

Minutes of the Lehigh County Retirement Board Meeting

Lehigh County Government Center Public Hearing Room

Thursday, May 10, 2018

9:30 A.M.

A meeting of the Lehigh County Employees' Retirement Board was held at 9:30 A.M. in Lehigh County Government Center Public Hearing Room. Members present were Phillips Armstrong, Percy Dougherty, Glenn Eckhart, Judith Johnston, Tim Reeves and Ed Sweeney.

Marty Nothstein was not present.

Chris Lakatosh from Cornerstone Advisors Asset Management also attended.

Phillips Armstrong, Retirement Board President, called the meeting to order at 9:30 A.M.

This meeting is being taped for public record.

OLD BUSINESS

Meeting minutes for approval from February 8, 2018 meeting.

There were no questions or corrections to the February 8, 2018 meeting minutes.

A motion for approval was called.

Judy Johnston made a motion to approve.

Tim Reeves seconded the motion.

A voice vote was called.

All were in favor. 6-0 vote. Motion passed unanimously.

NEW BUSINESS

Chris Lakatosh from Cornerstone gave the 2018 1st Quarter update.

Page 1 – Portfolio Performance

First quarter performance for the county pension plan relative to the blended benchmark was strong. The plan held its market value in a down quarter. The performance was -0.92% relative to the blended benchmark of -1.03%. Since inception, the annualized performance for the plan has returned 7.5%. That return identically tracks the actuarial return assumption for the plan. Since inception, when the market is moving up, we are capturing 102% while only capturing 95% of the down market. We are outperforming in up markets, preserving wealth, and preserving the assets in a down market which is really how we construct these portfolios to perform.

Page 2 - Asset Allocation

The top left will give you an idea of our overall asset allocation. Collectively between domestic and international equities we are at about 54% which is slightly above our investment policy targets. We have about 29% in domestic fixed income, close to 15% in alternatives and just shy of 2% in cash.

Page 3 – Historical Cash Flow

On the top right of page 3 – This is the accumulative growth that you've seen in the pension plan since the inception of Cornerstone's consulting relationship. We have had about \$70 million worth of income derived from the investments in the portfolio and about \$170,000 worth of market appreciation. The total of a little bit better than \$240 million in total asset appreciation. Contributions remain consistent on an annualized basis since 2013 and you can see distributions continue to be paid to the beneficiaries.

The chart on the bottom denotes that when we started with the pension plan there was about \$360 million in it. As we sit here today, it is just north of \$500 million. We captured a good amount of appreciation in some rising markets.

Page 4 – Manager Performance

This gives you a good idea of how the manager matrix has performed and their overall weight and contribution to the portfolio.

Page 5 – Monthly Flash Report

This is more timely (April) – more year-to-date. It will give you an idea how the pension plan has performed relative to the benchmarks in 2018. Overall, it was a positive month in April. The pension plan was up about 60 basis points. The benchmark of the indexes was up 27 basis points. So for the month of April we out performed by about 33 basis points.

For the year-to-date there is still a negative number in terms of the indexes that have been down about 82 basis points. The plan has only been down about 29 basis points. So preserving capital in some volatility is, again, how we're positioned in the portfolio.

We are really pleased with exactly how the portfolio has been responding to the volatility we've seen in 2018. The total portfolio value as of the end of April 2018 is \$498,554,764.

No questions for Chris.

Catharine Roseberry, Senior Attorney, Department of Law briefly explained the lawsuits before a motion was made. The County has a number of firms that we engaged over the years to monitor the portfolio for securities issues or other violations of law to protect the share price of our holdings. Periodically they'll give us a memo that says here's an issue with Firm X, Y, Z and you want to look at it. You had holdings. We believe your losses were about "X" as a result of whatever action they did or did not take.

Historically the Pension Board for the fund has made a determination that we're not going to jump into those cases if we don't have a significant amount of holdings or a significant amount of loss. It's not worth the time and effort for us to do those kinds of things. We'll go for the ride with the class if it's a class action and get whatever comes in but we're not going to take point and be a lead or co-lead plaintiff.

