BERKS COUNTY EMPLOYEES' RETIREMENT FUND AMENDED MINUTES
BERKS COUNTY SERVICES CENTER
COMMISSIONERS' BOARD ROOM
SEPTEMBER 22, 2016

The Berks County Retirement Fund Board met in a regular session on Tuesday, September 22, 2016, at 8:00 A.M. in the Boardroom on the 13th floor of the Berks County Services Center, pursuant to due notice to Board members and the public.

Chairman Christian Leinbach called the meeting to order at 9:34 AM. Attending were Sandra Graffius, Secretary and Dennis Adams, Treasurer and member Kevin Barnhardt. The following County staff attended: Christine Sadler, Solicitor; Ronald Seaman, Chief Administrative Officer; Robert Patrizio, Chief Financial Officer; Suzanne Baer, Pension Coordinator; Grazyna Nykiel, Senior Governmental Accountant and Coreen Thomas, representative of UFCW. Also attending were: Terry Gerlich, CFA, Jonathan Waite, FSA and Michael Burke, CFA from SEI Global Institutional Group.

APPROVAL OF MINUTES

The minutes of the August 18, 2016 meeting was approved as presented.

PUBLIC COMMENT FROM THE FLOOR

Commissioner Leinbach complimented and thanked Coreen Thomas from UFCW for her diligence in attending the Retirement Board meetings to report back to her union.

PRESENTATION

SEI Investments

Commissioner Leinbach introduced the special SEI presentation regarding potentially changing investment strategy, relative to a long-term view and potentially adding more risk to the portfolio.

Mr. Gerlich briefly guided the Board through last month's performance using the SEI Quarterly Investment Review report. He summarized that the portfolio is on track to meet actuarial assumptions.

Mr. Waite guided the Board through the plan overview, liability overview and pension metrics. He explained that the risk level of the plan is primarily based on information from the actuarial evaluation report.

Mr. Gerlich pointed out that the system expectation is for the portfolio to earn more than the cost of the pension obligation bond. In addition, by being more than fully funded there is an amortization credit. The new benefits being earned this year cost 4.4 million dollars; 2.1 million dollars is appropriated.

Commissioner Leinbach commented that state level politicians declared the expectation of a 7.5% return on a pension investment is "ludicrous" and not realistic going forward. Commissioner Leinbach requested more information.

Mr. Waite explained that SEI is primarily looking at the expectations over the next few years relative to expectations over the life of the plan. Over the life of the plan higher returns are expected, similar to what was seen in the past and based on the assumptions. However, over the next 5 to 10 years, lower amounts are expected. Regarding the fixed income, rates are very low and are not expected to rise over time, which is going to drag on fixed income investments because they move in the opposite directions. On equities, lower returns are also expected. Mr. Waite summarized, over a long term period, he is confident the portfolio can support the 7.5% return. However, over the next decade, the rate of return will be lower.

Treasurer Adams inquired: "During that decade, we are going to be eating up part of the return?" Mr. Waite answered yes, explaining the portfolio will be underperforming the liability growth rate of 7.5%. The actuarially determined contribution continues to push the portfolio toward 100%. Since the portfolio is over 100% funded, there is a credit. To maintain the 105% funded, the contributions would have to be a higher amount.

Controller Graffius inquired if they should be questioning whether to strive for 100%, or continue to attempt to overfund the portfolio. Mr. Waite answered, "Yes," but added that the assets are not going to return 7.5% every year. With expected volatility, he stated "there is some credence to the rainy day fund." He suggested contributing 4.5 million this year to the extent that it can be afforded.

Controller Graffius inquired if the portfolio reached a 7.5% return, would it equal out that 50 year history. Mr. Gerlich explained the short term is expected to have lower returns but there is a reasonable opportunity to still exceed that 7.5% return in some, if not all, 10 year periods. Mr. Gerlich stated that they are forecasting slightly low returns now but to say 7.5% return is "ludicrous" even over 10 years, would be a stretch.

