Retirement Board Meeting
May 28, 2019

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

Pledge of Allegiance

Commissioner Smith called the meeting to order at 10:02 a.m.

Motion was made by Lisa Kozorosky to approve the minutes from the Retirement Board meeting held on April 18, 2019. Motion was seconded by Ed Cernic. Motion carried. Vote unanimous 3-0.

Ed Cernic reviewed the retirement summary. April retirement payroll was $1,168,279.28. There are currently 1,118 retirees as of May 23, 2019. Motion was made by Lisa Kozorosky to approve the retirement summary. Motion was seconded William Smith. Motion carried. Vote unanimous 3-0.

Thomas Chernisky arrived at 10:05 a.m.

Diana Karpen and Nick Debias attended the meeting. Ed advised the Board that the fund was at approximately $195,000.00. The fund has dropped back a little bit. The Controller's Office met with AmeriServ to discuss the fee structure and a fee reduction. AmeriServ was very cooperative in reducing the fees. Reports that Ameriserv provided previously are available online.

Pat Wing, Marquette Associates, reminded the Board of discussion that was held in February in reference to diversification and considering Core Real Estate as a part of the Fund. Two managers, Clarion and Principal, are here today to present to the Board. Principal is a little more conservative and has less leverage. They have less exposure to riskier properties within the universe. Clarion's fees are a little lower than Principal. On a liquidity perspective, Clarion accepts money on a monthly basis and can get money out on a quarterly basis. Principal on the other hand offers daily liquidity so you can contribute and redeem daily. Both are of a similar size and have been around for 30 years as firms and their strategies approximately 20-25 years. Clarion's fee is 95 bps and Principal's fee is 100 bps on $10 million.

Mark Wissinger arrived at 10:11 a.m.

Pat Wing provided an economic summary. The Fed has pivoted, as a result of financial market pressures, from what they said in the fourth quarter. Now they project no more rate hikes through 2020 and have plans to halt its current balance sheet reduction program by September. The investors therefore have also done a one eighty and losses from the fourth quarter have been recouped. The Funds equity markets have had really strong gains in the first quarter, with the US Equities gaining 14% vs the benchmark of 8.8%. The US Bonds also had solid gains for the first quarter. The High Yield Bonds performed 7% vs the benchmark of 5.9%. The market value as of March 31, 2019 was $197.3 million. The portfolio for the first quarter returned 9.4% vs the policy index of 9.4% net of fees ranking the fund in the top of the quartile at 29 vs the one year ranking of 26 against the universe. Miller Howard was liquidated during the quarter and the proceeds went to U.S. Equity Funds. An additional capital call was made for Ironsides Opportunities fund in the first quarter. Ed Cernic asked how much more will be called for Ironsides Opportunities fund. For the Ironsides Opportunities fund there is still a total of $6 million in calls to be made. Most recently the Board voted to fund Ironsides V at $5 million.

Pat Wing reviewed managers for the first quarter. Twin Capital returned 13.1% vs the benchmark of 14%, slightly behind the benchmark. Given that growth stocks were outperforming value stocks in the market, we would expect Twin to be slightly behind because they have a slight value tilt. Integrity and Emerald outperformed their benchmarks, particularly Emerald which returned 21% vs the benchmark of 17%. The Non-US Equities returned 11.1% vs the benchmark of 10.3%. The Ironsides Co-investment Funds III's three month returns are at zero because those funds report their values on a lag and those numbers will be available soon. The one year number is 2% well ahead of their benchmark Russell 3000+3%. What drove that is that during the fourth quarter broad equity markets were down about 14% and Ironsides was up. These funds don't have the volatility of regular equities that trade every day because they mark their assets four times a year which proves to be beneficial. The market value as of April 30, 2019 was $201,584,460.00. The fund was up 2.6% vs the benchmark of 2.3% for the quarter; year to date, 12.1% vs the benchmark of 11.9%. The first quarter was strong and the second quarter has had a strong start. However, May has been a little tougher and has reduced the gains in April. A good estimate for the Fund return through last Friday is 9.5% net of investment fees that we saw at the end of March.