The three items we have on the agenda today are three different firms brought these potential actions to our attention based on a variety of violations of law. Novo Nordisk is the oldest one. That was filed the beginning of 2017 with us requesting to be lead plaintiff. There have been some noises in the background in that case wondering how this happened to come forward which is why we want to ratify the action to

make sure there are no questions about our decision to push this case forward. Novo Nordisk is a diabetes medication. I don't know all the underpinnings for why there was a problem. That is one of those cases where it's a securities violation for lack of disclosure.

Bristol Myers-Squibb is another matter regarding test results for drugs that were not reported properly so that affected the share price when that information came out.

Ulta Beauty is a situation in which, my understanding is, Ulta was taking returned goods, repackaging them and reselling them. This is make-up. So when that came out that had a pretty significant impact on the share price because women do not like to buy used makeup.

All three firms have a significant amount of experience in these areas. They all kind of specialize in certain kinds of claims. They each identified these and brought them to us. We have the threshold holdings and losses for each of them that would support the action going forward for the fund.

Phillips Armstrong asked for questions from the Board.

Glenn Eckhart clarified that as the Board only meets every three months and this has no cost to the County or the Pension Fund. So as these cases come up in the future, we will vote on them either prior or after the situation – as we are with a couple of these – and try to move forward to keep everybody aware that we have somebody working on trying to recoup some of money for the pension fund in the future.

No questions from the Board or floor.

Phillips Armstrong moved to ratify the retention of the following three firms to file actions on behalf of the Retirement Fund:

1. Bernstein Litowitz Berger & Grossmann LLP against Novo Nordisk
2. The Rosen Law Firm against Bristol Myers-Squibb
3. Robbins Geller Rudman & Dowd LLP against Ulta Beauty

Percy Dougherty seconded the motion.

No discussion from Board or the floor.

Voice vote called.

All in favor. 6-0 vote. Motion passed unanimously.

Judy Johnston, Director, Human Resources explained the changes in the Election Policy. A while ago there was a recommendation to make some changes in the election process for the members of the Retirement Board who are elected. We ran one election and I came back to Glenn with some recommendations on some little tweaks we needed to do in order to make it more efficient:

1. Changing the timeline on the front end of dates and notification up until the point of election.
2. How absentee ballots are handled. We are just changing that **they must be returned by mail**. They cannot be emailed or faxed to Human Resources for the election.

These are minor changes but we wanted to make sure that we recognize them in the process.

Glenn Eckhart explained if the absentee ballots are returned via fax or email they would no longer be secret ballots. There is no way to make a secret ballot using fax or email. Judy and her team thought it was important so this is why we want to modify the policy we updated previously. I see no problems or challenges moving forward.

Phillips Armstrong made a motion to pass the Retirement Subcommittee Recommendations.

Tim Reeves seconded the motion.

No questions from the Board or floor.

Voice vote called.

All in favor. 6-0 vote. Motion passed unanimously.

No more motions.

No citizen/employee input.

No further business.

A motion to adjourn was called.

Glenn Eckhart made the motion.

Percy Dougherty seconded.

Meeting adjourned at 9:42 A.M.

Next Retirement Board meeting is on August 9, 2018 at 9:30 A.M. in the Public Hearing Room.



