

Retirement Board Meeting  
November 10, 2020

Present:	Commissioner	Thomas Chernisky William Smith Scott Hunt
	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 Scott Hunt to approve the minutes from the Retirement Board meeting held on October 22, 2020. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 4-0.

Ed Cernic reviewed the retirement summary. There are currently 1,129 retirees as of November 3, 2020. October's retirement payroll was \$1,246,658. November hospitalization administration fees for retirees totaled \$247,096 which is paid from the general fund. Motion was made by Scott Hunt to approve the retirement summary. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 4-0.

Tom Chernisky arrived at 10:02 a.m.

Dennis Hunt, AmeriServ provided a report to the Board. The market value as of November 6, 2020 was \$223,335,253. There are pending trades for Emerald and CS McKee that will bring their percentage below 3%. Motion was made by Ed Cernic to accept the report. Motion was seconded by Tom Chernisky. Motion carried. Vote unanimous 5-0.

Michael Shone, Marquette Associates, provided an update to the Board. Year to date the fund's return is 5.6%, which Michael noted was in the top 5% in the national database of public funds. The Fund has done so well for three reasons - the growth tilt was good, changes made in the small cap value manager engaging Kayne Anderson and the private equity market has been doing really well. Today, Marquette invited two International Value equity managers, Mondrian and Schroders, to present to the Board.

Mike Daly, Vice President of Mondrian presented to the Board. Mondrian has \$50 billion dollars of assets under management and is an international and emerging market specialist. Mondrian was founded in 1990 and the portfolio which we will present today was developed in 1991. The head of the team Liz Desmond has overseen this portfolio since 1991. The firm is 100% owned by its employees and is widely diversified throughout. Mondrian is based in London and has an office outside of Philadelphia. Mondrian Investment Partners is a value-oriented defensive manager. Mondrian invests in stocks where rigorous dividend discount analyst isolates value in terms of the long-term flow of dividends. Dividend yield and future real growth play a central role in the decision making process and over time the dividend component is expected to be a meaningful portion of expected total return. The three goals of Mondrian's approach are providing a rate of return meaningfully greater than the client's domestic rate of inflation; seek to preserve capital during protracted global market declines and to do this with less volatility. Mondrian's team spends a month doing a scenario analysis on the companies to identify the best opportunities. They look at the current company and what their base case is for its price, their best case and their worst case and to preserve capital and do it with less risk. Mondrian makes sure the worst case is very close to the best case. So all the risk is in the upside and that is how they build their portfolios. Mike reviewed the defensive characteristics of the portfolio. Since 1991, the portfolio for 74 quarters has been in the bull market and 42 quarters in the bear market. The market at the end of September 30, 2020 was up 27.8% and this portfolio was at 25.4% keeping up with the strong markets. The key is when the market falls, the portfolio falls much less. When the market fell to 25.6%, the portfolio fell much less down 18.4%. That equals great long term results that match Mondrian's goals. Ed Cernic asked how many PA counties Mondrian is currently with. There are currently no PA counties at this time; Mondrian has had a lot of discussion with the State and works with a lot of local universities and with the Hershey Trust. Ed Cernic asked if Mondrian had any sanctions or disciplinary actions with the company. Mondrian has not had any.

Vivian Quaye, Director, Relationship Management from Schroders introduced herself to the Board. Her main focus is to build partnership with clients and expansion which includes client review meetings, webinars, symposiums, etc. Vivian introduced Marina Severinovsky, Investment Director for the QEP Investment Team. Marina's role is representing their strategies to clients and prospective clients. Schroder's is a global firm with a 215 year history. The firm has \$21.4 billion of assets under management; this includes over \$63 billion of PA Municipal clients. Schroder's are supporters of PAPERS and appreciated the comprehensive approach to Pension 101 during yesterday's virtual forum. Marina Severinovsky presented to the Board the keys to the international value strategy which are consistency, breadth of opportunity and innovation. The Team Head and Lead Portfolio manager, Justin Abercrombie founded the business in 1999 and is still with Schroder's as well as the Head of Strategy David Phillips. Schroder's core philosophy is around Value and Quality. Over a rolling three year period, 90% of the time clients have received outperformance net of fees. Marina briefly explained Schroder's investment process. Schroders defines the investable universe of 12,000 stocks to maximize the opportunity. For the stock selection they review the value and quality and then construct the portfolio. A



decision tree is then used to trade off the Value/Quality characteristics. The stocks are then scaled by conviction; higher stock weights in higher conviction stocks and positions scaled down for more risky uncertain high risk/reward stocks. Historically, the International Value strategy with Schroders has a proven track record of consistent performance and is highly complementary to other managers. Ed Cernic asked how many counties in PA use Schroders. Currently, there are 10 counties in PA that use this strategy. The fee for this strategy is 55 bps which is based on the preferred partners' management fee structure.

The Board discussed both presentations. Michael Shone pointed out the pros and cons of both Mondrian and Schroder's. Schroder's has a heavy presence in emerging markets while Mondrian has less and is more concentrated. Schroders has a strong long term performance because of their presence in the emerging markets. The fees for Mondrian are 74 bps. Both of these firms are recommended by Marquette Associates. Ed Cernic is recommending that the Board divest DFA because they have not lived up to expectations and to invest in both Mondrian and Schroder's. He then asked Michael Shone his opinion on that recommendation. Michael Shone agrees with that recommendation.

- Motion was made by Ed Cernic to rebalance at the recommendation of Marquette \$7.2m from FNB to CS McKee and \$1.6m from DFA to CS McKee. Motion was seconded by Scott Hunt. Motion carried. Vote unanimous 5-0.
- Motion was made by Ed Cernic to liquidate Vanguard Total International Index Fund and DFA Emerging Markets fund; invest \$5.5m with Mondrian International Value Equity Fund and \$5.5m with Schroder International Multi-Cap Equity Trust. Motion was seconded by Scott Hunt. Motion carried. Vote unanimous 5-0.

Old Business:

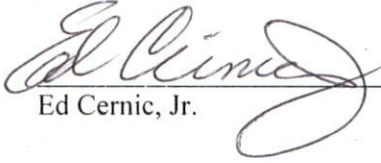
1. Motion was made by Ed Cernic to approve the CBIZ proposal for the Experience Study beginning January 1, 2021 at the negotiated fee of \$10,000.00. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 5-0.

New Business:

1. The Board discussed the interest credit on member's contributions. The current interest is 4.75%. Motion by Ed Cernic to keep the interest credit at 4.75%. Motion was seconded by Tom Chernisky. Motion carried. Vote unanimous 5-0.
2. Motion was made by Ed Cernic to not approve a COLA increase for 2021. Motion was seconded by Scott Hunt. Motion carried. Vote unanimous 5-0.
3. Ed advised the Board members that Dana will start coordinating the 2021 Retirement Board Meeting Schedule.
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 November retirees: Michelle Moran, Karen Hesson, Susan Nagy and Nancy Zur. Motion was seconded by Scott Hunt. Motion carried. Vote unanimous 5-0.

The next Retirement Board meeting will be held on December 17, 2020 immediately following the 10:00 a.m. Commissioner's meeting in the Jury room.

Motion was made to adjourn the meeting by Ed Cernic. Meeting adjourned at 11:06 a.m.

  
Ed Cernic, Jr.