Josh Kane, Senior Vice President Account Manager and Katie Vaz, Pension Director/Equity partner from Clarion presented to the Board their Lion Properties Fund. Josh Kane informed the Board that Clarion is in its 36th year in business and just surpassed $50 billion in assets under management (AUM) which puts Clarion as the 7th largest commercial property owner in the U.S. Headquarters are in NY and there are nine offices spread across the U.S. consisting of 296 employees. Clarion currently manage $114 million in public PA money - one County and one City. Katie Vaz gave the board an executive summary on what makes the Lion Properties Fund different, what has driven their outperformance in this space, and what they will continue to do going forward. The Fund is focused on four core real estates in the U.S. which is - office buildings in major markets, retail centers with grocery anchored centers that are ecommerce resistant, industrial assets (warehouse/distribution centers) and apartment assets throughout the country. The goal is to outperform the NFI-ODCE benchmark. There has been consistent outperformance over the ODCE benchmark and also the fund is a top quartile performer within that space. The strategy is to overweight in the two sectors with the best risk adjusted performance which are industrial and apartment and to underweight in the more volatile sections which are office and retail spaces. In terms of leverage ratio, Lion Properties Fund is at 20% which is consistent with the ODCE benchmark. There are approximately $70 million management co-investment funds, which is voluntary money of individuals within the firm (after tax dollars) to sit along with investors in the fund. Both a quarterly and annual dividend is offered. Funds can be withdrawn or reinvested. Money is accepted monthly into the fund. The fund performance is very strong – for 2018 there was a return of 9.7% which outperformed the benchmark by 130 bps. The seventy seven new investments since 2012 have been highly accretive to the overall performance of the fund. Outperformance is fairly consistent across all acquisitions. This fact validates Clarion's strategy and execution capability of the Lion Properties Fund. The fees for this fund are 95 bps.

Erin Kerr, Senior Director/Real Estate and Meighan Phillips, Managing Director/Portfolio Manager, from Principal presented to the Board their U.S. Property Account. The U.S. Property account sits in the Private Equity quadrant. Erin advised that Principal is a top-10 global real estate manager with over $79.4 billion assets under management. Over 47 institutional clients from 25 different countries place their trust in our expertise. Principal has over sixty years of real estate investment experience and employs 425 across eleven countries. Principal has been investing institutional client capital within the U.S. Equity account since 1982. It is one of the foundational accounts for Principal. Currently there is one Pennsylvania County and one Pennsylvania Authority invested in the U.S. Property Account Fund. The consistency of the portfolio team is an asset to this fund. There are five individuals who have been responsible for this fund since 2003. The Principal Financial Group, its affiliates and employees have over $405 million invested in the U.S. Property account as of March 31, 2019. The Fund has outperformed the benchmark over the 1 year, 3 year, and 10 year timeframes. Meighan Phillips presented to the Board. The U.S. Property account strategy is one of equal emphasis on return generation and risk management. There are different time frames within the cycle where application of that strategy is a little different. The gross asset value of the fund as of March 31, 2019 was $10.3 billion and the net asset was $8.1 billion. There are currently 135 investments with a leverage ratio of 18.6%. Adding leverage to a portfolio does add an element of risk. What has been seen over the last 18 months is that the spread of borrowing has started to compress because real estate yields have come down and treasury rates have gone up and now dropped again. The benefit of using leverage is starting to compress. Last year at this time the leverage rate was at 22%. Being mindful of the risk and mindful of opportunities in the market and the way real estate is priced today; Principal purposely brought the leverage ratio down. One thing that is interesting about performance today is that the cost to debt is lower (borrow at a rate lower than that of our benchmark) and the unleveraged property returns are higher – this is generating an outside positive impact from the use of that leverage. The one year net absorption number is $1 million. That is the real estate term saying how much space was leased today that wasn't leased at the beginning of the year. 2018 was the 4th consecutive year that leasing more than $1 million square feet of positive net absorption. This has enabled very strong income growth for the Fund. Real estate returns are comprised of income and appreciation and today the income component is the primary driver of those returns. In 2018, this portfolio generated income growth within the same subset of properties of 9% compared to the benchmark of 2.25%. Growing income is paramount to continued success and there is a very strong forecast for continued strong positive net operating income (NOI) growth. The managers of the fund very carefully monitor the rollover exposure of the fund. Industrials are the best performing property sector within private real estate, and 14% of our industrial portfolio rolled over from 2018 into 2019. Historically this is the absolute best time to be a landlord in the industrial real estate market. Currently the top two performing regions are the South and West; which the fund is currently overweight in and will stay overweight in. The four primary property sectors are office, retail, multifamily and industrial. Every sector is outperforming its benchmark ODCE. Currently the fund is overweight in the office sector, which some will be sold to get a neutral weight at the end of the year. The retail sector is underweight purposely. The retail sector is mainly grocery anchored spaces. The multi-family has been underperforming the broad open end component for the last 25 consecutive quarters. This portfolio has been underweight for all those quarters by design. The Fund very purposely sold out of that position. Alternatively, the industrials have outperformed those exact same 25 consecutive quarters and the fund has been overweight in all 25 of those quarters. The fee on this product is a tier, for an investment of $10 million it is a 100 bps fee, with no other fees associated. Fees are deducted quarterly from the assets. Dividends are automatically reinvested however there is liquidity when the investor wants. It is up to the client on timing and amount. Forecasted growth of income for 2019 is at 5% and accelerates in 2020 and 2021.

