably more than that number next year in the budget. I don't remember what the budget was.

Tom Muller – We budgeted a half million?

Tim Reeves – 11.5 million

Glenn Eckhart – So they loaded it up a little bit higher. If the market does better, then hopefully that 11.5 million will be a little bit less in actual.

Tom Muller – Our worst year was a little over \$13 million.

Kevin Karpuk (Cornerstone Consulting) - These are long term assumptions so in any given year if you do better, it's not like your contribution goes to zero or if you do worse, it doesn't balloon.

Skip Cowan – The market struggled for ten months. If we had ten years of problems, that would be a much different situation.

Gus Liadis – Thank you.

Glenn Eckhart – I just want to make a point again about what Cornerstone has been doing. So far, over the four years that I have been here, I have gotten to understand what their position is and how they operate. They have been really living up to what they have been telling us was going to happen and what they are doing. I think this last quarter really showed the fact that we're doing better than the down market. This is what we want. We don't want to lose money when the market is down. We want to lose less money. They have proved that they have done that. The top 40th percent is how well we've done but the risk is in the top 60th percent. That's real testament that they are less risky and making a better return on our money. Again, in my opinion, they have been doing a great job.

Skip Cowan – Thank you. Thank you, Glenn. I appreciate it.

Tom Muller – Well said.

CITIZEN INPUT

Sid Mahler (Retiree) – I'm a retiree from Cedarbrook and my question to you is -- We have not had a cost of living adjustment in I would venture to say 9 or 10 years. It really has to be brought up for discussion and in the minutes at least once every three years. I used to get the minutes all the time. I'm not getting the minutes anymore. I normally did not see it in there. Do you have an answer for me?

Glenn Eckhart – Do you have any email address?

Sid Mahler – Yes.

Glenn Eckhart – Please give it to Cindy before you leave today so we can make sure you get a copy of the minutes. We send them out and they are posted online on the Controller's Office website. If you want to go online to read them, you look in the Controller's box. They are posted there.

Brian Kahler was here last time we did this so I will follow-up and make sure we are doing the other three years. I think we're coming up on it.

Tom Muller – We do it every three years. It is coming up. It's always the January meeting. It should be out there or should be coming up.

Glenn Eckhart – It's either this January or next January. It's one of the two. I will verify and check back through the minutes to find out when we will be voting on it.

Sid Mahler – My second question is - Brian Kahler, who I know very well, always gave us I believe it was 3% every year to the employees. The retirees who served their time and didn't take sick time -- I'm telling you this because I'm sure you're all aware of it - they deserve something. They really deserve something. I'm not talking for myself - I'm telling you that's the truth. I think you should consider doing something for the retirees. If it's not this year, at least in the future. Give it some consideration. Their cost of living is just like yours. Let me also explain something - Brian Kahler gave 3% every year -- 3 ½ % whatever it was I don't remember exactly - if you go over ten years that's 30%. That money is their money in their savings - I call it savings account that's a retirement account. You can't get 3% or 30% in ten years in a CD, in a bank account, or risking your money in stocks. You all look speechless, do you understand what I'm saying? Why is it retirees can't get 2 ½ % ? Half a percent for retirees - is that asking too much?

Glenn Eckhart – No. No, I don't think it is. I know there's a state law that is attempting to be changed but they can't even get the budget handled. This same law allows the next cost of living - you have to go back every year - which at this point would cost how much?

Skip Cowan – We work for CCAP -- The County Commissioners Association Manager Insurance Pool. We have contact with virtually every county in the state of Pennsylvania. I don't think any counties have given cost of living increases. I might be wrong there may be one or two but there are very, very few far and between. The reason is if the Board decided it wanted to give you one - Let's say we had great investment returns this year and we had a good year let's give a cost of living increase to the retirees - under current law they would have to go back and increase every year where they did not give cost of living increases which is probably 9, 10 years whatever that may be - if they want to give you one this year. It becomes a very expensive proposition. They are talking about changing that law now; but at this point in time, they have not. Therefore it's very, very unusual to see a county pension plan give cost of living increases.

