

Retirement Board Meeting
May 3, 2022

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 10:00a.m.

Motion was made by Lisa Kozorosky to approve the minutes from the Retirement Board meeting held on April 7, 2022. Motion was seconded by Scott Hunt. Motion carried. Vote unanimous 5-0.

Public Comments: None

Ed Cernic reviewed the retirement summary. There have been ten new retirees since March 1, 2022 and there are currently 1,140 retirees as of April 29, 2022. There was a correction to Rhonda Wolfe's retirement date; instead of April 30, 2022 her retirement date is now May 3, 2022. April's retirement payroll was \$1,310,144.64. Motion was made by Lisa Kozorosky to accept the retirement summary report. Motion was seconded by Scott Hunt. Motion carried. Vote unanimous 5-0.

Sean Rigby from AmeriServ attended the meeting. Sean advised the Board as of the close of business on Friday, April 29, 2022 the value of the Fund was \$234,932,630.28. Ed Cernic questioned Pat Wing why Emerald and KAR would have a cash balance of over 3%. Pat Wing explained that was mostly due to the small cap market volatility and timing. Motion was made by Ed Cernic to accept the AmeriServ report. Motion was seconded by Scott Hunt. Motion carried. Vote unanimous 5-0.

Pat Wing, Marquette Associates, gave an overview of the market environment. Economic activity decelerated sharply in Q1, with economists forecasting real GDP growth of 1.4%. Net exports and a slowdown in private inventory investments shaved 4 percentage points off the Q4 number of 6.9%; absent those two the economic growth would have been about 2.5%. Economic growth is expected to remain steady for the rest of 2022 but there are a lot of concerns including the Russian invasion of Ukraine, the "zero COVID" policy in China, and rising inflation. The Fed is trying to bring the inflation down by raising the interest rates about a quarter percentage point in March and it is likely short term interest rates will be raised in June again at a minimum of half percentage point. Short time interest rates are going to rise rather notably this year. The global economy is showing consumer confidence in Europe has declined over the past couple months and the economic activity in China has also declined. From a market perspective, markets were under decent pressure, US, International and Emerging markets were down in excess of 5%; U S bonds were also down 6%. On a positive note, Real Estate was up more than 7% during the quarter. The Fund has a 5% allocation to real estate. The market value as of March 31, 2022 was \$248.6 million. The portfolio returned -4.3%(net) vs. the policy index of -3.9%. The portfolio loss was \$11.1 million. Ironsides returns are not available and once they are they will narrow the gap of return vs. index. The positive attributes for the quarter were outperformance by Emerald and outperformance by all fixed income, particularly FNB. The negative attributions for the quarter were underperformance by Kayne Anderson, Mondrian and Vanguard within Non-U.S. equities. The Fund for the quarter is ranked 26, the top 26% percent. The asset allocation has worked quite well for the Fund despite the short term underperformance. Pat reviewed the performance summary. U.S. Equity composite returned -5.8%(net) vs. -5.3%. Twin Capital was ahead of the benchmark because value outperformed and they are value tilted. Both Vanguard Value and Vanguard Growth were in line with the benchmark. Kayne Anderson was behind the benchmark by 11.5 percentage points. A lot of the underperformance was due to energy underweight and stock selection. Since Kayne Anderson has been in the Fund they are still ahead of the game. Emerald was ahead of the benchmark. The net returns for Non-U.S. equities were -8.3% vs. the benchmark of -5.4%. There was underperformance in Vanguard International Growth due to Chinese tech stocks coming under pressure. The net returns for Real Estate were 7.3% vs. 7.2%. Principal had a strong absolute return. The Fixed Income return was -3.9% vs. -4.2% with FNB outperforming due their conservative environment. The Ironsides investment returns will be available at a later time. The total commitment to the five (5) Ironsides Funds was \$33 million of which \$32,567,885.00 has been contributed. The cumulative distributions and valuation total is \$53 million. Ironsides continues to do a very well for the Fund.

Pat advised today we have two managers to present fixed income. In February, the Board approved moving away from Chartwell and hiring another fixed income manager more similar to FNB and CS McKee. The two managers are Federated and Baird. Baird is a firm out of Milwaukee and their investment vehicle would be a mutual fund. Federated is out of Pittsburgh and their proposing a separately managed account.

