

Minutes of the Lehigh County Retirement Board Meeting

Lehigh County Government Center Public Hearing Room

Thursday, August 6, 2015

9:30 A.M.

A meeting of the Lehigh County Employees' Retirement Board was held at 9:30 A.M. in the Public Hearing Room of the Lehigh County Government Center. Members present were David Bausch, Glenn Eckhart, Vic Mazziotti, Daniel McCarthy, Thomas Muller, Brad Osborne, and Tim Reeves.

Skip Cowan, Chris Lakatosh and Kevin Karpuk from Cornerstone also attended.

Thomas Muller, County Executive, called the meeting to order at 9:30 A.M.

OLD BUSINESS

Thomas Muller asked if there were any questions or corrections to the May 7, 2015 meeting minutes.

Tim Reeves stated there was a correction on page two, third paragraph – the minutes stated the market ending value for the first quarter was \$466,000,792,563. The correct balance should be \$466,792,563.

Thomas Muller called for a motion for acceptance of the minutes.

Vic Mazziotti made a motion to accept the May 7, 2015 Retirement Board minutes.

Tim Reeves seconded the motion.

Thomas Muller called for a voice vote. All were in favor.

Minutes were approved unanimously.

Brad Osborne and Vic Mazziotti abstained from voting on the minutes as they were not present at the May 7, 2015 meeting.

NEW BUSINESS

Thomas Muller congratulated Tim Reeves on his sweeping victory of being re-elected as the Employee Representative on the Retirement Board.

Tom Cunningham

I'd like to have the entire election voided. I think this Board did something terrible to the retirees. It has been the pattern for as many years as I have known that the retirees get an absentee ballot to vote. This year for some reason they weren't. If you wanted a ballot, you had to request one. A letter was sent out for 39 cents to say the election was being held. I requested an absentee ballot that then cost the County 48 cents. I asked why this was done. They told me to save money. They didn't save any money. I talked to a number of retirees who said if they can't at least send us a ballot, why should we even care about the election? I know a lot of retirees don't live close by, also trying to get into this building is hard. I live a few minutes away. The other night for the County Commissioner meeting when I came in, I could walk here faster than I could drive here. I want to know whose decision it was to not let the retirees get absentee ballots and why the decision was made. I am very disenfranchised as a retiree.

Tim Reeves

I think HR handles all the natural election part.

Tom Cunningham

Somebody made the decision.... Who? Why?

Tim Reeves

I know our Board didn't have anything to do with the election itself.

Tom Muller

I assume it was HR.

Glenn Eckhart

Yeah... HR runs the election.

Tom Muller

Certainly the matter should have come before the Board.

Tom Cunningham

That's what I want to know. You are the authority. I know that. I sat up there where you people are sitting. Who made that decision? I'm sorry but the thing in the news today is how voters are being disenfranchised all over the place. You just did it to all the retirees. I've spoken to a number who just said well they don't care anymore. I'm sorry, I'm upset about it. I don't think it's right. Tim please I'm sorry this is nothing against you by any means whatsoever. I'm not going down that road at all. But, I'm sorry, come on people.... I figured it out.... 9 cents – how many retirees do we have? I figured out even if we have 1,200 -- \$108? I'll DONATE that much to the County if the County can't afford it.

Tom Muller

Tom, it obviously appears nobody on the Board knows exactly why or how the decision was made. I'm assuming it was HR. Let us take it under advisement and we'll decide what to do next.

Tom Cunningham

I think the Board should come up with a motion that states exactly how the election should be run, not wait. You ARE the Board. Maybe it is already in the by-laws, I don't know that for a fact. But I think a decision should be made as to how. Next year we have to vote for a retiree representative. How are we going to do that?

Glenn Eckhart

Actually in the letter that we're going to vote on, it explains the process but it doesn't go into that detail. I think what we should do for the next meeting is possibly kick around some scenarios where we would consider making a process which HR would then follow -- if everyone would agree to that.

