

**PENSION REVIEW COMMITTEE
RECOMMENDATIONS**

**AllianzGI NFJ Dividend Value Instl, AllianzGI NFJ Small-Cap Value Instl,
Fidelity Advisor® Leveraged Co Stkl, and Oakmark Equity & Income I
March 2, 2017**

INTRODUCTION

The Pension Review Committee (PRC) met September 28, 2016 to review and formulate recommendations regarding the following funds which were not meeting performance criteria under the Lancaster County Investment Policy:

1. AllianzGI NFJ Dividend Value Instl;
2. AllianzGI NFJ Small-Cap Value Instl;
3. Fidelity Advisor® Leveraged Co Stkl; and
4. Oakmark Equity & Income I.

Based on a careful review of the investment information provided by Prudential and Segal Rogercasey, the PRC tendered the following recommendations to the Lancaster County Board regarding these funds:

1. Segal Rogercasey should be asked to identify best in class replacement options for the following funds:
 - a. AllianzGI NFJ Dividend Value Instl;
 - b. AllianzGI NFJ Small-Cap Value Instl;
 - c. Fidelity Advisor® Leveraged Co Stkl; and
 - d. Oakmark Equity & Income I.
2. With regard to Fidelity Advisor® Leveraged Co Stkl, Segal Rogercasey should be asked whether it is better to map the proceeds of this fund to Vanguard Selected Value Inv rather than select a new replacement fund.
3. With regard to Oakmark Equity & Income I, Segal Rogercasey should be asked whether it is better to map the proceeds of this fund to GoalMaker rather than select a new replacement fund.

The Committee's recommendations were adopted by the County Board on October 6, 2016, and Segal was asked to prepare a report on the recommendations. On December 21, 2016 the following two reports were received from Segal: U.S. Large Cap Value Search, Q3 2016; and U.S. Small Cap Value Search, Q3. Updates for both reports through the fourth quarter of 2016 were received from Segal on February 10, 2017. These reports identified replacement funds for the Allianz large and small cap value funds. A Pension Review Committee meeting was set for January 18, 2017 to discuss the reports and to receive additional information regarding Segal's recommendations on Fidelity and Oakmark. At the meeting a conference call was conducted with Frank Picarelli, Senior Vice President of Segal Rogercasey, Russell Paoletti, CFA, Prudential Vice of Key Accounts, and Robb Craddock, CFA, Prudential Vice President for Intellectual Capital.

SUMMARY OF INFORMATION RECEIVED FROM SEGAL AND PRUDENTIAL AT THE JANUARY 18, 2017 COMMITTEE MEETING

A complete summary of the information received by the PRC during the conference call can be found in the minutes of the Pension Review Committee meeting held January 18, 2017.

The purpose of the conference call was to review the written reports on the fund searches conducted by Segal on the AllianzGI NFJ Dividend Value Instl and AllianzGI NFJ Small-Cap Value Instl funds and receive a verbal report on Segal's recommendations regarding the Fidelity Advisor® Leveraged Co Stkl and Oakmark Equity & Income I funds.

U.S. Large Cap Value Search

Picarelli provided an overview of the large cap value search conducted by Segal. The report identified three funds as potential replacements for the AllianzGI NFJ Dividend Value Instl Fund:

1. Delaware Value;
2. MFS Value; and
3. T. Rowe Price Value Fund.

Fund information reviewed by the Committee included the number of stocks held, expense ratios, price/earnings ratios, amount of revenue sharing, upside/downside capture, sector allocation, and returns. Picarelli noted all three funds are good replacements for the AllianzGI large cap value fund. Although the Delaware fund rated highest in Segal's report, both Picarelli and Craddock expressed concerns about the limited number of stocks held by Delaware (32). Picarelli recommended the T. Rowe Price fund as the best replacement.

Craddock indicated Prudential has a similar sub-advised T. Rowe Price fund which has a lower expense ratio (57 bps instead of 81 bps). Information on the Prudential fund was later provided to the Committee.

U.S. Small Cap Value Search

Four funds were identified in the Segal report:

1. Delaware Small Cap Value Fund;
2. MFS New Discovery Value Fund;
3. Nuveen Small Cap Value Fund; and
4. Undiscovered Managers Behavioral Value Fund.

Similar information was reviewed for these four funds. Picarelli indicated Delaware and Nuveen are both good choices, with Delaware having the strongest returns for the previous quarter and with Nuveen performing well on one and three year returns. He further noted Nuveen has shown consistent returns in the long term. Picarelli indicated he favors Nuveen as the replacement for the AllianzGI small cap value fund.

Oakmark Equity & Income I

Picarelli and Craddock noted Oakmark's performance has turned around the past year, and has also performed well in the three and five year periods. Craddock added that Oakmark had an 11% return in 2016, ranking in the 10th percentile. Oakmark was ranked in the 43rd percentile for the three year period and the 28th percentile for the five year period. There are 87 participants in the fund. Headwinds previously facing Oakmark, which has a value-oriented investment style,

have now shifted. For the last eight years growth funds have outperformed value funds, but value is now outpacing growth. Given Oakmark's strong performance, as well the difficulty of selecting an appropriate GoalMaker fund for mapping purposes, it was recommended that Oakmark be retained.

