

Retirement Board Meeting
August 13, 2012

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

Commissioner Chernisky called the meeting to order at 10:23 a.m.

Motion made by Lisa Kozorosky to approve the minutes from the Monthly Retirement Board Meeting held on June 28, 2012 Motion seconded by Tom Chernisky. Motion carried. Vote unanimous 3-0.

Controller Ed Cernic reviewed the Retirement Summary listing the retirees since the last meeting, the retirement payroll by months, withdrawals and rollover amounts, and number of retirees as of August 10, 2012 is 955. Motion made by Tom Chernisky to approve the Retirement Summary. Motion seconded by Lisa Kozorosky. Motion carried. Vote unanimous 3-0.

Mike Geiser from Ameriserv reported as if this morning all sub accounts market value is just over \$160 million vs. the cost basis of \$147 million. In comparison to the last quarterly meeting on May 14, 2012 the market value increased by \$1.7 million, which is good taking into account there has been withdrawals of over \$2 million during that period. Ameriserv also monitors the cash balances which are in line. Ed Cernic commented on the Ameriserv report that this is the first time that the report did not show any negative unrealized gain/loss. Motion made by Lisa Kozorosky to accept the Ameriserv Report. Motion seconded by Tom Chernisky. Motion carried. Vote unanimous 3-0.

Morrison Fiduciary Advisors – Frank provided a brief economic summary. Through July 31, 2012 the fund is up approximately 6.5%. August results show the fund is up approximately 7.5%. There was a fee schedule reduction from Raymond James / Navellier reducing the management fee from 15 bps to 5 bps and the combined fee is now 45 bps. The Ameriserv custody fee schedule was reviewed and deemed competitive by the Board and for the level of services provided. In conjunction with the July rebalancing to reduce the funds equity exposure, Highland Financial was terminated and assets transferred to McKee's fixed income. Additionally, \$1 million was transferred from the Vanguard Growth Equity fund to FNB's fixed income account. CIM and Valley Forge large cap accounts remain on watch and are continuing to be monitored. C.S. Mckee small cap equity has trailed its benchmark over the last 1-3 year time period. My recommendation is place this account on watch status and discussion will be held later in the meeting. In regards to asset allocation, currently the fund is perfectly matched to the policy index. Review of the fee schedule, the total fund is at 42 bps. A lot progress has been made with the fee schedule over the last year with a savings of over \$100,000.00.

Discussion on C.S. Mckee, they are an outstanding firm with over \$13 billion in assets under management. They did run into a weak spot where their large cap equities trailed a little bit and the small cap trailed quite a bit. They trailed by 3.5% in the second quarter and 4% in the previous year's fourth quarter, and are currently beating the market value by 100 bps for this quarter, however consistent with our policy they should go on watch status. A discussion was held by board members on CS McKee's performance over the last nine months. Frank recommends placing C.S. McKee on watch and moving money to an index fund.

- Motion made by Ed Cernic to move \$6 million from CS McKee small cap to Vanguard Index Fund small cap and place C.S. McKee small cap on watch status. Motion seconded by Lisa Kozorosky. Motion carried. Vote unanimous 3-0.

Mark Wissinger arrived at the meeting at 11:02 a.m.

Discussion was held on Vanguard and that they are not exactly tracking the R1000 value/growth benchmarks. Frank Burnette advised the possible cures are to leave as is or switch Vanguard into an ETF, which some ETFs (Electronic Traded Fund) that have a specific R1000 index makeup at which point it will track perfectly. Question raised by Ed Cernic to Mike Geiser if there would be a problem with changing their index, and Mike advised there would be no problem changing the index. Plans are to bring Vanguard to next meeting.

