

Retirement Board Meeting  
May 16, 2016

Present:	Commissioner	Thomas Chernisky Mark Wissinger
	Controller	Ed Cernic, Jr. Kristine Segear Dana Descavish
	Treasurer	Lisa Kozorosky
Absent:	Commissioner	William "BJ" Smith

Commissioner Chernisky called the meeting to order at 10:05 a.m.

Motion was made by Lisa Kozorosky to approve the minutes from the Retirement Board meeting held on April 14, 2016. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 4-0.

Ed Cernic reviewed the attached Retirement Summary. There are currently 1,067 retirees. Retirement payroll for April was \$1,019,413.48. Frank Burnette commented that over the past four years the fund has distributed \$32 million and the funds' gains totaled \$44 million. There are currently 671 active plan members. The current contribution is 10% of the payroll.

Diana Karpen presented the Ameriserv report. The market value as of today is \$174,741,212.12. Cash balances for the individual managers are at or below the 3% threshold except for C.S. McKee. C.S. McKee has a cash balance because \$770,000.00 per month is withdrawn for retirement payroll. There are two litigation settlements received totaling \$198.77 which was recovered by KTMC who is one of the securities litigation firm for the Retirement Fund. KTMC will forward the settlements directly to Ameriserv. Ed Cernic wanted to discuss Foreign Tax withholding and asked Frank if anyone was tracking this for the Retirement Fund. Frank advised he is not familiar with this. Kris Segear advised that the foreign tax withholding was discussed at the Controller's Association seminar. On certain international investments there is foreign tax paid. There are other counties out there that are using a specific service to recover the foreign tax they pay. Frank will look into this and see what if any foreign tax is being withheld and how to recover it. He will then report back to the Retirement Board. Motion was made by Mark Wissinger to accept AmeriServ's report. Motion was seconded by Ed Cernic. Motion carried. Vote unanimous 4-0.

Frank Burnette reported to the board. The economy is at a time where we are generating virtually no returns for almost a year and a quarter now. A year and quarter ago the market was at an all-time high. The stock market is in bad shape, but seven years ago everything it was so undervalued, such good bargain and there was so much room for improvement it was so easy to be fully invested. Now all that discounted valuations of the past were fully valued maybe in some areas and it is no longer compellingly easy to pick stocks and have the market generate these returns. What we are expecting is the economies to grow for us and the growth just isn't enough to be impactful to the stock market right now. Last year the fact that we had 13% of our economy which is energy and commodities completely redesigned itself and go through a fundamental change, we are just not going to have the level of profitability going forward, so the whole economy and the whole stock market is going to have to digest that these particular companies are cutting back and have neutralized. The other 87% of the economy hasn't responded to the fact that a big cost component has been had. The investment strategy going forward is to sit back, stay in the game and stay invested so when the market does start to turn around we are fully investment. The total fund's year to date return is 1.41%. Equity weighting is at 59.3% versus its target weighting of 57%. Constitutional Capital Partners issued its final capital call in January which fulfilled the County's \$10 million commitment to the Ironsides Co-Investment Fund III. The initial period returns for this investment have exceeded 20%. In December, the Vanguard high yield fixed income account was terminated in response to credit concerns in the energy market. The defaults did occur as predicted and a reentry point will be looked at in the future. The Funds actuary provided estimates for potential changes to actuarial return assumptions and will be meeting with the board at the August quarterly meeting. The fund's investment in Miller Howard has been impacted by lower energy prices. Miller Howard is here to talk about that today.

John Thompson from Emerald Advisors reported to the Board. Emerald is headquartered in Leola, PA and was founded in 1991. Emerald currently has \$4.2 billion in assets under management. Emerald currently manages small and mid-cap for twenty PA counties. Emerald is a research driven active manager and is disciplined by a ten step research process. Emerald seeks to provide competitive long-term performance and upside/downside market capture. Emerald has materially outperformed its benchmark since its inception date of December 31, 2012. In 2013, the fund was up 50%, those are the type of returns you can get in a small cap growth area market. In 2014, the fund was up modestly and in 2015 4.96%. Currently in 2016, the fund is having a difficult time. The biggest reason for the underperformance in 2016 was related to the biggest reason for over performance in 2015, which was being overweight to regional banks, financial industry as a whole. Ed Cernic pointed out two things, first that the performance information is gross of fees and in the future he would like to see net of fees. Second, on a good note, the rankings reported are still high, ranked at eleven for the last three and five years, which speaks well for what is going on.

Keith Thompson from Miller Howard presented to the board. Miller Howard is headquartered in Woodstock, NJ specializing in master limited partnership investing since 1997 and has \$3.5 billion of assets under management. Miller Howards active portfolio management style favors processing revenues that promise a steadily increasing payout while deemphasizing companies with commodity price exposure. The first quarter has been a time period of challenging return not only on absolute basis but on a rolling basis. This is the first time ever in Miller Howard's history on this strategy that there is underperformance. Seventy four percent of our underperformance in the first quarter of 2016 versus the Alerian MLP index came from one stock, Energy Transfer Equity (ETE). Since ETE is not part of the Alerian, its underperformance has gone right to the bottom line. Miller Howard sold ETE twice. The first time was when ETE announced the sudden departure of the company CFO. The next sale was when Miller Howard got visibility on the ETE/ Williams Company (WMB) merger and lack of synergies. The fund's 3.8% allocation to energy MLPs was materially impacted by lower energy prices but a significant recovery has occurred over the last ninety days. Fundamental earnings and distributions have not been reduced and 5-10% distribution increases are anticipated for 2016.

Frank Burnette reviewed the fee schedule with the board. Currently the investment manager fees as a percentage of the total plan assets is 0.32%, the total administrative cost is 0.10%; making the total plan fees 0.42%. At the next quarterly meeting, CBIZ will be attending to give an actuarial review. In addition, Frank will be reviewing and updating the Investment policy. Any changes will be emailed to the board for approval. Ed Cernic questioned Frank about the ranking, we are currently in the 78<sup>th</sup> percentile at first quarter. At one year, the fund was in the 93rd percentile. Ed stated "we have been in the top of the percentile way to long." Ed advised Frank he needs to tell the board what they need to do to get the ranking up. Ed stated "something has to happen and you are the person who needs to come up with the answers." Frank advised there is not a lot we can do at this point other than hang in with what we have. Enough changes have been made to underperforming managers and we addressed as much as we could. Miller Howard has been a part of the problem during this period and hopefully they will have a recovery.

Motion was made by Ed Cernic to accept Frank Burnette's, Emerald's and Miller Howard's reports. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 4-0.

New Business:

1. Motion was made by Ed Cernic to ratify the action taken by the Commissioner's office at the recommendation of the Controller's office on the following May retirees: John Walters, Mary Kozak, Gary Jubas, and Robert Piper. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 4-0.

The next scheduled Retirement Board Meeting is Thursday, June 23, 2016 immediately following the 10:00 a.m. Commissioner's meeting in the Commissioner's Meeting Room, 3<sup>rd</sup> Floor.

Motion was made to adjourn the meeting by Mark Wissinger. Meeting adjourned at 11:50 a.m.

---

Ed Cernic, Jr.