

Retirement Board Meeting
February 4, 2020

Present:	Commissioner	Thomas Chernisky William Smith Scott Hunt
	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 William Smith to approve the minutes from the Retirement Board meeting held on January 23, 2020. Motion was seconded by Scott Hunt. Motion carried. Vote unanimous 5-0.

Ed Cernic reviewed the retirement summary. There are currently 1,128 retirees as of February 3, 2020. January's retirement payroll was \$1,216,723.62. Motion was made by William Smith to approve the retirement summary. Motion was seconded by Scott Hunt. Motion carried. Vote unanimous 5-0.

Dennis Hunt from AmeriServ attended the meeting. Dennis advised the Board as of the close of business on Friday, January 31, 2020 the value of the fund was \$208,740,589.48. Dennis reported to the Board the proceeds from securities litigations for 2019 totaled \$30,549.55 and that Foreign Tax Withholding costs for 2019 were \$424.61. Dennis advised the Board that the residual income from Integrity will be moved to KAR as it comes in. He also advised that KAR has over 6% in cash. This is most likely due to KAR settling in with the investments. Ed Cernic commented if this is something that occurs later on it will definitely need to be looked into. Ed Cernic also questioned why there is over \$1 million in cash in FNB. Pat Wing advised that is a timing issue on the money that was transferred to them. Kristine Segear questioned Dennis where the money was that came in from Ironsides on January 31, 2019. Dennis advised it was posted yesterday therefore it wasn't part of the report. Motion was made by Ed Cernic to accept the AmeriServ report. Motion seconded by William Smith. Motion carried. Vote unanimous 5-0.

Pat Wing, Marquette Associates, provided an economic summary to the Board. The US economic activity remained steady, but sluggish in the fourth quarter, with the economists forecasting real GDP growth of 2.1%. This is in part to continued softness in business investment and a reduction in private inventories. Looking ahead to early 2020, leading economic indicators point to a weak economic environment. Recent economic weakness has been largely driven by the manufacturing sector, while the services economy has remained resilient. Later in 2020, you may see some services weakness but manufacturing will be picking back up at the same time. The economy can also slow up after a presidential election. Key risks that could also derail the economy are that the data points to an inflection and the coronavirus. Pat reviewed the asset market returns. Despite the slowdown in economic growth, there have been historic returns across equity markets and other assets. U.S., International and Emerging markets are all up around double digits for the year, ranging 20-30 % across the board. U.S Bonds (high quality bonds) were flat for the quarter, but showed strong returns year to date as interest rates came down throughout the year. High Yield Bonds performed better which is what you would expect in an environment where equities are doing well. High Yield Bonds are riskier areas in the fixed income market and generally outperform the safer areas of core bonds. High Yield Bonds were up 2.6% for the quarter and 14% for the year. Core Real Estate was also up for the quarter. The Fund will see positive implications come May or June when the Actuarial report is provided for the Fund particularly as it relates to the policy index and assumed rate of return due to the strong returns for the quarter and year to date. Pat reviewed the U.S. equity market, since it is such a large portion of the retirement Fund. One of the key themes in the 4th quarter is that only a handful of segments of the market really drove the returns. The contribution to index returns was from four industry groups which provided one-third to half of the returns. For the quarter in the Russell 1000 index, those four industry index groups account for almost half of the gain. The remaining twenty industry groups accounted for the other half. This was similar in the Russell Mid Cap as well. Five stocks accounted for more than quarter of the gain in the S&P 500 for 2019. Ed Cernic mentioned to Pat to be mindful that we are in line with our policy and all our managers; some of the managers we want to be closer to the lower number of the policy index since some may be more volatile moving forward. The recent change from Integrity to KAR has moved us in that direction where Integrity was much more volatile and aggressive. Marquette will continue to move in that direction.

Mark Schlegel and Craig Moyer from Emerald Advisors were present. Mark presented to the Board. There have been no major updates in the last year including no personnel changes, product changes, structure changes or client changes. In regards to the partnership formed in October 2018 with 1251 Capital, they own 51% of the firm and the remainder is owned internally through ESOP (Employee Stock Ownership Plan). All employees participate in the ESOP. The strategic partnership was needed for stronger financial footing going forward and

helps with growing and diversifying the business. The individuals who run 1251 Capital have run much larger organizations in the asset management world. The small cap portfolio that Emerald manages for the Fund has been in existence for twenty eight years. Over those past twenty eight years, the portfolio has outperformed the index annualized return by 350 bps and outperformed 21 out of 27 calendar years. Mark provided firm background information to the Board before going on to performance. The portfolio has had a very strong year; returns were 30.34% for the year before fees and 29.52 % after fees outperforming the benchmark for the year which was 28.48%. Since inception in 2012, the return after fees was 2% more than a passive benchmark. Year to date the portfolio is up 1.5%.

