

Retirement Board Meeting  
September 17, 2012

Present:	Commissioner	Douglas Lengenfelder Tom Chernisky Mark Wissinger
	Controller	Ed Cernic, Jr. Kristine Segear Dana Descavish
	Treasurer	Lisa Kozorosky

Commissioner Lengenfelder called the meeting to order at 1:03 p.m.

Motion made by Ed Cernic to approve the minutes from the Quarterly Retirement Board Meeting held on August 13, 2012 Motion seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0.

Morrison Fiduciary Advisors – Frank provided an update on the fund. Primarily this meeting is for Vanguard to update us on the portion of the retirement fund that they manage and to discuss the investment policy statement change and the adjustment made for high yield fixed income. The fund is doing well, as of the August 31, 2012 report the fund is up 7.97% year to date and September has been productive as well. We are possibly looking at 10% year to date. Managers still on watch are CIM which is beating the index quarter to date; Valley Forge which is trailing the benchmark and CS McKee small cap equity which is also beating the index so far this quarter. Asset allocation as of August 31, 2012 is 61% equities; \$3 million was rebalanced out of foreign equities about three months ago, CS McKee was adjusted into Russell Index and the \$6 million transfer was accomplished. The fund is pretty much on target with its policy and the fund is at about \$165 million as of this meeting. Jae Kim from Vanguard is here to give a presentation. Vanguard is running four different funds for the Cambria County Retirement Fund. In some cases Vanguard is used for the growth and value indexes in large cap; and recently more money was added to the fund in the Russell 2000 space. Vanguard also actively manages a Real Estate fund of \$8 million for Cambria County. Vanguard has at least 20-25% of the fund, which is \$40 plus million.

Jae Kim, the relationship manager from Vanguard provided a brief overview of Vanguard and remarked that Vanguard is the only mutual fund company owned by its shareholders. He provided a review about the different funds that Cambria County has with the fund. Vanguard is now the number one financial company in the U.S. and is growing in international opportunities including but not limited to Australia, London and Toronto. A number of different client types are serviced by Vanguard which include but are not limited Defined Contribution, Defined Benefit, Nonprofit and Corporate. As far as active managing vs. indexing managing, Vanguard is actively managing index funds in house and also manages some active funds in house. In regards to the cash flow pattern for the last decade, Vanguard has been in the top two. Mr. Kim provided a market value summary of the Growth Index, Value Index, REIT index, and Russell 2000 index funds that the Retirement fund has with Vanguard and thanked the board for the opportunity to serve and for the continued business Cambria County. A review was done of the investment performance. Information about the most recent investment in the Russell 2000 Index, the stated expense ratio is 15 bps, but Vanguard only charges the investor 8 bps. The 7 bps is due to a SCC disclosure regulation which Vanguard is required to state. The 7 bps is reflected in the stock price and is not being paid out of pocket.

The Vanguard Growth Index Fund and Value Index Fund are currently tracking the performance of the MSCI US Prime Market Growth Index. Frank advised that he will be looking into tracking these against the Russell 1000 index growth and value, assuming there is no fee schedule disadvantage.

Frank also questioned Mr. Kim about the Vanguard REIT Index fund, which Cambria County has done very well on, as to whether we should be cutting back a little bit. Mr. Kim advised that Vanguard does not make outright calls on the economy, inflation or the housing market. Mr. Kim states that the housing market, as it is, there is still a lot of upside. With the interest rates as low as they are it is not that individuals can't get buy houses it is that they can't get the financing. There is still an inventory of houses that are favorably priced. Mark Wissinger stated that if individuals have the equity they can get the financing.

The Russell 2000 Index Fund is the fund that was used when the money was moved out of the CS McKee small cap because CS McKee was placed on watch. No decision has been made to keep the money in the Russell 2000 index fund by the Retirement Board or to at some point engage an active small cap manager.

Frank reviewed the Investment Policy Statement for fixed income and the new language that was added for High Yield as a result of the last meeting and the information we heard from Seix Advisors on High Yield investment. Frank also reviewed with the board the Moody's Long-Term rating definitions and if we were to invest in High Yield the investments would lean towards the top three of Moody's terms such as Ba, B, or Caa. Mark Wissinger questioned if putting this in the policy means we will be just making it available to do in the future. Frank confirmed that is correct. High Yield is still a fixed income investment and would be part of the fixed income percentage of the policy if approved upon by the Retirement Board.

Ed Cernic made the motion to adopt the recommended change to the Investment Policy that has been presented. Motion seconded by Douglas Lengenfelder. Motion carried. Vote unanimous 5-0.

Review of the fee scheduled. Total investment manager fee is at 31 bps. That includes every fee whether charged in the mutual fund, invoiced or anywhere in the system. The fee has been consistently brought down; at one point it was at 54 bps. Frank commented that the fees are a successful result of managing the fund.

Frank provided a review of actively managing versus indexing at the request of Ed Cernic. He provided a review of Wilshire's data for 10 years and all the managers that are actually running money for a consultant that is measured and supervised by Wilshire which is different from the all mutual funds. Cambria County is doing more hands on competitively priced managers. The average fixed income manager over the last ten years deducting a 25 bps fee and compared to the an index fund with an expense ratio of 20 bps, shows consistently over time that active fixed income has beat the benchmark on an after fee basis by 120 bps over three years and 44 bps over ten years. Further review of the international active managers on the same type of analysis using 8 bps for active managers and 34 bps on index the result over ten years beat by 94 bps and in small cap using 70 bps for an active manager fee and 23 bps for an expense ratio for an index the benchmark was beat by 138 bps over ten years. On those three asset classes over ten years active management produces more results than indexing. However, if you look at the SP 500 Funds, Russell 1000 Value, and the Russell 1000 Growth funds using active management at 50 or 60 bps and indexing at 9 or 20 bps it is very hard to beat the index over a long period of time on large cap.

New Business:

1. Motion made by Ed Cernic to ratify the action taken by the Commissioner's Office at the recommendation of the Controller's office on the following September retiree: Margaret Hildrebrand. Motion seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0.
2. Motion made by Mark Wissinger to approve the buyback request made by Richard Rok to purchase previous service time from November 25, 1985 to December 31, 1988 which is 3 years, 1 month, and 6 days, in the amount of \$4,061.97 which will be done by a payroll deduction. This buyback is pursuant to policy #11-05. Motion seconded by Tom Chernisky. Motion carried. Vote unanimous 5-0
3. IRS Determination Letter - Kris Segear advised in January of 2011 the county made application to the IRS for a determination letter. The favorable letter was just received on Sept 4 2012. It is a lengthy process. This letter gives our plan a favorable tax treatment because the plan meets all the tax requirements. This is the first time the County has ever had this done. Without a favorable determination it could have jeopardized the tax treatment of the retirement plan. This was a recommendation by the IRS that all County plans have this done. It is unknown if other counties have received a favorable determination. The cost was \$5,000.00 by a company that our actuary CBIZ uses, which is Smith and Downey. The determination letter is good for ten years unless a drastic change to the plan
4. Information update received from GMO via email to the secretary of the Retirement Fund that Sam Wilderman formerly the co-head of GMO Quantitative Equity group has recently joined the Asset Allocation team as co-head with Ben Inker.

Motion made to adjourn the meeting by Mark Wissinger. Motion seconded by Lisa Kozorosky. Motion carried. Vote unanimous 5-0. Meeting adjourned at 2:01 p.m.

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Ed Cernic, Jr.