

Retirement Board Meeting
August 20, 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 10:00 a.m.

Motion was made by Lisa Kozorosky to approve the minutes from the Retirement Board meeting held on July 25, 2019. Motion was seconded by William Smith. Motion carried. Vote unanimous 3-0.

Ed Cernic presented the retirement summary to the Board. Retirement payroll for July was \$1,168,279.28. Withdraws and rollovers processed since June totaled \$215,504.95. Administrative fees for August retiree hospitalization totaled \$243,679.61. As of August 16, 2019 there were 1,123 retirees. Motion was made by Lisa Kozorosky to accept the retirement summary. Motion was seconded by William Smith. Motion carried. Vote unanimous 3-0.

Thomas Chernisky arrived at 10:05 a.m.

Dennis Hunt provided the AmeriServ report. Market value as of August 19, 2019 was \$196,295,572.43. 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 Thomas Chernisky. Motion carried. Vote unanimous 4-0.

Pat Wing from Marquette Associates provided a brief economic summary. The US economy has seen a slowdown in economic growth and there is concern about how the Federal Reserve will change policy for short term interest rates in the wake of anticipated slow growth for the remaining of the year. For the 2nd quarter the real GDP growth was up a little more than 4%, which was above economists' estimates. The future market is projecting at least two rate cuts by the end of the year and further cuts in 2020. The global asset returns show moderate gains in the equity markets, US bonds and high yields bonds also doing really well. As a result, the fund is up 3% for the quarter and year to date 13.5%.

David Reid from CBIZ presented to the Board the Actuarial Review. He gave a brief overview on the plan benefits, plan demographic profile and actuarial assumptions. The actuarial valuation is a financial model used to determine emerging liabilities and funded status of the Plan, calculate actuarially determined contributions and develop financial statement disclosure amounts. The valuation inputs consist of plan demographics, plan benefits, assets and actuarial assumptions and methods on all of the above. The total plan costs equal the total plan benefits less investment earnings (actuarial methods and assumptions have no impact on the ultimate cost of the Plan). The actuarial assumptions consist of the investment rate of return, salary scale, retirement rates and life expectancies. Currently the average rate of return is 7%, changing the average rate of the return would result in a changing of the funding status of the plan. The salary scale assumption is at 3.50% per year. The retirement rate assumption currently assumes retirement ages ranging from 55 to 80 with the average age of 63. The retirement rate assumption has been in effect since 2007 and needs to be reviewed. The life expectancy table being used is the RP 2000 table with generational improvement using Scale AA. The Society of Actuaries released new mortality tables in early 2019 for public section pension plans. Eventually the County will need to move from the old plan to the new plan and this would result in an increase in the plans liability by 4-5%. This change should be made sooner rather than later. Pat Wing asked what the recommended time would be to make this change. David advised that it would need to be looked at in 2020 or 2021. The current funding policy is 11.5% of payroll which was made effective July 1, 2019 as a result of the funding percentage falling below 85% at the end of 2018. A smoothing mechanism was also put into place. The smoothing mechanism allows the 2018 investment loss to be recognized evenly over a period of five years. That funding policy will hold if the funding percentage based on what has been accrued by participants of the plan, not the projected numbers, falls between 85% and 110% funded. As a result of the funding policy changed the fund is 91.47% funded as of January 1, 2019 compared to 82.74% using the market value. County contribution is estimated at \$2.8 million of 2019. David spoke to the Board about an Experience Study. An experience study aligns assumptions with actual plan experience. Experience Studies should be done every 3-5 years and the last one done for this Fund was 12 years ago. This Study is not part of the current agreement with CBIZ and would be an extra cost. Since one has not been done, David is recommending that an Experience Study be done.

- Ed Cernic requested David Reid to put a proposal together on what the cost would be to have an Experiment Study done and submit it for review.

Mark Wissinger arrived at 10:17 a.m.

