

Retirement Board Meeting
August 21, 2017

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| Present: | Commissioner | Thomas Chernisky William Smith Mark Wissinger |
| | Controller | Ed Cernic Kristine Segear Dana Descavish |
| | Treasurer | Lisa Kozorosky |

Pledge of Allegiance

Commissioner Chernisky called the meeting to order at 10:01 a.m.

Motion was made by Mark Wissinger to approve the minutes from the Retirement Board meeting held on July 13, 2017. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 5-0.

Ed Cernic reviewed the retirement summary. There are currently 1,095 retirees. July's retirement payroll was \$1,068,585. Total withdrawals and rollovers since May were \$673,228. There are thirty-seven (37) Laurel Crest employees remaining that can start their pension at any time. Motion was made by Mark Wissinger to accept the retirement summary report. Motion was seconded by William Smith. Vote unanimous 5-0.

Diana Karpen provided the Ameriserv report. As of close of business on Friday, August 18, 2017, the value of the fund was \$189,977,118. Motion was made by William Smith to accept Ameriserv's report. Motion was seconded by Ed Cernic. Motion carried. Vote unanimous 5-0.

Frank Burnette informed the board that the economy and the stock market are doing well. The unemployment rate is at 4% which is the lowest it has been for a while and means that more people are spending money. All these fundamentals are in good position. Nevertheless, the current projections in this economy are for at least a 2% growth and the 3rd quarter estimate is up in the 3.5% growth rate. Earnings for the 1st and 2nd quarter, particularly the 2nd quarter, were up over 10%. Revenue growth in the 1st and 2nd quarter was up between 4-6%. At this point, the fund needs to stay fully invested. The fund as of July 31, 2017 is up 8.1%. This fund may be up to 9% year to date which is well above actuarial returns and trend. The current asset allocation is 63% equities versus the target of 58%, 13-14% is invested in the non-traditional asset classes, which are Real Estate and Master Limited Partnership and of that 6% is invested in the private equity fund. The private equity fund has been doing really well. There have been distributions from this fund and they have drawn some more monies. At quarter end, \$9 million was invested in the fund and it is worth \$12.5 million now. In August, they had a significant event where they sold a company for 5-6 times more than what they paid for it and our fund received \$2.5 million. Between the equities and non-traditional funds, they total 75% which is invested in assets that should be able to produce an actuarial rate of return to better the fund. There is 23% of the fund invested in fixed income. The fixed income rates are so low that it will be a 2-3% yield at best. Frank's recommendation is to move some of the fixed income and the Real Estate into a short term high yield fixed income with Chartwell where the returns would be more like 5-6%. In addition, Frank recommends moving \$7.5 million from equities to better weight the foreign equity account which is currently 2% underweighted. This move would take their allocation to 12%. Ed Cernic questioned the Ironsides fund and his understanding of the investment. Since there is currently \$12.7 million in the fund which is \$2 million more than we invested, why not take the money from the Ironside account. Frank advised that we are not allowed to take from the Ironsides fund because of contract language. There is currently no liquidity in Ironsides. Ironside distributes over the twelve year contract, but if there is an opportunity to re-invest they will recall some of the money that was distributed to the investor. Ed stated that this information was never relayed to the Board. Frank advised that it is in the contract and that possibly it was not explained as well as it should have been.

- Motion was made by William Smith at the recommendation of Frank Burnette to add \$7.5 million to the two existing international funds. The \$7.5 million would be taken from the equity managers. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0.

No action was taken on the Chartwell high yield strategy. The Board would like Chartwell to present at the next meeting. Arrangements will be made to bring them in.

Frank advised that the Department of Labor issued new guidelines for advisors for ERISA based accounts. Cambria County is not an ERISA based account so the guidelines do not apply but are very good practices. Therefore, Frank just wanted to inform the Board that all guidelines are followed by his firm and that it may be good for the Board to consider a one-time analysis of existing defined contribution administrative and investment processes. Ed Cernic mentioned that at a conference it was also brought up that the Board should have fiduciary liability insurance and he questioned Frank how many counties have that. Frank advised all counties have the insurance. It was previously believed that coverage existed under PCoRP but that is not true. With the Boards okay the Controller's Office will seek the proper fiduciary liability insurance coverage.

