

Retirement Board Meeting
September 14, 2017

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 10:28 a.m.

Motion was made by Lisa Kozorosky to approve the minutes from the Retirement Board meeting held on August 21, 2017. Motion was seconded by William Smith. Motion carried. Vote unanimous 5-0.

Frank Burnette attended the meeting to present to the board a recommendation regarding short term high yield which Frank feels is an asset class that is fairly a simple diversification and extension of what we are doing in fixed income right now. Frank briefly reviewed the performance for period ending August 31, 2017. The total fund is currently up in excess of 9% and one year return was 12%, gross of fees. The fund continues to hold an overweight in equity which has helped the fund. One year returns for international managers was 28.21% and small cap managers was 21.16%. Fixed income, REIT and MLP returns have been below 3-4%, with fixed income projecting to be less than 3% long term. The Ironsides Co-investment fund has returned 19%, net of fees, since the inception date of May 2015. The asset allocation is currently 62.3% in equities, 24.1% fixed income and 13.6% in nontraditional asset classes.

Andy Toburen, head of the high yield investment team, and John Andress from Chartwell attended the meeting to present their Short Duration BB-Rated Fixed Income strategy. John Andress, Client Services/Marketing, informed the board that Chartwell is unique compared to other managers because they only buy BB rated bonds, which have the highest credit rating of all non-investment grade bonds. The result of Chartwell's approach is you get the best combination of consistent positive returns while taking the lowest possible risk of similar managers. Since the maturity is kept short you have built in protection against rising interest rates. Chartwell is located in Berwyn and was founded in 1997. They are owned by TriState Capital Holdings that occurred in 2014. TriState Capital Holdings is a registered bank holding company and the relationship has been going really well. The firms guiding principles are purity of investment style and responsible business plan. There are currently sixty-six employees and over \$7.9 billion in assets. Chartwell manages a variety of equity and fixed income investment styles, the largest being in fixed income of which \$1.5 billion is in short duration BB-Rated high yield strategy. The investment team has a strong credit analysis background and there has been no major changes in upper management in the last five years.

Andy Toburen, Senior Portfolio Manager/Head of the high yield investment team, presented to the board a broad overview of the strategy which focuses on a very unique niche within the market. Two key characteristics of the portfolio is short loan maturity and focusing on BB rated corporate bonds which are the highest quality tier. The performance objective is to use this as an absolute return vehicle from a performance standpoint targeting earnings 5-6%. This strategy has about a third or less volatility of the overall market making it a much safer investment and compared to the market for five years was in the 93rd percentile in terms of volatility. Historically, it has provided the best overall return of all corporate bonds including investment grade. Consequently BB's have had the highest loss-adjusted spread among all corporate rating tiers. Andy reviewed the investment process and portfolio construction. The portfolio is built with approximately forty names, no individual position is more than 5% weighted and no industry over 15% weighted. The average maturity is less than three years. the fund uses no derivatives and all bonds pay cash in US dollars. The portfolio is very straight forward corporate bond that is easy to understand what you own. The management fee is competitive at 50 basis points. Mark Wissinger asked if Chartwell currently has any other PA counties. Currently, they do not but they manage a strategy for the PA Treasury Department, a number of Taft-Hartley and a number of Healthcare accounts.

Motion to approve Chartwell's report was made by William Smith. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0.

The Board discussed Frank's recommendation of a minor portfolio change to invest in Chartwell using the funds from Vanguard's Real Estate investment. Ed Cernic feels the fees are too high and Chartwell didn't answer his question of where they are in the universe. Tom Chernisky also feels the fee is high compared to our other fixed income accounts. Discussion continued on whether this investment is less risky than the current real estate investment we have. Frank advised that the commercial type real estates are struggling to reinvent themselves,

so it would basically be lower risk and the recommended new investment. Mark Wissinger suggested to Frank to look for private equity in government real estate because the contracts are lengthy and stable. Frank will continue to look for other investments that are income producing for the fund.

- Motion was made by Mark Wissinger at the recommendation of Frank Burnette to invest \$6 million into Chartwell's Short Duration BB-Rated Fixed Income strategy using funds from Vanguard Real Estate investment. Motion was seconded by Ed Cernic to bring it to a vote. Additional discussion was held by the Board. Ed Cernic stated he doesn't know if this is the right vehicle to invest \$6 million from the REIT and is uncomfortable with the recommendation. Tom Chernisky also stated he was uncomfortable with the fee. The Board went to a roll call vote: Lisa Kozorosky – Yes, Mark Wissinger – Yes, William Smith – Yes, and Tom Chernisky – No, Ed Cernic – No. Motion passed. Vote 3-2.

Ed Cernic asked Frank to see if he can negotiate the fees for Chartwell. Frank will look into it.

Mark Wissinger left the meeting at 11:34 a.m.

New Business:

1. Ed Cernic informed the Board that we are awaiting a quote from Ebensburg Insurance Agency on Fiduciary Liability Insurance.
2. Ed Cernic informed the Board that the fall PAPERS workshop is scheduled for November 14-15, 2017 in Pittsburgh. They are offering to current participating member pension plans two complimentary registrations. If anyone is interested in attending, contact Dana Descavish and she will make the arrangements.
3. Motion was made by Ed Cernic to enter in the budget process for 2018 a 2.5% raise on the two Retirement Board positions held by Kristine Segear and Dana Descavish. Motion was seconded by William Smith. Motion carried. Vote 4-0.
4. 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 September retirees: Becky Lanzendorfer, Carol Peretin, Timothy Mardis, Christine Lucas, Sheila Knee and Karen Sarka. Motion was seconded by William Smith. Motion carried. Vote unanimous 4-0.

The next Retirement Board meeting will be held on Thursday, October 12, 2017 immediately following the 10:00 a.m. Commissioner's Meeting in the in the Commissioner's Meeting room 3rd floor.

Motion was made to adjourn the meeting by Lisa Kozorosky. Meeting adjourned at 11:43 a.m.

Ed Cernic, Jr.