Tom Muller called for a motion.

Glenn Eckhart made the motion that by the next meeting we look into what happened with this particular issue and if any rules need to be amended in cleaning up the process, that we present something at the next Board meeting.

Vic Mazziotti seconded the motion.

Brad Osborne commented

I don't know that the motion fully addresses the concern though because what the gentleman is referring to is the current election not future ones. Not to jump on the motion but is it comprehensive enough or would another different/additional motion be appropriate?

Glenn Eckhart

I would save that for the time the research is completed and we feel that its justified what his suggestion is. Then we would go ahead and do that. Let's do the research first and find out what is actually in effect or written down or what the policy is. Then address that issue after we're aware of it. I'm not aware of the actual procedure of holding elections. There is nothing written down that I have seen in any of my reading.

Brad Osborne

The intent of the motion is to look into the matter to address what the concern today is and not bypass that.

Tom Muller called for a voice vote. All in favor.

Motion passed unanimously.

Skip Cowan from Cornerstone gave the second quarter review.

Markets are extraordinarily flat year-to-date. The market is fatigued. We're not losing money but we're not making a lot of money as we sit half-way through this year. Through the last five years we're beating all of our benchmarks. It has been a very productive time for the portfolio except for this last six months which have not been bad, they've just been particularly productive. It was not a particularly good second quarter. Luckily we had a very nice first quarter so we continue to be above benchmark. We had a little bit of under performance in the second quarter. Again, not much of an issue. We continue to carry about a 6 percent overweight in equities relative to our target, that might sound like we have more risk than our policy. The answer is we do, however, relative to what other folks are doing, we are taking a more conservative approach to the management of the funds. 2015 year-to-date performance portfolio netted fees is up about 2.82% relative to our blended benchmark of about 2.55%. So we have close to 30 basis points excess return relative to our benchmark after all fees are taken into account. That's the good news. The bad news is right now we're struggling to get to our actuarial assumption. This market is really going to have to get a little bit better in the next several months for us to achieve our actuarial assumption of 7.5%. That might be difficult to do in light of a Federal Reserve that's trying to raise

interest rates possibly in September. We'll get through our initial rate increases -- the sky is not going to fall -- the markets will become more comfortable and I think we can have a strong fourth quarter. As we sit today, 2016 forecasts look relatively positive. The take-away is -- the market is very benign, our portfolio is up about 3% well above our blended benchmark and we're positioned very well if this market should retreat in the short term.

Glenn Eckhart discussed the Determination Letter that was going to be voted on at this meeting. Every five (5) years, the IRS issues us this Determination Letter to make sure we're tax exempt. We have to give them all the required federal and state laws. This letter shows how the Board works and gives the background of what the Board does and the system. We're going to hire The Hay Group to do this letter. They are currently our actuarial. It will be about \$3,500 coming out of the pension system. Then we have to pay the IRS \$2,500 to file. So we're basically asking for \$6,000 out of the pension system to do something that we have to do to comply with the law.

Tim Reeves – The best way I can describe a Determination Letter is it's like a building permit. You have to go to them and ask their permission to do what you're going to do. It's a requirement and it saves a whole lot of hassle later on. It's a necessary thing that has to be done.

Glenn Eckhart – The Hay Group did the letter last time and I prefer having their professional do it than us trying to struggle to make sure we have everything right.

Tom Muller called for a motion.

Glenn Eckhart made the motion that we provide \$6,000 from the retirement fund to pay for these fees. Tim Reeves seconded the motion.

Tom Muller called for a voice vote. All in favor.

Motion passed unanimously.

There was no more business or citizen's input.

Tom Muller called for a motion to adjourn the meeting.

Glenn Eckhart made the motion to adjourn.
Brad Osborne seconded the motion.

Tom Muller called for a voice vote. All in favor.

Meeting adjourned at 9:53 A.M.



