Retirement Board Meeting
November 12, 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 10:01 a.m.

Motion was made by Lisa Kozorosky to approve the minutes from the Retirement Board meeting held on October 24, 2019. Motion was seconded by William Smith. Motion carried. Vote unanimous 3-0.

Mark Wissinger arrived at 10:02 a.m.

Ed Cernic presented the retirement summary to the Board. Retirement payroll for October was $1,187,882.13. Withdraws and rollovers processed from August 23 through November 1, 2019 totaled $166,464.87. Administrative fees for November retiree hospitalization totaled $247,352.32. As of November 7, 2019 there were 1,121 retirees.

Michelle Czyrnik provided the AmeriServ report to the Board. The market value as of October 31, 2019 was $201,616,405.56. All funds with the exception of CS McKee are under the 3% cash value. CS McKee will be transferring the monthly $800,000.00 for retirement payroll. Motion was made by Ed Cernic to accept the AmeriServ report. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 4-0.

Tom Chernisky arrived at 10:10 a.m.

Pat Wing from Marquette Associates provided a brief economic summary. The US economic activity remained subdued in the 3rd quarter, with real GDP growing at just 1.9%. Over the past year, there has been a good deceleration in economic growth. This is a result of the tax cuts that were enacted at the end of 2017 and the biggest contribution is business investments have contracted recently due to the uncertainty of trade policy. A leading indicator to be mindful of now is CEO confidence. Historically CEO confidence has led consumer confidence, but CEO confidence has declined sharply in the 3rd quarter, marking the lowest reading since the beginning of 2009. Given the uncertain outlook, the market expects the Fed to continue cutting short term interest rates in 2020. Ed Cernic asked Pat about consumer debt. Pat advised that it has been relatively stable since rates have been low. The debt service hasn't been a big issue because the debt level has been unchanged. However, there have been delinquencies in the credit card space. The U.S. equity markets saw slight gain during the 3rd quarter, with defensive areas largely outperforming their more cyclical counterparts. Small cap equity once again lagged mid and large cap equities. Pat provided the portfolio overview. The market value as of September 30, 2019 was $199.6 million and as of today it is $203 million. For the 3rd quarter, the portfolio returned 0.2% (net) vs. the policy index of 0.9%. One thing to note is that the private equity and private debt values are as of June 30, 2019, adjusted for cash flow, since the September 30, 2019 statements will not be available until the end of the month. Therefore, the 3rd quarter return is likely understated. The positive attribution from the fund came from Principal's outperformance and the negative attribution was the underperformance by active equity managers. During the August meeting, at Marquette's recommendation, the Board placed Integrity on watch due to their mediocre performance and high fees. The managers that we are bringing in to review today to replace Integrity are two of Marquette's firms' top picks. Our firms' clients have sizable allocations in the strategies they will be presenting. From a fee perspective the Fund would save approximately $30,000 regardless of which manager is chosen. A summary of the cash flow of the Fund for the 3rd quarter gives you a beginning market value of $201,503.299.00, withdrawals which represent benefit payments in the amount of $2,400,000.00, gains of $473,597.00 resulting in an ending market value of $199,576,895.00. Year to date cash flow shows a beginning balance of $182,616,014.00 withdrawals (benefit payments) $7,200,000.00 and gains of $24,150,881.00. The YTD was up 13.2% vs. the policy index of 14.6%; the prior year was 2.4% vs. 3.1%. Last year the fund underperformed its assumed rate of return of 7%; so even if you make money and don't make the 7% your funded ratio could come down because your liabilities are being discounted at that 7%. On the other hand when you get more than double the assumed rate of return, the last six weeks notwithstanding, it works in the your favor therefore increasing the funded ratio of the plan. Mark Wissinger commented on how impressive the cash flow numbers from five years ago were, noting the withdrawals was $48,443,255.00 and the gains of $64,745,857.00. Pat then provided an overview of the current managers in the plan. The total equity composite is down .5%. The US Equity composite was up 1% vs. the benchmark of .5%. Twin underperformed slightly and Vanguard value and growth performed well. Integrity and Emerald were behind the benchmark for the quarter -1.5% vs. -0.6% and -6.9% vs. -4.2% respectively. This is in line with expectations. However, with Integrity's fees and mediocre performance, the fund needs a good compliment to Emerald. The two managers that are here to present focus on the downside protection. The Non US equity composite was also behind. DFA was -3.5% vs. -2.8 due to a larger tilt towards value. The