Fidelity Advisor® Leveraged Co Stkl

Fidelity Advisor® Leveraged Co Stkl is volatile by design, resulting in higher than normal returns in some years and greater than normal losses in other years. There are 63 participants in Fidelity Advisor®, representing 1.3% of plan assets. The expense ratio is .81%. Craddock, Paoletti and Picarelli all questioned whether it is appropriate to include such a volatile fund in a pension investment program, and all three recommended eliminating Fidelity Advisor® and mapping the proceeds to the Vanguard Selected Value Inv fund, which has an expense ratio of .39%.

DISCUSSION

The Committee met January 25, 2017 to discuss the information received from Segal and Prudential and to formulate recommendations for replacement funds. Based on questions and concerns raised at this meeting, additional information was obtained from Prudential regarding replacement options for AllianzGI NFJ Dividend Value Instl and AllianzGI NFJ Small-Cap Value Instl.

AllianzGI NFJ Dividend Value Instl Replacement

Although the Delaware Value Fund was the initial preference of the Committee to replace the AllianzGI large cap value fund, concerns persisted about the small number of stocks (32) held by the fund. Concerns were also expressed that the expense ratio of 81 bps for the T. Rowe Price Value Fund was too high; and that Prudential's T. Rowe Price separate account, with a lower expense ratio of 57 bps, had not been in existence long enough to evaluate appropriately. After weighing all the factors, the Committee concluded that Prudential's T. Rowe Price separate account was the best choice. Given the similar investment styles of the Prudential T. Rowe Price separate account and the T. Rowe Price Value Fund, the Committee was comfortable with selecting the Prudential separate account because of its lower expense ratio. Further, the Committee concluded the Delaware fund was not appropriate for a pension plan because of the potential for one stock to affect the returns.

AllianzGI NFJ Small-Cap Value Instl Replacement

The Committee initially identified the Nuveen Small Cap Value Fund and the Undiscovered Managers Behavioral Value Fund as the top choices for replacing the AllianzGI small cap value fund. However, the Committee was concerned that expense ratios of both funds were too high. Additional information was sought from Prudential regarding these two funds, and whether other small cap value options might be available. Prudential identified the following three small cap value funds for consideration:

- Prudential QMA Small-Cap Value Q;
- Victory Fund; and
- Integrity Fund.

After further consideration, the Committee narrowed the final two choices to Nuveen and QMA. The two funds have similar holdings, and both funds have performed well over the long term. However, QMA has an expense ratio of 66 bps while Nuveen has an expense ratio of 113 bps. It was further noted that QMA has a Morningstar rating of five stars, and a low price to earnings (P/E) ratio of 15.1. Based on these factors the Committee selected QMA as its recommendation to replace the AllianzGI small cap value fund. In making this recommendation the Committee recognized the importance of keeping expense ratios as low as possible.

Oakmark Equity & Income I

Based on the information and recommendations provided by Segal and Prudential, the Committee decided Oakmark Equity & Income I should be retained.

Fidelity Advisor® Leveraged Co Stkl

The Committee expressed concern with the volatile nature of the Fidelity Advisor® Leveraged Co Stkl Fund. Since the County's investment array has another low cost alternative in the mid cap value investment category (Vanguard Selected Value Inv), the Committee decided the best course of action would be to eliminate the Fidelity Advisor® fund and map the proceeds to the Vanguard Selected Value Inv Fund. This would advance the policies of reducing fees and keeping the number of funds at a manageable level.

RECOMMENDATIONS

Based on the foregoing information and discussion, the Pension Review Committee hereby tenders the following recommendations to the Lancaster County Board:

1. a. **Eliminate the AllianzGI NFJ Dividend Value Instl Fund;**
 b. **Add the Prudential Separate Account of T. Rowe Price US Large Cap Value Equity Fund (TILCX); and**
 c. **Map the proceeds of the AllianzGI NFJ Dividend Value Instl Fund to the T. Rowe Price US Large Cap Value Equity Fund (TILCX)**

2. a. **Eliminate the AllianzGI NFJ Small-Cap Value Instl Fund;**
 b. **Add the Prudential QMA Small-Cap Value Q Fund; and**
 c. **Map the proceeds of the AllianzGI NFJ Small-Cap Value Instl Fund to the Prudential QMA Small-Cap Value Q Fund**

3. a. **Eliminate the Fidelity Advisor Leveraged Co Stkl Fund; and**
 b. **Map the proceeds to the Vanguard Selected Value Inv Fund**

4. a. **Retain the Oakmark Equity & Income I Fund**

Respectively submitted this 2nd Day of March, 2017 on behalf of the Pension Review Committee.



Kerry P. Eagan

Chief Administrative Officer