

BEDFORD COUNTY RETIREMENT BOARD

August 8, 2019

A meeting of the Bedford County Retirement Board was held on Thursday, August 8, 2019. The meeting began at 2:00 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, Christopher Lakatos, Senior Consultant of Cornerstone.

Approval of Minutes:

Commissioner Crooks made a motion to approve the February 6, 2019 and the May 10, 2019 minutes, the motion was seconded by Commissioner Dallara.

Retirement Fund Flash Report:

Mr. Cowen gave a brief overview of the report noting Year-to-Date at 13%.

Mr. Cowen also stated that Cornerstone has been named #40 in the 2019 RIA Ranking.

Index Flash Report – Market Returns:

- a. The last quarter, market returns were up 4.30% and compounded at 17%
- b. Year-to-Date one half is recovery from December
- c. In the last three years, growth stocks up; interest yields collapsing

Commissioner Dallara asked about the negative yields in Europe; Mr. Cowen stated that European banks are lowering yields and forcing investor to invest in economics. He gave a brief overview of issues going on in Europe that is causing the negative yields.

S & P 500:

- a. Chart shows the market long term
- b. The Cumulative report there is more volatility
- c. ahead of last year
- d. recovery from December 2018

U.S. Treasury Yield Curve:

- a. yield on 10 year is collapsing
- b. September and October shows volatility

Dot Plot:

- a. Tan dots – March
- b. Green dots – interest rates dropping
- c. Preserve capital in the down market; derisk if needed
- d. 17 Federal members – larger dots – more votes

Gross Domestic Product: Real vs. Potential

- a. Positive
- b. GDP is anemic
- c. Growing faster
- d. Decelerating
- e. Growth above potential

U.S. Equity Sector Flash Report:

- a. Investment Returns
- b. Technology at 27.1%
- c. Healthcare at 8.1% - problem

U.S. Equity Valuations – Goldman Sachs:

- a. Stocks over or under valued
- b. US 9th decile in value
- c. next 5 years at 7%
- d. 3% of markets at 6 ½%
- e. 50 – 50 US stocks richly valued

International Equity Valuations – Goldman Sachs:

- a. 6 decile at 9%
- b. Take money from US to International equities
- c. Volatility
- d. Yields are higher in US
- e. Timing not good

U.S. Bureau of Labor Statistics:

- a. Hourly earnings are improving

Employment Situation:

- a. Labor participation
- b. 25 – 54 labor participation at 82%
- c. 55 and over, are working longer, 40%

Market Environment 2Q19: Global Economy:

- a. Banks are lending money

Bulls vs Bears – Bank Credit Analysts:

- a. Bulls
 - a. Will support growth
 - b. Growth will boost earnings; corporate debt is manageable
 - c. Growth will allow rates to grind higher
- b. Bears
 - a. Inverted yield curve
 - b. When yields are low interest rates change
 - c. Manufacturing in China will slow down
 - d. Good for market short term

- e. PMI, trade wars will decelerate

Cash Flow Summary:

- a. Beginning market value at 12 million
- b. Transfers out of fixed income at (\$300,000)
- c. Expenses at (\$21,759)
- d. Withdrawals at (\$313,172)
- e. Ending Market Value at end of quarter \$12,993,546
- f. Current today at \$12,580,000

Historical Cash Flow:

- a. Contributions at \$2,722
- b. Withdrawals (paying beneficiary's) at (\$6,560)
- c. Income at \$1,912
- d. Change in Market Value over 4 million

Asset Allocation:

- a. Beginning Market Value
 - a. Overweight
 - b. Numbers strong
 - c. Beating the Benchmark in terms of peer groups

Net Portfolio Performance:

- a. Net performance is at ¼ of a percent
- b. Net Fee Returns in 2013 – 5 of 7 years out performed Benchmark
- c. In 2015 down (.08)
- d. At the end of 2 quarters in 2019 thru July – 20 basis points over

Manager Performance Matrix:

- a. Very strong
- b. Diamond Hill underweight in technology – being scrubbed
- c. Excess returns down (3.76%)

Historical Net Performance:

- a. Rolling 12 Quarter Net of Fee Returns up 8 ½ % in terms of returns
- b. Black line is the Blended
- c. Since inception in 2012 – Net of Fee Drawdown – V shaped recoveries – all have recovered – the lowest point of the V is shutdowns, trade issues and federal raised rates

Blended Bench Mark:

- a. Scatter Chart shows excess returns
- b. Return Analysis
 - a. Above Benchmark
 - b. Last quarter at 3.26%
 - c. Last 3 years at 8.49%

- d. Last 5 years at 5.71%
- e. Since Inception at 7.25% - top 20th percentile
- c. Up & Down Market Capture Analysis
 - a. Since Inception in 2012 – the Up Market Capture is up at 98.97%
 - b. Since Inception in 2012 – the Down Market Capture is down at 86.52%

Old Business:

There was no old business to discuss.

Adjournment:

Commissioner Crooks made the motion to adjourn at 2:48 p.m. Commissioner Dallara seconded the motion.