Retirement Board Meeting
November 5, 2018

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

Pledge of Allegiance

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

Motion was made by Lisa Kozorosky to approve the minutes from the Retirement Board meeting held on October 11, 2018. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 4-0.

Ed Cernic reviewed the retirement summary. There are currently 1,115 retirees as of November 2, 2018. Year to date there has been 36 new retirees, 23 retiree deaths and 53 withdrawals and/or rollovers. October retirement payroll total was $1,144,763.78. Motion was made by Lisa Kozorosky to accept the retirement summary report. Motion was seconded by Mark Wissinger. Vote unanimous 4-0.

Diana Karpen and Dennis Hunt attended the meeting. Diana advised the Board as of close of business on Friday September 2, 2018 the value of the fund was $193,145,763.40. All managers with the exception of Emerald are under the 3% cash balance threshold. Pat Wing will look into the reason why Emerald has a cash balance of 4.177%. Motion was made by Mark Wissinger to accept the Ameriserv report. Motion was seconded by Ed Cernic. Vote unanimous 4-0.

Pat Wing, Marquette Associates, provided an economic summary to the Board. After a very strong second quarter, the economic activity slowed slightly in the third quarter showing a GDP growth of 3.2%. Amid a remarkably tight labor market and solid economic growth, an increase in wage growth and broader inflation remains likely over the near term. The most recent job report came out last Friday and over 250,000 new jobs were created with the average hourly earnings rate increasing 3.1%, which is the highest in ten years. The Federal Reserve is continuing to raise short term interest rates. They did so in September and will likely again in December. Longer-term rates have also moved up recently, which could act as a headwind for some of the more cyclical sectors of the economy, particularly those that rely on debt financing. The U.S. economy is very services oriented and that's important because it is less exposed to interest rate changes. The key components of the economy that are more cyclical and heavily reliant on debt financing are auto financing and housing financing which makes up a large portion of consumer spending. Housing activity will likely cool in the wake of rising mortgage rates. Outside the U.S., global growth appears poised to slow as well. The International Monetary Fund economic projections for 2019 have downgraded in all key economies of the region. As far as asset class performance, the U.S. equities have continued to outperform international markets. The two reasons for this are the recent economic growth within the U.S. and the corporate earnings continued to grow on the back of the tax cuts we saw at the end of 2017. As we head into 2019 it is probably as good as its going to get. Earnings growth is going to decelerate and that coupled with interest rate changes, wages and salaries that have gone up will also hurt corporate margins. The U.S. bonds have been flat for the quarter and are down 1.6% year to date. This is the aggregate bond market for the U.S. that has a duration of six years which has sensitivity to interest rate change. The longer the duration of a portfolio the more susceptible it is to price declines than a portfolio with a lower duration. Cambria County's fund has a portfolio with a lower duration. C.S. McKee and FNB are running portfolios with duration of four years relative to the broad market of about six years. The fund also has Chartwell running a high yield portfolio which is also a shorter duration than the broad market. The fixed income returns has been more favorable in the more recent environment. The U.S. equity markets saw strong gains in the third quarter, making the current bull market the longest in the post-WWII era. The 1990s bull market though remains the biggest from a cumulative return perspective. Growth stocks have outperformed value stocks and what have driven that are consumer discretionary needs and information technology needs, such as Facebook, Amazon, Netflix, Google, etc. In October, however it flipped and value stocks have outperformed growth stocks by 4% which is more in line what history suggests.

Robert Hatch and Daniel Clare from Constitutional Capital Partners presented to the Board. Robert Hatch provided a brief review of the history of CCP. Cambria is invested in two funds with CCP; Fund III and the Opportunities fund. The Fund III performance for the 50/50 split (which is ½ co-investment and ½ funds of funds, more diversification) is 18% and for the 100/1 split (direct co-investments, less diversification) is 19% net of all fees and expenses. Ironsides III has continued to outperform the top quartile benchmark and similar public indices. The Fund III has committed $164 million to 15 platforms. The diversification is mostly comprised of industrial (17%), consumer discretionary (25%) and healthcare (35%). Ed Cernic asked why so much in healthcare. The fund is primarily in healthcare services because of the uncertainty of what headwinds the market is going to face and healthcare services is very stable. Healthcare will be there despite the environment. Daniel Clare spoke to the Board about the Ironsides Opportunities Fund. The Opportunities Fund is a 2018 Vintage credit opportunities fund that CCP is currently fundraising and actively investing. The Fund had its first close in February 2018. The fund is being very cautious right now. The good news for our market is that our debt has higher rates it has lower leverage levels than the public market than the public market debt and it has covenant protections. As of September 30, 2018, the Fund has completed two investments with RailWorks and Raymundo's Food Group. RailWorks is the leading North American provider of track construction and maintenance service. The security for the investment with RailWorks is a 10% cash flow per year paid quarterly plus 4% paid-in-kind. Raymundo's is a food business which makes ethnic-oriented dairy products and desserts targeting two of the fastest growing population in the U.S. The security for the investment with Raymundo's is 14% preferred equity. These are some of the deals that have been done and there are additional deals in the works.

