

FAYETTE COUNTY RETIREMENT BOARD

Meeting Minutes

Wednesday, February 6, 2019

A meeting of the Retirement Board was held on Wednesday, February 6, 2019 in the Commissioner's Conference Room.

Commissioner Zimmerlink called the meeting to order at 9:30 a.m.

1. **Roll Call**

Roll call was taken and the following members were present:

PRESENT: Vince Vicites, Chairman arrived at 9:47 a.m.
Angela Zimmerlink, Vice Chair
Dave Lohr, Commissioner arrived at 9:39 a.m.
Nancy Wilson, Treasurer
Scott Abraham, Controller

The following were also in attendance during the meeting:

ALSO, PRESENT: Sarah Wilson, Marquette Associates
Debora Apicella, Deputy Treasurer
Jack Purcell, Retirement Solicitor
Carol Guman, Account Clerk III

2. **Public Comment on agenda items.**

No comment.

3. **Consider approval of the November 14, 2018 meeting minutes.** Motion was made by Treasurer Wilson and 2nd by Controller Abraham to approve the November 14, 2018 meeting minutes.

The vote was

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|-------------------------|-----|
| Commissioner Zimmerlink | yes |
| Controller Abraham | yes |
| Treasurer Wilson | yes |

MOTION CARRIES UNANIMOUSLY.

4. **Ratify the following payments made from November 7, 2018 to January 30, 2019 in the amount of \$729,033.09.** Motion was made by Controller Abraham and 2nd by Treasurer Wilson to ratify the following payments made from November 7, 2018 to January 30, 2019 in the amount of \$729,033.09.

The vote was

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| Commissioner Zimmerlink | yes |
| Controller Abraham | yes |
| Treasurer Wilson | yes |

MOTION CARRIES UNANIMOUSLY.

5. **Recognize the Retirement of the following employees;**

| | |
|------------------|---------------------|
| Carol King-Woods | 22 years of service |
| Bill Lukach | 17 years of service |

The Retirement Board thanks the employees for their year of service.

6. **Consider authorizing payment for 4th quarter of 2018 counseling services for the period October 1, 2018 to December 31, 2018 in the amount of \$33,219.72 to Peirce Park Group c/o Marquette Associates.** Motion was made by Treasurer Wilson and 2nd by Controller Abraham to authorize payment for counseling services to Peirce Park Group c/o Marquette Associates in the amount of \$33,219.72.

The vote was

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| Commissioner Zimmerlink | yes |
| Controller Abraham | yes |
| Treasurer Wilson | yes |

MOTION CARRIES UNANIMOUSLY.

7. **Consider authorizing payment for 4th quarter of 2018 management fees for the period of October 1, 2018 to December 31, 2018 in the amount of \$7,087.24 to Federated Investors, Inc.** A motion was made by Controller Abraham and 2nd by Treasurer Wilson to authorize payment for management fees to Federated Investors, Inc. in the amount of \$7,087.24.

The vote was

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| Commissioner Zimmerlink | yes |
| Treasurer Wilson | yes |
| Controller Abraham | yes |

MOTION CARRIES UNANIMOUSLY.

8. **Consider authorizing payment for 4th quarter of 2018 management fees for period of October 1, 2018 to December 31, 2018 in the amount of \$5,896.63 to GW&K Investment Management.** A motion was made by Treasurer Wilson and 2nd by Controller Abraham to authorize payment for management fees to GW&K Investment Management in the amount of \$5,896.63.

The vote was

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| Commissioner Zimmerlink | yes |
| Treasurer Wilson | yes |
| Controller Abraham | yes |

MOTION CARRIES UNANIMOUSLY.

9. **Consider authorizing payment for 4th quarter of 2018 custodian fees the period of October 1, 2019 to December 31, 2018 to PNC Investments in the following amounts:**

| | | |
|----------------------------|----|-----------------|
| Federated Investors, Inc. | \$ | 875.71 |
| GW&K Investment Management | \$ | 860.51 |
| Peirce Park Mutual Funds | \$ | <u>3,706.14</u> |
| | \$ | 5,442.36 |

A motion was by Treasurer Wilson and 2nd by Controller Abraham to authorize payments for 4th quarter of 2018 custodian fees the period of October 1, 2018 to December 31, 2018 to PNC Investments in the amount of 5,442.36.

The vote was

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| Commissioner Zimmerlink | yes |
| Treasurer Wilson | yes |
| Controller Abraham | yes |

MOTION CARRIES UNANIMOUSLY.

10. **Marquette Associates Presentation on the 4th quarter of 2018 performance of the Pension Fund.**

Market Environment

2018 saw another positive year of economic growth. The current GDP bull market has now lasted an impressive 115 months, making it the second longest since the end of WWII. If this growth continues through 2019, it will surpass the expansion of the 1990s and become the longest in modern history.

The U.S. has implemented new tariffs on \$250 billion worth of Chinese goods, while China has enacted \$110 billion of new tariffs, which is nearly all the goods China imports from the U.S. China has little room to escalate things further, at least through traditional means, while the U.S. was able to threaten a tariff on an additional \$257 billion of goods.

