The regular monthly meeting of the Retirement Board of Allegheny County was held on January 17, 2019 in the Gold Room, 4th floor, Courthouse, Pittsburgh, Pennsylvania. The meeting was called to order at 12:04 pm.

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

Also present were Brian Gabriel of CDBPM Law and Walt Szymanski, the Retirement Office Manager.

PUBLIC COMMENT
No public comment.

APPROVAL OF BOARD MINUTES

The Board unanimously approved a motion by Ms. Roka, duly seconded by Mr. DiCristofaro to approve the minutes of the December 20, 2018 Board meeting.

APPROVAL OF MONTHLY FINANCIAL STATEMENTS

The Board unanimously approved a motion by Ms. Roka, duly seconded by Mr. DiCristofaro to accept the November 2018 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

No invoices for January.

PENSION APPLICATIONS

The Board unanimously approved a motion by Mr. DiCristofaro, duly seconded by Ms. Roka to approve the Pension applications filed with the Retirement Office in the month of January. The following applications were filed.

- Early Voluntary – 5
- Full Retirement – 16
- Modifications – 2
- Disability – 1

The Board unanimously approved a motion by Mr. DiCristofaro, duly seconded by Ms. Roka to accept the Disability Application of Member #073346. It is the recommendation of three designated physicians this member IS totally and permanently disabled from any gainful employment in Allegheny County.

MANAGER'S REPORT

If you turn to the manager's report section of your board book, I'll highlight some areas on the dashboard. A retiree payroll for the year finished at $101,713,000 dollars. This was up 5.71% from the prior year. Contributions were up 8.27% and life insurance claims are up 33%. Pension estimates were up 17.61%. And if you turn the page, capital calls for the year totaled, from the prior board meeting, a $3,734,000 dollars, which was down 2.5% from last year. Capital calls as of the prior meeting were $7.8 million dollars. Total retirements are up this month as compared to January of last year 31.58%. And the office budget for December 2018 is not totally completed, but this should be a pretty close picture. The Comptroller's office is still finishing off final year end entries. I have no board approval requests for the month. And updates are; we are working on planning the 2019 pension summit, so as more information comes into play we'll bring it to the board. Are there any questions on the dashboards?

Mr. Weinstein: Walter, since we've been through the transition of the life insurance have we had any issues or any problems with it?

Mr. Szymanski: It has been working really well. A lot of members sign up for the additional when we did the open enrollment; I think we added about 500 to it. Everybody's very happy with it.

Mr. Weinstein: Do we track the open enrollment?

Mr. Szymanski: We have a whole sheet of everybody who joined up and we're working still kind of what the standard on the ready enroll so that the transition from active side to retiree side and at some point new retirees while the access to an online system.

Mr. Weinstein: Maybe for the next month's meeting you could just, not individually but quantify of how many people are enrolled.

SOLICITOR'S REPORT

Solicitors report is current as of January 8, 2019. I do not have any additional items to bring to the board's attention other than what's in the report, but I'd certainly be happy to answer any questions.

WILSHIRE

Craig: The monthly report starting on page two that has a summary of asset allocation of the plan that ended November just over $900 million dollars, about half a percent for the month looking at the far right column, the major overweight in the plan continues to be public equities. About half of that is offsetting the underweight in private equity that takes time to fund up. So about a $30 million dollars overweight persists in us equity and that's where we've been drawing cash from this year as needed to reduce that, a small underweight to core fixed income and overweight to real estate. And then overall the public real assets portfolio remains underweight, but about half of that driven by the target that remains to commodities that have been effectively removed from the plan. So as David mentioned, we'll be asking for a motion to approve the new policy that gets rid of that target, which will go a long way to bring the public real asset portfolio more into line with policy. Cash we've been maintaining around 1%. So you can see here just over $12 million dollars thanks to some big capital distributions that came through. So continue to maintain a couple of months of flows for retiree payments.

Go to page three and look at the composite performance. Markets generally rebounded from October US and Non Us Equity, fixed income all rebound with the exception of global equity, the managers weren't able to keep pace with the market as it bounced off the October underperformance. In November high yield was negative again, but all three of the active managers were able to add value for the second month in a row. And this is good to see, considering the market's been very challenged for active high yield investors for several years now because some of the lowest quality names have really driven the market performance. So the managers that are focused on picking good names have been left in the dust by the fact that the real garbage within high yield bonds has generally driven the market forward. So the managers are proving their value for their active management in these more recent periods after several years of headwinds.

You'll notice core fixed income lagged for the month as markets rebounded. But those active managers were generally able to protect a bit in October. So they protected in October on the downside. And then when the market turned around on, they lagged a bit. But in general, for the quarter they were only behind by about 20 basis points. Skipping to page four, generally in line in some of these numbers are lagged, which is why they'll show perfectly in line with real estate, private equity, hedge funds 5 basis points behind. MLPs were behind for the month and the quarter digging into the positive relative performance they generated for the year. So for the year they were down 8.4% versus the benchmark down 8.6%.

David: MLPs, as you know, has been a tough area and we've had a greater than a 10% recovery. This is just an absolute return MLPs have this year so far. So while you're looking at some big negative numbers, there's been positive bounce back for a lot of this part of the portfolio.

Craig: Similar to early last year. So wrap that all up to the total fund level; up 0.5%, lagging slightly about a 0.25% from the total policy benchmark for the month for the calendar year about 1% behind the target.

