

**PENSION REVIEW COMMITTEE
RECOMMENDATIONS
PLACEMENT OF FUNDS ON THE WATCH LIST
(Fidelity Advisor® New Insights Fund Class I; and PGIM QMA Small-Cap Value Fund – Class R6)
AND
ACCEPT ASSET MODIFICATIONS TO PRUDENTIAL DAY ONE® INCOMEFLEX TARGET® BALANCED FUND
September 26, 2019**

INTRODUCTION

The Pension Review Committee (PRC) met September 17, 2019 to review investment performance for the 401(a) Lancaster County Employees Retirement Plan and the 457(b) Deferred Compensation Program. The PRC also reviewed proposed changes to the Prudential Day One® IncomeFlex Target® Balanced Fund. Written investment performance reports through June 30, 2019 were received from Prudential and Segal Marco Advisors. The Prudential report was presented to the Committee by Robb Craddock, Prudential Vice President of Investment Strategy, and the Segal report was presented by Frank Picarelli, Segal Marco Senior Vice President.

DISCUSSION

Investment performance standards outlined in the Lancaster County Statement of Overall Investment Objectives and Policy provide that investments offered in the 401(a) and 457(b) plans must exceed the performance of their designated bench marks and exceed the median return of their peers in the investment category for the previous three- and five- year periods. Any fund which fails to meet these performance criteria is placed on the watch list and carefully monitored going forward. If the fund continues to underperform it is then considered for removal from the investment lineup.

During their reports Craddock and Picarelli identified the following funds which were not meeting performance requirements:

Fidelity Advisor® New Insights Fund Class I (large cap growth);
American Funds Capital World Growth and Income Fund Class R-4 (Global Growth); and
PGIM QMA Small-Cap Value Fund – Class R6.

Regarding American Funds Capital World Growth and Income Fund Class R-4, it was noted by Craddock that recent short-term underperformance has brought down the long-term results for this fund. Given the disproportionate impact of its short-term performance, both Craddock and Picarelli indicated the fund did not need to be placed on the watch list at this time.

Fidelity Advisor® New Insights Fund Class I failed to beat its bench mark and was in the bottom half of peers in its investment category for the three- and five- year periods. Although the fund has improved recently, Picarelli emphasized that the fund fails to meet long-term performance criteria.

PGIM QMA Small-Cap Value Fund – Class R6 was also identified by Prudential and Segal as not meeting performance criteria. According to the Prudential report, PGIM QMA fails to meet performance requirements for all reporting periods. Craddock noted the fund uses a quantitative approach which is

is out of style in the present market environment. Both Craddock and Picarelli recommended that PGIM QMA be placed on the watch list.

Finally, the Committee reviewed proposed asset adjustments to the Prudential Day One® IncomeFlex Target® Balanced Fund. See Attachment A to these recommendations. Prudential notified the County of upcoming changes to this fund, which is a proprietary target date product offered by Prudential. Craddock explained that target date funds ratchet down the amount of equities as a person gets closer to retirement. Most other proprietary target date funds make these changes automatically without notifying participants. However, the compliance department at Prudential believes participating plans should be made aware of the changes. All asset adjustments are limited to plus or minus one percent. If the County takes no action the adjustments will occur automatically on January 1, 2020.

RECOMMENDATIONS

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

1. **The following funds should be placed on the watch list for purposes of the Lancaster County Employees Retirement and 457 Deferred Compensation Plan Statement of Overall Investment Objectives and Policy:**
 - A. **Fidelity Advisor® New Insights Fund Class I; and**
 - B. **PGIM QMA Small-Cap Value Fund – Class R6.**

2. **The proposed changes to the Prudential Day One® IncomeFlex Target® Balanced Fund should be accepted by taking no action.**

Respectfully submitted on behalf of the Pension Review Committee this 26 day of September, 2019.



Kerry P. Egan
Chief Administrative Officer

ATTACHMENT A



At Prudential, we continuously strive to improve our investment offerings that are available to your plan(s).

To that end, this is to inform you of upcoming modifications to the Prudential Day One® IncomeFlex Target® Balanced Fund (the "Fund") which is currently offered as an investment option within your retirement plan(s).

Please note, the IncomeFlex Target benefits for your plan will not be affected by these changes. In addition, the Fund's separate account management fees will not change.

Updated Fund Allocations

As you are aware, the Fund is a "fund of funds" which invests in a series of underlying pooled insurance company separate accounts (the "Underlying Funds"). As a result of QMA LLC's ("QMA") updated capital market assumptions and views on each asset class in a diversified portfolio, the modifications include slight adjustments to the asset allocation of the Fund among the Underlying Funds. QMA provides asset allocation and other investment advice in relation to the Fund.

The asset allocation table below provides more information regarding the asset allocation changes, which will be effective on **January 1, 2020**.

Fund fact sheets will reflect asset allocation updates for the March 31, 2020 reporting cycle.