DFA emerging market was in line with their benchmark and Vanguard international was behind -3.0% vs. -0.8%. Ed Cernic stated that he is concerned with the rankings of DFA World and Vanguard which are both ranked in the 90s. Pat advised that Vanguard is more of a short term phenomenon; their five year number is quite strong. The recent issue has been stock selection. For DFA, they have been focused more toward value and smaller companies that hasn't done very well outside of the U.S. The real estate account Principal is up 1.6% vs. 1.1%. Under the fixed income composite, both CS McKee and FNB returns have been strong. One of recommendations that we have is to move money from FNB to CS McKee to balance out the percentage of the portfolio for each. CS McKee is the fund used to draw for fund payouts. The total fund for October is at 1.6% vs. the benchmark of 1.5%; year to date 15% vs. 16.3%. The two managers that are here to present are Kayne Anderson Rudnik and Segall Bryan and Hamill potential replacements for small cap value.

Craig Stone form Kayne Anderson Rudnik (KAR) presented to the Board. KAR was founded in 1984 and is based in Los Angeles, CA. The assets under management are $30.2 billion. KAR employees' sixteen equity investment professionals with an average investment experience of fifteen years. KAR's investment philosophy is purchasing high quality businesses with competitive protections at attractive valuations. Their investment objectives are to achieve a return meaningfully above the Russell 2000 Value index and to achieve this return objective with a portfolio that exhibits lower overall risk characteristics. One of the strongest companies that KAR is invested in is WD-40. KAR believes that WD-40 is one of the strongest brand names out there. Everyone knows this product but some may have never used it despite the fact that there are no commercials for this product. There is no competitive product. Other well-known brands have competition for example Coke has Pepsi, Home Depot has Lowes, etc. This very small cap company WD-40 has a $2 billion market cap for fifty plus years, yet it doesn't need to spend money to reinforce its brand or capital to grow its business. The balance sheet is all nearly debt free, all cash and what the company does with that cash is pay a nice dividend to shareholders and repurchase shares. So when times are good they don't need to raise prices and do well and when times are not so good, people tend to keep things longer and use more WD-40. This is the typical type of business that we like to find; companies that can do well when times are good but have that capital protection when times are tough. Of course there will be business cycles along the way but as you will see in the portfolio, KAR tends to keep up with the market and protect very well during difficult times. The other way we are different from other managers is that typically small cap managers want to spread out their risk so they buy a lot of stocks, KAR only owns 20-35 stocks. It may seem like that is riskier to have fewer names but because they are high quality and have inherit protection there is lower risk. The other thing that KAR does in small cap is that there is frictional costs in trading and KAR tends to be long term shareholders so there is lower frictional costs due to less trading. Craig then reviewed the portfolio characteristics. The small call portfolio characteristics consist of higher quality, stronger more consistent growth and better value. Historically, KAR has been able to achieve this high quality and strong growth at a discount valuation to the market. Ed Cernic questioned what the fees are for KAR. The fees are 80 bps.