Chermaine Fullinck and Ethan Wren from Dimensional Fund Advisors presented to the Board. Chermaine gave a background on Dimensional Fund Advisors. DFA currently has $600 billion of assets under management and employees more than 1,300 globally. This investment firm has been serving investors for more than 35 years. The investment philosophy and process for equities are these four drivers: market (stocks vs. bonds), company size (small vs. large), relative price (value vs. growth companies) and profitability (high vs. low profitability companies). Expected returns are driven by prices investors pay and cash flows they expect to receive. To be considered a dimension of expected return, a premium must be sensible, persistent, pervasive, robust and cost-effective. Ethan Wren spoke to the Board on the funds Cambria is invested in. Cambria is invested in the International Core Equity portfolio and the Emerging Markets Core Equity portfolio. Both portfolios provide our investors with very comprehensive equity market coverage. Each portfolio holds on average 5,000 companies. Ethan then introduced to the Board the World ex US Value portfolio. This portfolio is a value targeted investment approach. This strategy invests in 41 different countries and over 5,000 companies. Not all companies are value but with the value segment the fund tilts toward companies of a smaller market gap to give the dose of the size premium and higher profitability. The International portfolio performance net of fees as of September 30, 2018 was 0.25% vs. the benchmark of 1.31%, since inception (2015) it was 9.4% annualized vs. the benchmark of 7.72%. The Emerging Markets portfolio performance net of fees as of September 30, 2018 was -1.21% vs. the benchmark of -1.09% which was driven by small cap stocks.

Pat Wing provided the Board with the 11th edition of the PA Pension Plan Report. Marquette collects actuarial reports and aggregates data from those reports. They then compile the information for counties to see the trends of other counties.

Pat Wing then advised the Board of actions already completed since Marquette became the Fund's consultant. The Twin strategy change was made effective September 1, 2018. A new fee agreement was made with C.S. McKee. Sourcing for the initial Ironsides Opportunities capital call was discussed and taken care of. The fund was rebalanced in September. Giving equity market returns since then, the rebalancing saved the fund $1.92 million as of October 24, 2018. Recommendations to consider today are the potential fee savings of swapping Vanguard funds. There are less expensive funds available that provide the same investment with a slightly different benchmark. Swapping funds would save $26,000 annually using the September 30, 2018 values. Marquette is recommending that the Vanguard Russel 1000 Growth be moved to the Growth Index Fund and the Russell 1000 Value Index fund be moved to the Value Index Fund. In addition, the equity portfolio has a noticeable overweight to growth, particularly within international equity. Reducing the tilt would be a more conservative approach. Therefore, Marquette is recommending moving the DFA International Core I Fund to the DFA World ex US Value Fund.

- Motion was made by Ed Cernic at the recommendation of Marquette Associates to move the Vanguard Russell 1000G funds to the Vanguard Growth Index Fund and to move the Russell 1000V funds to the Vanguard Value Index Fund to save on fees. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 4-0.

- Motion was made by Ed Cernic at the recommendation of Marquette Associates to move the DFA International Core Equity funds to the DFA World ex US Value Fund. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 4-0.

- Motion was made by Ed Cernic to accept Marquette's, Dimensional Fund Advisor's and Constitutional Capital's reports. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 4-0.

New Business:

1. Motion was made by Ed Cernic to keep the interest credit rate on member's contributions at 4.75% for 2019. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 4-0.

2. Motion was made by Ed Cernic to not approve a COLA increase for 2019. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 4-0.

3. Motion was made by Ed Cernic to schedule the 2019 Quarterly Retirement Board meetings on Tuesdays when there is not a pre-agenda meeting scheduled. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 4-0.

4. Motion was made by Ed Cernic to approve the buyback request from Amy Spinos to purchase time from January 2, 2006 through December 31, 2009 in the amount of $17,992.68. Interest was calculated through December 31, 2018 so the amount may be different depending on date of payback. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 4-0.

5. 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 November retirees: Darlene Rankin and Sandra Spaid. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 4-0.

The next Retirement Board meeting will be held on Thursday, December 20, 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 11:45 a.m.

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Ed Cernic, Jr.