RETIREMENT BOARD MEETING
February 21, 2011

Present:	Commissioner	Milan Gjurich Sam Valenty
	Controller	Ed Cernic Jr. Kristine Segear Dana Descavish
	Treasurer	Barb Kline
	Peirce Park	Lee Martin
	Ameriserv	Mike Geiser

Commissioner Gjurich called the meeting to order at 9:35 a.m.

Motion made by Ed Cernic Jr. to accept the minutes of the November 30, 2010 meeting. Motion seconded by Sam Valenty. Vote unanimous 4-0. Motion carried.

Ameriserv Report – Mike Geiser reported that the total portfolio value is $166,390,274.07, Domestic Equity based on current percentage allocation is approximately $8.3 million over, Global Equity is $2.9 almost $3 million over, Fixed Income 3.7 million under, Real Estate and Cash is under as well. Controller Ed Cernic reviewed the numbers earlier this morning and we are going to need some cash in the disbursement account. Payrolls are about $700,000 a month and we have $500,000 in the account right now. We need approximately $300,000 for this payroll and for the retirees who chose option 4. There are approximately 80 to 100 Laurel Crest employees out there that haven’t accessed there retirement to this point. Would like additional $1 million put into the money market for future use. Motion to accept report by Sam Valenty, seconded by Barb Kline. Vote unanimous 4-0. Motion carried.

Retirement Summary provided by Controller Ed Cernic Jr. – New one page Retirement Summary attached. Summary information is for the board members and consists of new retirees names, departments retired from and years of service. It also provides information on the retirement payroll, withdrawals, and hospitalization costs for retirees and total number of retirees as of January 31, 2011.

Public Comments - None
Announcements - None

New Business:

A. Replenish Money Market Account – $1 million is needed to replenish the money market account to cover payroll and the upcoming withdrawals. Wait to review Pierce Park report and decide where to take $1 million from. We take in approximately $180,000 each payroll, approximately $360,000 every month to generate back but that doesn't make half our payroll.

Lee Martin from Peirce Park Group provided a short education review. The first is a colorful chart going back to 1980 looking at 5 year periods of asset classes. In those 5 year periods you can see it varies, this means that is it near impossible to determine what is best and to try to have a mix of all investments. The next piece shows a 20 year return period of large, mid and small cap. When looking at returns under that time period the value has quite significantly outperformed the growth. The next column, standard deviation, the growth out performs the value. Also, the number of negative quarters, the down side capture is a lot lower on the value side. During poor economic times when the market comes down value tends to outperform a whole lot better, so you win by not losing. Typically, value to growth in a portfolio should be around 60/40 and that is where we are now. The mid cap over this time period is at the highest return; higher than small and large and the volatility on the down side is very similar to large cap. In other words the large cap is significantly better than the small cap. That is because mid cap companies tend to be more capitalized in poor economies and normally ride the storm and do quite well. A review of why funds are going to a global mix shows the correlation between U.S. and International returns have increased from 0.23 to 0.93 over the past 15 years. That is because managers can go anywhere in the world to select the best opportunity no matter where it is. The world is such a global place now. It reinforces our portfolio; we now have four Global Managers. Next are passive vs active, where you see red shows the average manager underperformed the benchmark and where there is black the average manager outperformed the benchmark. The places you want to be active are global and small cap. On the fixed income, the average manager after fees really underperformed. Next we are showing four different types of bonds, high yield bonds, stocks, treasuries, and aggregate bonds. The aggregate bonds have been the steadiest; the treasuries in 2008 were up when the stocks were done. High yield bonds are almost identical to stocks. The returns in 2009 high yield actually returns more than stocks. This has been a short education review as to decisions we have made over the last few years and why we are where we are at now.

The U.S. stock market ended 2010 extremely strong, after a good for the most part 2009, 2010 continued except for the 2nd quarter with strong returns. The market was up on average 14% last year; China was only up 4%. The unemployment has dropped 0.4% to 9.4% at the end of 2010. The spike in unemployment occurred in 2008; historically unemployment rate has been 5.5%. Good economic indicators have been more jobs, starting to see GDP growth picked up to a rate of 2.3% in the third quarter, as of today it is pushing 4%. To see any significant effect in the unemployment rate we really need to see consistent growth of a good 3% of GDP. A big concern is interest rates and those rising, which we started to see in the 4th quarter. Need to keep the rates low so that it

keeps lower borrowing costs for consumers and businesses. By doing this Federal Reserve encourages us to spend our money and drive the economy back. The rise in inflation this quarter is 0.3, still quite low. In the equity market 2010 finished extremely strong. In December the S&P 500 rose 17 of 22 trading days, which pushed the S&P to its highest level since September of 2008, prior to Lehman Brothers going under. Just to put into perspective the S&P still needs to rise another 24.5% to get back to where it was before the high. When you look at style, growth outperformed value last year by about 1%. When you look at sectors, the more cyclical sectors were material and energy were the ones that did extremely well last year. The more defensive sectors such as health care, consumer stables, and utilites they were in the single digits last year.
As said before, you don't try to time it and move all your money to energy and materials because you never know when there will be a change around like in 2008 when it was the opposite. Again, it is important to diversify and have assets everywhere. The improving global economic outlook led to higher inflation and the treasury yields curve start to steepen. The Treasury raised 18 basis points over the 4th quarter to 0.60% while that of thirty year treasuries jumped 64 basis points to 4.37% resulting in a markedly steeper yield curve overall. At the short end, the long-term bonds get hurt the most. That is why we don't like long-term bonds in the portfolio, we like more plain conservative short intermediate bonds. Question asked by Controller Ed Cernic as to where we are at with our bonds. CS McKee is right on the duration of short to intermediate about 3.2 years; FNB has shortened up a year to that benchmark they are down to 2.2. We are on the short end of the curve. That is why FNB is doing well this year if you look at the returns for the 1-3 year it is about 0.1 and the longer term is 5.6. So again, it goes to show that the longer bonds get hurt the most. The international stock markets, t he US did better last year at 14%, particularly Europe EAFE up only 7.8% last year. One area that did extremely well last year has been the emerging market space that 65% of expected growth this year will come from Brazil, Russia, India and China. Major currency movement against the US dollar, in 2010 the Euro dropped only slightly to the US dollar but many of the currencies actually grew to the US dollar; particularly the emerging market space, South Africa, New Zealand, Australia. The floods in Australia have affected the economy quite significantly. We have been able to export goods from the US and this has helped the economy.

