

The regular monthly meeting of the Retirement Board of Allegheny County was held on November 21, 2019 in the Gold Room, 4th floor, Courthouse, Pittsburgh, Pennsylvania. The meeting was called to order at 12:12 pm.

When the roll call of the Board members was made Board members Ted Puzak, Amy Weise was in attendance representing Chelsa Wagner, Rich Fitzgerald, Jennifer Liptak, Sarah Roka , Frank DiCristofaro, and John Weinstein were recorded as being present.

Also, in attendance: Walter Szymanski, Manager, Retirement Office and Brian Gabriel, Campbell Durrant, Solicitor.

PUBLIC COMMENT

Ken Kaszack

Good afternoon, I am accredited by the State Board of Accountancy to teach CPAs. I teach a class in Investor Psychology, and that class also covers the history and mechanics of the capital markets. On December 12th I'm going to be holding two classes in this room. An invite will be going out to all the pension board members, all the employees of the county, city employees, city pension plan members, etc. Look for my invitation, and if you can't make it, please offer it to your employees and friends. Thank you very much.

APPROVAL OF BOARD MINUTES

The Board unanimously approved a motion by Frank DiCristofaro, duly seconded by Sara Roka to approve the minutes of the October 17, 2019 Board meeting.

APPROVAL OF MONTHLY FINANCIAL STATEMENTS

The Board unanimously approved a motion by Sarah Roka, duly seconded by Frank DiCristofaro to accept the September 2019 Financial Statements. The reports are generated by the Controller's Office (Board Secretary).

- Pension Fund Assets
- Statement of Changes in Plan Net Assets
- RBAC Balance Sheet

APPROVAL OF INVOICES

The board unanimously approved a motion by Frank DiCristofaro; duly seconded by Sarah Roka, to approve the November 2019 invoices.

November Invoices for Approval

VENDOR	DATE	AMOUNT
ALTAIR MANAGEMENT PARTNERS-FI	7/1/19 -9/30/19	\$ 7,151.94
ALTAIR MANAGEMENT PARTNERS-MA	7/1/19 -9/30/19	\$ 4,867.56
CIM INVESTMENT MANAGEMENT (Fixed Income)	7/1/19 -9/30/19	\$ 8,159.67
CIM INVESTMENT MANAGEMENT (Small Cap)	7/1/19 -9/30/19	\$ 8,193.28
CIM INVESTMENT MANAGEMENT (Israel Bonds)	7/1/19 -9/30/19	\$ 3,633.46
CS MCKEE INVESTMENT MANAGERS	7/1/19 -9/30/19	\$ 18,441.76
COOKSON PIERCE & CO INC		
EARNEST PARTNERS	7/1/19 -9/30/19	\$ 30,476.66
EMERALD ADVISERS (All Cap)	7/1/19 -9/30/19	\$ 4,814.60
EMERALD ADVISERS (Small Cap)	7/1/19 -9/30/19	\$ 24,155.91
EMSTONE ADVISERS, LLC	7/1/19 -9/30/19	\$ 3,623.38
FEDERATED (Core Broad)		
FEDERATED (High Yield)		
F.N.B. WEALTH MANAGEMENT	7/1/19 -9/30/19	\$ 2,319.31
FIDELITY INVESTMENTS (Select Int'l Plus)	7/1/19 -9/30/19	\$ 25,769.40
FRAGASSO FINANCIAL ADVISORS	7/1/19 -9/30/19	\$ 9,202.00
HARVEST FUND ADVISORS LLC	7/1/19 -9/30/19	\$ 45,856.99
iNetworks OF, LLC	10/1/19 -12/31/19	\$ 9,050.51
MELLON CAPITAL	7/1/19 -9/30/19	\$ 6,107.19
RAYLIANT ASSET MANAGEMENT (formerly FUSION)	7/1/19 -9/30/19	\$ 2,001.41
SALIENT	7/1/19 -9/30/19	\$ 33,686.51
SEGALL, BRYANT & HAMILL	7/1/19 -9/30/19	\$ 47,909.80
SINGULAR GUFF(DREOF II)		
STATE STREET GLOBAL ADVISORS (MSCI World)	7/1/19 -9/30/19	\$ 7,990.69
STATE STREET GLOBAL ADVISORS (S&P 500)	7/1/19 -9/30/19	\$ 5,155.91
TWIN CAPITAL MANGEMENT	7/1/19 - 9/30/19	\$ 27,383.26

Total Vendor Invoices for Approval

\$335,951.20

PENSION APPLICATIONS

The Board unanimously approved a motion by Frank DiCristofaro, duly seconded by Sarah Roka to approve the Pension applications filed with the Retirement Office for the month of November. The following applications were filed.

