RETIREMENT BOARD MEETING **December 1, 2021**

1. Opening of Meeting.

2. Approval of Minute No. 284 dated September 16, 2021.

3. Public Comment.

4. Treasurer's Report:

   Bank Reconciliations – September 2021 and October 2021.

5. Requisitions:

   Requisitions – September 2021, October 2021 and November 2021.

6. Old Business.

7. New Business:

   A. Approval of a request from Patricia Ashcom to purchase prior service time dated from June 9, 1986 to July 31, 1991 in the amount of $6,351.33.

   B. Cost of Living Discussion.

   C. Investment Policy Update.

   D. OPEB Custodian Search.

   E. Portfolio Presentation: Lee Martin, Ph.D. – Marquette Associates.

8. Adjournment.

Minute No. 284 September 16, 2021

The quarterly meeting of the Washington County Retirement Board was held at approximately 3:58 p.m. on Thursday, September 16, 2021, in the public meeting room with the following members being present: Commissioners Diana Irey Vaughan, Nick Sherman and Larry Maggi; Treasurer Tom Flickinger and Controller Michael Namie. Also present: Chief of Staff John Haynes; Finance Director Joshua Hatfield; County Solicitor Jana Grimm; Chief Clerk Cindy Griffin; Secretary Paula Jansante; Lee Martin, Ph.D. representing Marquette Associates and David Reichert representing Korn Ferry.

Approval of Minutes

Mrs. Vaughan entertained a motion to approve Minute No. 283 dated June 3, 2021. The motion was moved by Mr. Sherman and seconded by Mr. Maggi that the above-mentioned minutes be approved as written.

No discussion followed.

Roll call vote taken:

Mr. Namie – yes; Mr. Flickinger – yes; Maggi – yes; Mr. Sherman – yes; Mrs. Vaughan – yes.

Motion passed unanimously.

Public Comment

None.

Treasurer's Report

Mr. Flickinger presented the April, May, June, July and August 2021 statements stating that all months are in order. It was moved by Mr. Flickinger and seconded by Mr. Sherman to accept the reconciliations of the above-mentioned statements.

No discussion followed.

Roll call vote taken:

Mr. Namie – yes; Mr. Flickinger – yes; Mr. Maggi – yes; Mr. Sherman – yes; Mrs. Vaughan – yes.

Motion passed unanimously.

Retirement Allowance Report

Bank Balance as of April 1, 2021	**$ 96,771.19**
Deposits to Checking Account	2,439.94
Transfers In	312,228.66
Add: Other Credits	617,022.04
Less: Cancelled Checks	(105,316.35)
Less: ACH Debits	(833,359.41)
Bank Balance as of April 30, 2021	**$ 89,786.07**
Transfer to Mutual Funds	(15,353.49)
Less: Outstanding Checks	(46,806.18)
Less: Retirement Check Run	(27,626.40)
Reconciled Balance as of April 30, 2021	**$ -0-**

Bank Balance as of May 1, 2021	**$ 89,786.07**
Add: ACH Credit	261,175.80
Add: Other Credits	766,525.48
Less: Cancelled Checks	(162,967.39)
Less: ACH Debits	(854,051.68)
Bank Balance as of May 31, 2021	**$ 100,468.28**
Transfers to Mutual Funds	(14,649.49)
Less: Outstanding Checks	(52,263.80)
Less: Retirement Check Run	(33,554.99)
Reconciled Balance as of May 31, 2021	**$-0-**
Bank Balance as of June 1, 2021	**$ 100,468.28**
Deposits to Checking Account	5,435.00
Transfers In	22,963.82
Add: ACH Credit	323,745.75
Add: Other Credits	678,250.59
Less: Cancelled Checks	(90,110.78)
Less: ACH Debits	(839,905.68)
Bank Balance as of June 30, 2021	**$ 200,846.98**
Transfers to Mutual Funds	(47.10)
Less: Outstanding Checks	(166,668.04)
Less: Retirement Check Run	(34,131.84)
Reconciled Balance as of June 30, 2021	**$-0-**
Bank Balance as of July 1, 2021	**$ 200,846.98**
Deposits to Checking Account	7,546.55
Add: ACH Credit	288,852.28
Add: Other Credits	1,011,263.99
Less: Cancelled Checks	(444,081.94)
Less: ACH Debits	(912,314.14)
Bank Balance as of July 31, 2021	**$ 152,113.72**
Transfers to Mutual Funds	(94.20)
Less: Outstanding Checks	(121,744.38)
Less: Retirement Check Run	(30,275.14)
Reconciled Balance as of July 31, 2021	**$-0-**
Bank Balance as of August 1, 2021	**$ 152,113.72**
Add: ACH Credit	282,772.90
Add: Other Credits	696,342.60
Less: Cancelled Checks	(162,511.29)

Less: ACH Debits	(856,090.54)
Bank Balance as of August 31, 2021	**$ 112,627.39**
Less: Outstanding Checks	(88,413.32)
Less: Retirement Check Run	(24,214.07)
Reconciled Balance as of August 31, 2021	**$ -0-**

Requisitions

Mr. Namie stated that requisitions for the months of June, July and August 2021 totaled $3,331,540.14.

