

## BEDFORD COUNTY RETIREMENT BOARD

February 23, 2017

A meeting of the Bedford County Retirement Board was held on Thursday, February 23, 2017. The meeting was called to order by Commissioner Lang at 11:00 a.m.

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

A motion was made to approve the minutes of the December 5, 2016, as presented. The minutes were approved as presented.

### OLD BUSINESS:

Mr. Cowen noted changes in the capital market forecasts: the firm had a good year and was featured in P & I magazine as one of the best places to work. The flash drive report showed lower volatility, performance stock peaking, overview of the report, Federal Reserve shows market up adding value to changes since 11/8/16, positioning well in the market.

Mr. Cowen began the presentation discussing the Bedford County Retirement Fund:

#### **Q1 Macroeconomic Overview:**

He discussed the BCA Chart:

- The Trump & Yellen chart 1 shows the S & P 500 up sharply; the 10 year treasury yield shows the interest rate up and bonds down; the U.S. Trade-weighted dollar strong, could go up another 5-10% with overseas revenue, wages picking up earning expectations forecast to go up for the quarter.
- Five things could happen; end of era – 7 year low interest rates, managing economy with monetary policy now with fiscal rates, globalization and trade out of fashion 44% revenue from abroad, labor costs getting traction; how to pay and pm gets squeezed.
- Fiscal Austerity shows a fiscal thrust in the structural primary budget balance
- Only Modest Growth in World Trade is growing showing at 2 1/2%
- The U.S. Inflation Expectation have spiked in the last 5 years, 5 years forward inflation expectations stopping at 2.5%
- U.S. Wage Growth Chart is showing a clear uptrend
- Profit Margins – the S & P 500 Profit Margins peaked close to 10%, operating supplies were also on an upward trend
- The U.S. Market is Modestly Expensive; S & P 500 Trailing Stock Market on an upward trend, the S & P 500 Forward is down, the Tobin's Q is overvalued. He noted the 7 year stock market is at 13% per year and international stocks up 3%
- The Past Is Not a Guide to the Future shows the past total portfolio at 10.3% to the future at a low of 4.0%; the inflation rate past total is 2.7% and the future at a 2% low and the total portfolio return shows a rate of 7.4% rate of return for the past and a 1.9% rate of return – well below expected.

#### **Flash Report:**

- The Domestic Equity shows year-to-date rate at 2.06%
- The International Equity shows year-to-date rate at 4.18%
- The Alternative shows year-to-date rate at 0.50%
- The Total Portfolio beat Benchmark by 35 basis points at 1.64%

#### **2017 Capital Market Assumptions:**

#### **Path Matters:**

- He gave a brief over view of the average annual returns and the annual deviation of all three portfolios, stating they show less risk and volatility, with smooth compound growth
- Equity Expectations shows a forecast on average of a 6% return
- Fixed Income & Alternative Expectations the average Core Fixed Income with bonds is at 2.6%
- Expectations Over Time is a forecast graph showing the 10 year return projects – gave a brief overview on the returns
- 1 Year Expectations he gave a brief report on the levels of equity exposure from 2016 to 2017
- Your Portfolio the range is at 6% historically below what is expected but remains in the 10<sup>th</sup> percentile. The worst case scenario it would go to the 95<sup>th</sup> percentile, it is forecasted to moderate over time.

**Cash Flow Summary:**

1<sup>st</sup> Quarter ending December 31, 2016:

- Mr. Cowen gave a brief overview of the Domestic Equity change in market value and the International Equity change in market value. He noted the negative change of (\$60,002).
- The Historical Cash Flow, the quarterly cash flow shows contributions as steady and withdrawals as out flows. The portfolio appreciation since inception is at 3.2 million
- He gave a brief overview of The Asset Allocation between the US and International equity
- The Net Portfolio Performance shows recovery in January of the net fee returns
- The Manager Performance – Manager Matrix – he gave an overview of the peer group ranking in standing with US, International and Alternative groups
- Historical Performance: in 2013 returns were exceeded, in 2014 under performed, 2015 below performance and in 2016 up in performance

**Blended BM:**

- The Scatter Gram Chart since inception October 1, 2012 shows close to target for the quarter
- The Risk Analysis shows the Beta Benchmark at 48%, the Standard Deviation at 4.72 and the Tracking Error at .88 Beta
- The UP & Down Market Capture Analysis shows the Up market capture rate on an upward trend at 65% and the Down market capture at 40%, he noted that a 10% spread between UP & Down as very positive

Commissioner Crooks had a few questions and Mr. Cowen responded to his concerns.

Commissioner Dallara also had a few questions and requested that some information be sent to him. Mr. Cowen assured him the information would be forthcoming.

There was no other business to be discussed.

A motion to adjourn was moved by Commissioner Crooks and seconded by Commissioner Dallara. The meeting was adjourned at 12:04 p.m.

ATTEST:

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Debra Brown, Chief Clerk/Director of Elections

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S. Paul Crooks, Secretary