Glenn Eckhart, Secretary

Lehigh County Employees' Retirement Plan Monthly Flash Report

	<i>Monthly Return July-2015</i>	<i>Market Value Beginning of Period</i>	<i>Market Value End of Period</i>
Lomax	0.03%	\$25,669,565	\$25,677,072
Russell 1000 Value	0.44%		
Vanguard Institutional Index	2.10%	\$43,160,975	\$44,065,409
S&P 500	2.10%		
Philadelphia Trust	1.00%	\$49,190,151	\$49,683,329
S&P 500	2.10%		
Sustainable Growth Advisors	5.19%	\$27,188,396	\$28,599,233
Russell 1000 Growth	3.39%		
Vanguard SCV Index	-1.04%	\$19,778,748	\$19,572,640
Russell 2000 Value	-2.76%		
Emerald	2.62%	\$9,475,748	\$9,723,646
Russell Mid-Cap Growth	1.62%		
Emerald Advisors	2.51%	\$11,372,633	\$11,657,747
Russell 2000 Growth	0.41%		
American Funds EuroPac	0.12%	\$24,943,137	\$24,972,849
MSCI EAFE	2.08%		
Vanguard Developed Mkt Idx I	1.25%	\$24,617,199	\$24,925,637
MSCI EAFE	2.08%		
CSMcKee	0.55%	\$58,132,654	\$58,449,661
Barclays Capital Aggregate	0.70%		
Agincourt	0.59%	\$53,722,215	\$54,041,078
Barclays Capital Aggregate	0.70%		
CBRE Clarion	6.48%	\$11,214,098	\$11,941,296
Dow Jones US Total Market REIT Index	4.82%		
Liquid Alternatives	-1.91%	\$54,979,738	\$54,057,364
Blended Alternatives Benchmark	-1.49%		
Vanguard ST Investment Grade	0.19%	\$9,891,001	\$9,907,389
Barclays US Corp 1-3 YR	0.07%		
Cash Account	0.00%	\$8,838,572	\$7,123,726
30 Day MM Yield	0.00%		
Weighted	Portfolio	\$432,174,829	\$434,398,076
Rate of Return	Index		
	0.91%		
	0.96%		

Assets Not Valued Daily

	<i>Market Value Beginning of Period</i>	<i>Market Value End of Period</i>
Mondrian Intl	\$25,978,425	\$25,168,814

Grand Total \$458,153,253 \$459,566,889

2015 YTD Performance

Portfolio	3.02%
Net Portfolio	2.82%
Index	2.55%

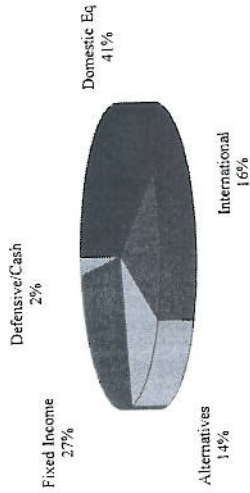
The values on this report are collected from electronic interfaces and released before an audit function can occur. These values are not final. Differences may include, but are not limited to, pending trades, accruals, mispricing, or custodian error.