Performance highlights - the plan gained over $17.8 million in 2010. Value has out performed growth and has also has done well being slight overweight on average equity. For the quarter ranked top 27% and for the year top 39% of all public portfolios. Changes that were made last year were terminating Chase Investment Large Cap Growth, which is an extremely conservative growth manager and continued to underperform. Valley Forge Capitol Advisors was also terminated. Hired was CIM (Large Cap Core) which is tied to the index approach, Highland, Biondo and Raymond James are all concentrated aggressive types of managers to complement what you have on the defensive side. Added Real Estate and have gradually increased that. Onto the performance summary, total fund is at 12.8% for the year. As you get into the different managers, your value index is at 38 basis points and beats 75% of active managers and that was even before fees. Valley Forge was behind last year, yet they are still ahead by about 2% since inception due to the great job they did in 2008. Valley Forge chooses

more defensive minded stocks. If you do have a negative quarter, and you don't do well, there is an issue. If you had a larger allocation there would be concern but you have allocated 3 ½ %. CIM is very tied to the index for the quarter and for the year to date. Question from Ed Cernic, "Would it be better to put the money into an index fund?" Lee advised if they can outperform after fees than it is worth doing over one cycle. Raymond James is a big out performer for the quarter for mid cap would expect that due to being very over weighted in materials and have twenty-nine stocks, very concentrated. Biondo is the same, very concentrated large growth portfolio, up from the index by 2% last quarter. The good thing between these two companies, they only have two stocks that overlap out of all of them and they currently have 10% of the portfolio. CS McKee has done a great job on the small cap since inception they are 5% above index. Smid product was discussed in December and information was sent, that allows them to pick the mid cap as well as the small. Real Estate, for the year up 28.5%, ahead again this year by 5.7%. Starting to see slight falling out, due to such a big return in 2010. On the Global, there is a mix of two defensive funds and two active funds. Capital World Growth and Income is very diversified and has under performed last year but has done very well over last 5 years. GMO is very defensive and nicely diversified; they are really there for the down market. If you look back on them, 80% of the time they beat the index in the down markets. Thornburg is more of your active and had a stellar year, 5% above the index. Highland last quarter was 3% over index. Fixed Income – CS McKee last quarter 70 basis points and continuing to do well this quarter. FNB has an extremely high quality portfolio, still at 50 basis points above the index. Overall portfolio allocation breaks down each manager U.S. International, Value, Growth, Large, Mid and Small. Overall value to growth, slight overweight in the value space. When you look at the market cap, large cap is about the same with the market, mid cap quite a bit under the market, and small cap quite a bit over the market. The biggest thing right now is you are at 71% in equities and your investment policy calls for a target of 65%.

So the question today, is what is your comfort level going forward on your asset allocation and should you doing any rebalancing, if so to what extent and where do the assets come from. Ed Cernic referred to the Portfolio Allocation page provided by Mike Geiser showing we are $11 million over target between domestic equities and global equities and we are $7 million under fixed income. We are still under $1 million on real estate. Controller Ed Cernic feels we should rebalance some of that and stay within target of what our policy calls for. Lee Martin from Pierce Park agreed. Also, still need to discuss where we are going to take $1 million to replenish the money market account. Ed Cernic also suggested bringing real estate up to the target, which is $1 million, and then deciding how far to rebalance the rest of that. Ed Cernic recommends rebalancing at least halfway. Lee Martin agrees. Ed Cernic made a motion to move $7 million to rebalance. The rebalancing will be the following:

- $3 million from Vanguard and move to FNB fixed
- $2 million from CS McKee small cap and move to CS McKee fixed. Also, move the remainder of CS McKee which is $19 million into CS McKee Smid portfolio
- $1 million from Capital World Growth and Income for Real Estate
- $1 million from Thornburg for the money market account

Motion seconded by Barb Kline. Vote unanimous 4-0. Motion carried.

B. ARC Estimation – Estimated at $2.7 million with the assumption of a salary increase at 4.5%. Kris Seager questions going from 2009 to 2010 and the liability situation of selling Laurel Crest at the end of 2009 and how that is reflected in the report, still have 80 to 100 employees who are no longer out there and who are not earning anything toward the employer's contributions. By the next retirement meeting we should have the 2010 actuary report. We have already accounted and budgeted for the increase in the ARC for 2011.

Motion made to adjourn the meeting by Barb Kline, seconded by Sam Valenty. Vote unanimous 4-0. Motion carried. Meeting adjourned at 11:00.

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Ed Cernic Jr.