- Early Voluntary - 6
- Full Retirement - 7

- Re-Calculations – 2
- Payment Plans – 1

INDEPENDENT MEDICAL EXAM OPINION FOR DISABILITY APPLICATIONS

The board unanimously approved a motion by Frank DiCristofaro, duly seconded by Sarah Roka, to approve the application of member 095839.

The board unanimously approved a motion by Frank DiCristofaro, duly seconded by Sarah Roka, to approve the application of member 088547.

MANAGER'S REPORT

Walter Szymanski

Thank you very much. If you turn to the Manager's Report section of your board book, I will start on the Dashboard Retiree Payroll, it's up 7.36%. Contributions Made are up 6.53%. New Memberships are up 42.13%. Total Retirements on the year up 10.33%. We turn to the next page; Pension Estimates are up 1.21%. Capital Calls are up 24.07%. Capital calls as of the prior board meeting were \$1.6 million. The Office Budget is as of October 31, 2019.

No questions were presented regarding the budget

BOARD APPROVAL REQUESTS

Walter Szymanski

Requesting approval to renew the Labor Management Trust Fiduciary Liability Insurance. The policy would be effective from January 19, 2020 to January 19, 2021. The cost of the policy is \$43,988 per year. The current policy was \$42,952. The new amount is built into the draft budget.

The Board unanimously approved a motion by Sarah Roka, duly seconded by Frank DiCristofaro, to approve the Labor Management Trust Fiduciary Liability Insurance.

Requesting approval for the proposal for the PBI death audit service. The cost for this would be \$5,600 annually and would include a more inclusive search on the death databases and obituaries to notify us of members passing so we could stop benefits. That cost has also been built into next year's draft budget.

We currently have PBI, and with what we use right now they search the Social Security database, so that's about \$1000 a year. This one ups it, I think it's about a dollar a record. We figured if the board approves it, tries it for a year, see if it makes a difference, if not we could always go back to the old way next year. But it might help catch a lot of deaths that go unreported for 4 or 5 months at a time.

John Weinstein PBI would theoretically could save us from paying the money and then trying to chase it?

Correct. Instead of trying to chase it back to the fund.

The Board unanimously approved a motion by Sarah Roka, duly seconded by Frank DiCristofaro, to approve the PBI death audit service.

Requesting approval to extend the contract with Schneider Downs for payroll assistance. The agreement would be extended by 12 months with an expiration date of 12/31/20. The new contract terms and amount would be the same as the current year. It's \$3000 per quarter, and that includes four visits a year; any visits over four would be billed hourly. So far this year Eric been coming at about once a quarter and that's been working out fantastic.

Prior year was the same, it was \$12,000. Two years back it was \$36,000. So, we had reduced it from a monthly visit to a quarterly visit, starting this year.

The Board unanimously approved a motion by Sarah Roka, duly seconded by Frank DiCristofaro, to approve the Schneider Downs agreement.

My last request for approval would be to extend the contract with Cowden Associates Inc. The new contract period would be from 1/1/20 to 12/31/22. The yearly fees are just as follows quarterly. The current fee for 2019 was \$23,250/quarter, 2020 would be \$24,000, 2021 would be \$24,750, and 2022 would be \$25,500/quarter.

The Board unanimously approved a motion by Sarah Roka, duly seconded by Frank DiCristofaro, to approve the Cowden Associates Inc. contract.

Lastly, I have included the draft budget for your review on the very last page of the Manager's Report section. If you have any changes or recommendations, please let me know and I'll bring the final budget to the December meeting.

There's no increase to the budget. We have the room with the Capital Call portal that's been paid for, so we're going to shift some of those to a new phone system. The PBI death audit and the increase in the Cowden contract... and we did go to, I want to say it was a 5% increase for the new RPF for next year, whenever that's finally decided. Staff increase is 3%.

John Weinstein

We ask the board to review the budget for consideration of an approval at the December 19, 2019 meeting.

SOLICITOR'S REPORT

Our report is current as of November 12, 2019, I do not have any action items for the board or any specific matters to bring to the board's attention, but I'd certainly be happy to answer any questions.

CONSTULTANT REPORTS

WILSHIRE

Felicia Bennett

I will give the quarterly flash report as of September. As we mentioned in the Executive Session, we're transitioning to a new Performance Reporting System, which the full quarterly report wasn't quite ready as of the mailing date, but that'll be coming out shortly.