Net exports detracted a significant 2% from growth in 3rd quarter of 2018 because of the new tariffs, without which growth for the quarter likely would have been over 5%.

Midterm elections went largely as predicted, with Republicans maintaining a narrow margin in the Senate, while Democrats took control of the House of Representatives. This likely means there will be more political gridlock, and little major legislature will be passed.

Despite these growing political concerns, 2018 saw strong economic growth, with real GDP rising an impressive 4.2% in 2nd quarter and 3.4% in 3rd quarter of 2018. This is the highest level of growth the country has seen since 2014. Part of this increased growth is likely due to the tax reforms passed at the end of 2017.

The unemployment rate is at 3.9%. As of December 31st there were nearly a million more job openings than employed people in U.S. With such strong employment and increasing labor shortages, the expectation has been that wage growth will begin to rise. In November, hourly wages posted 3.9% growth over the last 12 months, matching the highest rate seen since 2008. Higher wages often lead to higher inflation; people were willing to pay more for goods, and employers need to charge more to cover the higher labor costs. The last few months inflation has declined as oil prices fell more than 30% since October 1st.

Going forward, it is difficult to predict where inflation will go as there are opposing forces that could affect it. If energy prices rebound from their recent rout – possibly from an agreement in OPEC to cut production – we could see inflation spike up.

If the Federal Reserve continues to raise interest rates, inflation should slow. In December, the Fed raised rates for the ninth time in the last three years, bringing the federal funds rate to between 2.25% and 2.5%.

Despite the recent volatility in financial markets, the economic fundamentals are strong. In 2019 geopolitics will likely play a large role, especially in the first quarter. Overall, we expect GDP to grow between 2% and 2.5% in 2019, employment to remain low, and a slight rise in inflation and wage growth.

U.S. Equity markets were turbulent in 2018 as investors dealt with a variety of concerns including slowing global growth, tighter financial conditions, and growing trade tensions.

The S&P 500 hit an all-time closing high on September 20th and the Russell 2000 hit an all-time closing high on August 31st. Growth continued its longstanding outperformance of value with sectors such as technology, healthcare, and consumer discretionary outpacing the market.

For much of the 10-year bull market, a subdued level of market volatility was present. While the low volatility theme peaked in 2017 with only eight 1%+ moves in the S&P 500, volatility returned to more normalized levels in 2018 with 64 1%+ moves.

The fourth quarter saw a sharp rotation away from growth and momentum towards defensive, dividend-paying, and lower-volatility stocks. Small-cap, growth styles, and cyclical sectors such as industrials, energy, and materials led the way down.

Low interest rate and corporate tax reform policies that supported the post-Global Financial Crisis recovery are fading while global growth is slowing, credit is tightening, wages are increasing, and earnings are softening.

As we progress through the economic cycle, we would expect volatility to continue in 2019. Defensive sectors like Health Care and Consumer Staples typically outperform other sectors in late cycle environments.

U.S. equity markets are pricing in negative growth (rather than a slowdown in growth), and that helps explain the negative returns in the fourth quarter.

Unemployment and interest rates remain low, corporate earnings are still growing though at a slower rate, and valuations are below historical averages. While there are strong positive examples that could support and sustain future positive returns, only time will tell if this long economic cycle is ending.

Portfolio Overview

The Fund as of December 31, 2018 was \$71.9 million. The 4th quarter of 2018 the Fund returned (-7.5%) and outperformed the relative benchmark of (-8.3%). The Fund returned (-3.4%) during 2018, outperforming the relative benchmark, which had a return of (-4.5%) and had a net investment loss of \$2.7 million. Since inception in August 2012, the Fund has had a gain of \$27.9 million outperformed the benchmark

with an annualized return of 7.4% versus 7.0%. Equity composite returned (-12.3%) versus the policy index of (-13.5%) for the quarter. The U.S. Equity composite returned (-13.3%), outperforming the Russell 3000 return of (-14.3%). Global Equity composite returned (-9.8%) versus the benchmark of (-11.9%) during the quarter. Non-U.S. Equity composite returned (-12.1%) versus the benchmark of (-11.9%) during the quarter. Real Estate Manager J.P. Morgan returned 1.8% for the 4th quarter of 2018 and a year-to-date return of 7.2%. Fixed Income composite slightly underperformed the policy index during the quarter with return of 1.4% compared to 1.7%. Dodge & Cox Global Stock replaced Artisan Global Opportunities during the 4th quarter of 2018.

11. **Public Comment**

No comment.

12. **Adjournment**

A motion was by Treasurer Wilson and 2nd by Controller Abraham to adjourn the meeting at 10:54 a.m.

The vote was

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| Commissioner Zimmerlink | yes |
| Commissioner Lohr | yes |
| Controller Abraham | yes |
| Treasurer Wilson | yes |

MOTION CARRIES UNANIMOUSLY.