

The regular monthly meeting of the Retirement Board of Allegheny County was held on January 16<sup>th</sup>, 2020 in the Gold room, 4<sup>th</sup> floor, Courthouse, Pittsburgh, Pennsylvania. The meeting was called to order at 12:02 pm.

Roll Call of the Board members was made, Board members, Chelsa Wagner, Rich Fitzgerald, Jennifer Liptak, Sarah Roka, Frank DiCristofaro, and Janice Vinci on behalf of John Weinstein were recorded as present.

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

#### **PLEDGE OF ALLEGIANCE**

#### **PUBLIC COMMENT**

No public comments were made.

#### **APPROVAL OF BOARD MINUTES**

*The board unanimously approved a motion by Sarah Roka, duly seconded by Frank DiCristofaro, to approve the minutes of the December 19, 2019 Board meeting.*

#### **APPROVAL OF FINANCIAL STATEMENTS**

*The board unanimously approved a motion by Frank DiCristofaro, duly seconded by Sarah Roka, to approve the November 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 Sarah Roka, duly seconded by Frank DiCristofaro, to approve the January 2020 Invoices.*

## JANUARY 2020 INVOICES

VENDOR	DATE	AMOUNT
ALTAIR MANAGEMENT PARTNERS-FI		
ALTAIR MANAGEMENT PARTNERS-MA		
CIM INVESTMENT MANAGEMENT (Fixed Income)		
CIM INVESTMENT MANAGEMENT (Small Cap)		
CIM INVESTMENT MANAGEMENT (Israel Bonds)		
CS MCKEE INVESTMENT MANAGERS		
COOKSON PIERCE & CO INC		
EARNEST PARTNERS		
EMERALD ADVISERS (All Cap)		
EMERALD ADVISERS (Small Cap)		
EMSTONE ADVISERS, LLC		
FEDERATED (Core Broad)		
FEDERATED (High Yield)	10/1/19 - 11/22/19	\$ 34,465.45
F.N.B. WEALTH MANAGEMENT		
FIDELITY INVESTMENTS (Select Int'l Plus)		
FRAGASSO FINANCIAL ADVISORS		
HARVEST FUND ADVISORS LLC		
iNetworks OF, LLC		
MELLON CAPITAL		
RAYLIANT ASSET MANAGEMENT (formerly FUSION)		
SALIENT		
SEGALL, BRYANT & HAMILL		
SINGULAR GUFF(DREOF II)		
STATE STREET GLOBAL ADVISORS (MSCI World)		
STATE STREET GLOBAL ADVISORS (S&P 500)		
TWIN CAPITAL MANGEMENT		
<u>Total Vendor Invoices for Approval</u>		<u>\$34,465.45</u>

## PENSION APPLICATIONS

*The board unanimously approved a motion by Sarah Roka, duly seconded by Jennifer Liptak, to approve Pension application filed with the Retirement Office for the month of January 2020.*

The following applications were filed:

- Early Voluntary - 1
- Full Retirement – 9
- Disability - 2

## **MANAGER'S REPORT**

### **Walter Szymanski**

Retiree payroll for the year finished off 7.51%, \$109,347,803.69, compared to last year it was \$101,713,532.74. Contributions made finished up 6.16%, with a year-to-date of \$80,722,484.09, prior year-to-date was \$76,035,427.74. The retirements are for the current month, so they're down 32% as compared to last year. If you turn the page, pension estimates were up 16.47%, and capital calls as of January are down 60.06%, there was 1.3 million as of the last board meeting, and the office budget that's unaudited is listed there below.

## **SOLICITOR'S REPORT**

### **Brian Gabriel**

The report is current as of January 9<sup>th</sup>, there were no specific action items under the solicitor's report for the board to consider.

### **Chelsa Wagner**

I have a concern about the Securities Litigation filed against Energy Transfer, and the Board's approval to participate in the class action, specifically concerning RBAC being the lead plaintiff in a class action based upon allegations that Energy Transfer had engaged in bribery and other prohibited conduct with the Wolf Administration. Since the content of the class action places the Board, potentially, in an adverse position to Governor Wolf, was the Board truly aware of the full scope of the litigation before it agreed to serve as lead plaintiff?

### **Brian Gabriel**

There was a discussion in an executive session and a written recommendation circulated among the board which outlined the issues in the case, which involves the State DEP and the Governor.

