

Retirement Board Meeting
June 18, 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 10:01 a.m.

Motion was made by Lisa Kozorosky to approve the minutes from the Retirement Board meeting held on May 7, 2020. Motion was seconded by Scott Hunt. Motion carried. Vote unanimous 5-0.

Ed Cernic reviewed the retirement summary. There are currently 1,126 retirees as of June 17, 2020. May's retirement payroll was \$1,223,194.13. 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, June 16, 2020 the market value of the fund was \$206,316,527.37. All funds are within the 3% threshold with the exception of C.S. McKee. C.S. McKee will be processing the monthly transfer of \$800,000.00 to cover benefits payments. 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. It has been a challenging economic environment due to the pandemic. In the first quarter there was a contraction with a decline in GDP by 4.8%. That was clearly a result of consumer spending because of the orders to lock down and shelter in place. This has been the biggest decline in consumer spending since the 1980s. As we look ahead for the 2nd quarter, the economists are expecting a staggering 25-30% contraction again due to consumer spending, which will be historic. For the third and fourth quarter, economists are projecting a sizable rebound. Projections from various larger banks show an incredibly wide range of what can unfold during the second half of the year amid a myriad of unknown. The actions (both fiscal and monetary) implemented by policymakers in an attempt to offset the economic downturn have been stunning in scope and scale compared to what previously has happened during financial crisis's. Policymakers are attempting to replace lost income for both consumers and employers, providing a bridge until normalcy returns. Pat then reviewed the asset class performance returns during the quarter with the Board. The US Equities (-20.9%) outperformed international (-24.0%) and emerging market equities (-23.6%). As is typical amid a period of capital markets turmoil, the US dollar strengthened during the quarter, detracting from the first quarter international equity returns by more than three percentage points. US Bonds vs. the High Yield Bonds was a similar story. US Bonds, which are higher quality bonds, outperformed high yield bonds which are riskier by more than five percentage points and outperformed International Bonds by more than eleven percentage points. Within the US equity market the big dynamic was the outperformance of growth stocks relative to value stocks. Pat Wing reviewed the first quarter observations. The market value as of March 31, 2020 was \$183m which is now back up to \$206m as stated earlier. First quarter returns were -11.9% (net) vs. the policy index of -13.6%, which still ranked the Fund in the top 17% among public funds for the quarter. The positive attributions for the quarter were outperformance by active small cap US equity managers; Emerald and Kayne Anderson, outperformance by most active fixed income managers, private market investments such as Ironsides Funds outperforming public markets and the intra-quarter rebalancing the Board did. The negative attributions were the underperformance by the two DFA funds in the international space. One of those funds was terminated in April. Also contributing to the negative was underperformance by C.S. McKee. Looking ahead Marquette will invite managers in to make presentations to seek a long term solution for the funds moved from DFA into the Vanguard Index fund. Managers were going to be invited to this meeting; however with COVID-19 plans will be to have them attend at the November meeting. Also, Pat will present later information on another Ironsides Opportunities Fund. Pat provided a summary of cash flows to the Board for the first quarter and advised that the Fund's asset allocation vs. the target allocation is within range across all Funds. Pat reviewed market returns with the Board for each Fund. The total equity composite return was decently ahead of policy -20.8 vs. -23.0. Kayne Anderson and Emerald outperformed their respective benchmarks. Kayne Anderson while down -21.5 % outperformed the benchmark of -35.3% offering the downside protection which is what Kayne Anderson focuses on. The Non-US Equity composite return was -24% vs. -23.4%. The two DFA funds underperformed as mentioned earlier and the DFA World was terminated. The Non-Traditional Composite comprised of the Ironside Funds; the Ironside Co-Investment which is a private equity fund returned -5.1% but outperformed the benchmark by 15%; the Ironsides Opportunities Fund was down -1.9% well ahead of the benchmark of 13.2%, and the most recent Ironsides Direct Investment Fund was down -3.0% but again well ahead of the benchmark of -20.3%. The fixed income composite returns were 1.1% vs. the benchmark of 1.0%. C.S. McKee was 0.2% vs. 2.4% and FNB was ahead 2.7% vs. 2.4%. Pat then gave a performance update of the Fund through May 31, 2020. The total Fund composite return was 11.1% vs. the benchmark of 10.9%.