**Lehigh County Employees' Retirement System
Manager Performance Summary**

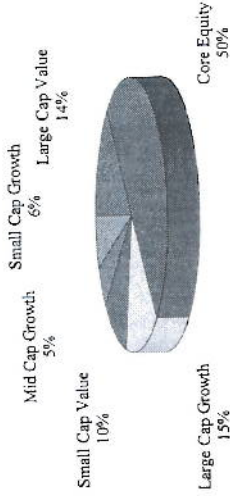
	<i>Quarterly Return 2nd Quarter 2015</i>	<i>Market Value Beginning of Period</i>	<i>Market Value End of Period</i>
Lomax - Large Cap Value	-0.70%	\$25,894,176	\$25,713,121
Russell 1000 Value	0.11%		
Vanguard - Core Equity	0.28%	\$43,041,567	\$43,160,975
S&P 500	0.28%		
Philadelphia Trust - Core Equity	-1.05%	\$49,730,135	\$49,208,621
S&P 500	0.28%		
SGA - Large Cap Growth	0.07%	\$27,203,027	\$27,222,106
Russell 1000 Growth	0.12%		
Vanguard - Small Cap Value	-1.33%	\$20,045,925	\$19,778,748
Russell 2000 Value	-1.20%		
Emerald - Mid Cap Growth	0.02%	\$9,475,813	\$9,478,147
Russell Mid-Cap Growth	-1.14%		
Emerald - Small Cap Growth	6.76%	\$10,652,887	\$11,373,305
Russell 2000 Growth	1.98%		
Amer Funds EuroPac - International	1.10%	\$24,670,778	\$24,943,137
MSCI ACWI Ex US	0.72%		
Mondrian - International	-0.29%	\$27,224,197	\$25,168,814
MSCI ACWI Ex US	0.72%		
Vanguard - International	1.02%	\$24,368,119	\$24,617,199
MSCI EAFE	0.62%		
CBRE Clarion - Real Estate	-10.44%	\$12,570,759	\$11,258,271
FTSE NAREIT Equity REIT	-9.06%		
Arbitrage - Alternatives	-0.61%	\$12,204,076	\$12,130,056
CS:Risk Arb	1.70%		
Nuveen Preferred Secs - Alternatives	-0.21%	\$12,448,391	\$12,422,950
S&P Preferred Stock	-0.84%		
CS Commodity - Alternatives	4.07%	\$11,051,980	\$11,501,883
Dow AIG Commodity	4.65%		
Jhancock Glob Abs Return - Alternatives	-1.50%	\$12,593,094	\$12,404,308
HFRX Global Hedge Fund In	-0.78%		
MS Structured Note - Alternatives	0.23%	\$6,622,500	\$6,637,500
Structured Note Index	0.23%		
Agincourt - Fixed Income	-1.69%	\$55,105,156	\$54,174,329
Barclays Capital Aggregate	-1.68%		
CSMcKee - Fixed Income	-1.39%	\$59,325,904	\$58,501,982
Barclays Capital Aggregate	-1.68%		
Vanguard ST Inv Grade - Fixed Income	-0.07%	\$9,930,429	\$9,923,871
Barclays US Corp 1-3 Yr	0.11%		
Misc Cash - Money Market	0.01%	\$10,111,474	\$4,113,382
30 Day MM Yield	0.01%		
Cash Account - Money Market	0.01%	\$2,522,178	\$4,650,270
30 Day MM Yield	0.01%		
Weighted	Portfolio	-\$0.60%	\$466,792,563
Rate of Return	Blended Benchmark	-0.37%	\$458,382,975

Lehigh County Employees' Retirement System Equity Summary - Style & Capitalization

