

# Schuylkill County Employees' Retirement Plan

*March 31, 2016*



**Cornerstone Advisors Asset Management, Inc.**  
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**Cornerstone Advisors Asset Management, Inc.**  
**Investment Measurement Service**  
**Quarterly Review**

March 31, 2016

# Market Environment 1Q16: U.S. Economy

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*The first quarter of 2016 revealed a dramatic tale of two halves, split nearly evenly between "risk off" and "risk on" sentiment. Falling commodity prices and broad-based concerns over global economic growth contributed to poor performance in both the equity and corporate bond markets, as well as a sharp rally in US Treasuries through mid-February. February 11th marked the intra-quarter low in US stocks, oil prices, high yield bonds and risk appetite.*

- Real GDP growth in the US for 4Q15 was +1.4% revised upward from initial estimate of 1.7%
  - The US remains a bright spot among global economies
  - Fed GDP forecasts, currently at 2.2% for 2016, have been declining given global headwinds and US dollar strength
- Inflation remained below the Fed's 2% target for the Personal Consumption Index ("PCE")
  - PCE Index +1.7% y-o-y as of February but has trended higher (was 1.3% y-o-y in November of 2015)
  - Core CPI has also been rising +2.3% (y-o-y) as of February
- Oil
  - Continued to drive market sentiment throughout the quarter
  - Hit low of \$26 on Feb 11 but closed quarter at \$37 (WTI)
- US Labor market continued to improve
  - Robust job gains
  - Unemployment at 5%
  - Even wages were up, albeit modestly (+2.3% y-o-y)
- Manufacturing
  - After significant weakness in 2015, begins to show signs of improvement at quarter-end
  - March's Institute for Supply Management Index expanded for the first time since last summer
- Car Sales & Housing
  - Car sales remain solid, helped by low rates and low unemployment
  - New-home construction in the U.S. rose more than economists forecast in February with strongest single-family building in more than 8 years
- Weakness outside of US
  - Bank of Japan shocked investors by cutting its benchmark rate to -0.1%
  - European Central Bank also surprised investors with handful of new measures aimed at battling deflation and bolstering the economy
  - Continued uncertainty over magnitude and path of China's slowdown

# Market Environment 1Q16: Fixed Income

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*US Treasuries posted their best first quarter return since 2008 as yields dropped nearly 50 bps from year-end. The Barclays US Treasury Index returned 3.2% for the quarter. The dollar weakened on dovish comments from the Fed rates fell across developed markets.*

- Barclays U.S. Aggregate Index returned 3.0% for the quarter
  - Investment grade corporate bonds underperformed in January and early February before rebounding with oil and stocks through quarter-end
  - Financials underperformed Treasuries while Industrials benefited from a rebound in commodity prices
- High yield gyrated
  - Barclays High Yield Index was up 3.4% for the quarter but fell roughly 5% through Feb 11 before retracing losses
- Municipal bonds underperformed Treasuries but posted solid results
  - Barclays Municipal Bond Index returned 1.7% for the quarter with the Barclays 1-10 Year Blend up 1.2%
  - Longer maturity and lower quality performed the best
- Interest rates in developed markets fell and the dollar weakened
  - The yen gained 7% and the euro appreciated 5% vs. the dollar
  - Brexit worries put pressure on the pound, down 3% vs. the greenback
  - Yields dropped across the board on worries over pallid growth and deflation
  - Barclays Global Aggregate returned 5.9% (+3.3% hedged)
  - Unhedged returns approached 10% for many countries, including Japan which was up nearly 12% on the back of falling rates combined with yen strength
- Emerging markets produced strong returns
  - Dollar-denominated JPM EMBI Global Diversified Index up 5%
  - Local currency-denominated JPM GBI-EM Global Diversified Index up 11%

# Market Environment 1Q16: Global Equity

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*Equities commenced the quarter on very weak footing with many indices down more than 5%, and some as much as 10%, in the month of January. The weakness continued through mid-February at which point the S&P 500 staged a strong rally through quarter-end. Foreign equities followed a similar path as their domestic counterparts; however, most broad indices failed to fully recover and posted declines for the quarter.*