Pat Wing advised the Board that other PA counties they manage have Core Real Estate investments of 5-10% of their funds. Marquette recommends Cambria invest 5% of the Fund into Core Real Estate. Marquette recommends a 3% reduction of US equities and a 2% reduction in private equity to get the 5% for Private Core Real Estate. Ed Cernic would like monies also to come from Internationals because the international equities are more volatile than US equities.

- Motion was made by Ed Cernic to invest $10 million in the Core Real Estate U.S. Propery Account with Principal. To fund this investment U.S. equity will be reduced by 1%, International equity by 2% and Private equity by 2%. Motion was seconded by Lisa Kozorosky. Tom Chernisky requested that Pat Wing inquire if the fees are negotiable. Pat Wing advised that the answer will probably be no, but he will ask. Motion carried. Vote unanimous 5-0.

New Business:

1. Motion was made by Ed Cernic to approve the AmeriServ fee addendum. The addendum reduces the fees to 2.5 bps on all accounts with the exception of CS McKee. The fee for CS McKee will be 3 bps. In addition trade fees were reduced to $10 per trade. The fee addendum is effective April 1, 2019. Motion was seconded by Thomas Chernisky. Motion carried. Vote unanimous 5-0.

2. Motion was made by Ed Cernic to approve the CS McKee fee addendum. The addendum reduces the fees to 24 bps on the first $20 million, 20 bps on the next $30 million, 18 bps on the next $100 million and 15 bps on the balance. The fee addendum is effective April 1, 2019. Motion was seconded by Thomas Chernisky. Motion carried. Vote unanimous 5-0.

3. The IPS addendum will be modified to adjust the asset allocation and add the private real estate guidelines.

4. Al Winters from CBIZ retired. Our new actuary with CBIZ is David B. Reid. Dave is the Senior Vice President for CBIZ Retirement Plan Services Philadelphia office and has over twenty (20) years of experience in the pension actuarial field. Both David and Heather Linn will be present at the August quarterly meeting.

5. The Controller's Office presented the 20th Edition Retirement Fund Financial Statement. Additional copies are available in the Controller's office.

6. Motion was made by Ed Cernic to be the lead plaintiff in a U.S. Securities Class Action against CVS Health Corporation at the recommendation of Grant & Eisenhofer. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0.

The next Retirement Board meeting will be held on Thursday, June 27, 2019 immediately following the 10:00 a.m. Commissioner's meeting, Commissioner's meeting room, 3rd floor.

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

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Ed Cernic, Jr.