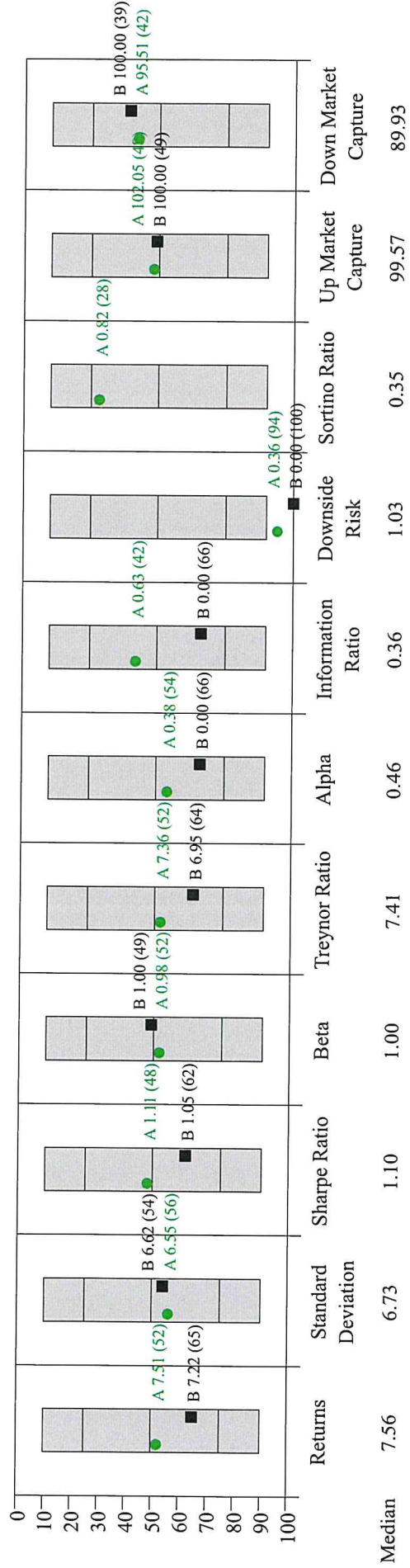
Glenn Eckhart, Secretary

Lehigh County Retirement Fund Portfolio Performance

Net Performance for 3 Months ending March 31, 2018

	Ending Weight	Returns	Beginning Market Value	Ending Market Value
Domestic Equity	36.6%	(1.12%)	\$193,066,907	\$183,183,443
International Equity	17.4%	(0.21%)	\$93,238,308	\$86,883,142
Domestic Fixed Income	29.6%	(0.49%)	\$144,699,266	\$147,955,487
Alternative	14.7%	(2.26%)	\$75,991,892	\$73,303,453
Cash & Equivalents	1.7%	0.39%	\$4,310,687	\$8,730,295
Total Portfolio	100.0%	(0.92%)	\$511,307,060	\$500,055,820
<i>Lehigh County Blended BM</i>				
		<i>(1.03%)</i>		

Statistics relative to Lehigh County Blended BM Since Inception (January 1, 2011)