Frank discussed Twin Capital. As a follow up, Frank reached out to them regarding their performance. Twin Capital responded with a letter explaining the negative performance during the first and second quarter, but feel strongly that they will prevail. Year to date through June, their strategy is up 8% (gross of fees) relative to the

S&P return of 9.3%. As of July, the enhanced equity strategy is starting the third quarter with some positive value-added, beating the S&P 500 month-to-date by roughly 10 basis points.

Frank briefly reviewed the fee schedule for the managers and administrative fees. The fee schedule is reviewed in depth during the February meeting. The total plan fees as a percentage of the total plan assets is 41 basis points, which is very good for a fund of this size.

Sam Piccioni from FNB presented the fast facts to the board. FNB currently has \$31 billion assets under management and 180 employees in wealth management. FNB currently invests \$20 million for the pension fund. Jeff Wagner, chief investment officer advised that FNB is conservative at managing the funds. Since inception the returns have been 3.33% versus the benchmark of 3.27%. Currently there is one bond in the portfolio that is below investment grade but that will be maturing soon. The duration of bonds on average is 3.95 years. FNB is very pleased to continue and maintain the low fee of 15 basis points.

Al Winter's from CBIZ presented to the board the Employees' Retirement System Actuarial review. The review provides a snapshot of the solvency of the plan, identifies the plans assets versus the present value of obligations that have been accrued on behalf of plan participants and also looks at the adequacy of the county contributions into the plan to make sure the county contributions will be sufficient. The overall demographics over the last four years has been pretty stable but we are seeing a shift from active participants to the increase of the number of retired members. Approximately 180 of the active participants are over age fifty-five (55). So you will continue to see the shift and increased benefit payments coming out of the plan. As of January 1, 2017 were 657 active participants, 1083 retired participants and 154 vested participants. The actuarial assumptions that underlie the valuation are investment rate of return, salary scale, retirement rates and life expectancy. The rate of return is 7.25%, which in the short term is going to be difficult but over the long term it will be more achievable, although it is still at the high end of our expected rates of return over the life of the plan. The rate of return was adjusted slightly last year. The life expectancy is based on using the RP-2000 with generational improvement using scale AA. The Society of Actuaries is currently studying pensioner life expectancy from governmental pension plans. The date that it will be released will probably not be until 2019. Currently, the life expectancy of a male at retirement age is 85 and a female at retirement age is just under 87. Al reviewed the breakdown of the actuarial accrued liability. The accrued funded percentage is 89.19% and the total liability funded percentage is 82.36%. Cambria County's pension fund is very well funded. The current funding policy is 10% of compensation will be contributed as long as the plans remains between 85% and 110% funded on an accrued basis. However, if you just looked at the actuarial contribution it would be higher than the 10%. William Smith questioned if the rate of 89.19% can be kept if people are living longer and you're paying more retirees. Al advised that it would probably go down to 85% and what you would have to do to keep it is increase the funded percentage into the plan. The 10% contribution is sustainable if the plans maintains a 7.25% rate of return. If the 7.25% return is not received the fund would then start to decline. Mark Wissinger asked during the budgeting process is the 10% of payroll going to be sufficient. Al advised the 10% is enough if everything goes right, so anything you can do to get a little more if something goes wrong would be sensible and responsible.

- Motion was made by Ed Cernic recommending to the Commissioners from the Retirement Board to increase the retirement funding policy to 10.5% of payroll for year 2018. Motion was seconded by William Smith. Motion unanimous 5-0

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 August retirees: Caryn Keilman, George Fedore, Robyn Hutsky, Cynthia Wess, Carol Fulton and Carol Lieb. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 5-0.

The next Retirement Board meeting will be held on Thursday, September 14, 2017 immediately following the 10:00 a.m. Commissioner's Meeting in the in the Commissioner's Meeting room 3rd floor. Frank Burnette will make arrangements with Chartwell to give a presentation on their Short Duration BB-rated High Yield strategy.

Motion was made to adjourn the meeting by Lisa Kozorosky. Meeting adjourned at 11:38 a.m.

Ed Cernic, Jr.