Retirement Board Meeting
August 20, 2018

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 10:00 a.m.

Motion was made by Mark Wissinger to approve the minutes from the Retirement Board meeting held on July 19, 2018. Motion was seconded by William Smith. Motion carried. Vote unanimous 5-0.

Ed Cernic reviewed the retirement summary. There are currently 1,121 retirees as of August 10, 2018. Motion was made by William Smith to approve the retirement summary. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0.

Diana Karpen and Dennis Hunt attended the meeting. Diana advised the Board as of close of business on Friday August 17, 2018 the value of the fund was $204,014,747.15. All managers are under the 3% cash balance threshold with the exception of CS McKee. The $800,000.00 distribution from CS McKee will be done today.

Pat Wing and Michael Shone from Marquette Associates, our consultants, attended the meeting. Pat Wing provided a brief economic summary. The U.S. economy was slow in the first quarter, but economic activity accelerated sharply in the second quarter, with the real GDP growing at 4.1%. Given a tight labor market and solid economic growth, the Federal Reserve raised interest rates again in June. Looking ahead, both the Fed and the market expect two more rate hikes by the end of 2018 and additional hikes in 2019. The global economic growth appeared to slow somewhat in the second quarter, with European economic data in particular coming in well below expectations. Global equities exhibited a fair amount of regional dispersion during the second quarter. U.S. stocks advanced by nearly 4%, while international developed -0.7% and emerging markets equities -8.0% were in the red. U.S. equity investors saw solid gains during the second quarter. Sector-wise, energy stocks notched the strongest performance during the quarter, lifted by oil prices that climbed more than 12%. Consumer discretionary shares also advanced, and along with the information technology sector, continued an impressive eight quarter win-streak.

Geoffrey Gerber and Vince Larence from Twin Capital attended the meeting. Geoff presented to the Board. Twin Capital currently has 52 clients and has $2.1 billion under management. The Fund is currently invested in the Enhanced Equity Strategy. Twin capital also offers a Prime Strategy which provides greater potential for value-added and takes more advantage of Twin’s Fundamental Tilt. The Prime strategy has more consistent historical performance in up markets and offers a broader 1,100 stock universe. The Fundamental Tilt drives dynamic allocation between large and midcap stocks, shifting size exposure, active share and tracking error. The Prime strategy benchmark is the Russell 1000 Index. For all rolling 12-quarter periods since the inception of this strategy, Twin Prime has out-performed its Russell 1000 index benchmark (gross of fees). While Prime’s fee schedule is higher than the fee schedule we have currently with the Enhanced strategy, Twin will discount the management fee for an investment in Twin Prime. Cambria will remain on the current Twin Enhanced Equity pricing following the transition.

Al Winters and Heather Linn from CBIZ attended the meeting. Al presented to the Board the 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. It also looks at the adequacy of the county contributions into the plan to make sure the county contributions will be sufficient. There has been decline in active participants as the baby boomers have retired. Thomas Chernisky questioned what active participants meant. Al advised that they are active employees, terminated vested employees, and retirees receiving benefits. Thomas Chernisky asked at what point are the terminated vested employees eligible for retirement. Heather Linn responded they are eligible at superannuation age 60 and/or age 55 with 20 years of service. Overall the average age of the the active participants has started to come down because of the individuals retiring and being replaced by younger employees. The key takeaway is regardless of what we assume in our valuations ultimately the cost to the county over the life of the plan is whatever is paid out in benefits less the investment earnings. The number one factor is the investment rate of return. The investment rate of return was lowered to 7% from 7.25%. With interest rates continuing to be low the fixed income rates are difficult to achieve. Over the length of the plan the 7% is more reasonable to obtain. The Board should continue to monitor the investment rate of return. The fund is still using the RP-2000 with generational improvement using scale AA life expectancy. The Society of Actuaries intends to release an updated governmental mortality study in 2018. Depending on the extent that we were off on life expectancy guidelines that the Fund was using between 2000 and now in the Scale AA there could be an impact on the liability either up or down. The draft form of the new scale will be finalized in 2019. The liability for 2018 is $233,516,790 and the current member accumulated deductions are $45,451,484. The employees currently earn 4.75% on their funds. The County does take the risk that if the fund does not earn 4.75%, the County would need to contribute the difference. At some point the Board may want to evaluate if we continue credit the employee funds at 4.75%. Overall, the total unfunded liability is $31,012,872.00. The total liability funded percentage is 86.72% (which is reported in the financial statements) up from last year's 82.36%. Per the funding policy, 10.5% of payroll (estimated to be approximately $2.7 million) should be contributed as long as the plan is funded between 85-110% on an accrued to date basis. The accrued basis is at 94.10%. Ed Cernic pointed out that in the last three years we went from a $40 million unfunded liability to a $31 million unfunded liability, so the Board is making the incremental changes that are necessary moving forward.

