

The regular monthly meeting of the Retirement Board of Allegheny County was held on November 15, 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 on behalf of Chelsa Wagner, Rich Fitzgerald, Jennifer Liptak, 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. Fitzgerald, to approve the minutes of the October 18, 2018 Board meeting.

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

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

## VENDOR EXPENSES

VENDOR	DATE	AMOUNT
ALTAIR MANAGEMENT PARTNERS	7/1/18 - 9/30/18	\$ 6,565.63
CIM INVESTMENT MANAGEMENT (Fixed Income)	7/1/18 - 9/30/18	\$ 7,598.40
CIM INVESTMENT MANAGEMENT (Small Cap)	7/1/18 - 9/30/18	\$ 10,413.79
CIM INVESTMENT MANAGEMENT (Israel Bonds)	7/1/18 - 9/30/18	\$ 3,675.12
CS MCKEE INVESTMENT MANAGERS	7/1/18 - 9/30/18	\$ 16,691.38
EARNEST PARTNERS	7/1/18 - 9/30/18	\$ 40,423.22
EMERALD ADVISERS (All Cap)	7/1/18 - 9/30/18	\$ 4,914.89
EMERALD ADVISERS (Small Cap)	7/1/18 - 9/30/18	\$ 33,091.63
EMSTONE ADVISERS, LLC	7/1/18 - 9/30/18	\$ 3,241.23
F.N.B. WEALTH MANAGEMENT	7/1/18 - 9/30/18	\$ 2,173.75
FIDELITY INVESTMENTS (Select Int'l Plus)	7/1/18 - 9/30/18	\$ 38,476.61
FRAGASSO FINANCIAL ADVISORS	7/1/18 - 9/30/18	\$ 9,758.00
FUSION INVESTMENT GROUP	7/1/18 - 9/30/18	\$ 2,009.72
HARVEST FUND ADVISORS LLC	7/1/18 - 9/30/18	\$ 50,343.04
SALIENT	7/1/18 - 9/30/18	\$ 35,957.79
SEGALL, BRYANT & HAMILL	7/1/18 - 9/30/18	\$ 54,667.52
STATE STREET GLOBAL ADVISORS (MSCI World)	7/1/18 - 9/30/18	\$ 8,131.97
STATE STREET GLOBAL ADVISORS (S&P 500)	7/1/18 - 9/30/18	\$ 4,743.95
TWIN CAPITAL MANGEMENT	7/1/18 - 9/30/18	\$ 28,801.12

Total Vendor Invoices for Approval

\$361,678.76

### 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 November. The following applications were filed.

- Early Voluntary – 7
- Full Retirement – 5
- Disability – 1
- Payment Plan – 2

### MANAGER'S REPORT

Walt Szymanski: If you turn to the manager's report, we will start with the dashboard on page one. I'll go over some highlighted sections. Retirement payroll is up 5.66%. Total contributions have increased by 8.47%; contributions refunded are up 17.41%. Pension estimates are up 30.45%.

So if you turn to the next page, total retirement's year-to-date are up 6%, and capital calls are down 22.1%. Capital calls for the last month were \$1.45 million dollars and the office budget is well within range for this time of year; I will be bringing a final 2019 budget next meeting for review.

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Ms. Liptak to authorize the Board to renew the Labor Management Trust Fiduciary Liability Insurance for January 19, 2019 to January 19, 2020 with a cost of \$42,952.00 dollars.

The Board unanimously approved a motion by Mr. DiCristofaro, duly seconded by Ms. Roka to authorize the Board to renew the Commercial Crime Policy Insurance for January 20, 2019 to January 29, 2022 with a cost of \$3,652.00 dollars.

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. DiCristofaro to authorize the Board to extend the contract with Duncan Financial to provide educational workshops to members with a cost of \$2,000 dollars per quarter and includes 8 workshops per year. Additional workshops will be \$600 dollars; contract effective January 1, 2019 to December 31, 2019.

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. DiCristofaro to authorize the Board to extend the contract with Schneider Downs for payroll assistance for an additional 12 months, expiring December 31, 2019. Contract cost is \$3,000 dollars per quarter which includes 4 visits; additional visits are charged \$300 dollars hourly.

## **SOLICITOR'S REPORT**

The first action item is a request and recommendation that the board consider and authorize a settlement with the surviving spouse of member number 78989, as detailed in the draft agreement provided with the solicitors report. The proposed settlement is with the surviving spouse of that member.

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. DiCristofaro to authorize the Board to approve the settlement for member number 78989.

The second item relates to investment guidelines that are attached as exhibit a to an investment manager agreement that the retirement board has with Earnest. This was discussed in executive session and after a review by the boards' financial consultant; there was a recommendation for an amendment to that guideline. I would like to just read the specific sentence that would be affected by the amendment. That sentence reads "In an effort to control risk the portfolio exposure to any individual GICS sector may not exceed the greater of 25 percent of the total portfolio or benchmark plus five percent." The proposed amendment would be to change the 25 percent in that sentence to 30 percent.

