

The regular monthly meeting of the Retirement Board of Allegheny County was held on May 17, 2018 in the Gold Room, 4th floor, Courthouse, Pittsburgh, Pennsylvania. The meeting was called to order at 12:10 pm.

When the roll call of the Board members was made Board members Ted Puzak, Amy Weise for Chelsa Wagner, 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

Ken Kasack, 2416 East Carson 15203: I was here last month, and after I gave my presentation as a follow up to a report I submitted to the board I went to speak with a one of my clients upstairs. I told him about the report and the investment opportunity and he asked if I thought someone would be calling me as a follow up and I said absolutely not, that's not how this business is going to work and I will need to use my middle name which is persistence. So today I have bad news, good news, and good news. The bad news is that there is a position entered into 16 and 17 master limited partnership, and I was a master limited partnerships investor from 2008 to 2009. I got in when the getting was good and I got out when it was time to get out. When I was here last month the value of MLP declined at the value of 9.5% and I noticed today that that decline is now 14%. And that is not market volatility that is true loss of capital. There have been tax law changes that have effected MLPs and investors perception of them. Just today one of the largest MLP sponsors announced they are rolling up their MLPs into their corporate structure. The 14% loss, 6 million dollars is not coming back, now the good news is as I speak today there is an LNG carrier headed to Japan from Maryland. This is the first shipment of a twenty year contract. That LNG started as Marcellus Shale gas and went via pipeline to Cove point Maryland, then liquefied and sent on the ship to Japan. There is a great opportunity to invest in liquefied natural gas; I know that these drillers here are not happy selling their gas for less than a dollar per mcf. They are counting on what I am talking about, that our LNG industry just growing. So I made the comment last time and it was in my report, last July over 2% of all natural gas drilled in this country was liquefied and exported by the middle of next year it will be 11% and keep growing. I am going to adhere to somebody, whoever is the author of the MLP investments or someone on the board that has read the report to say why don't we own LNG and let's get involved in America's newest industry.

Mr. Weinstein: Before you leave I just wanted to mention to you that the board took your report and your comments very seriously and we had asked Wilshire, who is our primary consultant, to do an analysis of what you said. So what I would ask you to do if you could, is to talk to these two young gentleman over here [Wilshire representatives] and schedule a time when it is convenient for you to meet with you to talk and they will update you as to where we are and where we are standing on this matter right now.

APPROVAL OF BOARD MINUTES

The Board unanimously approved a motion by Ms. Roka, duly seconded by Mr. DiCristofaro, to approve the minutes of the April 19, 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 March 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

The Board unanimously approved a motion by Ms. Roka, duly seconded by Mr. DiCristofaro to accept the invoices for May.

VENDOR EXPENSES		
VENDOR	DATE	AMOUNT
ALTAIR MANAGEMENT PARTNERS	1/1/18 -3/31/18	\$ 4,892.16
CIM INVESTMENT MANAGEMENT (Fixed Income)	1/1/18 -3/31/18	\$ 7,561.91
CIM INVESTMENT MANAGEMENT (Small Cap)	1/1/18 -3/31/18	\$ 9,809.69
CIM INVESTMENT MANAGEMENT (Israel Bonds)	1/1/18 -3/31/18	\$ 3,633.64
CS MCKEE INVESTMENT MANAGERS	1/1/18 -3/31/18	\$ 16,665.77
EARNEST PARTNERS	1/1/18 -3/31/18	\$ 38,380.73
EMERALD ADVISERS (All Cap)	1/1/18 -3/31/18	\$ 4,357.87
EMERALD ADVISERS (Small Cap)	1/1/18 -3/31/18	\$ 31,497.61
EMSTONE ADVISERS, LLC	1/1/18 -3/31/18	\$ 2,701.59
FRAGASSO FINANCIAL ADVISORS	1/1/18 -3/31/18	\$ 9,368.00
HARVEST FUND ADVISORS LLC	1/1/18 -3/31/18	\$ 32,844.04
SALIENT	1/1/18 -3/31/18	\$ 31,635.60
SEGALL, BRYANT & HAMILL	1/1/18 -3/31/18	\$ 57,573.42
STATE STREET GLOBAL ADVISORS (S&P 500)	1/1/18 -3/31/18	\$ 4,569.16
TWIN CAPITAL MANGEMENT	1/1/18 -3/31/18	\$ 27,989.69
<u>Total Vendor Invoices for Approval</u>		<u>\$283,480.88</u>

PENSION APPLICATIONS

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

- Early Voluntary – 7
- Full Retirement – 12
- Buy-Back Application - 1

MANAGER'S REPORT

Mr. Szymanski provided the monthly status report of the Retirement Board, highlighting the following:

The Dashboard as the month ending April 2018 for retiree payroll is up 5.54% YTD, contributions are up 9.69%, and contributions refunded are up.