## U.S. Equity

- Results were mixed over the quarter
  - S&P 500 up 1.3%
  - Russell Midcap gained 2.2%
  - Small caps lost value (R2000: -1.5%)
  - Corporate profits down 8% in the 4<sup>th</sup> quarter
- Sector results were widely divergent
  - Defensive sectors performed best; Telecom (+16.6%) and Utilities (+15.6%)
  - Financials (-5.1%) and Health Care posted the worst returns (-5.5%)
  - High quality strongly outperformed low quality (+6.3% vs -0.0%)
- Value outperformed growth and large outperformed small
  - R1000 Growth: +0.7%
  - R1000 Value: +1.6%
  - R1000: +1.2%
  - R2000: -1.5%

## International Equity

- Developed markets trailed US but dollar weakness helped to mitigate losses
  - MSCI EAFE Local: -6.4%
  - MSCI EAFE US\$: -3.0%
  - Japan was among the worst (local: -12.5%; US\$: -6.4%)
- Emerging markets fared better
  - MSCI EM US\$: +5.8%
  - After a 41% loss in 2015, Brazil was the quarter's top performer (+29%)
  - Russia was also strong (+16%)
  - India: -2.5%
  - China: -4.8%

# Market Environment 1Q16: Liquid Real Assets & Hedge Funds

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*Liquid real assets produced mixed results and hedge funds failed to keep pace with the broad stock and bond markets.*

- Inflation remained benign but trended higher
  - Core CPI +2.3% (y-o-y) as of February
  - Ex-food and energy a more muted +1.0% y-o-y
- Oil prices bottomed
  - WTI hit \$26 but closed the quarter at \$37
- Gold was the star performer at +16%
  - Best quarterly performance since 1986
- MLPs continued to fall
  - Alerian MLP: -4.2%; -31.8% y-o-y
- REITs held up relatively well
  - NAREIT Equity: +6.0%
- TIPS outperformed nominal Treasuries
  - Barclays TIPS Index: +4.5% vs Barclays US Treasury +3.2%
  - Breakeven spread widened to 1.62% as of quarter-end
- Hedge funds underperformed stocks and bonds
  - HFRI Fund Weighted Composite (HFRI FWC: -0.8%)
  - Hedge Fund of Funds (HFRI FoF: -2.5%)
- Macro did the best
  - HFRI Macro: +1.2%