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. DiCristofaro to authorize the Board to approve change in the investment guidelines from "25 percent" to "30 percent".

Solicitor's Report is current as of November 8, 2018. No questions or additional comments.

## **WILSHIRE**

Craig Morton: We won't spend too much time on the quarterly report before we talk about what happened in the markets. So just briefly touch on a few pages in that quarterly report. Starting on page 18, which has the monthly summary of the asset allocation versus policy. Not a significant change. Here we see an overweight to public equities offsetting the underweight in private equity, an overweight to

real estate and a slight underweight to public real assets that again, it's an effect of removing the commodities exposure at the beginning of the year, slight underweight to core fixed income as well.

On the next page, you can see the performance for the total fund versus the benchmark. And then the standard and Poor's and Bloomberg's aggregate index, which are abroad equity and fixed income index. You can see for the quarter, the fund was slightly behind the policy benchmark returning 2.89% versus the 3.31% of the policy. Equities did very well; the SNP was up 7.7%. Bloomberg aggregate was flat. Over longer periods you can see the fund has been pretty much in line with its policy benchmark below that of the return of stocks, but above that of what bonds have returned, as expected. We jumped briefly to page 22, which shows the composite returns. In general, most of the composites with active management underperformed for the quarter of while still being positive. That was true of US Equity, Non US Equity and Global equity. Core fixed income was able to add some value over the benchmark aggregate, which I just mentioned was relatively flat.

A high yield was slightly behind. Well TIPs were a roughly in line. On the next page, the real estate composite continued to add value in the quarter, outperforming by three quarters of a percent, and then a MLPs were down for the quarter, but I'm so far this year they're in line with the benchmark. On page 24 again the 2.89 of the total fund lagged the policy benchmark of 3.31 by about 40 basis points. In general this year, again due to active managers struggling to keep up with the indices, the fund is slightly behind the policy benchmark, but we can see over 3, 5 and 10 years remains 20 to 30 basis points ahead.

Just briefly on a few of the composites in more detail. Jumping to page 30, again, active management in general in US equity had a difficult quarter, Earnest small value, Emerald small cap, and the Fragasso large core, were able to add value. While the other active managers all lagged their benchmark for the year to date period. Most of the managers have also struggled to keep up in the US equity, which has been the strongest market, by a pretty wide margin except on page 31, Ethos, CIM and Emerald all cap are the managers that have added value year to date. So for the quarter and year to date, the US equity composite is about 70 basis points behind the benchmark. So coming into the quarter, roughly even at now, trailing by about 70 basis points. A similar story in non US markets jumping forward to page 45, a tough quarter for all the managers, the total composite lagged by 20 basis points, which is two thirds of the underperformance for the year on the year to date basis; Baillie Gifford has added some value, but a Fidelity and Segal Bryant have lagged their benchmarks.

Just to end on a point of good news, we'll jump forward to the fixed income managers, which have done a good job is as rates have been rising in fixed income is generally struggled this year. Your active managers in core fixed income on page 57 have generally added value for the year and for the quarter, the total composite numbers on page 58 up 20 basis points for the quarter up 50 basis points for the year to date period. So active managers have added value in core fixed income in part because some of these managers keep a lower duration than the benchmark, so they haven't been as negatively impacted by rising rates. So those are the few details we wanted to touch on before. Like I said, we focus more on what's happened since the end of the quarter.

Felicia Bennett: Any questions, so if you go to the perspectives, one page document and Craig just reviewed third quarter numbers where the equity markets were up 7.27%, and you can see that the entire third quarter gain was erased with a negative 7.29% for the month of October for US equities. Then as you look down that first column, you can see that every single number of bar one is negative. So US equity markets were negative Non US Equity markets, fixed income and real assets all posted

negative numbers for this month and on a year to date basis, the US equity market is up about two percent positive. So we do still have some positive numbers. All the markets are down a little bit today, so we've given back a lot of the 9.8% gain that we had seen in the third quarter report. Non US equity markets are negative about 11%; about half of that negative number is due to currency. The dollar is at a 16 month high right now, so about 5% of that negative 11 is due to the translation of the dollar relative to those Non US currencies.

On the fixed income side, you can see that the Bloomberg Barclay's aggregate, that's the core bond index on a year to date basis is negative 2.4%. This is in response to rates rising pretty much across the curve over the course of the quarter. That 10 year treasury is over three percent now, 3.08%, which is off a few basis points from yesterday. Despite that slight pull back, it's still one of the highest yielding 10 year bonds out there. If you take that and contrast with the UK, which is under 1.5%, the German 10 year bond is 35 basis points, so still a very strong yield relative to other global fixed income markets and despite the pullback in the equity markets, the Fed is still expected to raise rates again at its December meeting so that the equity number is just one metric that they look at and still see enough signals of positive growth in the US economy that they're expected to go ahead with that rate hike again in December. And the markets are pricing in another couple of rate hikes still in 2019.