Current Portfolio

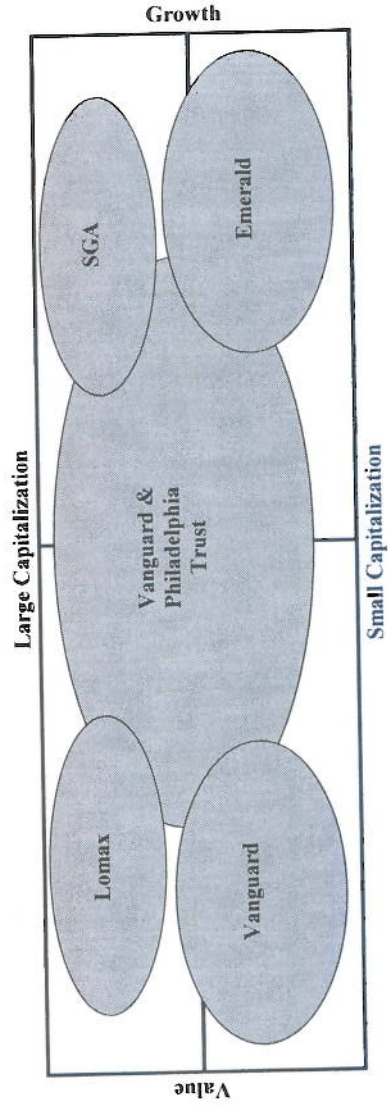


Current Equity Portfolio



	Market Value	Target	% of Portfolio	Deviation	Estimated Yield
Domestic Eq	\$185,935,023	35.0%	40.6%	5.6%	1.9%
International	\$74,729,150	15.0%	16.3%	1.3%	2.8%
Alternatives	\$66,354,969	10.0%	14.5%	4.5%	2.4%
Fixed Income	\$122,600,182	35.0%	26.7%	-8.3%	3.1%
Defensive/Cash	\$8,763,652	5.0%	1.9%	-3.1%	0.0%
Total	\$458,382,975	100.0%	100.0%	0.0%	2.4%

	Market Value	Target	% of Equity	Deviation
Large Cap Value	\$25,713,121	14.3%	13.8%	-0.5%
Core Equity	\$92,369,596	51.4%	49.7%	-1.8%
Large Cap Growth	\$27,222,106	14.3%	14.6%	0.4%
Small Cap Value	\$19,778,748	10.0%	10.6%	0.6%
Mid Cap Growth	\$9,478,147	5.0%	5.1%	0.1%
Small Cap Growth	\$11,373,305	5.0%	6.1%	1.1%
Total	\$185,935,023	100.0%	100.0%	0.0%



