NORTHAMPTON COUNTY RETIREMENT BOARD MINUTES

June 6, 2016

4:00 PM

1. **Call of the Roll.** The following members of the Retirement Board were present: Mr. John Brown, Mr. Jim Hunter, Mr. John Cusick, Mr. Glen Geissenger, Mrs. Margaret Ferraro, and Mrs. Cindy Smith. (Mr. Stoffa, absent)

   Others present:
   Mr. Michael Schone, Investment Management Consultant - Peirce Park
   Ms. Amy Trapp, Director of Human Resources
   Mr. David Ceraul, Assistant County Solicitor
   Mr. Brandon Dunstane, Fiscal

2. **Courtesy of the Floor –** Nothing

3. **Approval of the March 7, 2016 Retirement Board Minutes**.

   Mrs. Smith made a correction to the Minutes. She indicated the documented vote was incorrect, as she had voted "NO" and Mr. Hunter had voted "YES", on item #2, Courtesy of the Floor.
   Mr. Brown made a motion to accept the Minutes, as amended.
   Mr. Cusick seconded the motion.

   Vote was called: Ayes: Unanimous
   Nays: None

   ✓ **Minutes Passed**

4. **2016 Actuarial Valuation report – Mr. Jim Hunter**

   Mr. Hunter gave a summation and review of the Hay Group's report.
   - 2016 ARC = $10,552,461 / $12.5m budgeted (+ $2m)
   - Real Estate Investments
     - 2014 = $0
     - 2015 = $17.5m
   - 70% of portfolio invested in Equity Mutual funds (Domestic/International)
   - 20% Fixed income
   - 5% Real Estate

- Membership ratio in fund
  - 1136 – Retirees
  - 110 – "Vested"
  - 1875 – Currently Contributing into fund
- Since 2006, and each subsequent year, the County has contributed 100% of the recommended actuarial amount
- 2014 the acronym "ARC" became "Actuarial Determined Contribution" within the report
- Funding
  - As of January 1, 2016, the fund is 86% funded on an "actuarial basis"
  - On "market value" basis, 92% funded
- Assumptions
  - 7.5% Investment Return
  - 4.5% Project Salaries
- Rates of Return
  - 2014
    - 10.49% (Actuarial Rate)
    - 6.51% (Market Value)
  - 2015
    - 7.83% (Actuarial Rate)
    - 0.15% (Market Value)
  - Smoothed to 5-year average
    - 7-7.5% (Both Actuarial and Market Values)

5. **Performance Report – M. Shone**

Mr. Shone began by briefly discussing the Market environment. There continued to be decline in economic activity throughout the first quarter. Weaker-than-expected consumer spending once again was a primary cause of the sluggish growth. The FED had expected to push interest rates four times. However, they may only move twice or not at all. The pace of inflation is slower than expected, at 1.5% overall.

Equities experience a sharp decline to start the year. However, there has been a sharp reversal which began in the second-half of Q1. Emerging Markets are up 5.7%. Fixed income sectors are performing well, International and Emerging Market bonds are up 9% and 11% respectively.

Pension Fund

- Market Value (March 31, 2016): $342.51 million
- Q1 Gain: +$4.1 million
- Q1 Return: 1.3% (Benchmark: 1.2%) Peer Group ranking: 51
- 1 Year Gain: -$2.2 million
- Q1 Return: 0.4% (Benchmark: 1.0%) Peer Group ranking: 35

6. **Performance Updates – M. Shone**

There has been some concern in relation to service. Mr. Shone explained a recent move at Bank of NY. Between 2003 and 2014 they did extremely well; however, there has been a recent slide. Peirce Park has been watching, and are prepared to make a change if necessary. A move would come at a price. On a positive note, both Mr. Shone and Brandon Dunstane feel performance and service over the past month has vastly improved. Mr. Shone will continue to keep a close watch on the situation and update as necessary.

Our fund being Mid-Cap heavy proved beneficial. Mid-cap Value stocks did very well and continue to grow. Mr. Shone discussed other options as part of a possible plan, moving forward. He continues to strongly advise against Hedge Funds and explains only Hedge fund managers benefit from them. He is preparing an educations presentation concerning Timberland and Farmland investments. He explained this type of diversity would be similar to the move we made recently into Real Estate Markets.

7. **Asset Liability – M. Shone**

Mr. Shone discussed actuarial assumptions and planning ahead. An Asset Liability update can help to answer contribution and budgeting questions. Making changes to our actuarial assumptions could affect our budget and financial statements.

Current Actuarial Assumptions:

- Actuarial Assumed Investment Return: 7.5%
- Salary Increase Assumption: 4.5%
- Inflation Assumption: 3%
- Valuation of Assets: Five Year Smoothed
- Actuarial Cost Method: Entry Age Normal

Mr. Shone demonstrated several scenarios and the effects of lowering actuarial assumed returns, salary increase assumptions and lower actual returns. Some of the keys to consider are to expect lower than “normal” investment returns for the next 10 years. Expect lower than “normal” inflation (and therefore lower salary increases) for the next 10 years.

Mr. Cusick had a question concerning changing the benefit formula for new hires. Several Counties have implemented this and others are considering. Mr. Shone discussed Act 96 and the impact it may have long-term. Mr. Shone will provide more information and updates.

With no further business, Mr. Hunter made a motion to adjourn the meeting.
Mr. Brown seconded the motion.

Vote was called: Ayes: Unanimous
Nays: None

Meeting adjourned