## Schuylkill County Retirement Fund

### Cash Flow Summary

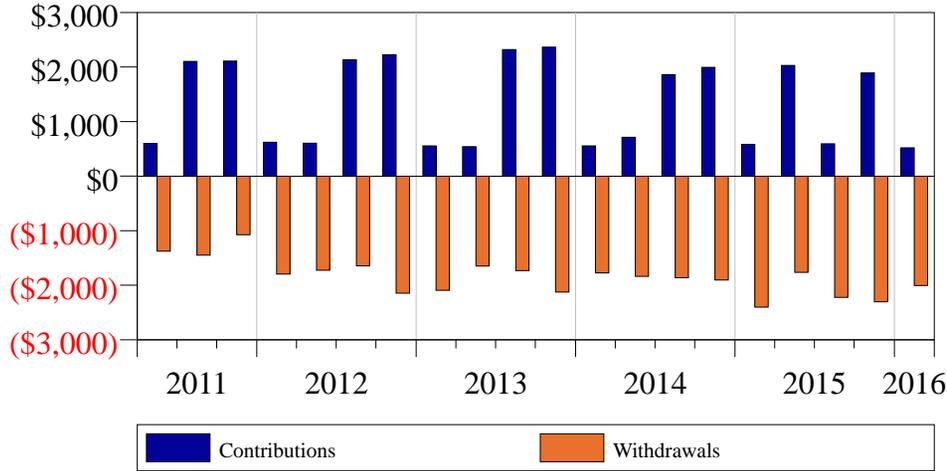
1 Quarter ending March 31, 2016

	Beginning Market Value	Income	Contributions	Transfers	Expenses	Withdrawals	Change in Market Value	Ending Market Value
Vanguard Value Idx;Inst	\$11,565,447	\$76,328	\$0	\$0	\$0	\$0	\$112,674	\$11,754,448
BlkRck:iShares:Core S&P 500	\$17,334,051	\$110,706	\$0	(\$110,706)	\$0	\$0	\$150,606	\$17,484,657
Alger Capital Appreciation	\$11,761,770	\$33,354	\$0	\$0	(\$19,113)	\$0	(\$374,953)	\$11,401,058
Silvercrest Small Value	\$4,915,677	\$19,715	\$0	\$0	(\$12,158)	\$0	\$81,826	\$5,005,059
Emerald Small Growth	\$4,938,474	\$12,663	\$0	\$0	(\$8,170)	\$0	(\$320,208)	\$4,622,760
<b>Domestic Equity</b>	<b>\$50,515,417</b>	<b>\$252,766</b>	<b>\$0</b>	<b>(\$110,706)</b>	<b>(\$39,441)</b>	<b>\$0</b>	<b>(\$350,055)</b>	<b>\$50,267,981</b>
Am Beacon:Intl Eq;Inst	\$7,006,330	\$0	\$0	\$0	\$0	\$0	(\$218,451)	\$6,787,879
Artisan:Internatl;Inst	\$7,251,443	\$0	\$0	\$0	\$0	\$0	(\$258,890)	\$6,992,553
Harding Loevner:EM;Adv	\$2,480,143	\$0	\$0	\$0	\$0	\$0	\$164,127	\$2,644,270
<b>International Equity</b>	<b>\$16,737,917</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$313,215)</b>	<b>\$16,424,702</b>
JPMAM:Core Bd (Columbus)	\$13,989,554	\$0	\$0	\$0	\$0	\$0	\$403,157	\$14,392,711
BHMS Core Fixed	\$16,377,399	\$127,562	\$0	\$0	(\$12,283)	\$0	\$383,726	\$16,876,404
Schuylkill NW	\$4,786,317	\$0	\$0	\$0	\$0	\$0	\$31,810	\$4,818,127
<b>Domestic Fixed Income</b>	<b>\$35,153,270</b>	<b>\$127,562</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$12,283)</b>	<b>\$0</b>	<b>\$818,693</b>	<b>\$36,087,243</b>
J Hancock II:G Ab Rt;I	\$3,984,989	\$0	\$0	\$0	\$0	\$0	(\$137,942)	\$3,847,047
Arbitrage Fund;I	\$4,136,474	\$0	\$0	\$0	\$0	\$0	\$67,547	\$4,204,021
Nuveen Pref Secs;I	\$4,041,810	\$58,693	\$0	\$0	\$0	\$0	(\$71,468)	\$4,029,035
ALPS/CC Mgt CC S;I	\$4,025,662	\$0	\$0	\$0	\$0	\$0	\$79,777	\$4,105,439
JPM Structured Note	\$2,000,000	\$0	\$0	\$0	\$0	\$0	(\$116,000)	\$1,884,000
<b>Alternative</b>	<b>\$18,188,935</b>	<b>\$58,693</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$178,085)</b>	<b>\$18,069,542</b>
Wilmington:US G MM;Admn	\$1,657,221	\$117	\$523,022	\$110,706	(\$62,386)	(\$2,003,872)	\$377	\$225,184
<b>Cash &amp; Equivalent</b>	<b>\$1,657,221</b>	<b>\$117</b>	<b>\$523,022</b>	<b>\$110,706</b>	<b>(\$62,386)</b>	<b>(\$2,003,872)</b>	<b>\$377</b>	<b>\$225,184</b>
<b>Total Portfolio</b>	<b>\$122,252,760</b>	<b>\$439,137</b>	<b>\$523,022</b>	<b>\$0</b>	<b>(\$114,110)</b>	<b>(\$2,003,872)</b>	<b>(\$22,285)</b>	<b>\$121,074,652</b>