To educate the board on High Yield Fixed income Frank Burnette has arranged for an informational presentation from Seix Advisors. This is an asset class that the fund does not currently use and is not currently in our Investment Policy. The industry is always changing and the fiduciary process is to continue to evolve. High Yield Fixed income is now considered attractive from a tactical point of view. Rebecca Ehrhart Vice President from Seix Investment Advisors, conferenced in with Brian Nold, Senior Portfolio Manager and Mark Meyer, CFA, Managing Director presented to the board information on High Yield Fixed Income. Rebecca provided a background of the firm Seix, which is headquartered in Upper Saddle River, New Jersey. Seix advisors have \$26.9 billion in assets under management, seventy six

investment professionals and are indirectly owned by SunTrust Bank. Seix Advisors has a goal in achieving absolute returns by capturing the upside and protecting against the downside. A high yield fixed income bond is a corporate obligation for corporate debt from a company, the majority of which are based in the U.S., much similar to investment grade corporate bonds, and the big distinction is ratings difference. High yield bonds are rated at a lower rating than investment grade bonds. It is a fixed income asset class, minor characteristics are similar to the equity market in terms of the price that the bonds do move around based on positive and negative events that happen within the companies. In general, it should be viewed as a fixed income asset class where you are clipping a very attractive coupon and generating current income. This is a mature market and high yield has been around since the mid-80s. The high yield market is made up of private and public companies. Very much focused in investing in higher type of bonds invested in, focusing on BB and B rated bonds. The high yield index is currently at 7% vs. 2% treasury. Discussion from the board on what percentage would be placed into this fund. Frank advised approximate 5% to 10% of the fund. Mark Meyer spoke about the annualized return of a high yield bond compared to large cap equity and small cap equity. Return of risk of high yield is 0.9 compared to large cap equity at 0.6 and small cap at 0.4. The current spread of high yield today is 600 bps and the current default rate is below 2%. Question raised by Ed Cernic as to where this would fit into the portfolio. Frank advised to pull money out of fixed income and the investment policy would have to be reconstructed. This would be a nontraditional investment in the policy and there would be no increase in the fixed income portion. The Seix portfolio characteristics are pure investing, focus on BB & B rated bonus, five step credit tests, sell discipline and they have only had one negative year since 1997, which was in 2008 when everything in the market was down. The board feels that we should be prepared by the next meeting to have this part of our asset class. The Board thanked Seix Advisors for their presentation.

Frank Burnette continued with his report. The Retirement fund currently today is at 7 ½ %. Frank reviewed the performance summary. Two watch managers are CIM, which has consistently trailed and Valley Forge, which has bounced back and beat the index by 3½%.

Ed Cernic made a motion to authorize Frank Burnette to change the Investment Policy to include High Yield fixed income at a level similar to the real estate percentage wise. Motion seconded by Lisa Kozorosky. Motion carried. Vote unanimous 4-0.

Old Business:

1. Policy Adoption – Medicare Eligibility still waiting for the Commissioner’s to take action on the policy. Policy reviewed with Commissioner Chernisky and Commissioner Wissinger. They requested that I notify Sheila, Executive Assistant Commissioner’s office to have the policy adoption placed on the agenda for the next Commissioner’s meeting.

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 July and August retirees: Janet Merrill, Karan Sheesely, Beverly Stasik, Linda Bober, Barry Sowers, Thomas Voytas, Joanne Weaver, Lisa Charney and Deborah Patton. Motion seconded by Mark Wissinger. Motion carried. Vote unanimous 4-0.
2. Motion made by Mark Wissinger to increase the salary amount paid from the Retirement Fund to reflect the Commissioner’s action at the Commissioner’s meeting on August 9, 2012 for Kristine Segear from \$2,400 annually to \$3,400.00 annually and Dana Descavish from \$3,000.00 annually to \$4,500.00 annually effective August 5, 2012. Motion seconded by Tom Chernisky. Motion carried. Vote unanimous 4-0

Motion made to adjourn the meeting by Mark Wissinger. Motion seconded by Lisa Kozorosky. Motion carried. Vote unanimous 4-0. Meeting adjourned at 11:45 p.m.

Ed Cernic, Jr.