Michael Shone provided an overview of their initial short term and intermediate-/long-term going forward and believe time would be best spent today discussing fee savings, manager structure and asset allocation. Michael advised the Board that the return this past quarter was a very strong return however the current portfolio is risky. MLPs did very well and high yield did better than traditional fixed income. The asset allocation will need be discussed, at a later time, to review the overall asset allocation mix. When that is done the Investment Policy Statement will need to be updated. Marquette Associates reviewed our managers and found potential savings. Contact was made with CS McKee to renegotiate the fee structure. Currently fees are 25 bps if over $20 million and 30 bps if under $20 million. CS McKee agreed to reduce their fee to 25 bps across the board. Marquette also advised swapping Vanguard index funds. There are less expensive funds available that provide essentially the same investment but with a slightly different benchmark. Swapping funds would save more than $24,000.00 annually. The Board could also consider in the future consolidating Vanguard into one fund. The growth fund and value fund are fairly equal. Another potential savings is with Integrity Small-Cap value. Currently the fee is 100bps on the first $15 million and 90bps on the next $35 million. Marquette will reach out to them and see if they are willing to renegotiate their fees. Michael discussed in more detail the potential with Vanguard. The Fund is currently in the Russell Growth and Value 1000 Index Fund benchmark and the savings would be to switch the growth and value to the CRSP US Large Cap growth and value benchmark which is half of the cost. Switching would provide you with almost the same results in combination with the change in Twin from Enhanced to the Prime Strategy. Pat Wing discussed the manager structure observations. The current equity portfolio has a noticeable overweight to small cap and growth. The growth overweight is most pronounced within international equity. Marquette's suggestions going forward would be move the DFA International Core I Fund to DFA International Value I fund which would alleviate the growth tilt. In addition, Marquette would recommend reducing the small cap overweight. This would save on fees and put the fund in a more conservative position. Marquette recommends leaving fixed income as is. Pat also discussed Ironsides Co-Investment Fund III. Currently, they are scheduled to sell one of their portfolio companies which would produce a distribution of $1.5 million at or around September 30, 2018. At the same time, the Ironsides Opportunities private debt fund that the Board approved to fund previously should be calling for their commitment. In a perfect world, the money from the Ironsides Co-Investment Fund could be used to fund the Ironsides Opportunities private debt fund. If not, the Board would need to determine where the money would come from. Ed Cernic stated we would look to Marquette for a recommendation since there will not be another meeting until after that takes place.

- Motion was made by Ed Cernic at the recommendation of Marquette Associates to permit Marquette Associates to move funds from Miller Howard MLPs to fund the capital call when it comes in for Ironsides Opportunities Fund in the event that the money does not come in from Ironsides Co-Investment Fund III. Motion was seconded by William Smith. Motion carried. Vote unanimous 5-0.

- Motion was made by Ed Cernic to enact the addendum from CS McKee for the fee change to 25 bps on all assets. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0.

- Motion was made by Ed Cernic at the recommendation from Marquette Associates to transfer the assets from Twin's Enhanced Equity Strategy into Twin's Prime Strategy. Motion was seconded by William Smith. Motion carried. Vote unanimous 5-0.

- Motion was made by Ed Cernic acknowledging the change of ownership with Emerald at the recommendation of Marquette Associates. Marquette Associates also recommends that Emerald be placed on watch. Motion was seconded by William Smith. Motion carried. Vote unanimous 5-0.

- Motion was made by Ed Cernic to acknowledge the transfer of ownership of Miller Howard Investments, Inc. through an employee stock ownership plan at the recommendation of Marquette Associates. Motion was seconded by Lisa Kozorosky. Motion carried. Vote 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 retiree: Kimberly Murray. Motion was seconded by William Smith. Motion carried. Vote unanimous 5-0.

The next Retirement Board meeting will be held on Thursday, September 13, 2018 immediately following the 10:00 a.m. Commissioner's meeting, Commissioner's meeting room, 3rd floor.

Motion was made to adjourn the meeting by William Smith. Meeting adjourned at 11:51 a.m.

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Ed Cernic, Jr.