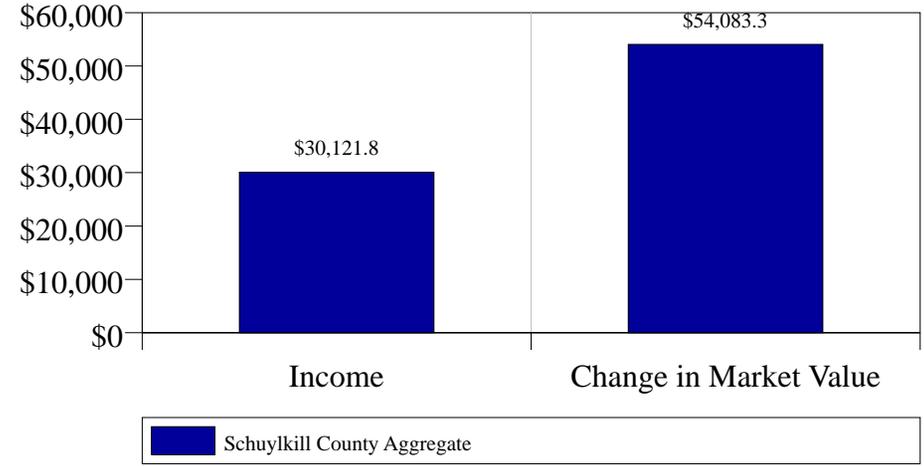
# Schuylkill County Retirement Fund

## Historical Cash Flow

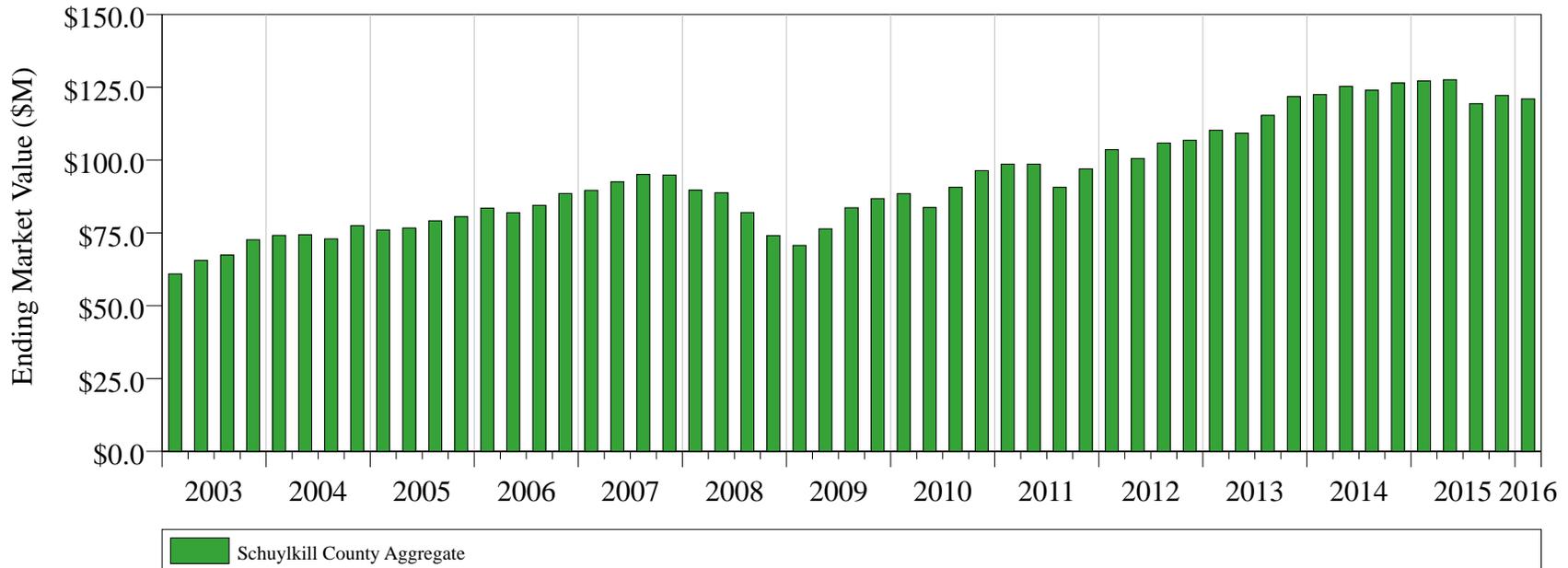
Quarterly Cash Flows for 5 Years (\$K)