### **Chelsa Wagner**

I believe the litigation could, and would, proceed jurisdictions outside of Pennsylvania without RBAC as lead plaintiff. She reiterated her concern over the Board serving as lead plaintiff. I don't believe the subject matter of the litigation is an appropriate one for this Board. I would like to make a motion to withdraw the Board as lead plaintiff.

### **Brian Gabriel**

Procedurally, the complaint was recently filed, so that's on the docket, so to speak. The procedure, generally, is there's a period of time, it might be 90 days, where anybody can file for lead plaintiff status. Typically, there will be motions by different plaintiffs during that time period. That's in the Eastern District of Pennsylvania. There is the same subject matter case pending in Texas, so at some point there's a decision on where that case will actually be litigated.

**Chelsa Wagner**

It appears the Board's status as lead plaintiff is the vehicle by which this lawsuit has obtained venue in Pennsylvania. That is exactly my point. There is another suit filed in Texas with other plaintiffs. For us, if our concern is recovery, which is always an appropriate concern, roughly \$2.5 million, we could proceed to join with other plaintiffs in another jurisdiction. I'm just confused as to why this Board would want to be in the position to stand behind and advance the substance of the allegations in Pennsylvania.

**Jennifer Liptak**

Question directed to the Chair, should we not participate because it mentions a potential accusation of the state?

**Chelsa Wagner**

The whole basis of the case is this accusation of the Governor. Summary on the law firms' website.

**Jennifer Liptak**

The board reviewed the documents and the reference point was in there, your staff did bring it up when we talked about it. The question is that this was a company and with the accusation that we have an investment, we have a fiduciary responsibility to make sure that we are doing everything we can. Moving forward we want to put out a recommendation that this would be something that would be in the best interest, and I'm just wondering if we did something inappropriate.

**Brian Gabriel**

Certainly nothing inappropriate. There's room for additional discussion or revisiting what our position is or should be, and that should probably involve securities counsel, since they're the ones handling the case, and the most expert in this litigation. The underlying investigation and allegations involve alleged corruption relating to permits that Energy Transfer obtained from the state. There is nothing inappropriate about the approval that was given by the Board.

**Chelsa Wagner**

I would like to make a motion that we would withdraw as lead plaintiff. To respond, I do not believe there has been anything inappropriate. These are always judgement calls. Very, very often, this board makes the decision not to participate, and certainly not to participate as lead plaintiff, because of the workload and other considerations that impact the retirement office. As we all know, we participate in multiple forums as a fund within the state, be it PAPERS or other organizations, where the governor, and potentially other state actors

implicated, are among our colleagues as a retirement fund. That is the basis that I question why we want to put ourselves in a position that is very adversarial to the Commonwealth.

**Janice Vinci**

Motion on the floor, is there a second?

**Jennifer Liptak**

Since this is an active lawsuit, we need to continue the discussion in an Executive Session, with counsel. Recommended that a fuller discussion is good for the board to obtain a better understanding of the lawsuit.

**CONSULTANT'S REPORT**

**Wilshire**

**David Lindberg**

The monthly flash for November, where we have our allocations, high-level allocations outline, showing where the plan is positions as of the end of the month compared to target. We ended the month with total assets 946 million, that's up 6 million for the month of November, net of distributions for retiree funding. 7.4 million cash as of the end of November. That's thanks to some distributions at the end of the year from some private equity funds. Up to almost 11 million before a few large capital calls going out this week and next, which will take about 4 million out. Up to 11, then back down to about 7 before retiree funding, so we expect that next month we will need to resume our cash raising for distribution and capital callers. To point out that the overweight to public equity in the top right, this has been a last year plus. Over the course of 2019 we brought that total public equity overweight down from 49 million to 22.5. Working towards bringing that back down to target, and we've been using the cash flows to do that. Meanwhile, the markets been going up, so it's a moving target as the market's gone up. We've been taking cash out, we brought about 30 million out of that overweight. Notice private equity is now in overweight, at 8 million when you combine the private equity and life settlements, that's a change from last year due to appreciation of the private equity funds as well as continued capital calls being brought into private equity. About 21 million underweight private equity, back from 50 million underweight as of the end of 2018. Moving in the right direction as far as equity goes, bringing down the public that had been a proxy for the underweight in the private space. A recent change to reports, you'll see in parentheses after some managers EMWO, this reflects the fact that this is the Emergency Minority or Women-Owned program, not just emerging managers. Looking at US Equity, it's nice to see Twin and Emerald, which had had some rough performance earlier in the year, have a good month and quarter-to-date so far. Emerald all cap, that is now even ahead almost 1.5% on the year-to-date basis through November. On the top of page 4 you'll see the US Equity Composite ended the month right in line with the Wilshire 5000 benchmark, at 3.71%, and