Mr. Waite explained that the hurdle rate of 10%, to maintain 105% funding level, will come from contributions and return. Contributions are coming in at 1.9%. The net hurdle rate coming from the post is 8.1%. Given that the expectation of return is less, there will be deterioration on the funded status. Mr. Waite stated they would support reducing the 7.5% actuary rate if the portfolio was funded 110% to 115%, which would be a method of de-risking the portfolio. Mr. Waite summarized, there will be continued requirement contributions for the plan but it makes sense to look at different portfolios, ways to get additional returns and risk levels.

Mr. Waite compared the current portfolio to more aggressive portfolios for additional returns.

> Portfolio A: Transfers 7% from risk management to the return engine, spread across various equity and return generation asset classes. It will also remove US managed volatility, which provides equity return and exposure in the US but with lower volatility and move into the US Large Cap.

Portfolio B: Adds an allocation to US private equity and removes large cap equity and world equity. This will add several basis points of expected returns and has limited impact on additional risk because of the new asset class.

Portfolio C: Transfers 12% from risk management to the return engine, spread across equity and return generation asset classes. This is a more aggressive version of Portfolio A.

Commissioner Leinbach questioned the significantly higher fee impact on Portfolio B. Mr. Waite explained that this new asset class is relatively expensive in private equity.

Mr. Waite presented the potential outcomes for short term return distributions. He noted the pension fund is not an asset only situation. He stated that liabilities and a multi-year horizon are being considered with the pension fund. Mr. Waite presented the potential outcomes for the 10 year projected funded ratio and indicated that in the poorest scenario, by increasing risk, there is still improvement.

Mr. Waite presented the potential outcome for the projected cumulative employer contributions over 10 years. He noted that Portfolio B listed all lower numbers for projected contributions. By increasing risk, the funded status will move up and the accumulative contributions will move down. Mr. Waite emphasized that this is considering a multi-year period not a single year of return. He reminded the Board that almost 4 years ago the pension obligation bond and the additional contributions were put into fixed income risk management which is the reason it is almost a third of the portfolio. Mr. Waite explained that it made sense to leave these funds in the risk profile for several years to protect the recently contributed assets.

However, Mr. Waite agreed that it made sense to continue to look at ways to reach additional return in the portfolio. He mentioned one third of the assets in that risk management portion of the portfolio were significantly more conservative than other typical public pension funds. Mr. Waite stated "My recommendation, prior to hearing feedback or discussion from the group, will be to move to Portfolio A or B."

Commissioner Leinbach questioned if Mr. Waite thought Portfolio C was too aggressive. Mr. Waite responded he was comfortable with Portfolio C but believes it would be a very large move. He recommended taking a smaller move now and reconsidering Portfolio C in the future.

Commissioner Barnhardt commented that he was more comfortable with Portfolio A because of the difference in basis points compared to Portfolio B. Mr. Waite confirmed that the assumptions of returns are net fees. Treasurer Adams responded that the overall return was more important to him than the fees.

Mr. Waite noted that because almost one third of the assets are in the risk management bucket, it will be easy to find opportunities for additional returns. Private equity will continue to be an opportunity in the future.

Commissioner Barnhardt questioned why the basis points were so different. Mr. Waite responded: Portfolio A is less expensive to reduce fixed income, more expensive to move into equity and reduces the managed volatility; adding 1 basis point. Portfolio B is relatively more expensive to add an additional asset class in private equity, compared to a public fund; adding 5 basis points.

Commissioner Leinbach referred to the presentation report from a risk standpoint and pointed out the minimal distance between Portfolio A and Portfolio B. He noted over time Portfolio B will perform better than Portfolio A. Mr. Waite agreed and added; the expectation will be better return opportunities with private equity than in the public market because there is currently so much weight in the public market.

Controller Graffius and Treasurer Adams favored Portfolio A or Portfolio B. Commissioner Leinbach stated that he would lean toward Portfolio B, understanding that the returns are net of fees.