Sam Piccioni, Senior Vice President/Director of Relationship management from FNB thanked the Board for having the opportunity to present and are pleased to be involved with Cambria County through the wide services that they provide. Sam introduced Christopher Cwiklinski, Senior Vice President/Director of Portfolio Management who will review the fixed income portfolio. The value of the fund as of July 31, 2019 was \$27,712,637.56 gross of fees. The year to date return is 4.3% vs. the index of 4.9%; one year returns were 5.8% vs. 6.9%. The fund has underperformed due to duration and quality of investments. FNB has been trying to avoid the lower credit rating for about a year to a year in half and move the portfolio into high quality, credit rating types of securities. Ed Cernic questioned what rating they are moving toward. They are moving to A and above typically. The majority of the portfolio has been there for most of the year. The weighted average duration is 3.73% vs. 3.88%. The weighted average of the credit quality is AA and the portfolio option adjusted spread is 28.49 vs. the benchmark of 38.08. Ed Cernic asked what the option adjusted spread means. The option adjustment spread is what a bond is paying you in excess return above risk free rate so it lets you know how much risk you are taking in the portfolio. Ed asked what FNB was going to do to get the Fund closer to the benchmark. FNB's continued strategy will be to maintain high quality, keep the Fund where it is at and the performance against the index will correct itself over the next year.

Pat Wing, Marquette continued on with his report. Pat reviewed the annualized returns on the fund. Integrity's returns for three months were 3.0% vs. the benchmark of 1.4%. Year to date 15.7% vs. 13.5%, however since inception February 2014 they have behind the benchmark. These returns are net of management fees but they are not taking into account the trading fees that the County has to pay. It has recently come to attention that Integrity is making hundreds and hundreds of trades. Integrity Small Cap Value management fees are 1 bps. If you take into account the multiple trades the management fee is 1.1 bps to 1.15 bps, which is higher than peer groups. Given these higher fees and mediocre performance Marquette recommends that the Board place Integrity on watch list and allow Marquette to bring a couple managers in for the November meeting that would be better ideas for this space.

- Motion was made by Ed Cernic at the recommendation from Marquette to put Integrity on watch due to their poor performance and high fees; authorize Marquette to look for new managers to replace Integrity and bring the new managers to the November quarterly meeting. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0.

Pat Wing then reviewed July's returns. The quarter to date return is slightly behind the benchmark 0.5% vs. 0.6%; year to date returns 13.3% vs. 14%. This does not include the private investments during the current quarter because they are on a lag. When the private investments returns are received, Marquette expects the year to date number to be closer to 14%.

- Motion was made by Ed Cernic to accept the reports from Marquette, CBIZ and FNB. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 5-0.

New Business:

1. AmeriServ agreement was revisited. The agreement was revised from \$10 transaction charge per trade to a \$6 transaction charge per trade. This agreement again will be effective April 1, 2019.
 - Ed Cernic made a motion to adopt the revised agreement with AmeriServ. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0.
2. Chimcles, Schwartz, Kriner & Donaldson-Smith is recommending that Cambria County withdraw from the securities litigation case against Livent Corporation because all other movants have withdrawn their motions for lead plaintiff except for us and one competing movant who has the largest overall losses. Moving forward would burden Cambria County and the Court with motion practice.
3. Grant & Eisenhofer is recommending that Cambria County withdraw from the derivative action against Athene Apollo because the case has been moved to Bermuda court.
 - Motion was made by Ed Cernic to accept the recommendation from both counsels to withdraw cases on Livent and Athene Apollo. Motion was seconded by Thomas Chernisky. Motion carried. Vote unanimous 5-0.

The next Retirement Board meeting will be held on September 19, 2019 at 10:00 Commissioner's meeting room, 3rd floor.

Motion was made to adjourn the meeting by Thomas Chernisky. Meeting adjourned at 11:35 a.m.

Ed Cernic, Jr.