It was moved by Mr. Namie and seconded by Mr. Sherman that the requisitions be approved.

No discussion followed.

Roll call vote taken:

Mr. Namie – yes; Mr. Flickinger – yes; Mr. Maggi – yes; Mr. Sherman – yes; Mrs. Vaughan – yes.

Motion passed unanimously.

Distributions

June 2021

Check	Payee	Amount
2194	Washington County Cash Disbursement Account	$ 3,143.51
2195	Marela Benitez	3,232.26
2196	Mark Gramm	36.93
2197	Dawn Simko	825.01
2198	Dakota Snyder	4,519.88
2199	UMB Bank FBO Kathy Ross	142,064.34
2200	Jacquir Baston	38.36
2201	Washington County Regular Payroll Escrow Account	21,984.52
Transfer	PNC Bank	57,225.83
Transfer	Washington County Retirement Account	812,570.66
	Total June 2021 Distributions	**$ 1,045,641.30**

July 2021

Check	Payee	Amount
2202	Jeannie M. Ayd	$ 8,017.30
2203	Beth A. Lindey	242.21
2204	Ronald C. Revi	422.04
2205	Roxanne Rizak	242.21
2206	Richard Black	13,907.15
2207	Catherine Buchanan	22,691.01
2208	Storehouse Investments-Trustee Abby L. Cook IRA	10,285.55

2209	Fidelity Management Trust Co-Trustee Carlos Correa IRA	2,040.37
2210	Olivia Cypher	2,640.77
2211	Jacob Fritch	6,691.69
2212	Deborah Furbee	5,280.45
2213	Philip Milostan	288.72
2214	Onilee Moore	26,439.78
2215	Amy Mruk	38,931.66
2216	TD Ameritrade Clearing-Trustee Kelly L Mummert IRA	1,513.21
2217	Stephen Sobocinski	78.21
2218	Cheryl L. Valvo	2,465.89
2219	Michael Costello	35,557.18
2220	Deborah S. Hammond	49,356.65
2221	Washington Financial as Trustee of IRA of Lois A. Pettit	19,525.96
2222	Darla R. Mayton	40,160.61
2223	Eileen Retamal	6,189.76
2224	Carrie M. Sprowls	24,696.80
2225	Washington County Payroll Account	21,659.48
2226	Washington County Cash Disbursement Account	29,471.21
Transfer	PNC Bank	123,818.07
Transfer	Washington County Retirement Account	815,001.78
	Total July 2021 Distributions	**$ 1,307,615.72**

August 2021

Check	Payee	Amount
2228	Justine A. Cleveland	$ 242.21
2229	Audrey Dorsey	242.21
2230	Mariela Benitez	252.70
2231	Liza Blanco	840.21
2232	Saquan Clark	351.12
2233	Dylan Culbertson	474.42
2234	Steffan Keeton	7,856.40
2235	Monica Piontek	3,114.35
2236	Denise Sexton	4,222.18
2237	Fidelity Net Benefits as Trustee of IRA of Karly Steele	2,649.74
2238	Jon Tustin	31,474.80
2239	Washington County Cash Disbursement Account	27,372.21
2240	Washington County Payroll Account	21,831.08
Transfer	PNC Bank	62,456.25
Transfer	Washington County Retirement Account	814,903.24
	Total August 2021 Distributions	**$ 978,283.12**

Old Business

None.

New Business

Mrs. Vaughan entertained a motion to approve a request from Nancy Wyland to purchase part-time service credit dated from November 4, 2019 to September 16, 2020, in the amount of $1,425.47.

It was moved by Mr. Sherman and seconded by Mr. Namie that the service credit request be approved.

No discussion followed.

Roll call vote taken:

Mr. Namie – yes; Mr. Flickinger – yes; Mr. Maggi – yes; Mr. Sherman – yes; Mrs. Vaughan – yes.

Motion passed unanimously

Mrs. Vaughan entertained a motion to approve adding Robbins Gellar Rudman & Dowd, LLP as an additional securities litigation firm as discussed at the previous meeting held on June 3, 2021.

It was moved by Mr. Sherman and seconded by Mr. Maggi that the request to add the securities litigation firm be approved.

No discussion followed.

Roll call vote taken:

Mr. Namie – yes; Mr. Flickinger – yes; Mr. Maggi – yes; Mr. Sherman – yes; Mrs. Vaughan – yes.