Jeffrey Simmons, Managing Director from Baird presented to the Board. He provided a brief overview of Baird. Baird is privately held and owned by its employees and answers to clients. The firm was founded in 1919 and is located in Milwaukee. The Fortune 100 magazine ranked them over the last 19 years one of the top 100 places to work and Co-CIO Mary Ellen Stanek, won the Morningstar Outstanding Portfolio Manager Award in 2022. Baird Asset Management was named 1 of 3 nominees for the 2022 Morningstar Exemplary Stewardship Award. Baird Advisors is the institutional fixed income management team within Baird. Baird currently has \$123.7 billion assets under management of core fixed income with seasoned investment professionals working together

for over 30 years. Baird is in the process of purchasing Hefren-Tillotson (Pittsburgh) making their presence more prominent in this area. Hefren-Tilloston is an asset management firm with \$15 billion assets under management. The advantages that Baird has to offer is risk-controlled discipline delivering over 30 years of competitive returns, consistency of returns versus peers, strategically sized, emphasizing bottom-up (focusing on security selection) versus top-down approach, and all cash bonds, all U.S. dollar-denominated, no derivatives, or leverage. The Baird Intermediate Bond Fund returns for the quarter were -4.72% vs. -4.51% and one year -4.32% vs -4.10% net of fees. Since inception the return was 4.29% vs. 3.88%. Baird plays the long game and focuses on consistency. Baird uses a two-step process; step one matching the benchmark and eliminate the probably of underperforming the benchmark. The biggest component of that is running a duration neutral portfolio which means not outguessing the direction of interest rates. Step two is to add incremental value through bottom-up, risk controlled process. The most important factor is security selection; picking better bonds to put in the portfolio. The portfolio is very high quality and conservatively run; everything at the time of purchase must be investment grade. The fund is also very well diversified. In closing, the fee for this investment is 30bps with a \$10,000,000.00 minimum.

Dan Berry, Institutional Sales Representative and Jerry Conner, Senior Portfolio Manager presented to Board. Dan provided a brief firm overview. Federated was founded in 1955 and maintains three separate facilities in PA. Federated manages \$44 billion for Pa-domiciled clients and owns \$800 million in Federated Hermes bond portfolios. Federated manages assets across all 50 states at the state, county and local levels; approximately 40% of assets under management are in the public sector. Federated is a member of CCAP and PAPERS. The proposed asset management team would be Robert Ostrowski, CIO who has 35 years of experience, Jerry Conner, Senior Portfolio manager, with 26 years of experience and Robert Matthew, Senior Investment Analyst with 13 years of experience. Jerry presented to the Board on the insight of the investment process and philosophy. Federated combines top-down decision making with bottom-up security selection to extract alpha from multiple sources over time. Federated active investment style is focused around four independent sources of alpha. Committees meet once a month to make top down macro decisions that affect all the fixed income portfolios at Federated. It is a very team based approach to get better points of view and better decisions. This also eliminates key portfolio manager risk. The key decisions looked at are duration management, sector allocation, yield curve analysis, and security selection. Duration management basically is evaluating the interest rate sensitivity of the fixed income portfolio. Sector allocation is looking at the relative value opportunities between the various fixed income markets. In terms of yield curve analysis, there are different maturities across the yield curve and the goal is to try to find the most attractive terms. Finally, security selection making the decision which bonds has the best value in them. Quantifiable risk budget is assigned to each decision tool which serves to mitigate downside risk in addition to parameters imposed to ensure diversification. A balanced and diversified approach has led to a consistent return pattern overt the long term; greater returns with less volatility. The 5 year return was 2.41% vs. 1.81%. Federated goal is to provide good quality risk adjustment returns and to do that on a consistent basis. The fee for this investment is 25 bps on the first \$50 million.

Pat Wing reviewed the portfolio rebalancing with the Board.

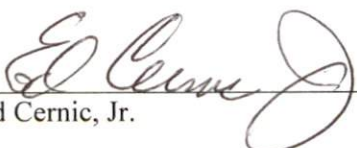
- Motion was made by Ed Cernic to rebalance the portfolio as presented by Marquette, liquidate Chartwell and fund Baird \$10,026,865.00. Motion was seconded by Scott Hunt. Motion carried. Vote unanimous 5-0.

New Business:

1. 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 retirees: William Patterson, Gary Sanders, Daniel Link, Brian Swanson, Denise Alexander and Rhonda Wolfe. Motion was seconded by Scott Hunt. Motion carried. Vote unanimous 5-0.
2. Ed informed the Board that a Pension accounting system is needed with the new County accounting system. The new accounting system Munis does not track employees' contributions. Ed, Kris and Dana have been researching pension systems to see what would be the best fit. Pension Technology Group (PTG) provided a demo on April 21st. PensionGold will be doing a demo May 11th. We will give the Board an update at a future meeting.

The next Retirement Board meeting will be held on Thursday, June 30, 2022 at 10:00 a.m. in the Jury room.

Motion was made to adjourn the meeting by Lisa Kozorosky. Meeting adjourned at 11:36 a.m.


Ed Cernic, Jr.