Pat Wing provided a summary of cash flows to the Board. At the beginning of the 4th quarter the Market Value was \$201,827,913; withdrawals totaled \$2.4m and the net investment change was \$11,085,948 leaving an ending market value of \$210,513,860 equaling a growth of \$8.5m for the quarter. During the year the Fund grew \$28m equaling a return of approximately 21%. As said before, this will reflect well in the actuarial report in regards to the health of the Fund and the funded ratio. The total Fund composite ranking is 41 for the quarter vs. the total fund policy index ranking of 47. The return was 5.5% vs. 5.3%. In regards to the individual managers in the US Equity composite, Twin Capital was behind the benchmark for the year; 28.9% vs. 31.4%; however they were still in the 48th ranking meaning they outperformed more than half of the managers that operate in the similar space. In the Non U.S. Equity composite, the weighted average returns for the three managers (DFA World, DFA Emerging and Vanguard International) for three months were ahead 11.4% vs. the benchmark of 8.9% and for the year 21.9% vs. 21.5%. Focusing on each manager returns DFA World; which manages non-U.S. stocks in the value space was slightly ahead of the benchmark and the DFA Emergency Markets was slightly behind their benchmark. Vanguard International was well ahead of their benchmark with a return of 14.9% vs. 9.6%. DFA World and DFA Emerging have a similar process across a number of different strategies and their holdings tend to have a lot of an overlap. The DFA World value strategy has 97% of the portfolio in common with the DFA Emerging market strategy so the Fund is doubling down on existing managers. Pat would like to propose to the Board bringing in a couple of managers to replace DFA World strategy. The managers would be a better compliment to the DFA Emerging and Vanguard Growth strategy. Pat worked with the research team and has some managers in mind that he would like to invite in to present to the Board at a future quarterly meeting. The replacement managers in mind are Schrodgers and Mondrian. Pat continued to review the returns. The Non-Traditional composite of the fund, which are the Ironsides investments have had very strong returns through September 30, 2019. The 4th quarter data is not ready yet to include in this report. Marquette continues to have a lot of confidence in Ironsides and over the next couple years, the Board should revisit this allocation and consider new commitments at the recommendation of Marquette. The fixed income returns for the quarter and year are behind the fixed income benchmark. CS McKee for the quarter was in line with the benchmark and ranked in the top third of the peer ranking. Their return for the year was 7.2% vs. the benchmark of 6.8% and ranked in the top quintile. CS McKee has continued to perform very well. CS McKee is on the watch list at this time due to organizational concerns. FNB fixed income returns unfortunately have not been as favorable. FNB was flat for the quarter and for the year about a percentage point behind their benchmark. FNB's relative rank has been in the bottom decile. Pat reached out to Chris Cwiklinski the portfolio manager with FNB who was at the August retirement board meeting to talk to the Board about performance. Basically what he talked about then continues to be a headwind, most prominently they had a belief that interest rates were going to go up and they bet on that but that worked against them because rates have continued to come down. January numbers will most likely be similar. Being that CS McKee is on the watch list and there are concerns with FNB's performance at this time Marquette's recommendation is not to give either of them any more money. Marquette's recommendation for fixed income is to look for a 3rd fixed income manager and source the money from Chartwell which would then be replaced. Lisa Kozorosky questioned Pat what is the recommendation on the time period of leaving someone on the watch list. Pat advised typically it is twelve months but could be shortened to nine months. The key is to make sure that everything CS McKee told the Board in December would happen did happen. Ed Cernic feels that at this time the Board just continues to watch CS McKee and FNB's performance and to review again at the May meeting. At the May meeting, Marquette will then bring in two managers for the International value and revisit the discussion on fixed income. Pat then reviewed the brief memo on Emerald in regards to their watch list status. Marquette recommended to the Board in July of 2018 that Emerald be put on the watch list due to a firm ownership change. Marquette is now recommending that they be removed from watch as they are in compliance status. No changes resulted in the firm ownership change and the investment team has consistently adhered to their stated investment philosophy and process.

- Motion was made by Ed Cernic to remove Emerald from the watch list. Motion was seconded by William Smith. Motion carried. Vote unanimous 5-0.
- Motion was made by Lisa Kozorosky to accept the Emerald and Marquette reports. Motion was seconded by William Smith. Motion carried. Vote unanimous 5-0.

New Business:

1. Ed informed the Board about the upcoming PAPERS Form – May 19-20, 2020 in Harrisburg. If anyone is interested in attending, they can let Dana know and she can get them the information. Ed advised the Board that Dana Descavish was appointed to the PAPERS Education Committee.

2. 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 February retirees: Nancy Kuzemchak, Ann Marie Fisanik, Trudy O'Hara, Carol Paul and Annette Farabaugh. Motion was seconded by William Smith. Motion carried. Vote unanimous 5-0.
3. Ed informed the Board that the number of Laurel Crest employees that still have not activated their pension after the sale of Laurel Crest is down to twenty four and the Detention employees is down to three. These previous employees are entitled to activate their pension at any time.

The next Retirement Board meeting will be held on Thursday, March 19, 2020 immediately following the 10:00 a.m. Commissioner's meeting in the Jury room.

Motion was made to adjourn the meeting by William Smith. Meeting adjourned at 11:13 a.m.


Ed Cernic, Jr.