David: So one of the things we'll talk about in 2019, we have a work plan that we just went over in the executive session, a lot of that will be addressing each of the asset classes and looking at areas where in some cases we have managers that are underperforming. In some cases it's a temporary more related to what's been driving of market forces and in some cases it's more systematic so we plan to spend a good bit of time with you throughout this year and in another workshop earlier in the year to go through some of this in more detail and it will tie right into the asset allocation policy that we'll be talking about as well.

Craig: I'm moving to page five, looking at a few select names within the US equity composite Fragasso added about 1% for the month is generally been one of the top performers in the second half of this year, up to 24 basis points for the calendar year to date. Looking at Earnest and Emerald in the small cap space; Ernest had a tough October, but bounced back in November with over 2% outperformance. And then Emerald had protected on the downside in October and then lagged as the market rebounded in November. So a flip in the story for each of these from October to November. Important to note here, if you go over to the inception return column, a small cap is an area where we think managers can add value over the long term. And when you focus on those long term numbers, they have generated over 1% outperformance net of fees over the long-term.

So in a space where we think managers can add value long-term, important not to get too tied up with a month to month, but they continue to be drivers of the long-term performance in US equity. So on the next page you could see the US equity composite, just 8 basis points behind for the month of November, better than October, still slightly behind the benchmark, moving onto Non US equity. At the bottom of the page there you see several of the managers of Bailey Gifford, one of the long-term best performers in the portfolio was behind by about 60 basis points for the month, continuing to a tough stretch for them, but one of the more productive and consistent managers in the composite. You can see the composite number on page seven as international markets rebounded the composite slightly negative for the month, and it's lagging by 1% for the overall month. A Fusion similar Fragasso is has been a bright spot as of late of adding 78 basis points for the month and positive for the quarter. Whereas the longer term numbers remain a bit challenged.

Briefly page eight has a core fixed income. Here again we saw a little bit of a protection in October, but in November is markets rebounded, most of the managers didn't keep pace. If you look at McKee and Federated this is an area, again, like small cap where we don't expect as much excess return as small cap, but we expect it to be more consistent. So in particular, McKee and Federated are consistent small outperformance generating the small excess returns at a high batting average. The core fixed composites on the top of page nine, again, lagged by 25 basis points for the month, but for the year added 30 basis points. Again, we're not trying to see them knock it out of the park. We want them to consistently add some value though. And just briefly on high yield, all three managers added for the month and quarter to date after an extended period where active management has struggled to add value. It's good to see a change in the story in high yield and those are the specific managers I wanted to touch on unless there are questions about specific managers, so a lot changed in December. So I'll turn it over to David to talk about what happened in the markets.

David: So if you go to the perspective document. This is through fourth quarter year end and as you know in February, we'll go through the fund through year end in more detail. We'll estimate that today, but in general it was just the middle of this page. If you start with the US equity section, you can see the month, the top line. I'll just go to the top line in this chart, which is the Wilshire 5,000 index. That's measuring the total us equity market for the month was 9.3%. Really a difficult month in December and as well as October. So the fourth quarter became a big negative second column over you see negative 14.29%, that's the US equity market, which printed a negative 5.27% return for the calendar year. So 2018 with a rough fourth quarter, turns out to be a negative year in equity markets down over 5% in the US, over 14% outside of the US.

And then bonds were flat for the year. So as you look at the returns of funds all around the country for 2018, you're going to see negatives. A couple of data points that I'll share. As you know, we've had some strong bounce back. So in the fourth quarter we had technically what they define as a bear market sell off from September 20th through Christmas Eve, December 24, the US market was down 20.2%. So technically as the people on TV like to talk about it, that was a bear market. And from that point to today we're up a roughly 12% in the US equity market. So we have had a strong snapback, plenty of issues to keep volatility in the marketplace. We have the Federal Reserve trying to balance their rate hikes, if you've listened to a lot of that, they've started to soften a little bit on their language.

They have now raised nine times since they began in 2015. So our rates are a bit higher. We have trade tensions; we have concerns about global growth. We still have, as you can see on this page, a lot of strong metrics in terms of the US market, in terms of growth and employment, housing prices, etc. But nevertheless, globally there are concerns about growth. So it's been a market that where volatility has come back at a normal or even higher than normal level. And I'll say that the years prior, all the way back to the end of the credit crisis with this quantitative easing cycle that we have gone through, volatility has been quite subdued and it's come down year by year since 2008-2009 timeframe. So 2018 was definitely a spike in the other direction. Volatility has been back for a quarter was tough and a couple of things.

I'll just give you a couple of estimates because we don't have the December numbers in yet, but we've estimated the fund through the end of the year will probably be down right around 3.45%. That might not be so bad as you look around and compare to some of the other fund returns. Like I said, the US equity market was down 5% and Non US markets were down roughly 14%, so you'll see negative, negative everywhere on many fund returns, but we'll have finalized data for you next month. And then I'm more comparisons in terms of peer comparisons on managers, etc.

Mr. Puzak: David don't you think the political structure of Washington has played a big part of this whole.

David: Sure. Yeah. I think it leads to volatility. It's all around the world and I wouldn't try to project it. It'll be gone in the future. In your executive session today, we mention we're still projecting for you annualized returns over the next 10 years, it will be over 7%. So in that kind of a return forecast, you have negatives and positives and looking back 2018, it was one of those negative years.

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Ms. Roka to approve the asset allocation policy presented by Wilshire on page 7 of the Wilshire report from the executive session. The policy begins to reduce allocations to illiquid assets and preparing for the funds greater benefit payments in the coming years.

NEW BUSINESS
No new business
NOTE: Executive session was held prior to the Board meeting.

ADJOURMENT

The Board unanimously approved a motion to adjourn at 12:25pm.

Respectfully submitted,

Chelsa Wagner, Secretary