Pension estimates continue to climb we are up about 100% from this time last year. Life insurance claims hopefully next month we will be able to see the amount difference in the June book.

Total retirements are up 27.92% YTD. Total capital calls are down but I am assuming they will pick up over the next couple of months. Total capital calls for the month total \$2.261 Million. The office budget is in line for the year.

Requesting the Board's approval of the new contract with Asset Strategy Consultants. This agreement would be in effect from April 1, 2018 – March 31, 2021. The current contract was at a cost of \$105,000.00 per year. The amount of the new contract would be as follows: 2018-2019 \$110,000.00, 2019-2020 \$115,000.00, 2020-2021 \$120,000.00.

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. DiCristofaro to approve the new contract for Asset Strategy Consultants 2018 through 2021.

Act 125 Tyler Update: We are in the final stage of testing. Working with computer services, hopefully we will go live the end of May and run our first payroll in June. We will be keeping the old system up just to make sure everything goes smoothly.

SOLICITOR'S REPORT

Solicitor's Report is current as of May 10, 2018. I do have one follow up in regard to hearing officers. You will see on the second page of the report, one of the current sitting hearing officers, Paul Gitnik, submitted a letter of resignation. This was due to a nomination to a state board which will not allow him to continue as a hearing officer. The first action item I would suggest to the board is to accept that letter of resignation from Mr. Gitnik.

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. DiCristofaro to accept Paul Gitnik's resignation letter as a hearing officer.

As a follow up to that we have a recommendation to consider and approve attorney Gianni Floro as a hearing officer. He would replace Mr. Gitnik on the panel and would serve under the same terms for the remainder of the year with identical hourly fee.

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Ms. Roka to appoint Gianni Floro as a hearing officer.

Mr. DiCristofaro: One quick question, is that just until the end of the year?

Mr. Gabriel: That is correct; we do the hearing officer agreements on a yearly basis, so every December the board will consider and appoint. Then when we formalize the agreement it is always for one year.

Mr. Weinstein: Can we send a letter thanking Mr. Gitnik for his service and congratulating him on his new appointment as well as a letter to Mr. Floro notifying him he has been appointed.

WILSHIRE

Kalvin Born, of Wilshire Associates, first we will start in the executive summary of investment performance as of March 31st. On page 3 I will recap last month's review as of March 31. Under the far right column, tough quarter for many asset classes with just EM Equity and Cash in the black. Commodities down .4% and US Equities down .8%. Core bonds down 1.5% and MLPs down 11%. Quarter to date in April MLPs are up about 10.5% and Craig will update us on the rest of the asset classes through last week.

Page 20, the total fund allocation vs your policy index, \$922 million dollars at the end of March. Just highlighting some of the under and over weights off to the far right column. Over weight public equity continues to serve as a parking lot for some of the uncommitted private equity capital but again has been a source of funds when needed. Real Assets are underweight a bit. Commodities we have a zero percent allocated and a 2% target. We will be addressing this in the asset allocation that we will go through this year. Page 21, investment performance down 90 basis points on an absolute return for the quarter -.62% for your index behind 28 basis points over the past one year, 9.1% absolute return is ahead of your index by over 1% and looking out longer term over 5 years about a 7% return, relative to your index that is about 50 basis points ahead.

Page 22, universe comparison relative to other public funds, 77th percentile for the quarter relative to your policy of 61%. Looking out over 1 year similar, 73rd percentile over one year, diversification has played a big role in the deteriorating ratings as the plans with 50-60% public equity are sitting at the top of this universe comparison. Page 24, your asset class performance, at the top US Equity is marginally behind for the quarter but strong over the past one year. One year ranking is near the top quartile of peers. Non US Equities are ahead for the quarter 22 basis points and over 2% over the past one year. Baillie Gifford has been the best performing manager in the asset class and an allocation to small cap in the international space has added value to the composite. Global equity has one manager and is ahead for the quarter but still trailing longer term. Core fixed incomes are ahead for the quarter, CS McKee and Federated are near the top one third of their peers over the past one year and an absolute return of 1.1%. High yield has still been an area where active management has been challenged as a lot of the loyal quality stocks in the universe have rallied and managers are not holding those. TIPs; one investment here which is passive so you are in line with your benchmark. Looking down at real estate on page 25, strong over the past one year but trailing for the quarter, behind 50 basis points. Note 2 of the managers are not yet listed here and are likely to increase that return of 1.44. MLPs we do not yet

have a full quarter of data. Through last week 10.4% and YTD they are behind 2%. Private equity at the bottom, 2% return for the quarter and then 9% absolute return over the trailing one year.