Lehigh County Retirement Fund

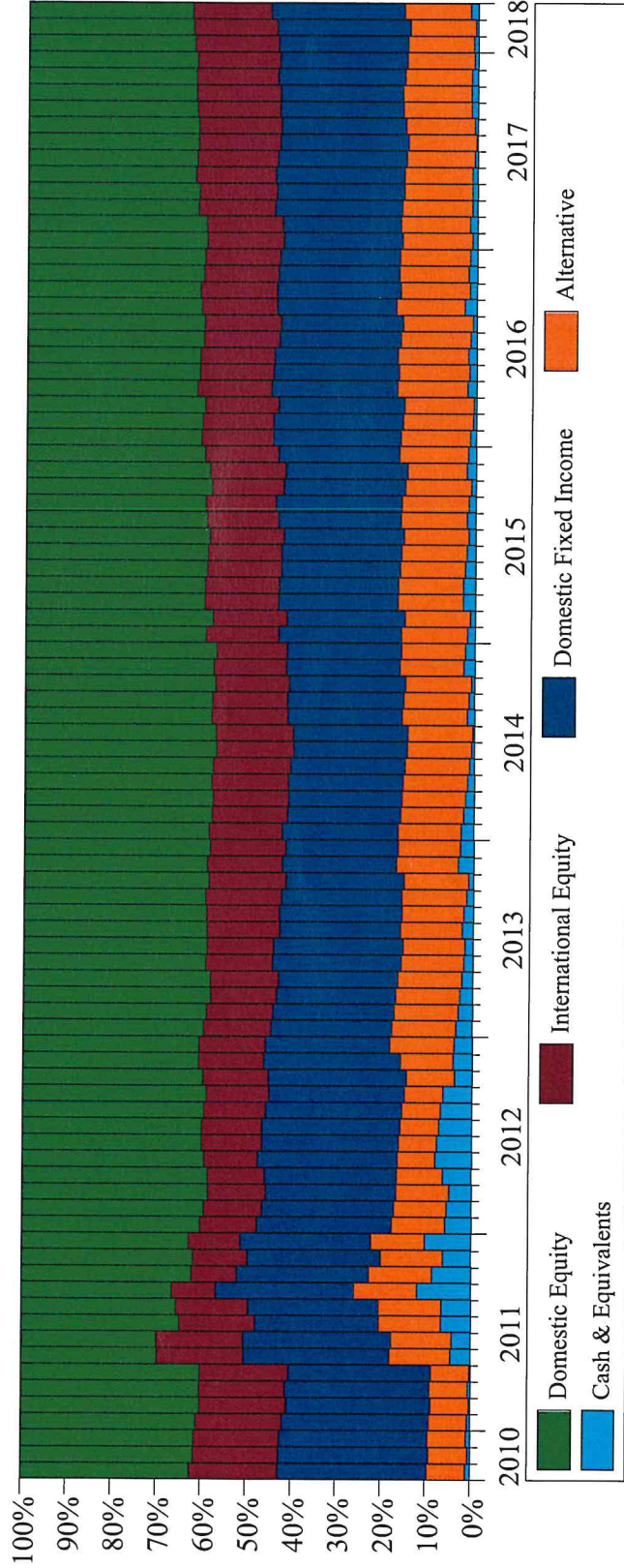
Asset Allocation

January 1, 2018 to March 31, 2018

	Beginning Weight	Ending Weight	IPS Tgt Weight	Deviation
Domestic Equity	37.8%	36.6%	35.0%	1.6%
International Equity	18.2%	17.4%	15.0%	2.4%
Domestic Fixed Income	28.3%	29.6%	35.0%	(5.4%)
Alternative	14.9%	14.7%	10.0%	4.7%
Cash & Equivalents	0.8%	1.7%	5.0%	(3.3%)
Total Portfolio	100.0%	100.0%	100.0%	

	Beginning Market Value	Ending Market Value	Transfers
Domestic Equity	\$193,066,907	\$183,183,443	(\$8,000,000)
International Equity	\$93,238,308	\$86,883,142	(\$6,300,000)
Domestic Fixed Income	\$144,699,266	\$147,955,487	\$4,014,016
Alternative	\$75,991,892	\$73,303,453	(\$944,085)
Cash & Equivalents	\$4,310,687	\$8,730,295	\$11,230,068
Total Portfolio	\$511,307,060	\$500,055,820	\$0

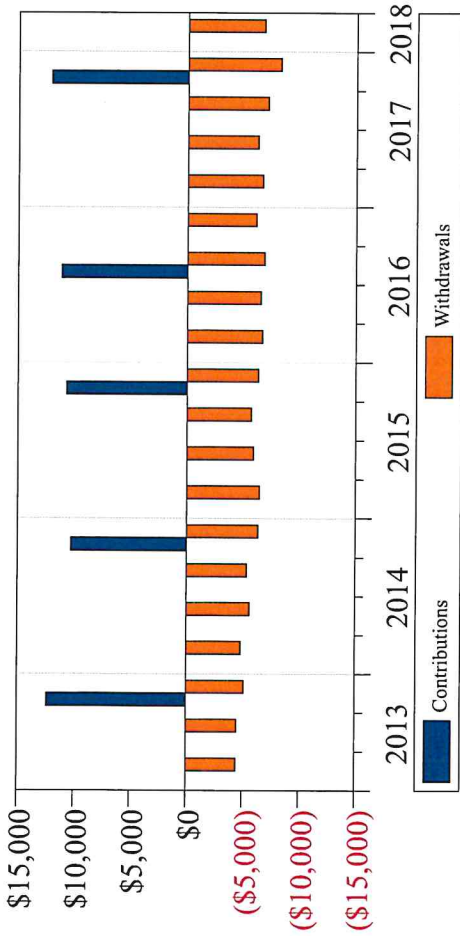
Actual Allocation for Since Inception Ended March 31, 2018