Sid Mahler - You just made a statement that they didn't give a cost of living adjustment to the retirees but you did make a statement how much they gave to the employees every year. There can be a complete difference there. They gave less and they gave more to the retirees so it has to balance itself out. The

County still has to pay that same amount of money either way. Do you understand what I'm saying to you? The retirees are neglected. You have to understand that. I have friends who had to give up driving their car because they couldn't afford the insurance. I don't think anybody understands that. If you have a couple dollars, you don't care about the next person. You have to understand that these employees were conscientious employees who came out to work when it snowed. They didn't take sick time. They should be considered. They are my friends. I worked for Cedarbrook for 32 years, ok? Allot of them are not here today. I'm fighting for the ones that are. Have some consideration, please.

Glenn Eckhart – Just one other point on that - the actual fund is about \$75 million short at the present time according to actuarial numbers. We have to get back to that. Once we can achieve 100% funding, at that point I think it's allot easier to start discussing this. If that fund is not 100%, it does not have the obligation to pay everybody over a period of time. We need to get to that point and state law needs to change before we get to that point in which we can say yes we can give you a cost of living increase. \$75 million is allot of money. You just heard we lost \$25 million this year. Although last year we probably made an extra \$15 million. We have a way to go and I think all of us up here understand. Everybody is struggling. I took care of my mom for eight years on her social security. We all know that if we get to 100% funding, we can discuss an increase.

Sid Mahler – I appreciate you all listening to me. I hope you understand where I'm coming from.

Tom Muller – We do.

Sid Mahler – In the future maybe you can do something about it.

Tom Muller – Understood. Thank you.

Sid Mahler – Thank you.

Glenn Eckhart – Thank you.

There was no further business or citizen's input.

Tom Muller called for adjournment.

Glenn Eckhart made the motion to adjourn.
Tom Muller seconded the motion.

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

Meeting adjourned at 9:58 A.M.