Seeing a lot of chaos in the non US markets. Theresa May in the UK, announced her Brexit plan expecting to have the support of her cabinet. She has had a couple of cabinet members resign today. So whether or not that deal is able to go through, still remains an unknown. The US is still having its own issues with the trade negotiations and tariffs and the impact of those tariffs is still yet to be seen on certain US companies and markets. We've got the wild fires raging in California, California utilities and utilities in general down quite substantially with some allegations that there might be some responsibility for those fires. Retailers are down; real estate investments are down given any exposure or expectation for lower retail numbers coming in this holiday season. So sort of a bleak picture right now for the markets. There's a lot of sensitivity to negative news and we haven't seen a lot of positive news on the horizon so we're hoping to hold steady with some positive returns as we close out the calendar year. But it's a not a positive a week so far. And Happy Thanksgiving.

## **ASSET STRATEGY**

Ed Boyer: Good afternoon and we'll try and improve upon the outlook here a little bit. We heard from two managers during the executive session. One was called Farol Private Equity. They operate in the lower middle market buyout space, private equity; they have a good track record. We've provided due diligence on them and a favorable fee structure and we'd like to propose an investment with them, in the memo was \$3 to \$5 million dollar proposal; in this case let's make it \$4 million dollars for the official proposal.

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. DiCristofaro to authorize the Board to approve a \$4 million dollar allocation to Farol Private Equity.

In addition to that, we heard from JMI. That was a very long history in the space of just doing software. They have a great record and they provided a strong return profile. They worked very hard to add value and hope to double your money over the period of time during the investment horizon. There are recommendations from \$2 million to \$3.5 million dollars. We'd like to make the recommendation that you'd invest \$3 million dollars into JMI.

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. DiCristofaro to authorize the Board to approve a \$3 million dollar allocation to JMI.

## **PFM**

Perry Giovannelli, today in the meeting you listened to a presentation from Maplewood Capital, with their global macro strategy. At this point I recommend that you do a \$1 million dollar investment into the emerging manager program with Maplewood Capital.

Mr. Weinstein: Maplewood is a Pennsylvania based company?

Perry: Yes, it's a Pennsylvania based firm. It's out in the Philadelphia the area.

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. DiCristofaro to authorize the Board to approve a \$1 million dollar allocation to Maplewood Capital.

## **COWDEN**

Brad Rigby: We've completed the 2018 valuation reflecting census as of 1/1/18. I'm going to be brief with this because it is still a, just a snapshot valuation reporting information that occurred during the prior year. It doesn't reflect the market performance or any changes that have occurred since the beginning of the year. This is more of a compliance type of measurement. A key metric that we tend to focus on is the total funded to status ratio and due to exceptional investment performance over the course of 2017, the total funded status ratio improved, 73.4% at the beginning of 2017. And as of the beginning of 2018, it is 77.3%. Again, that's primarily an asset side improvement as opposed to a liability decrease. And I will note that we continue to use a straight market value of assets as opposed to any smoothing which hides gains or losses and spreads things over a period of time. So this is a true clear picture of where the fund stands as of this point in time. At the next meeting we'll be bringing forward recommendations for any changes if our calculations would warrant any recommendations for contribution for 2019, but that's not the purpose of this report.

## **NEW BUSINESS**

Mr. Weinstein: I am going to appoint a subcommittee of the board as we always do, to analyze the contribution rate and to meet with you and Paul and come back with a recommendation for the month of December. So if you could make yourself available, I know it's Thanksgiving and the holidays coming, but it would be very important. I'm going to ask Jennifer Liptak to chair the committee as she has done in the past; along with Controller Wagner, Sarah Roka, Janice Vinci, and Amy Weise.

Mr. DiCristofaro: I received a phone call yesterday by a member who had attended the seminar that Carol puts on. The members wanted to let me know how nice and informative the meeting was. Carol did such a wonderful job. It was such an informative meeting that I wanted to bring that up to the board's attention how nice it was that. So keep up the good work. Thank you for taking your time to put together such a productive and a very nice thing for our members.

Mr. Weinstein: On behalf of the board I would like to wish everyone a very happy and blessed Thanksgiving and we will see you all next month.

**NOTE:** Executive session was held prior to the Board meeting.

**ADJOURMENT**

The Board unanimously approved a motion to adjourn at 12:33pm.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Chelsa Wagner", is centered on the page. The signature is written in a cursive, flowing style.

Chelsa Wagner, Secretary