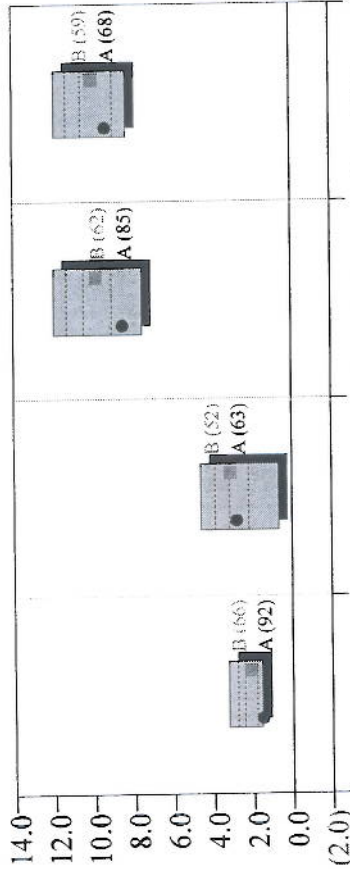
Asset Class Index Performance

	Return						Std Dev 3 Yr (Mo-End)		
	MTD	QTD	YTD	1 Yr	3 Year	5 Year		7 Year	10 Yr
Not Classified									
S&P 500 TR USD	-1.94	0.28	1.23	7.42	17.31	17.34	9.42	7.89	8.55
Russell 3000 TR USD	-1.67	0.14	1.94	7.29	17.73	17.54	9.65	8.15	8.63
NASDAQ Composite TR USD	-1.56	2.03	5.90	14.44	20.86	20.18	12.99	10.35	10.11
DJ Industrial Average TR USD	-2.06	-0.29	0.03	7.21	13.77	15.41	9.40	8.32	9.12
Russell 1000 Value TR USD	-2.00	0.11	-0.61	4.13	17.34	16.50	8.59	7.05	8.88
Russell 1000 Growth TR USD	-1.76	0.12	3.96	10.56	17.99	18.59	10.50	9.10	8.88
Russell 2000 Value TR USD	0.13	-1.20	0.76	0.78	15.50	14.81	9.31	6.87	12.28
Russell 2000 TR USD	0.75	0.42	4.75	6.49	17.81	17.08	10.44	8.40	12.50
Russell 2000 Growth TR USD	1.34	1.98	8.74	12.34	20.11	19.33	11.52	9.86	13.19
MSCI EAFE NR USD	-2.83	0.62	5.52	-4.22	11.97	9.54	1.97	5.12	10.52
MSCI ACWI Ex USA NR USD	-2.79	0.53	4.03	-5.26	9.44	7.76	1.48	5.54	10.36
MSCI EM NR USD	-2.60	0.69	2.95	-5.12	3.71	3.68	0.86	8.11	12.46
DJ Composite All REIT TR USD	-4.26	-9.16	-5.61	3.15	8.35	13.55	7.65	6.07	12.57
Bloomberg Commodity TR USD	1.73	4.66	-1.56	-23.71	-8.76	-3.91	-10.91	-2.62	11.91
BofAML ABS Master Floating Rate TR USD	-0.01	0.17	0.40	0.69	1.64	1.66	0.14	-0.63	0.71
BofAML Convertible Bonds All Qualities	-2.24	1.14	4.61	5.21	15.74	13.22	9.90	8.69	7.18
S&P Preferred Stock TR USD	-1.08	-0.84	2.10	4.89	7.14	8.69	7.93	5.07	3.90
Barclays US Treasury US TIPS TR USD	-0.97	-1.06	0.34	-1.73	-0.76	3.29	3.51	4.13	5.21
Barclays US Agg Bond TR USD	-1.09	-1.68	-0.10	1.86	1.83	3.35	4.59	4.44	2.86
Barclays US HY Interm TR USD	-1.44	0.11	2.48	-0.65	6.53	8.28	8.91	7.63	4.19
Barclays Municipal 1-10Y Blend 1-12Y TR	0.04	-0.51	0.32	1.74	2.10	3.22	4.14	3.89	2.27
Barclays Global Aggregate TR USD	-0.44	-1.18	-3.08	-7.09	-0.81	2.07	2.58	3.54	4.00

Blended Index Performance

	Return						Std Dev 3 Yr (Mo-End)		
	MTD	QTD	YTD	1 Year	3 Year	5 Year		7 Year	10 Yr
Not Classified									
100% Equity (70.30)	-2.01	0.29	2.61	3.46	15.26	14.59	7.23	7.45	8.52
80% Equity, 20% Fixed Income	-1.82	-0.11	2.11	3.21	12.51	12.42	6.97	7.07	6.87
60% Equity, 40% Fixed Income	-1.64	-0.50	1.59	2.92	9.80	10.21	6.57	6.58	5.31
Commerstone Base Case	-1.47	-0.57	1.21	1.91	8.20	8.96	5.68	5.91	4.77
40% Equity, 60% Fixed Income	-1.46	-0.89	1.05	2.60	7.11	7.96	6.04	5.97	3.92
20% Equity, 80% Fixed Income	-1.27	-1.29	0.49	2.24	4.45	5.67	5.38	5.26	2.98
Liquid Alternatives	-0.73	-1.06	-0.81	-3.27	1.74	4.16	1.75	2.67	4.00

Returns
for Periods Ended June 30, 2015
Group: CAI Public Fund - Mid (100mm-1B)



Lehigh County IPS Target Return ● A
Lehigh County ■ B

July 15, 2015

Mr. Glenn Eckhart
Secretary
Lehigh County Employees' Ret. Brd.
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Allentown, PA 18101-2400

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1650 Arch Street
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www.haygroup.com

Re: Pension Plan Determination Letter Application

Dear Retirement Board Member:

We are writing to urge you to join your fellow retirement board members from more than 50 other Pennsylvania Counties by having Hay Group prepare and submit your Retirement Plan to the U.S. Internal Revenue Service ("IRS") for an updated favorable Determination Letter. The filing deadline is January 31, 2016, but we need to start the process now.