Motion passed unanimously

Actuary Presentation – David Reichert – Korn Ferry

Mr. Reichert started off the actuary presentation stating that before going over the numbers for the 2021 valuation report, he wanted to mention that the County fund is in really good shape explaining that the County continues to make its contributions, keeps the benefits to employees affordable, and has managed its liabilities very well. He went on to state that during the valuation process, Korn Ferry reviews the demographics and investments for the prior year, calculates the funded ratio by comparing the assets to the liabilities and determines the Actuarially Determined Contribution (ADC) for the current year 2021.

Mr. Reichert explained that Korn Ferry tries to keep the valuation process as consistent as possible from one year to the next with the understanding that the ADC is a tool used in the budget process in determining the desired funding needed to meet the benefit obligations. He specified that the asset smoothing method is the approach used to dampen the effect of investment market volatility. Mr. Reichert stated that Korn Ferry uses a 5-year smoothing which recognizes twenty percent of the gains/losses for each year over a 5-year period to determine the Actuarial Value of Assets which smooths the fluctuations of the markets. Currently, in good times, the Market Value of Assets shown on the presentation graph is showing higher than the Actuarial Value of Assets which demonstrates that monies can be put in reserve during good times to hedge the County's funding risks against bad times as experienced in 2019.

Moving to the demographics, Mr. Reichert pointed out the consistency between the 2021 and the 2020 valuation periods with the active participant count at 747 and 751, respectively. He also commented that the average age and average service remained consistent with the average annualized compensation up slightly at around 1.6% due to the assumption of the 3.5% annual increase. The number of annuitants and beneficiaries was 848 for 2021 and 841 for 2020, and the number of inactive and vested participates was 158 for 2021 and 147 for 2020 which also illustrates the consistent nature of the demographics. These demographics are used in determining the ADC which was calculated at $4,648,159 (Funded Ratio 89.8%) for 2021 and $4,962,184 (Funded Ratio 86.0%) for 2020. Mr. Reichert explained that a desirable funded ratio is anywhere from 80 to 100 percent.

Mr. Reichert directed attention to the national investment return graph in the presentation that shows the national median average assumed rate of return for public funds about 20 years ago at 8% which has steadily decreased to the current median of 7%. Washington County is currently well below the average at 6.5%. He emphasized that the County has shown a conservative approach with funding as well as with the ARR assumptions. He made the point that when looking at just the Funded Ratio by Pennsylvania Counties, it appears that Washington County is approximately in the middle of its peers at 89.8% but that Marquette Associates adjusts the numbers by also considering the ARR. In other words, Marquette's calculation will compare apples to apples bringing Washington County's funded ratio up to approximately 99% relatively speaking.

To wrap up the presentation, Mr. Reichert communicated to the Board that the estimated ADC letter for 2022 would be distributed to the Board in October 2021 and that the data request and financial information memos for the January 1, 2022, valuation would be sent in December 2021. After some discussion, it was determined that the Board would submit the September 2021 financials as the basis for the 2022 Cost-of-Living adjustment (COLA) letter which is required to be reviewed every three year. Mr. Reichert stated that the COLA letter for 2022 would be distributed in October 2021. In closing, Mr. Reichert reiterated that the Washington County Fund is in good shape. He went on to state that Korn Ferry services 47 counties and that Washington County comes up as the envy of a lot of counties because of how well it is run.

Portfolio Presentation – Lee Martin, Ph.D. – Marquette Associates

Mr. Martin began by updating the Board on the tasks assigned to Marquette Associates from the last meeting. The first being the RFI for an additional securities firm which was voted on earlier in today's meeting. The second is the new Investment Policy Standard (IPS) which is in progress and will consolidate all of the addendums to the current IPS to create a more comprehensive and comprehensible IPS. Lastly is the search for a new director trustee of the OPEB fund to replace BNY Mellon. Mr. Martin stated that a few banks have sent Marquette statements which are currently being evaluated.

Moving to the economy, Mr. Martin stated that the economy continues to gain momentum as the world reopens with GDP slightly below expectations at 6.5%. Growth, however, is expected to moderate over the next few quarters coming back in line with pre-pandemic levels as the Fed moves to a more contractionary fiscal policy. Mr. Martin emphasized that the big story of the year is the rebound in inflation. He indicated that it is no surprise for inflation to increase after a recession but, to make matters worse, the pandemic has also disrupted the global supply chain. Mr. Martin explained that the expectations indicate that the rise in inflation will be transitory. As the economy adjusts, inflation is expected to settle in at the 2.0%-2.5% range in the next few years which is more in line with historic norms.