Portfolio Appreciation (\$K) Since Inception



Ending Market Value Since Inception (January 1, 2003)



# Schuylkill County Retirement Fund

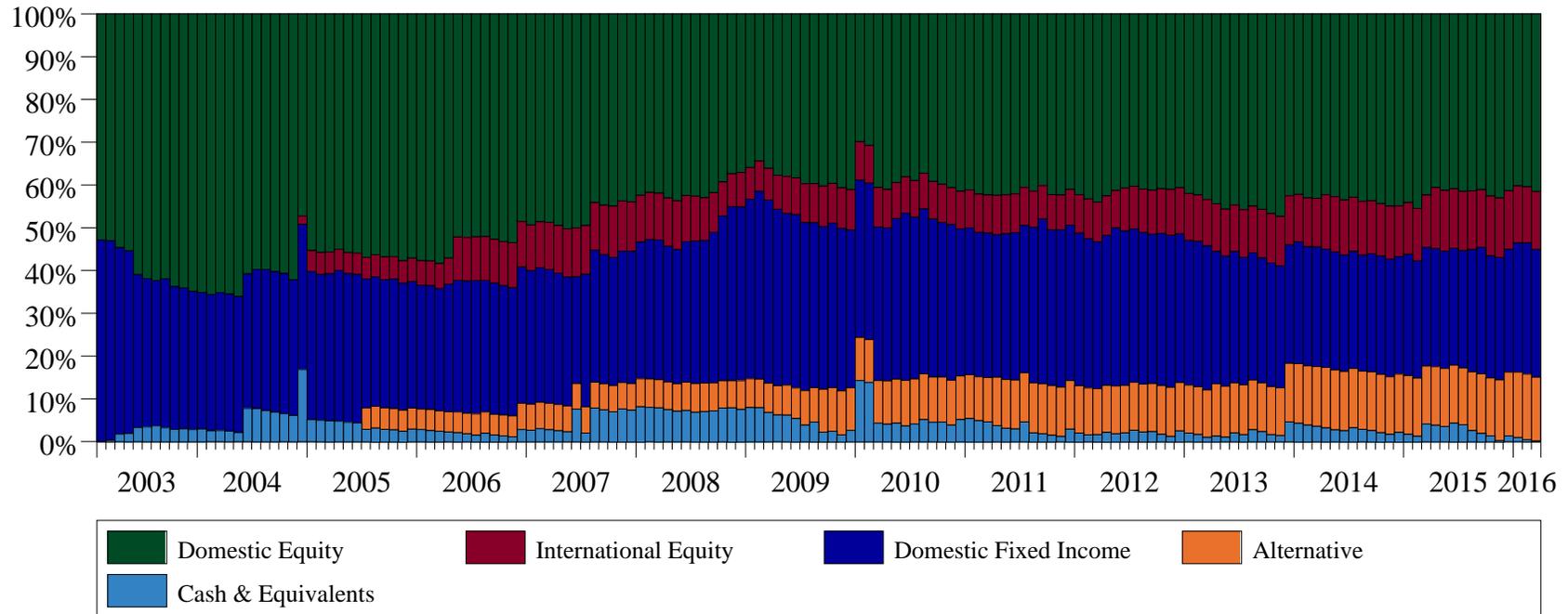
## Asset Allocation

January 1, 2016 to March 31, 2016

	Beginning Weight	Ending Weight	IPS Tgt Weight	Deviation
Domestic Equity	41.3%	41.5%	40.0%	1.5%
International Equity	13.7%	13.6%	10.0%	3.6%
Domestic Fixed Income	28.8%	29.8%	35.0%	(5.2%)
Alternative	14.9%	14.9%	10.0%	4.9%
Cash & Equivalents	1.4%	0.2%	5.0%	(4.8%)
<b>Total Portfolio</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	