As most of you know, in 2011 Hay Group prepared your first Plan Documents for your County Retirement Plan and submitted those documents to the IRS for your first favorable Determination Letter. After several years of battling the IRS, we obtained favorable Determination Letters for you and for all the Pennsylvania Counties for which we filed.

The time has come to update your Plan Documents and submit your Retirement Plan Document to the IRS for another favorable Determination Letter.

Obtaining an IRS favorable Determination Letter helps ensure that your Retirement Plan meets all federal and IRS requirements. This is necessary to confirm that your Plan continues to be tax-exempt and contributions to the Plan continue to provide tax-deferred retirement benefits. Additionally, having a favorable determination letter is a requirement for certain IRS correction programs, including the Retirement Board self-correcting certain insignificant errors without concern of IRS sanctions. Also, with the heightened attention on governmental plans, having an IRS favorable determination letter is of interest to auditors, insurance carriers, bond underwriters, Plan participants and taxpayers.

As some of you have heard, the IRS has been indicating that it will terminate its 5-year cycle determination letter program in 2017. This is all the more reason for you to obtain the last IRS approval for your retirement plan document. It will still be necessary for you to periodically update your retirement plan document based on changes in federal law and other changes in Pennsylvania law and decisions of your Board.

We hope and expect that the filing process this time will be easier and faster, since the County Plan Documents have been updated through the last IRS determination letter filing. We will need to update the Plan Documents for certain changes in Federal law, and this would be a good time to incorporate any Plan Amendments that your Retirement Board has adopted since we submitted your Plan Document to the IRS back in January 2011. We will be providing you, in our next email, additional information regarding the types of Retirement Board decisions that should be incorporated into your updated Plan Document.

As you know, Hay Group has compliance consultants who are attorneys who specialize in preparing retirement plan documents that are fully compliant with applicable Tax Code requirements and submitting these plans to the IRS for IRS Determination Letters. Because our staff attorneys specialize in this work, and because Hay Group serves most of the counties in Pennsylvania, we can provide these services to our County clients in a cost-effective manner. Please note that Hay Group is providing compliance support, and not legal services or opinions. We always recommend that clients consult their attorneys for legal advice.

Hay Group Fees

It is a significant undertaking to prepare all these documents and materials, but we are confident that, with your cooperation, we can do this work efficiently and at a fair and reasonable price. Our fee for all of these services (the update of your Retirement Plan Document, and the IRS determination letter application, including responding to IRS questions, negotiations with the IRS and preparing any IRS-required document amendments) is \$3,500, which usually can be paid from your pension trust. If you want or need to include other amendments, we will discuss with you what additional changes may be needed. If the IRS requires further correction of the Plan Document, we will make those corrections at no additional charge, but you will be responsible for any additional fees or charges required by the IRS. The IRS Determination Letter filing fee, which is currently \$2,500 (but could change), will be your responsibility, and must be submitted to us when you return to us the signed IRS forms.

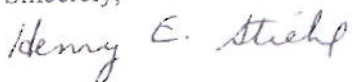
The deadline for filing for an IRS Determination Letter is January 31, 2016, but we need your prompt consent to move forward with this project in order to have everything done by the deadline.

This letter is an amendment to your general engagement letter with the Hay Group, and all other terms and conditions of that engagement letter remain valid and intact. As this project may extend beyond the term of the current engagement letter or contract, the limits of liability therein will remain in effect until this project has been resolved.

Please indicate your authorization to proceed by signing below and returning a copy by email to Joan.Glass@haygroup.com.

Please contact either of us, Hank Stiehl (215.861.2478) or David Reichert (215.861.2479), or Robert Landau (703.841.3123), if you have any questions in this regard.

Sincerely,



Henry E. Stiehl
Principal



David D. Reichert
Principal

Acknowledged and Approved (Return by email to Joan.Glass@haygroup.com)

We have included multiple signature lines for Retirement Board members, but each Board has its own rules for who is authorized to sign these types of contracts.

By: _____
County Executive