is now in line for the year-to-date as well, up over 27%, exactly tracking the benchmark. Moving down a few lines to international equity, we continue to see strong performance from Baillie Gifford. The year-to-date column through November adding 9.99%, so that's a reason for that 4.2% outperformance of the non-US composite on the bottom of this page. On the next page, I want to point out briefly CS McKee and Federated, the two anchors of the core portfolio, with about 30 million each, these are the big allocations in this core portfolio that's designed to provide some diversification from your equity risk. Strong month, quarter, and year-to-date numbers for both of those, and since inception they've both done a good job outperforming by almost 40 and 60 basis points respectively. We don't expect the core managers to hit the ball out of the park, but happy to see that they continue to hit singles, so to speak. Jump forward to page 6, just one of the only composites that's actually detracted year-to-date for 2019, high yield's been a place where the managers have struggled to add some value, particularly Oaktree, which we've mentioned in the past, so we will look to review them in depth, and consider whether they need to be replaced. On page 8, to highlight the MLP composite. Despite MLPs having negative returns since this composite was launched in the beginning of 2018, the managers have done a really good job and added a lot of value. For the year, adding 8.4% over the benchmark, which is down 1.82, to produce a positive 6.6%. A strong act management there, in a space that's struggled with a lot of volatility and some deep negative months. To wrap up, page 9, at the bottom, you'll see the total fund up 1.2% for the month of November, outperformed by 20 basis points. 20 basis points of outperformance for the year-to-date, up 12.7%, benchmark up 12.5, and David will give an update as to where we estimate the fund ended the year, and how the market's performed in December.

### **David Lindberg**

We'll estimate December and year-end, and then next month we'll have a full quarterly review for the December 31 quarter. Perspectives, it was a very strong year in equity markets, as you know, really in all markets, even in fixed-income. The blue column on the left points out some economic highlights, the GDP continues to be strong, housing prices are strong, consumers are spending well, we've had rates go up a little bit this last quarter. All in, over the trailing year, interest rates have come down by about a percent when you look at the 10-year treasury. Which has led to strong bond market returns. We have a calendar year where both equities and fixed income are very strong. The stats on a couple of those numbers, the chart in the middle of this first page is the US Equity market, and you can see the top line, the Wilshire 5000 total market index for the quarter was up over 9%, which puts it at a 31% year for the calendar year US Equity. A couple of things that continue to go on within that US Equity market is it's been a heavily growth-oriented market, so growth portfolios vs value portfolios, of which you have both, but growth has been outperforming value between 6 and 8 percent on the year. Large cap stocks have been outperforming small cap stocks by about 5% on the year. Those are some phenomena's that have been going on throughout this year. With a very strong US Equity market, 31%. Turn over to the next page, you'll see non-US Equity markets in the chart on the top in US dollars. The all-country world index, which is a broad measure of the whole outside-of-the-US marketplace, is up 21.5% for the year. Below the bottom row in that top

chart shows that small cap stocks outside of the US are up a little bit stronger at over 22, you have a small cap non-US equity manager, a little bit of a premium there. Finally, fixed income, which we don't normally see returns like this on fixed income, but due to the falling rates when you look at the top line the Bloomberg Barclays US Aggregate Index, go over to the year-to-date column, it's up 8.7%. Very strong year in the capital markets, and what does that mean for the funds? We have estimated that December for your funds will be about a 2.4% return, which will put you over 15% for the calendar year. We'll see finalized numbers on that in the next month's report, but bigger picture that has you at little bit over 950 million dollars value at the end of December. Last year the fund was 872 million when we came out of 2018. Calendar 2019 has generated approximately 120 million dollars ingrowth from investments, offset that by about 40 million in net cash flows out of the fund, contributions minus benefits payments, and you have about an 80 million dollar add to your funding level just from the calendar year of 2019. Across the board a really strong, really strong year for the funds. We'll finalize that in February, our estimate for year-to-date is about a 15 plus percent return for the year.

### **Asset Strategy**

No update

### **NEW BUSINESS**

No new business.

### **ADJOURNMENT**

*The Board unanimously approved a motion by Janice Vinci to adjourn at 12:20 pm.*

Respectfully submitted,



Chelsa Wagner, Secretary