Mr. Waite stated he was in favor of Portfolio B and explained the material changes were a reduction of the total risk management and the addition of the new asset class. Mr. Gerlich added; if the decision was with private equity, it would not be an overnight move. He stated that it would take years to build the exposure and generally 3-5 years to build to the target number.

Controller Graffius moved, seconded by Mr. Barnhardt, to accept SEI's recommendation to allocate the assets from the Total Risk Management Exposure fund into a new US Private Equity Class fund, modeled by Portfolio B. Motion carried. (11R-2016)

Mr. Waite explained the current portfolio will transition to Portfolio A by the end of the month, then to Portfolio B over time. Mr. Waite stated the market value of the fund as of September 22, 2016 was $416,061,080.

CORRESPONDENCE

The Board received the following communications:

1. Bank statements
    a. August, 2016 statement from SEI Trust Company account 15963-C
    b. August, 2016 statement from BB&T for checking account 00001390004909336

2. Solicitations:
    a. General: None
    b. Conferences: None

3. New Client Website and User Guide

4. SEI Unaudited Financial Statements for the Special Situations fund, Special Situations Collective Investment Trust, Core Property Fund, and Core Property Collective Investment Trust.

OLD BUSINESS

Solicitor Sadler updated the Board on Resolution 2R-2016, regarding recommendations from McNees, Wallace and Nurick. She discussed two action items: bylaws and requests for proposal.

Solicitor Sadler had received proposed bylaws from Sarah Ivy of McNees, Wallace and Nurick at the end of August. Solicitor Sadler and Ronald Seaman, Chief Administrative Officer, had reviewed the bylaws and agreed revisions must be made. Ms. Graffius planned to set up an appointment with Jack Linton and Tony Distasio of Linton & Distasio to assist with the wording changes on the revisions.

Regarding a request for proposal, Solicitor Sadler questioned if the Board wanted to pursue a RFP and inquired who should be the point person. Commissioner Leinbach believed the Board agreed to move forward with the RFP. He clarified the RFP would be for actuaries and pension statement calculations.

Solicitor Sadler planned to coordinate with Chief Administrative Officer Ronald Seaman and the purchasing department to set up an RFP. The Board requested that the solicitor provide a recommendation at the next Board meeting. Solicitor Sadler offered to share the first draft of the post bylaws with the Board members.

NEW BUSINESS

1. A motion was made by Commissioner Barnhardt, second by Controller Graffius, to approve authorization of the employee pension credit requests listed below. Motion carried. (6R-2016)

    a. Melodie Ann Breidenstein buying back over 20 days of LOA time in the amount of $247.03.

    b. Lynn Jackson-Wall buying back over 3 months of LOA time in the amount of $1,637.80.

    c. Rachelle D. Hirneisen buying back over 15 years of service time in the amount of $56,912.10.

AUTHORIZE DISBURSEMENTS

A motion was made by Commissioner Barnhardt, second by Controller Graffius, to authorize the disbursements listed below. Motion carried.

1. Authorize payment to Reading Eagle for Legal Notice Invoice in the amount of $49.90 to advertise the rescheduled September Retirement Fund Board meeting. (7R-2016)

2. Authorize annuities and refunds for September, 2016 per listing to follow. (8R-2016)

Annuities	1,379,239.34
Refund	219,643.30
Total	1,598,882.64

3. Authorize payment to Korn Ferry for 2016 Actuarial Services for the third quarter in the amount of $8,484.00. (10R-2016)

COMMENT FROM THE BOARD

Treasurer Adams stated that SEI signature authorization form had previous Treasurer Nelson H. Long's name on the SEI website. Commissioner Leinbach suggested a motion be made to authorize the change. Solicitor Sadler mentioned she believed the Board authorized the change in the past and planned to research this information for the next meeting. Commissioner Leinbach added; if the change had not been authorized, the Board will make a motion to ratify and confirm the action at the next meeting.

There being no further business, the meeting adjourned at 8:48 A.M.

Respectfully Submitted,

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Sandy Graffius, Secretary Retirement Fund Board