We do have the Flash Report, on the first page you have the Asset Allocation of the fund. We see at the end of September the market value was about 934 million dollars, and the allocations as you look down that variance column are within target ranges. Some of them are a little towards the bottom. Fixed Income is 2.5% underweight, you can think of the 1.5% that's in cash as part of that stability, fixed income. So, one percent underweight to fixed income. Equity's overweight by 0.8, and private equity's overweight by .8 as well.

For the quarter, bonds out-performed stocks, bonds were up 2.3%, global equities were about flat. Underweight to fixed income, overweight to stocks, hurt during the quarter. But on a year-to-date basis, stocks were up about twice bonds, global stocks were up about 16% whereas core bonds up about 8.5. So over time, through year-to-date, that overweight has helped in terms of adding alpha to the fund. We have been selling equities as we're raising cash to fund benefit payments and capital calls, so whittling that overweight down to a point where it's been less meaningful. As of yesterday, you have just under 10 million in the cash account balance, showing about 13.8. As of the end of the quarter, we do not have a recommendation to raise cash this month, we're fine for the near-term benefit payments.

Moving on to performance, I see September, for the one-month column, we have much more favorable numbers than we saw in August. August was a difficult month for markets and active management. So better numbers to report for this quarter. For the one-month period, total funds were up about 1%, offsetting August's negative report, so about 57 basis points total return for the quarter. Year-to-date, the total fund is up 10.2%, so in excess of your actuarial return of 7.75. We'll hope that continues through the fourth quarter.

If we look at the composite returns on the second page, you can see US equity's underperforming by 9 basis points, but up by 1.73 percent for the month, 75 basis points for the quarter. 9 US equities had a strong month as well in September, but negative in absolute return for the quarter, although active managers did add value, adding 0.5% to the benchmark. Your global equity manager continues to struggle during this quarter, and you can see year-to-date trailing the global equity index by quite a lot. That manager is in watch status, as we understand.

For core fixed income, outperformance, you see for the month as rates started to rise again, negative absolute returns, but for the quarter with the Fed cutting rates twice and the yield curve coming down, bonds up about 2.3% for the quarter.

High yield gave a return that's right in between stocks and bonds at 1.23% and the managers outperformed by 31 basis points. The third quarter, particularly September, was a month where value finally outperformed growth. Large Cap continued to lead the market, but the managers that tilted towards value that had been having headwinds finally had a tailwind this past quarter. Your high-yield managers, as we've discussed for a long time, are tilted towards higher quality issues, and that's finally been benefitting returns.

Real estate continues to be a strong provider of performance. Year-to-date basis, the composite up 3.6%, and we see in a few pages Washington Alliance and Siguler Guff is really contributing to that return. Private equity, on the next page, year-to-date, that composite is up 4.34%, this is on a time-weighted basis, which rolls into your total fund calculation. So, lagging the strong public equity markets, in over five years your private equity composite is matching the return of your US equity or public US equity composite at 10%. MLPs continue to be quite a volatile asset class. We see year-to-date the two

managers are outperforming the Alerian Index, 14.5% compared to the index return of 11%, so adding some nice value there. And as I mentioned, the total fund up 10.2% year-to-date, and flat with the benchmark for the quarter.

On the next couple of pages, we can look at the individual manager returns. Look at the quarter-to-date and the year-to-date columns, again, we can see those strong returns out of US equities on a year-to-day basis, Close to 20% for all managers. We'll look at Emerald, both the Small Cap portfolio and the All Cap portfolio struggled during the quarter, those are both growth-oriented portfolios, so the value shift hurt both of those composites, however we'll say in October both of those portfolios outperformed by about 2%. On a year-to-date basis they've made up that difference.

Ethos, an emerging manager, has performed very strongly since they've been in the portfolio. Year-to-date adding over 3% of value to the S&P500 index. CIM Small Cap has also turned around performance, you can see the 5-year performance they're still behind by 1.7%, but strong value added on a year-to-date basis, outperforming by over 4%. The other managers I'll point out, Cookson Pierce, on the top of the next page, has been struggling out of the gate, it's short-term in terms of their performance within the portfolio, but they are trailing the Russell 3000 index quite significantly. The non-US managers at the bottom have of that page, we've talked about Segal, Bryant, and Hamill for a while, and their value tilts behind ahead of [incomprehensible], this shift towards value in the 3rd quarter led them to outperform by about a percent, they still have quite a ways to go to dig out of the underperformance relative to the EAFE Small Cap index, but finally seeing markets' environment tilt towards their style.