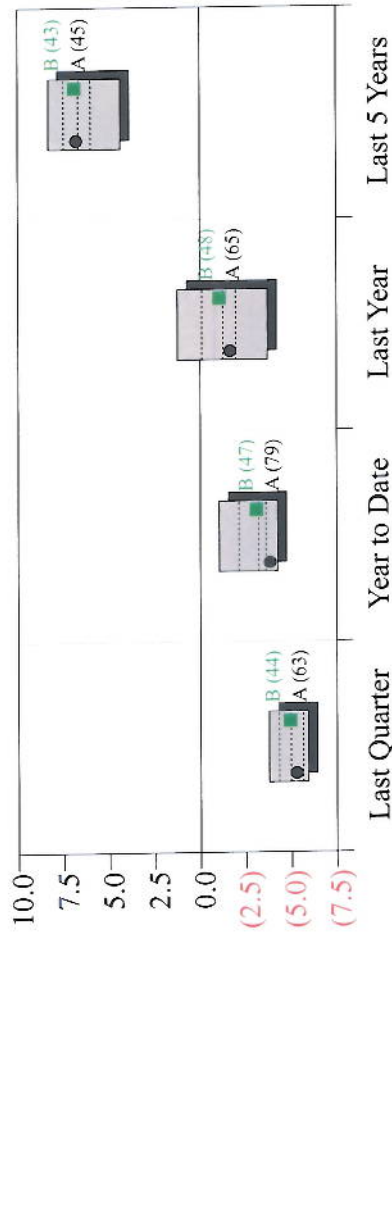


Glenn Eckhart, Secretary

Asset Class Index Performance	Return					Std Dev 3 Yr (Mo-End)
	MTD	QTD	YTD	1 Year	3 Year	
Not Classified						
S&P 500 TR USD	-2.47	-6.44	-5.29	-0.61	12.40	9.74
Russell 3000 TR USD	-2.91	-7.25	-5.45	-0.49	12.53	9.93
NASDAQ Composite TR USD	-3.20	-7.09	-1.61	4.00	15.48	11.37
DJ Industrial Average TR USD	-1.35	-6.98	-6.95	-2.11	11.38	10.07
Russell 1000 Value TR USD	-3.02	-8.39	-8.96	-4.42	11.59	10.04
Russell 1000 Growth TR USD	-2.47	-5.29	-1.54	3.17	13.61	10.14
Russell 2000 Value TR USD	-3.46	-10.73	-10.06	-1.60	9.18	13.03
Russell 2000 TR USD	-4.91	-11.92	-7.73	1.25	11.02	13.59
Russell 2000 Growth TR USD	-6.32	-13.06	-5.47	4.04	12.85	14.70
MSCIEAFE NR USD	-5.08	-10.23	-5.28	-8.66	5.63	11.94
MSCIACWI Ex USA NR USD	-4.64	-12.17	-8.63	-12.16	2.34	11.61
MSCIEM NR USD	-3.01	-17.90	-15.47	-19.28	-5.27	13.75
DJ Composite All REIT TR USD	1.82	0.71	-4.94	6.74	7.99	13.29
Bloomberg Commodity TR USD	-3.42	-14.47	-15.80	-25.99	-16.02	12.31
BofAML ABS Master Floating Rate TR USD	0.06	-0.94	-0.54	-0.48	0.99	0.85
BofAML Convertible Bonds All Qualities	-3.08	-7.05	-2.77	-1.06	11.48	8.37
S&P Preferred Stock TR USD	-0.86	0.00	2.10	4.31	5.80	3.98
Barclays US Treasury US TIPS TR USD	-0.59	-1.15	-0.80	-0.83	-1.83	5.11
Barclays US Agg Bond TR USD	0.68	1.23	1.13	2.94	1.71	2.90
Barclays US HY Intern TR USD	-2.57	-4.86	-2.50	-3.60	3.28	4.69
Barclays Municipal 1-10Y Blend 1-12Y TR	0.63	1.32	1.64	2.22	2.07	2.24
Barclays Global Aggregate TR USD	0.51	0.85	-2.25	-3.26	-1.59	3.83
Blended Index Performance						

NOT CLASSIFIED										
100% Equity (70.30)	-3.43	-8.74	-6.37	-4.07	9.44	9.79	7.93	5.83	9.88	9.88
80% Equity, 20% Fixed Income	-2.61	-6.79	-4.82	-2.61	7.94	8.57	7.58	5.81	7.95	7.95
60% Equity, 40% Fixed Income	-1.79	-4.81	-3.29	-1.17	6.41	7.29	7.09	5.69	6.07	6.07
Cornerstone Base Case	-1.53	-4.37	-3.22	-1.43	5.15	6.32	6.18	5.08	5.44	5.44
40% Equity, 60% Fixed Income	-0.97	-2.81	-1.79	0.23	4.87	5.95	6.46	5.45	4.35	4.35
20% Equity, 80% Fixed Income	-0.15	-0.80	-0.32	1.61	3.30	4.55	5.72	5.10	3.15	3.15

Net of Fee Returns
for Periods Ended September 30, 2015
Group: CAI Public Fund - Mid (100mm-1B)



