NORTHAMPTON COUNTY RETIREMENT BOARD MINUTES

FEBRUARY 27, 2015

10:00 AM

1. Call of the Role. The following members of the Hugh Moore Trust Board were present: Mr. John A. Brown, Mr. Jim Hunter, Mrs. Margaret Ferraro, Mr. Hayden Phillips, Mr. John Stoffa, and Ms. Cindy Smith. Mr. Glenn Geissinger was absent.

Others present:
Mr. Michael Shone, Investment Management Consultant - Peirce Park
Mr. Pat Wing, Investment Consultant, Peirce Park
Mr. David Ceraul, County Solicitor

2. Courtesy of the Floor – None

3. Swearing in of new Board Members

The members listed below have taken the oath of office and are now members of the Board.

Mr. Hayden Phillips – County Council Representative
Mr. John Stoffa – Retiree Representative
Ms. Cindy Smith – Employee Representative

4. Approval of the December 5, 2014 Retirement Board Meeting Minutes

Mr. Stoffa asked that the following correction be made:

Mr. Jim Hunter should be listed as an attendee under Call of the Roll

Mr. Hunter made a motion to approve the minutes with the correction. Mr. Brown seconded the motion. The voting was as follows:

Ayes: Mr. Brown, Mr. Hunter, Mr. Phillips and Ms. Smith

Nayes: None

Abstentions: Mrs. Ferraro, Mr. Stoffa

✓ Minutes Approved

5. Peirce Park Performance Report – Mr. Michael Shone

Mr. Shone provided the Board with an economic overview. Mr. Shone stated that U.S. equities topped international equities, for the last one, three and five years. Bonds did better than expected last year because interest rates came down. Mr. Shone stated that he expects international stocks to do better in the long term. Mr. Shone remarked that Large
and Mid Cap Stocks outperformed small company stocks in 2014. Mr. Shone stated this is why Peirce Park rebalances the portfolio, using a very disciplined process. Mr. Shone remarked, when stocks are 3 percentage points above or below the target (70%) during the quarter, the fund is rebalanced back to the target. Mr. Shone continued, at the end of the quarter if the stocks are +/- 1 percentage point, the fund is rebalanced.

Mr. Shone reviewed the following 2014 Accomplishments:

- Amended IPS
  - Increased domestic equity target from 49% to 50% and international from 16% to 20%
  - Decreased bond target from 34.5% to 29.5% and cash target from 1% to 0.5%

- Asset/Liability Study

- Real Estate
  - Education
  - Manager Search: committed to JPMorgan Strategic Property Fund and Morgan Stanley Prime

- Portfolio changes
  - Added Artisan Global Opportunities, MFS Global Low Volatility, and Causeway International
  - Removed Harding Loevner International, Oakmark International, and T.Rowe Price Large Cap Growth

Mr. Shone stated that the required paperwork for entrance into the real estate market was completed at the end of 2014; we should be moving into this market at the end of this year. Mr. Shone continued, when we invest in real estate the policy statement indicates that we will lower the equities from 70% to 68% and the other 3% will come from fixed income. Mr. Phillips asked if we would be investing in real estate investment trusts. Mr. Shone replied that one is a CIT and one is a limited partnership. Mr. Shone stated that one is managed by JP Morgan and the other Morgan Stanley. Mr. Phillips asked if they these were publically traded. Mr. Shone indicated that they are not; they are privately traded. Mr. Shone stated that they are not as liquid as a REIT, but somewhat liquid. Mr. Phillips asked what goals or percentage would be invested in Real Estate. Mr. Shone replied it would 5% and equally split between the two firms.

Observations

- December 31, 2014 Market value: $349.3 million
- 4th quarter gain; +$8.1 million 4th quarter return: 2.4% (gross)
- 2014 gain: +$21.4 million 2014 return: 6.7% (gross)
- Strong performance versus peer group and benchmark
  - Asset Allocation
  - Global equity managers
- Watch List
  - Thornburg Global Opportunities
  - Target Small Capitalization Value
Mr. Phillips asked if there was going to be a change, does Pierce Park have the authority to make the change or does it need to get approval from the Board. Mr. Shone replied that Pierce Park has full authority. Mr. Stoffa stated that the Board had given Pierce Park the authority to make changes as needed rather than wait for the quarterly meetings. Mr. Shone reminded that Board that Pierce Park cannot change the target asset allocation.

Mr. Shone stated that the County does a wonderful job communicating monthly cash flow needs. Mr. Shone stated that we should expect net cash outflows because the ARC (annual required contribution) is going down and benefit payments are going up. Mr. Stoffa asked whether the ARC would eventually go down. Mr. Shone replied that the ARC has been going down because investment returns have been greater than the 7.5% assumed rate of return. Mr. Phillips asked how we plan for pension liabilities. Mr. Brown stated that this is actuarially calculated and that we can expect this information from Hay in April. Mr. Brown stated that the Board would review this report at the next retirement board meeting. Mr. Brown continued, Fiscal makes an assumption during the budgeting process and then the HayGroup comes back with the actuarial calculation. Mr. Brown stated that we make certain assumptions, 4.5% salary increases and 7.5% investment return. Mr. Shone stated that there are predictable cash flows and with the information from the HayGroup Pierce Park can predict various ARCs, based on different assumptions. Mr. Shone stated that knowing that there is an expected cash outflow something to consider would be to set up a dedicated bond portfolio that would mature at various times so that you are not forced to sell securities, at an untimely basis.

Mr. Shone stated that Bank of New York/Mellon’s services have recently deteriorated, as communicated by Pat Strunk in the Fiscal department. Mr. Shone stated that some disruption may have been caused by a BNY Mellon’s new computer system, and relocation. Mr. Shone stated that this change in service was noted by other Counties as well. Based on this change in customer service Pierce Park sent out an RFI (Request for Information) for these services. Mr. Shone provided the following results from the RFI: PNC, who currently supports two of their clients declined to respond due to the complexity. U.S. Bank indicated that they were very interested, but never responded. M&T Bank/Wilmington Trust provided a response.

Mr. Shone stated he was unsure as to why PNC thought that Northampton County was too complex. Mr. Shone indicated that his firm did several follow ups with U.S. Bank, but they chose not to respond. Mr. Shone stated that M&T Bank/Wilmington Trust gives excellent service to the clients, but their price was $30,000 more than the County is currently paying. Mr. Shone stated that he might be able to negotiate this price, but he didn’t expect that it would get down to the price that we are currently paying BNY Mellon.
Mr. Hunter stated that Pat Strunk has indicated that the service is improving, but the bank statements are still difficult to decipher. Mr. Phillips asked if Bank of New York knew that we had an RFI out. Mr. Shone stated that they did. Mr. Shone stated that moving to another Custodian requires change and this may be difficult for the Retirees. Mr. Shone stated that it would be the Board’s decision if they wanted to move to a new Custodian.

Mr. Brown asked for a motion to end the meeting.

Mr. Stoffa made a motion to end the meeting and Mr. Hunter seconded the motion.

Meeting adjourned