Clark Koertner and Shaun Nicholson from Segall Bryan & Hamill (SBH) presented to the Board. Clark provided the Board with a brief overview of SBH. SBH is a national investment firm founded in 1994 with thirty eight partners, has $20.1 billion assets under management and five office locations, with headquarters being in Chicago. SBH is a 130 person team with expertise across all aspects of investment management with twenty seven average years of experience for portfolio managers. SBH is a sound risk adjusted manager that can help navigate all types of market cycles. Shaun Nicholson, Portfolio Manager presented to the Board. The firm relies on its in-depth proprietary research to uncover investments that have the potential to offer consistent returns over the long term and downside protection through market cycles. Our experienced small cap equity investment team conducts bottom-up research, looking for companies with management teams that are focused on sustainable and/or improving return on invested capital (ROIC) and low embedded expectations. During the last twenty years, Russell 2000 companies with the highest ROICs have outperformed their peers on a quarterly basis nearly all of the time. Due diligence is extremely important and SBH has created a ROIC dashboard. The ROIC dashboard provides insight into the expectations and identifies significant potential changes in the ROIC profile, including management/culture changes, new product cycles and underappreciated growth opportunities. SBH is looking to identify areas of potential ROIC improvement that they believe other investors overlook. Shaun reviewed a snapshot of SBH's small cap portfolio. Since inception in 2008, the portfolio has ranked in the top percentile versus peers in alpha generation but also on risk metrics downside capture ratios and standard deviation. SBH has had consistent downside protection over multiple market cycles and consistent top of class alpha generation versus peer groups. The proposed fee is 75 bps.

Tom Chernisky returned at 10:26 a.m.

The Board discussed the presentations by KAR and SBH. Ed Cernic's opinion is that a decision needs to be made today so that the process can take place before the end of the year. They are both good managers. Pat pointed out that KAR is more concentrated and the Board needs to have that expectation going in. There will be a lot of variability but over the long term they are off the chart. Pat pointed out with SBH that they also have strong long term performance but in most cases, they have provided slightly less downside protection than KAR. Pat advised that after the presentations, he would recommend Kayne Anderson Rudnik over Segall Bryant & Hamill. Currently the Fund is paying Integrity's fees at 1.15% which includes trading fees. KAR is offering a fee of 80 bps and SBH is offering 75 bps. KAR's estimated trading fees are less than SBH. The approximate savings to the Fund would be $30,000, regardless of which manager the County selects. Ed Cernic pointed out that KAR has been in business ten years longer, has $10 billion more in AUM and their strategy inception date was in 1998 versus SBH inception date of 2008.

- Motion was made by Ed Cernic to hire Kayne Anderson Rudnik at the recommendation of Marquette, invest $8 million and divest Integrity. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0.

Pat then reviewed with the Board a rebalancing proposal. The proposal is when the new manager takes over for Integrity that they transition the $8 million to the new account; the remaining $1.6 million will be moved to CS McKee to cover monthly distributions. An additional $2.4 million from FNB will also go to CS McKee. This will then balance out both of the fixed income accounts.

- Motion was made by Mark Wissinger to proceed with the recommended rebalancing. Motion was seconded by Tom Chernisky. Motion carried. Vote unanimous 5-0.

- Motion was made by Ed Cernic to approve Marquette's report. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0.

Old Business:

1. The Board discussed the experience study. Ed Cernic had detail discussion with Pat Wing in regards to the experience study. Ed feels that at this time it is not necessary to do an experience study. The Fund to date has not done an experience study. There have been other studies done in regards to the Fund. An experience study would cost the Fund approximate $10-15,000.00. A lot of the information that an experience study provides the Board gets from the actuarial report and the consultant's report. Pat Wing presented to the Board the County Pension Report that Marquette provides each year to Counties. This book provides a wealth of information on peer type data which provides a lot of what an experience study would look at. Pat also advised that not a lot of counties do an experience study because they don't get a lot of value from it. He concurs that it is not necessary at this time but he does want to look into a little more to find out what actually you are paying for when you get an experience study done.

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 Lisa Kozorosky. Motion carried. Vote unanimous 5-0.

2. Motion was made by Ed Cernic to not approve a COLA increase for 2020. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0.

3. Motion was made by Ed Cernic to set the 2020 Quarterly Retirement Board meeting dates. The dates will be February 4, May 5, August 25 and November 10, 2020. The meetings will be at 10:00 a.m. in the Jury Room. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 5-0.

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 November retirees: Gregory Town and Andrew Fatula. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0.

The next Retirement Board meeting will be held on December 19, 2019 immediately following the 10:00 a.m. Commissioner's meeting, Jury room.

Motion was made to adjourn the meeting by Thomas Chernisky. Meeting adjourned at 11:54 a.m.

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Ed Cernic, Jr.