	Beginning Market Value	Ending Market Value	Transfers
Domestic Equity	\$50,515,417	\$50,267,981	(\$110,706)
International Equity	\$16,737,917	\$16,424,702	\$0
Domestic Fixed Income	\$35,153,270	\$36,087,243	\$0
Alternative	\$18,188,935	\$18,069,542	\$0
Cash & Equivalents	\$1,657,221	\$225,184	\$110,706
<b>Total Portfolio</b>	<b>\$122,252,760</b>	<b>\$121,074,652</b>	<b>\$0</b>

Actual Allocation for Since Inception Ended March 31, 2016



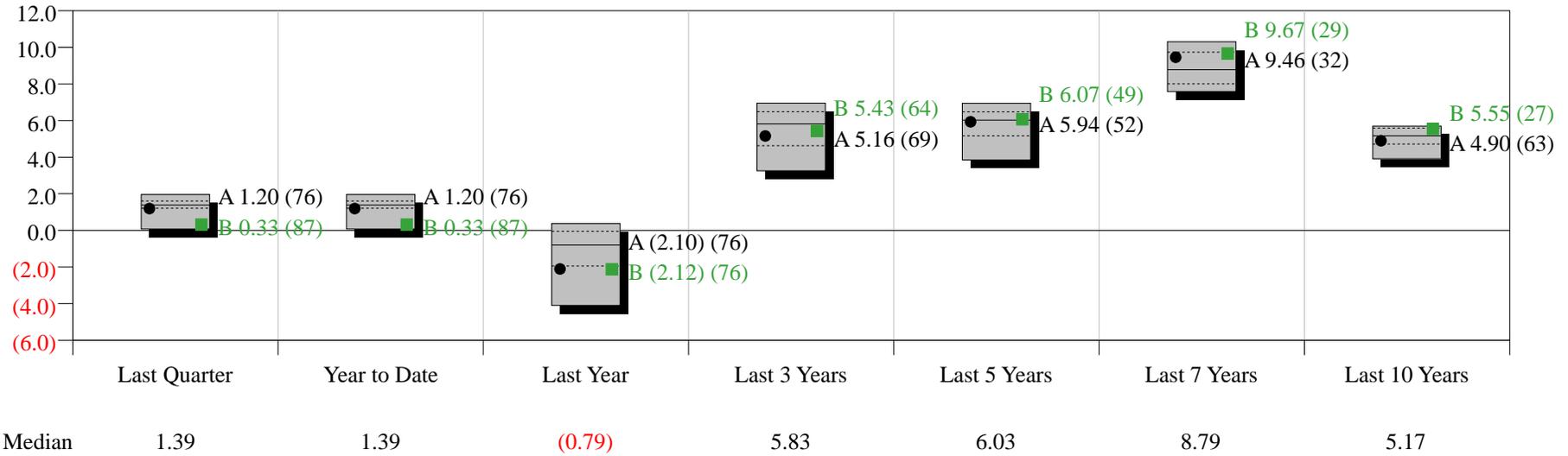
## Schuylkill County Retirement Fund

### Net Portfolio Performance

3 Months ending March 31, 2016

	Ending Weight	Returns	Beginning Market Value	Ending Market Value
Domestic Equity	41.5%	(0.25%)	\$50,515,417	\$50,267,981
International Equity	13.6%	(1.88%)	\$16,737,917	\$16,424,702
Domestic Fixed Income	29.8%	2.69%	\$35,153,270	\$36,087,243
Alternative	14.9%	(0.66%)	\$18,188,935	\$18,069,542
Cash & Equivalents	0.2%	0.01%	\$1,657,221	\$225,184
<b>Total Portfolio</b>	<b>100.0%</b>	<b>0.33%</b>	<b>\$122,252,760</b>	<b>\$121,074,652</b>
<i>Schuylkill County Blended Bench</i>		<i>1.20%</i>		

Net of Fee Returns for Period Ending March 31, 2016  
Group: CAI Public Fund - Small (<100 MM)



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