Prudential Day One Income Flex Target Balanced Fund			
Domestic Equity	Investment Manager	Allocations	Allocation Changes
QMA US Broad Market Index Fund	QMA	11%	-1%
QMA Large Cap Quant Core Equity Fund	QMA	22%	-1%
QMA Mid Cap Quant Core Equity Fund	QMA	3%	1%
Jennison Small Cap Core Equity Fund	Jennison Associates	2%	1%

International Equity			
QMA International Developed Markets Index Fund	QMA	11%	1%
Emerging Markets Equity/QMA Fund	QMA	1%	
Fixed Income			
Prudential TIPS Enhanced Index Fund	PGIM Fixed Income	15%	
Core Bond Enhanced Index/PGIM Fund	PGIM Fixed Income	8%	
Prudential Total Return Bond Fund	PGIM Fixed Income	12%	1%
Prudential Short-Term Fund	PGIM Fixed Income	5%	-1%
Non-Traditional			
QMA Commodity Strategy Fund	QMA	4%	-1%
Prudential Retirement Real Estate Fund	PGIM Real Estate	6%	

QMA LLC and Jennison Associates LLC are subsidiaries of PGIM, Inc. (PGIM). PGIM Real Estate and PGIM Fixed Income are business units of PGIM. For additional information regarding the Prudential IncomeFlex Target Funds, including fees and information about the Underlying Funds, please refer to the Fund Fact sheet. Allocations shown are as of January 1, 2020.

We are providing this notice to seek your permission to make the changes described above. If you find the changes acceptable, **no action is required on your part**; the changes will be effective on **January 1, 2020**.

As you are aware, you have the ability to replace funds in your plan's investment lineup. If you would prefer to remove this fund from your plan's investment lineup or elect to terminate your group annuity contract before the effective date of the changes, please provide alternative investment instructions by **November 1, 2019**. If we do not receive alternative investment instructions by this date, we will consider you to have consented to the changes.

A participant notice will be distributed to plan participants and beneficiaries in accordance with regulations under ERISA section 404, including those with regard to qualified default investment alternatives ("QDIAs"), if applicable pursuant to the terms of your Administrative Services agreement.

Your Prudential representative is available if you have questions on this communication.

Thank you for your continued business with Prudential Retirement®.

In providing this information Prudential Retirement is not undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity. Prudential Retirement may benefit from advisory and other fees paid to it or its affiliates for managing, selling, or settling of the Prudential mutual funds and other investment products or securities offered by Prudential Retirement or its affiliates. Investment vehicles sponsored or managed by a Prudential Retirement affiliate generate more revenue for the Prudential enterprise than non-proprietary investment vehicles. Prudential Retirement's sales personnel generally receive greater compensation if plan assets are invested in proprietary investment vehicles. Prudential Retirement may benefit directly from the difference between investment earnings of Prudential Retirement's stable value funds and the amount credited to deposits in those funds. Prudential Retirement may also benefit from broker-dealer or other entities' co-sponsorship of Prudential conferences.

Prudential Day One Funds are separate accounts available under group variable annuity contracts issued by Prudential Retirement Insurance and Annuity Company (PRIAC), Hartford, CT, a Prudential Financial company.

The Prudential Day One® IncomeFlex Target® Funds are designed for use with Prudential IncomeFlex Target®, an in-plan guaranteed retirement income product, and are available as insurance company separate accounts under group variable annuity contracts issued by Prudential Retirement Insurance and Annuity Company (PRIAC), Hartford, CT. PRIAC does not guarantee the investment performance or return on contributions to those separate accounts. PRIAC is solely responsible for its financial condition and contractual obligations. Availability and terms may vary by jurisdiction, subject to regulatory approvals. Guarantees are based on the claims-paying ability of the insurance company and are subject to certain limitations, terms and conditions. Annuity contracts contain exclusions, limitations, reductions of benefits and terms for keeping them in force. Contract form #GA-2020-TGWB4-0805.

For more information, participants should contact the Participant Service Center at 877-PRU-2100 (877-778-2100) and request a copy of the Prudential IncomeFlex Target Important Considerations before investing. PRIAC is a Prudential Financial company.

For the Prudential Day One® IncomeFlex Target® Funds, the target date is the approximate date when investors plan to retire and may begin withdrawing their money. The asset allocation of the target-date funds will become more conservative until the date which is ten years prior to the target date by lessening the equity exposure and increasing the exposure in fixed income investments. The principal value of an investment in a target-date fund is not guaranteed at any time, including the target date. There is no guarantee that the fund will provide adequate retirement income. A target-date fund should not be selected solely based on age or retirement date. Before investing, participants should carefully consider the fund's investment objectives, risks, charges and expenses, as well as their age, anticipated retirement date, risk tolerance, other investments owned, and planned withdrawals.

The stated asset allocation may be subject to change. It is possible to lose money in a target-date fund, including losses near and following retirement. Investments in the Funds are not deposits or obligations of any bank and are not insured or guaranteed by any governmental agency or instrumentality.

QMA is an SEC registered investment adviser, a wholly-owned subsidiary of PGIM, Inc. (PGIM), and a Prudential Financial, Inc. company. QMA has been engaged by Prudential Retirement Insurance and Annuity Company to provide certain asset allocation and other investment advice relating to the operation of the Funds. QMA is the primary business name for QMA LLC.

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