On the fixed income side on the next page, you can see that the managers overall have performed pretty well relative to benchmark, C S McKee adding about 0.5% on a year-to-date basis, federated over 1% of value added on a year-to-date basis, CIM has been struggling a little bit relative to the Intermediate Gov Credit index. And then StoneRidge have a slightly different mandate than the rest of the core fixed income managers, so that's dragged down the composite performance a little bit, but that's based on their policy and their mandate being a bit different. If you turn onto the next page, you'll see the high-yield managers, again Federated doing a really nice job, and this shift towards higher quality high-yield outperforming the last few quarters has benefitted both of those manager's styles. Now if you'll go to the next page, you can see that they real estate composite, I wanted to point out again Washington Alliance, generating very strong returns for the portfolio. Siguler Guff is a distressed real estate fund, this had a long-time investment period, finally getting realization, they just distributed some capital back, so that fund is now maturing and throwing out some nice returns. For the fund and the real estate composite is outperforming the odyssey index. Private Equity already discussed, underperforming public equities in the short term, and matching private equity performance over a five-year period.

And I'll pause there, life settlements I will say on the last page for the quarter, just 33 basis points of time-limited return and just 0.5% return on a year-to-date basis, so that has been a drag on performance, but it's only representing about 3% of the fund at this point.

Craig Morton

Thanks Alicia. Also, an update on the items from last month's meeting, the changes to the federated and non-US index funds, those changes are happening this month, so by the end of

November you'll be in the two new vehicles with lower fees. So, we've already completed the transition on the non-US index side, and federated the transfer to the collective vehicle, which will save you 5 basis points, is actually happening tomorrow, the assets are being transferred.

An update on what happened in October: pretty strong month for global equities, led by emerging markets thanks to some optimism on trade. Emerging markets up over 4% for the month, that led to 9 US markets being up about 3.5, and US stocks being up about 2.25%. We'll see if that optimism lasts when the details about a potential first round agreement and reduction of tariffs and increased US agricultural exports actually happens, but for the month, markets appreciated the positive outlook and advanced.

Under fixed income, the indices that are most relevant to this committee, the US aggregate, the US tips, and the corporate high yield are all up about 30 basis points, so pretty consistent returns across the fixed income you have exposure to.

Real estate up about 1% for the month, and MLPs, as Felicia mentioned, quite volatile while adding a nice tailwind to your total for returns from the year, had a tough October adding around 6%, hopefully your two managers continue to add value as they have so far this year, and mitigate some of that loss. But those are the highlights from October. I'm open to any questions, but if not then that's all from us.

COWDEN

Brad Rigby

Thank you very much. This is the time of year where we come to you with our evaluation of plan liabilities as of the beginning of the year. Next month will be when we present to the subcommittee and then to the board the information about our recommendations for contribution rate going forward, as we've historically done every December. So, this is really just looking at the snapshot evaluation at a point in time, which is the beginning of the year. So, we're looking at things as they were positioned as of 1/1/19, it doesn't reflect any of the strong financial performance in investments over the course of the last 10 and a half months. You have in front of you in your board books the two actuarial reports that we prepared. I want to draw your attention to page 4 of the actuarial report, and as you're turning, I'll say that we analyzed and looked through the assumptions that we used to make expectations about how the plan population will behave going forward. We do this on a regular basis, and this year we decided that there was an appropriate change in the assumed rates of disablement. We'd been assuming that people became disabled more frequently than it has been experienced so we reduced those, and that had a very small impact on plan liabilities, but one that actually reduced liabilities slightly. To draw your attention to page 4 of the note, we tend to look at the total funded status ratio because of its use in the second-class county code, the plans funded status ratio reduced during the course of 2018, from 77% at the beginning of the year to 73.2% as of 1/1/19. Now that is in very large part due to the fourth quarter of 2018. We had discussions with the board outside of the meeting about the methodology that we use to determine and calculate plan assets, believe it or not as actuaries we can poll assets in another way that's not straight off the

financial statements, there are mechanisms where we can smooth out gains or losses to reduce the volatility that is very evident right here, and in the discussions the board decided that at this time they wanted to continue to use the market value of assets, which is an immediate gain or loss depending on where markets move, and that's because it is much more transparent than the smooth value which can give the appearance that we're using assets that we don't have. So, I want to commend the board of their desire to at this time focus on continuing to use the market value. That is why we see a steep decrease. It, as I said, doesn't reflect any of the bounce back up that we've seen over the course of 2019. At that, I'll leave it to any questions.

The Board unanimously approved a motion by Frank DiCristofaro, duly seconded by Sarah Roka, to approve the Cowden Report.

John Weinstein

We'll set the contribution rate at next month's meeting as well.

NEW BUSINESS

No new business

NOTE: An executive session was held prior to the Board meeting.

ADJOURNMENT

The Board unanimously approved a motion by Mr. Weinstein to adjourn at 12:40 pm.

Respectfully submitted,



Chelsa Wagner, Secretary