With regard to the indices, Mr. Martin stated that U.S. stocks led the way for the quarter up 8.2% with growth equities finally leading the way again over volatile low-quality and value stocks as rates came down during the quarter. Mr. Martin explained that as rates came down it became bullish for bonds this quarter noting that core bonds were up 1.8%, noting that over the past year core bonds were still -0.3% while high-yield bonds were up 15.4% for the same time period. He also explained that inflation-sensitive assets posted solid results noting that TIPS were up 3.2%, outperforming the broad core bond market and that commodities and REITs well outperformed the broad equity markets.

Moving to the County's pension fund, Mr. Martin presented the pension fund's observations with the pension fund finishing the 2nd quarter at $205.6 million. The fund gained $10.1 million for the 3-month period returning 5.2% in Q2, outperforming the policy index of 5.0%. Positive attribution came from global equities, defensive equity (VRP), real assets and fixed income. Negative attribution came from underweight large cap equities and defensive low volatility equities. Longer term, the fund gained $126.4 million over the past 10 years with a return of 8.9%, slightly under the policy index of 9.2% but well above the benchmark of 7.6% and assumed rate of return of 6.5%. Looking ahead, real estate changes are ongoing phasing out J.P. Morgan completely as of August adding both Clarion and TA Realty as well and directing recent allocations to open ended private equity and credit strategies.

Directing attention to the Asset Allocation Summary, Mr. Martin showed that even with a $200M size fund, the portfolio is well diversified in asset classes with U.S. stocks and global and international stocks as well as the liquid Volatility Risk Premium (VRP) with expenses around 32 basis points, compared to the expenses of hedge funds which is approximately 220 basis points. Continuing, he stated that the fund also includes real estate, timber, farmland, infrastructure, along with both private credit and equity as well as fixed income. This highly diversified fund helps smooth out the highs and lows through reducing volatility which in turn, leads to a more consistent ADC to the County. Mr. Martin mentioned that the equities in the Total Equity Composite are higher quality. He explained that as the assumed rate of return was dialed down, the fund was rebalanced to include underweight volatile investments and overweight less volatile investments such as staples and healthcare. With respect to the Fixed Income Composite, the County fund is currently yielding 1.3%, 44% more than the benchmark of 0.9% due to some exposure to high-yield bonds.

Moving on to the managers, Mr. Martin explained that U.S. equities (7.3%) lagged the bench (8.2%) due to TWIN Capital which is higher quality, but he pointed out that the year-to-date U.S. Equity Composite return exceeded the benchmark, 16.0% to 15.1%, respectively. The Global Equity Composite continues to do well outperforming the bench by about 150 basis points for the year. Mr. Martin noted that there would be changes to the managers bringing the pension fund more in line with the OPEB by moving from the American Funds and Acadia to Artisan and MFS which are currently outperforming some of the legacy managers. For International, the YTD composite return is at 11.5%, exceeding the benchmark by 1.9% mainly due to the performance of the Schroder International Multi-Cap Equity Trust ahead 4.3% for the year. Defensive Equity is doing well for the County ahead 2.7% YTD at 10.1%. The Real Estate Composite returned 4.0%. for the quarter with Clarion outperforming J.P. Morgan by 2.7%. Mr. Martin reminded the Board that because of J.P. Morgan's overweight to retail real estate holdings, the decision was made to phase out J.P. Morgan completely moving funds into Clarion and TA Realty. He pointed out that Clarion outperformed J.P. Morgan by 2.7% for the Q2. Timber came out 300 basis points ahead for the quarter at 4.6%. Continuing, Mr. Martin stated that Infrastructure returned 11.3% for the 1-year period highlighting J.P. Morgan's 10.2% return for the same period coming out 600 basis points ahead of the benchmark. Mr. Martin commented that Infrastructure is a great indirect inflation hedge and that it was fortunate that the County got in when it did as Infrastructure is currently seeing an 18-month to 2-year waiting period for new investments. Finally, the Fixed Income Composite returned 1.2% for the quarter just slightly above the bench as expected as these assets are predominantly high quality and will be used to payout the benefits.

The OPEB fund finished the quarter at $24.1 million, gaining $1.3 million with a 5.7% return for Q2 above the policy index of 5.4%. Positive attribution came from global equities, defensive equity (VRP) and fixed income. Negative attribution came from underweight large cap equities and defensive low volatility equities. Longer term, Mr. Martin stated that the OPEB fund gained $9.0 million over the past 7 years, returning 8.5% well over the benchmark of 7.8% with low investment management fees at 0.40%. In closing, Mr. Martin explained that the County's decision to fund the OPEB has allowed the fund to realize actual gains that will be used to pay out future benefits which will eventually result in savings to the taxpayers. He also emphasized that even with the smaller OPEB fund, Washington County has taken advantage of the benefits of diversification.

The meeting was adjourned at 4:43 p.m.

THE FOREGOING MINUTES SUBMITTED FOR APPROVAL:

______________________________, 2021

ATTEST: ____