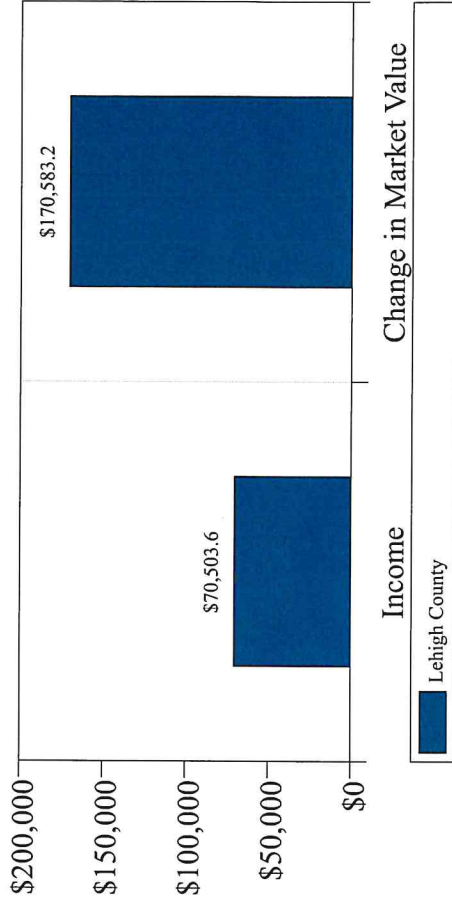
Lehigh County Retirement Fund

Historical Cash Flow

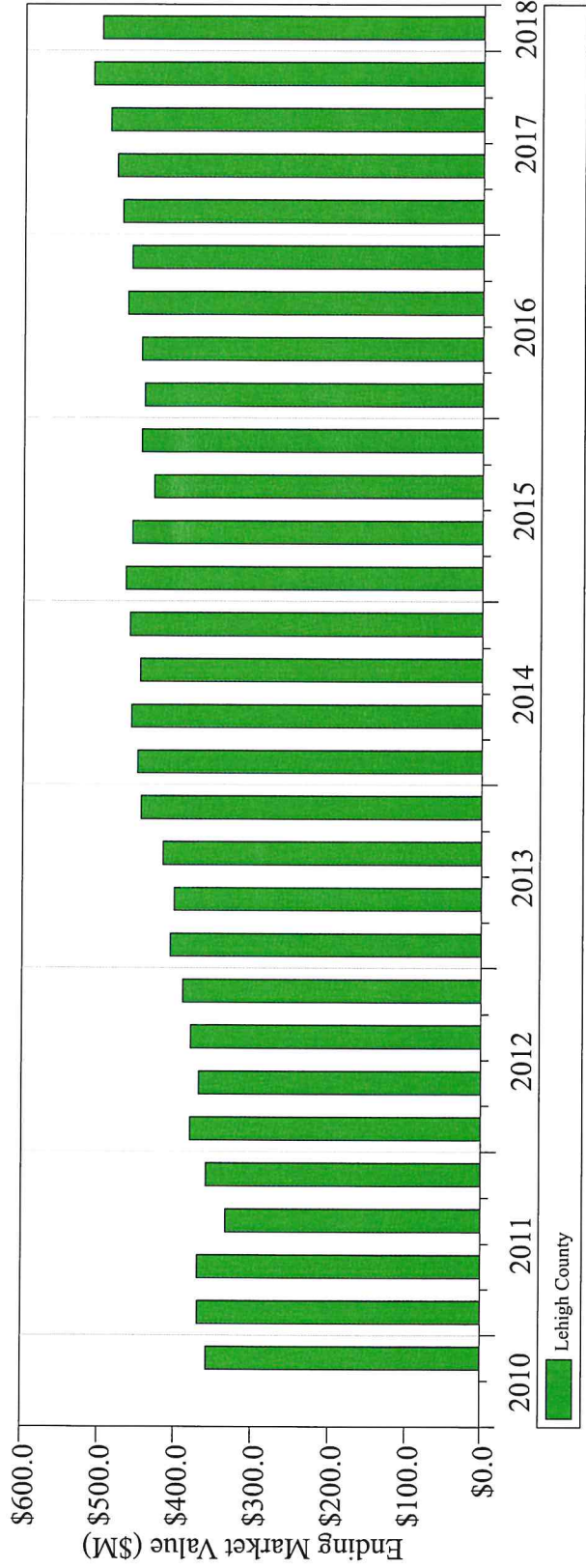
Quarterly Cash Flows for 5 Years (\$K)



