

BEDFORD COUNTY RETIREMENT BOARD

February 6, 2019

A meeting of the Bedford County Retirement Board was held on Wednesday, February 6, 2019. The meeting began at 12:10 p.m.

Those present were: Commissioner Josh Lang; Commissioner Barry L. Dallara; Commissioner S. Paul Crooks; Melissa A. Cottle, Treasurer; Debra Brown, Chief Clerk; Mike Clapper, Finance Director; Malcolm L. Cowen, II, President of Cornerstone and Christopher Lakatosh, Senior Consultant of Cornerstone.

Approval of Minutes:

The minutes of December 12, 2018 were approved as presented.

2019 Capital Market Assumptions:

- a. Inflation at 2 ½ %
- b. Some growth
- c. Current bond yield at 2.7%
- d. Mountain Chart
 - a. Annualized Performance stats at +9.8%
 - b. Positive returns
 - c. Very strong
- e. Rolling 20 year returns
 - a. Great last 7 – 8 years
 - b. Lowest in last 20 years
 - c. The drawn downs hurt the returns
- f. Volatility chart
 - a. TIPS AND EAFE LC – 2 different assets
 - b. Average 20 years both earned 5.4%
 - c. Equities performed over bonds
- g. Historical vs. Expected Forecast Volatility
 - a. Mr. Cowen gave an overview of the Actual and Expected increase for the next 10 years on the standard deviation
- h. 2019 10 Year Return Assumptions
 - a. Mr. Cowen gave an overview of the US Large Cap at 6.5%, US Small Cap at 7.3%, Emerging Markets at 8.8%, Fixed Income - up, Cash Yields – up, Private Equity at 8.3%, Stocks at 9.8% and Returns at 6.5%
- i. Range of Outcomes Chart - projected
 - a. 100% of Portfolio of stocks in equities
 - b. The Median less risk is at 3.9% and the more risk is at 7.6%
 - c. Probability is at 50.3%
- j. Range of Outcomes Chart – Rates of Return – Perpetual funds
 - a. The Median is at 6.4%
 - b. In one year there will be about a 5% change; returns will lose (11.5%) in the first year, over next 3 year at (4.7%) and over the next (2.1%).

Retirement Fund Flash Report:

- a. The Benchmark was met as of the 4th quarter
- b. Two-thirds push back from September
- c. Recovery much quicker and positive

Index Flash Report:

- a. The Market Returns for the last quarter most all down

Source: S & P Dow Jones 500;

- a. Chart shows longer view of S & O drawdowns
- b. The Cumulative returns are up above 2, 700 and stabilized

Intra-Year Drawdowns S & P 500:

- a. Returns (blue line) on the S & P up near 50%
- b. Purple line shows the maximum drawdowns during the year; positive returns for 9 years

Stock Market:

- a. Drawdown in S & P 500; earnings didn't change

Short-Term Interest Rates:

- a. Federal Funds doubling, moving forward in the bond market
- b. Bond markets rates decline later in year into 2020
- c. No risk added to the portfolio moving forward

Economics – Consumer:

- a. Reduce credit and balance on U.S. Household Leverage
- b. Spending might not be threatened; 70 % consumers

Corporate Earnings:

- a. Earnings will decline, but still be in the double digits
- b. Commissioner Dallara asked if vehicles spending would be included and Mr. Cowen responded it may be, he is not sure

Cash Flow Summary:

Mr. Lakatosh gave an overview of the following:

- a. Beginning Market Value
- b. Income – transfer activity brought back in to equities 1 ½%
- c. Withdrawals for benefit payments
- d. Ending Market Value

Historical Cash Flow:

- a. Contributions were at \$2,372
- b. Withdrawals at **(\$5,936)**
- c. Ending market value since inception ending in 2017 was 14 million

Asset Allocation:

- a. Ending the first quarter all were up in value, but two still ending with a slight deviation at 5.2%

Net Portfolio Performance:

- a. Total Portfolio returns were down (8.1%)
- b. Blended Bench Mark down (8.09%)
- c. Net of Fee Returns – 4 of 6 years out performed

Manager Performance Matrix:

- a. He gave a brief overview of the markets noting that Diamond Hill and Conestoga were both up 3.8%

Domestic Equity Performance Attribution – Attribution Statistics:

- a. Relative comparisons all under performed for the quarter

American Funds:

- a. Russell at top 6% percentile
- b. Managers held up well – only 2 were in the 3rd quarter of peer group

Blended Bench Mark:

- a. The Return Analysis at 36%, top 3rd
- b. Risk Return Analysis at the 1/2 since inception
- c. The Up and Down Market Capture Analysis – limit down market exposure
 - a. The Up Market capturing at 32%
 - b. The Down Market capturing at 86%

Old Business:

There was no old business to discuss.

The meeting was adjourned at 1:08 p.m.