Lehigh County Retirement Fund

Manager Performance

3 Months ending September 30, 2015

	Asset Class	Ending Weight	Returns	Excess Return	Beginning Market Value	Ending Market Value
Lomax Large Value	Large Cap Value	5.5%	(7.67%)	0.72%	\$25,713,121	\$23,740,928
Phila Trust GARP	Large Cap Core	10.4%	(8.65%)	(2.21%)	\$49,208,621	\$44,951,808
Vanguard Instl Indx	Large Cap Core	9.4%	(6.45%)	(0.01%)	\$43,160,975	\$40,378,451
SGA Large Growth	Large Cap Growth	6.1%	(2.95%)	2.34%	\$27,222,106	\$26,418,527
Emerald Mid Growth	Mid Cap Growth	2.0%	(10.11%)	(2.12%)	\$9,478,147	\$8,519,604
Emerald Small Growth	Small Cap Growth	2.4%	(9.85%)	3.21%	\$11,373,305	\$10,253,083
Vanguard SC Val Ins	Small Cap Value	4.2%	(9.14%)	1.60%	\$19,778,748	\$17,971,035
Vanguard Dev Mkts	Intl Equity	5.1%	(9.93%)	0.30%	\$24,617,199	\$22,171,767
Mondrian International	Intl Value	5.2%	(11.00%)	1.10%	\$25,168,814	\$22,353,826
American Funds EuroPac;F-2	Core Intl Equity	5.2%	(9.85%)	2.25%	\$24,943,137	\$22,486,954
Agincourt Core Fixed	Core Bond	12.7%	1.21%	(0.02%)	\$54,174,329	\$54,831,611
CSMKee Core Fixed	Core Bond	13.7%	1.19%	(0.05%)	\$58,501,982	\$59,195,559
Vanguard Sh-Tm Inv	Defensive	1.5%	0.44%	0.20%	\$9,923,871	\$6,452,495
Arbitrage Fund;I	Market Neutral	2.8%	(1.37%)	1.35%	\$12,130,056	\$11,963,510
J Hancock II:G Ab Rt;I	Absolute Return	2.8%	(1.25%)	3.01%	\$12,404,308	\$12,248,838
Cr�t Suis Cmdty Rtn;Inst	Commodities	2.3%	(14.46%)	0.02%	\$11,501,883	\$9,839,196
CBRE Clarion RE	Domestic REIT	2.7%	3.06%	2.08%	\$11,258,271	\$11,603,230
MS Structured Note	Alternative	1.4%	(6.63%)	--	\$6,637,500	\$6,197,500
Nuveen Pref Secs	Dom Fixed	2.9%	(0.04%)	(0.04%)	\$12,422,950	\$12,419,523
Misc Cash	Cash & Equiv.	1.0%	0.36%	0.34%	\$4,113,382	\$4,132,090
Cash	Cash & Equiv.	0.6%	0.20%	0.19%	\$4,650,270	\$2,415,859