Portfolio Appreciation (\$K) Since Inception



Ending Market Value Since Inception (July 1, 2010)



Lehigh County Retirement Fund Manager Performance

3 Months ending March 31, 2018

	Benchmark Name	Ending Weight	Returns	Excess Return	Beginning Market Value	Ending Market Value
Lomax Large Value	Russell:1000 Value	7.7%	(4.06%)	(1.22%)	\$39,888,952	\$38,270,649
Vanguard Instl Indx;Inst	S&P:500	9.5%	(0.77%)	(0.01%)	\$52,510,348	\$47,280,685
Invesco Eq-Wtd 500;R6	S&P 500 Eq Wt	3.8%	(1.06%)	(0.05%)	\$20,914,583	\$18,763,456
SGA Large Growth	Russell:1000 Growth	7.9%	1.17%	(0.25%)	\$38,884,866	\$39,339,520
Emerald Mid Growth	Russell:Midcap Growth	2.3%	1.98%	(0.20%)	\$11,159,101	\$11,379,569
Emerald Small Growth	Russell:2000 Growth	2.0%	(1.95%)	(4.25%)	\$10,968,083	\$9,794,506
Vanguard SC Val Idx;Ins	CRSP:U.S. Small Cap Value	3.7%	(2.06%)	0.03%	\$18,740,973	\$18,355,058
Vanguard Dev Mkt;Adm	FTSE:Dev AC ex US Idx	5.9%	(1.09%)	0.74%	\$32,820,022	\$29,515,092
American Funds EuPc;F-3	MSCI:ACWI ex US	5.9%	1.03%	2.21%	\$32,153,117	\$29,270,506
Vittoria Long/Short Intl	MSCI:EAFE	5.6%	(0.59%)	0.94%	\$28,265,169	\$28,097,544
Agincourt Core Fixed	Blmbg:Aggregate Index	11.6%	(1.50%)	(0.04%)	\$58,810,938	\$57,928,369
CSMcKee Core Fixed	Blmbg:Aggregate Index	11.9%	0.30%	1.76%	\$59,180,371	\$59,355,896
BlackRock:Str Inc Opp;K	Blmbg:Aggregate Index	3.1%	0.35%	1.81%	\$15,401,805	\$15,454,480
Vanguard Sh-Tm Inv;Adm	Blmbg:Credit 1-3 Yr Bd	3.0%	(0.51%)	(0.20%)	\$11,306,151	\$15,216,743
Gabelli Merger Arbitrage	CS:Risk Arb	2.5%	(0.09%)	0.50%	\$12,562,357	\$12,551,665
J Hancock II:G Ab Rt;I	CS:All Hedge Idx	2.4%	(1.52%)	(1.11%)	\$12,341,611	\$12,153,906
ALPS/CC Mgt CC S;I	Blmbg:Commdty Idx	2.5%	0.26%	1.05%	\$13,000,672	\$12,338,649
CBRE Clarion RE	FTSE:NAREIT All Eq Index	2.3%	(7.57%)	(0.91%)	\$12,563,250	\$11,612,332
Nuveen Pref Secs;I	S&P:US Pref Index	2.5%	(1.50%)	(0.95%)	\$12,854,001	\$12,366,902
JPM Structured Note	JPM Structured Note Idx	2.5%	(3.08%)	(0.01%)	\$12,670,000	\$12,280,000