Sam Gerber, Director of Business Development from Twin Capital introduced himself to the Board. A milestone to note for Twin is that Twin celebrated its 30th Anniversary this year on April 16th. Sam provided a product and client asset snapshot. Twin has a total of over \$1 billion of assets under management. In addition to those assets under management, there is \$240m of assets under advisement which allows financial advisors who Twin works with to use Twin's strategy. Cambria uses the Enhanced and Prime strategy with Twin which has \$85m AUM. Currently Twin provides service to fifty one clients, with Public Funds representing the largest segment of their client base. Twin has also created two new strategies - Tax-Managed Large Cap and Tax-Managed Tech Plus. These were recently created for a local family office. Geoffrey Gerber, President and Chief Investment Officer presented to the Board. Cambria County invested in Twin's Enhanced Index strategies (Enhanced Equity and Prime) which give a portfolio that is market like but over the long term outperforms the market and protects in the down-market. Cambria made their initial investment with Twin of \$5m in December of 2014, an additional contribution of \$3.5m in November 2016, and additional contribution of \$3m in 2016, rebalancing was done in September (2017) and February (2018) with outflow of \$1.8m, making the total net flows \$9.7m and the current value of the Fund now is \$15,292,323.00. From inception, the Fund has generated (net of fees) an annualized return of 8.7%. After outperforming the market by 1.7% annualized (gross of fees) during the first period, the fund has underperformed by 1.8% annualized during the second period. The Enhanced index strategies have reduced risk to the market in both periods. The domination of growth over value has been extreme. The domination of large cap stocks over small cap stocks has been really extreme. To put it into perspective, over the 41-months between January 2017 and May 2020, the Russell 1000 Growth index is up 19.6% annualized while the Russell 1000 Value index is only up 3.2% annualized. It is basically a 16.4% differential between growth and value. The differential is the largest ever in any 41-month period; the next largest 41-month advantage for Growth over Value was 16.1% annualized during the period April 1997 through August 2000. The last time growth took its turn was 20 years ago. That is one thing that has hurt us; the same thing that has hurt us is the five largest stocks. Between January 2017 and May 2020, the largest 50 stocks in the S&P 500 are up 14.0% annualized, beating the S&P by 3.4% annualized. Domination of mega-cap returns have led to the lowest measure of breadth for the S&P 500 since 2000. The five largest stocks (Microsoft, Apple, Amazon, Google, and Facebook) in the market now represent 20% of the index with their weight almost doubling over this period. Having a slight bias towards Value along with a very narrow market led by mega-cap stocks have made for a difficult environment for the Enhanced Equity and Prime strategies. This year not only has been the fastest bear market but it has also been the best 50 day return ever. Twin focuses on winning with less risk using a tight tracking error. Geoffrey reminded us that when Cambria hired Twin, Twin said they can't win all the time but when they lose they keep it very close (1-2%); protecting on the downside. The Prime strategy (gross of fees) has historically captured 103% of the market's upside return and 96% of the downside return. The Prime portfolio is positioned 46% to Value and 54% to Growth. Going forward we expect Value to outperform Growth.

Pat Wing presented to the Board a rebalancing recommendation for the Board to consider. Pat recommends rebalancing to correct the overweight to Equities and the underweight to Fixed Income. Ed Cernic wanted to clarify what this change would be affecting. Pat advised you would be decreasing the growth exposure and increasing your value exposure.

- Motion was made by Ed Cernic upon the recommendation of Marquette Associates to rebalance the portfolio and move \$1m from Vanguard Growth and \$1m from Vanguard International to the FNB Fixed Income account. Motion was seconded by Scott Hunt. Motion carried. Vote unanimous 5-0.

Pat Wing then presented to the Board an investment opportunity into the Ironsides Opportunities Annex Fund. Constitutional Capital Partners is raising monies for the Annex Fund to take advantage of the current dislocation in the credit markets. Pat Wing recommends Cambria making a \$3m commitment to Ironsides Opportunities Fund Annex. The money would be funded over time via capital calls.

- Motion was made by Ed Cernic to allocate \$3m for a future investment into a new fund with Constitution Capital Partners. The fund is the Ironsides Opportunities Fund Annex. This fund will take advantage of the current dislocation in the credit markets. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 5-0.

New Business:

1. Ed informed the Board that the 21st edition of the Retirement Fund Booklet was published. Each Board member received a copy prior to the meeting.
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 June retirees: Regina Miller, Debra Webb and Hannah Schlosser. Motion was seconded by William Smith. Motion carried. Vote unanimous 5-0

The next Retirement Board meeting will be held on Thursday, July 23, 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 11:22 a.m.


Ed Cernic, Jr.