Lehigh County Retirement Fund

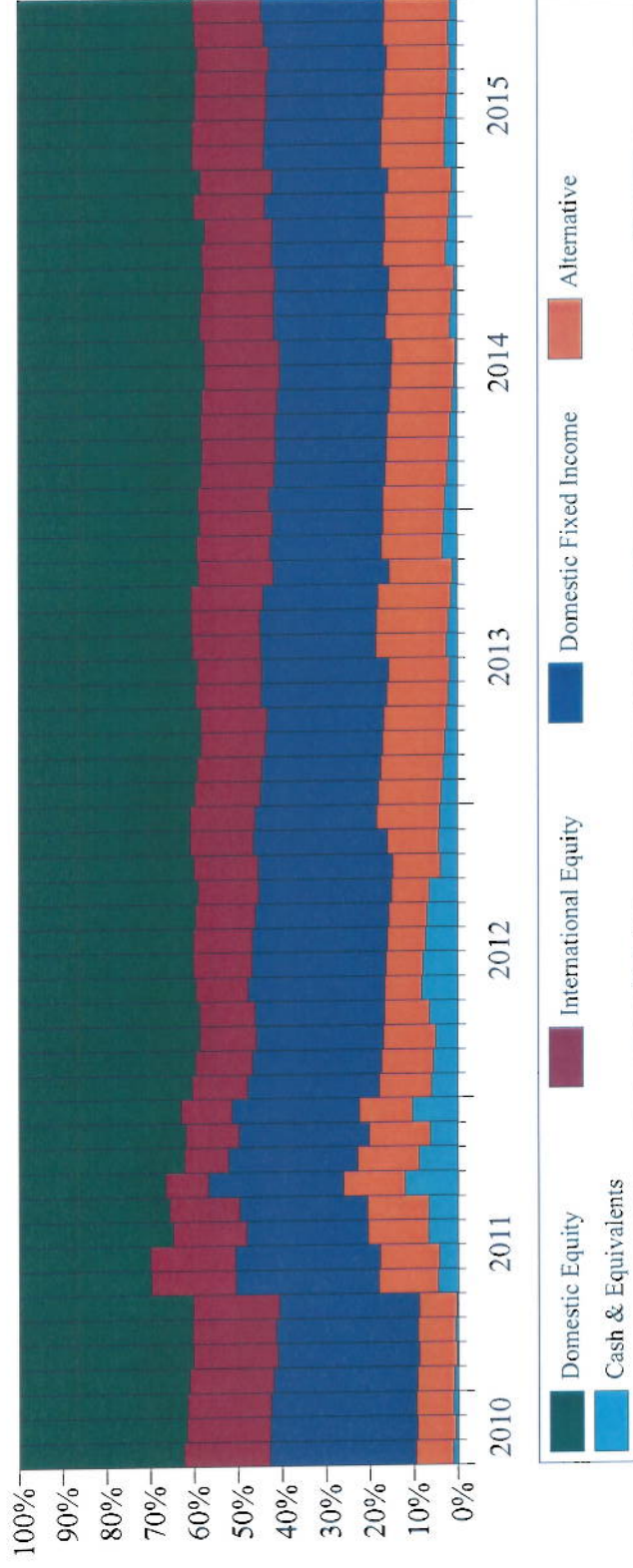
Asset Allocation

July 1, 2015 to September 30, 2015

	Beginning Weight	Ending Weight	IPS Tgt Weight	Deviation
Domestic Equity	40.6%	40.0%	35.0%	5.0%
International Equity	16.3%	15.6%	15.0%	0.6%
Domestic Fixed Income	26.7%	28.0%	35.0%	(7.0%)
Alternative	14.5%	14.9%	10.0%	4.9%
Cash & Equivalents	1.9%	1.5%	5.0%	(3.5%)
Total Portfolio	100.0%	100.0%	100.0%	

	Beginning Market Value	Ending Market Value	Transfers
Domestic Equity	\$185,935,023	\$172,233,435	\$0
International Equity	\$74,729,150	\$67,012,547	\$0
Domestic Fixed Income	\$122,600,182	\$120,479,666	(\$3,504,928)
Alternative	\$66,354,969	\$64,271,797	\$843
Cash & Equivalents	\$8,763,652	\$6,547,949	\$3,504,084
Total Portfolio	\$458,382,975	\$430,545,393	\$0

Actual Allocation for Since Inception Ended September 30, 2015



Lehigh County Employees' Retirement Plan

Monthly Flash Report

	<i>Monthly Return October-2015</i>	<i>Market Value Beginning of Period</i>	<i>Market Value End of Period</i>
Lomax	6.89%	\$23,704,137	\$25,337,223
Russell 1000 Value	7.55%		
Vanguard Institutional Index	8.44%	\$40,378,451	\$43,785,527
S&P 500	8.44%		
Philadelphia Trust	7.27%	\$44,941,296	\$48,207,297
S&P 500	8.44%		
Sustainable Growth Advisors	10.19%	\$26,387,848	\$29,076,317
Russell 1000 Growth	8.61%		
Vanguard SCV Index	6.57%	\$17,971,035	\$19,152,628
Russell 2000 Value	5.60%		
Emerald	4.49%	\$8,519,299	\$8,901,579
Russell Mid-Cap Growth	6.29%		
Emerald Advisors	1.35%	\$10,251,765	\$10,389,817
Russell 2000 Growth	5.67%		
American Funds EuroPac	5.77%	\$22,486,954	\$23,784,373
MSCI ACWI ex US	7.44%		
Vanguard Developed Mkt Idx I	6.90%	\$22,171,767	\$23,701,522
MSCI EAFE	7.82%		
CSMcKee	0.25%	\$58,840,059	\$58,984,312
Barclays Capital Aggregate	0.02%		
Agincourt	0.03%	\$54,417,931	\$54,432,894
Barclays Capital Aggregate	0.02%		
CBRE Clarion	12.50%	\$10,954,756	\$12,323,899
Dow Jones US Total Market REIT Index	6.27%		
Liquid Alternatives	1.40%	\$52,549,646	\$53,283,650
Blended Alternatives Benchmark	1.63%		
Vanguard ST Investment Grade	0.09%	\$6,429,574	\$6,434,987
Barclays US Corp 1-3 YR	0.14%		
Cash Account	0.00%	\$6,618,804	\$4,518,951
30 Day MM Yield	0.00%		
Weighted Portfolio	4.38%	\$406,623,322	\$422,314,976
Rate of Return Index	4.52%		

Assets Not Valued Daily

	<i>Market Value Beginning of Period</i>	<i>Market Value End of Period</i>
Mondrian Intl	\$23,645,029	\$22,353,826

Grand Total

\$430,268,351	\$444,668,802
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2015 YTD Performance

Portfolio	1.57%
Net Portfolio	1.28%
Index	0.54%

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.