Lehigh County Employees' Retirement Plan

Monthly Flash Report

	<i>Monthly Return April-2018</i>	<i>Market Value Beginning of Period</i>	<i>Market Value End of Period</i>
Lomax	1.76%	\$38,212,893	\$38,884,565
Russell 1000 Value	0.33%		
Vanguard Institutional Index	0.38%	\$47,280,685	\$47,461,453
S&P 500	0.38%		
Invesco Equally-Wtd S&P 500 R6	0.40%	\$18,763,456	\$18,838,610
S&P 500 Equal Weighted Tr Usd	0.41%		
Sustainable Growth Advisors	2.93%	\$39,290,160	\$40,441,161
Russell 1000 Growth	0.35%		
Vanguard SCV Index	0.39%	\$18,355,058	\$18,425,927
CRSP US Small Cap Value	0.39%		
Emerald	-1.25%	\$11,370,778	\$11,228,753
Russell Mid-Cap Growth	-0.94%		
Emerald Advisors	0.33%	\$9,794,182	\$9,826,033
Russell 2000 Growth	0.10%		
American Funds Europacific Growth F3	0.26%	\$29,270,506	\$29,347,846
MSCI ACWI ex US	1.60%		
Vanguard Developed Mkt Idx I	1.55%	\$29,515,092	\$29,971,725
FTSE AW ex US	1.68%		
CSMcKee	-0.74%	\$59,043,544	\$58,605,573
Agincourt	-0.69%	\$57,511,620	\$57,116,405
BlackRock Strategic Income Opps K	-0.22%	\$15,408,253	\$15,376,585
Barclays Capital Aggregate	-0.74%		
CBRE Clarion	1.81%	\$11,558,747	\$11,768,206
FTSE NAREIT Equity REITs	1.43%		
Liquid Alternatives	1.79%	\$49,024,081	\$49,902,697
Blended Alternatives Benchmark	1.19%		
Vanguard ST Investment Grade	-0.27%	\$15,169,615	\$15,132,945
BbgBarc US Corp 1-3 Yr	0.10%		
Disbursement Account	0.15%	\$8,816,314	\$6,471,984
30 Day MM Yield	0.15%		
Weighted			
Rate of Return	Portfolio	0.60%	\$458,384,984
	Index	0.27%	\$458,800,465

Assets Not Valued Daily

	<i>Market Value Beginning of Period</i>	<i>Market Value End of Period</i>
Vittoria Intl Long/Short	\$27,202,634	\$27,202,634
Gabelli Merger Arbitrage	\$12,653,717	\$12,551,665

Grand Total	\$498,241,335	\$498,554,764
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2018 YTD Performance

Net Portfolio	-0.29%
Index	-0.82%

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.

SAMPLE

RETIREMENT BOARD ELECTION DAY: APRIL 4, 2018

02/05/18	50 days before Election Day	1 st notification of election to retirees via U.S. Mail 1 st notification of election to active employees via email and bulletin boards
02/23/18	15 <u>business days</u> after 1st notification	Self-Nomination forms must be received in HR office no later than 4:00 PM. (use time clock to register receipt of returned forms)
03/06/18	30 days before Election Day	Candidacy must be withdrawn by 4:00 PM
03/10/18	25 days before Election Day	2 nd notification to retirees regarding candidates' names and absentee ballot requirements via U.S. mail 2 nd notification to active employees regarding candidates' names and absentee ballot requirements via email and bulletin boards
03/30/18	5 days before Election Day	Absentee ballots must be returned no later than 4:00 PM. (use time clock to register receipt of returned forms)
04/04/18	Election Day	Voting takes place at designated times and locations.