Craig Morton, of Wilshire Associates, provided a brief Capital Market Review through the end of April 2018. In the month we saw rebounding from some of the sell offs later in the first quarter. Some of the selling seemed overdone due to fear of trade wars and other issues that seemed to have calmed down but not gone away. US Equity were up about 40 basis points for the month with international equities being up 1.6%. Interestingly emerging markets cooled off, down about 40 basis points for the month.

The Barclays Aggregate was down about .75% as interest rates continue to rise. The ten year treasury yield ended up raising about 20 basis points in April. That is on top of the move of about 25 basis points in the first quarter. TIPs were relatively unchanged, down 6 basis points for the month, we saw the biggest rebound in MLP performance, and the index was up over 8% for the month April. Going through the end of last week, a continuation of these themes, recoveries and equities with US equities leading the way up over 3% through the end of last week, while international stocks were up about 1%. Quarter to date US stocks up about 3.5% and international up about 2.5%. As I mentioned, the ten year treasury yield continues to rise that put more pressure on fixed income, the Barclays Aggregate was down another 10 basis points through the end of last week, down about 83 for the quarter. MLPs continued with a very strong week last week, up 10.36% quarter to date.

ASSET STRATEGY

Ed Boyer, a couple of administration items, Mr. Puzak will be delighted to know Corry Capital in their Black fund will be returning \$300,000 next week. We would like to thank you for approving our new client agreement; we really enjoy and appreciate the relationship and thank you for your confidence. During the executive session we heard from Green-spring about an early stage venture capital investment, after hearing a pretty compelling story our recommendation is to seek an approval for 4 million dollars for this fund.

The Board unanimously approved a motion by Mr. DiCristofaro, duly seconded by Ms. Roka to approve an allocation of \$4,000,000 to Green-spring Early Stage Venture Fund.

We also discussed Blackstone Tactical Ops 3; we have been communicating to the representative here in town at Morgan Stanley and have negotiated the most favorable fee structure for this particular investment vehicle. We would like to keep this investment in the range of \$3-5 million not to exceed \$5 million and we will update the board when the rep tells us what they will accept. The regulatory environment has shifted a bit and they do not have the flexibility that they use to in this particular vehicle.

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. DiCristofaro to approve an allocation of between \$3 and \$5 million, not to exceed \$5 million to Blackstone Tactical Ops 3 with updates to come for the board with a final allocation number.

CONSULTANT PFM

Perry Giovannelli, PFM Consulting, in section 2 page 2.1 it walks through the managers you currently have. On a domestic equities side ETF added quite a bit of performance compared to the benchmark, 1.02 versus the benchmark of -0.76. CIM for the quarter finished up positive at 1.38 versus the benchmark of -0.08; very significant out performance for both of those managers quarter adding to their one year numbers. Fragasso struggled for the quarter but continue to add value over long term.

Under fixed Income EmStone, formerly Stoneridge, added significant value in the first quarter with the volatility we saw in the markets. They outperformed the benchmark by 35 basis points and at 1 year and 2 year, 71 and 61 basis points respectively. Altair started investing March of 2017 and took almost 9 months to get fully invested with the way they work with closed ends funds. They are significantly out performing in the first quarter.

Looking as alternatives, Washington Alliance is doing very well in the overall portfolio. The one year number is a positive 32.22% return all the way at their three year number is at 20.93% return; all good numbers.

Recommendations:

- Investing an additional \$1,000,000 in Altair Management Partners: As the fixed income markets have sold off the underlying closed end funds that Altair purchases are trading at wider spreads enhancing the yield opportunity.

The Board unanimously approved a motion by Ms. Roka, duly seconded by Mr. DiCristofaro to approve an allocation of an additional \$1,000,000 in Altair Management Partners.

- Invest an additional \$1,000,000 in EmStone. The investment strategy protected well in the down market and should continue to provide a diversification benefit to the portfolio though its marketplace lending allocation.

The Board unanimously approved a motion by Ms. Roka, duly seconded by Mr. DiCristofaro to approve an allocation of an additional \$1,000,000 in EmStone.

- Remove Greentree Brokerage Services Inc – firm is no longer in business due to retirement of key personnel.

The Board unanimously approved a motion by Ms. Roka, duly seconded by Mr. DiCristofaro to remove Greentree Brokerage Services Inc.

- Recommend adding Andes Capital to the approved broker list – a full service brokerage firm, can execute both equities and fixed income trades on a global basis. Trading fee is in line with the other brokers in the program (one to four cents/share) and can accommodate rates to money manager needs.

The Board unanimously approved a motion by Ms. Roka, duly seconded by Mr. DiCristofaro to recommend adding Andes Capital to the approved broker list.

NEW BUSINESS

No new business.

NOTE: Executive session was held prior to the Board meeting announced by Mr. Weinstein.

ADJOURMENT

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. DiCristofaro to adjourn at 12:39pm.

Respectfully submitted,



Chelsea Wagner, Secretary