

Retirement Board Meeting
November 19, 2012

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

Commissioner Wissinger called the meeting to order at 10:00 a.m.

Motion made by Ed Cernic to approve the minutes from the Monthly Retirement Board Meeting held on October 25, 2012 and November 21, 2011. In review of the official minutes there was no approval of the November meeting. Motion seconded by Lisa Kozorosky. Motion carried. Vote unanimous 3-0.

Review of the Retirement Summary As of 11/16 /2012 there are 959 retirees. October retiree payroll was \$821,013.99 and there were a total of \$423,452.13 in withdrawals/rollovers from the last quarter. Question from Commissioner Wissinger on what do the withdrawals and rollovers consist of? Dana Descavish responded that the withdrawals and rollovers are the individuals who retired and chose option 4 and the employees who are not vested and leave employment. Interest is calculated on those monies until the date of retirement and/or check date in the case of non-vested employees.

Ameriserv report was provided by Diane Karpen. All allocations are within the parameters. The total market value is \$155,699,647.61. The total cash balance in all accounts is \$3,320,882.23. Motion made by Ed Cernic to accept the Ameriserv report. Motion seconded by Mark Wissinger. Motion carried. Vote unanimous 3-0

Morrison Fiduciary Advisors – Frank Burnette provided a brief economic summary. At the end of October the fund was up 8.65%, as of today the fund is up 7.5%. For the 3rd quarter the fund returned 3.83% versus its policy benchmark return of 4.34%. At quarter end the total funds equity weighting was 61.8% versus its target equity weighting of 60%. McKee Small Cap equity account was placed on watch status during the 3rd quarter. CIM's and Valley Forge's large cap account remain on "watch status". Neither of those managers had any material underperformance during the recent quarter. Frank's recommendation is to continue to watch those managers. The fund's Investment Policy Statement was updated during the 3rd quarter to permit high yield fixed income investments. Frank prefers to wait to see that asset class get cheaper for a good entry point into high yield. Later in the meeting there will be discussion on two decisions that need to be made in regards to the Vanguard Small Cap index fund that was funded in August with \$6 million to diversify the Fund's small cap investments. Frank will also be making a recommendation that the board consider active management for this small cap allocation and will be making the recommendation that the fund uses different Vanguard index funds for the large cap growth and value mandates.

Sam Piccioni and Jeff Wagner from FNB presented. Sam Piccioni spoke of 2008 when FNB became part of the Retirement Fund as a fixed income manager. Fixed income over the last five years has been very difficult and it is hard to balance getting the return with the amount of risk. The goal was to add value and FNB has been able to do that. Jeff spoke about the portfolio returns. The portfolio amount start of year was \$23,728,646.81 and as of October 31, 2012 the balance is \$ 25,873,799.64. Over the last year FNB received an additional \$1 million contribution, so the portfolio return was \$1,145,152.83 which is a 4.78% return. Review of the fixed income over long term. Since inception there was a return of 21.18. The annualized return is 5.14% and the benchmark is 5.38%, which is just a little under. The mission of FNB is to keep the portfolio geared to high quality; however, there is more leeway now to maneuver the portfolio a little more. Jeff reviewed the portfolio holdings of the account. Approximately 84% is invested in a AAA high quality bonds, and the remaining is mixed from AA to a couple BBB +. Review of the bond analysis spreadsheet and the market value in each bond, also reviewed the average duration on each bond. Total portfolio duration is 3.82. The corporate bond exposure is at 43% of the portfolio vs. the index of 23%.

Elise Carner from GMO presented a brief history on GMO. GMO is privately owned and has \$102 billion of assets under management. GMO has a history of innovation and is quite early in international investing in asset classes of segments and early in quantitative investing. The firm has a reputation for honesty and will tell their clients what is best for them. Asset allocation is 40% of GMO's business. Ben Inker who has been running the asset allocation has been joined by Sam Wilderman. He has been with the company for 16 years. The performance of the international equity allocation is currently behind the benchmark by 50 bps. This portfolio is meant to earn returns of 3% to 4% after fees and is expected to track error of 5% to 7% per year. GMO understands that protecting on the downside is a priority. GMO core beliefs are mean reversion drives everything. The idea is to wait for the significant movements in the markets in order to take advantage. You wait for the fat pitch, which is one to two standard deviations from the average and in this portfolio you do not want to make large moves. The goal is to look at broader trends and implement effectively which means to complement asset allocation by effective security selection within the asset classes. The portfolio today is 70% value vs. 30% growth, which is considered a normal weight in asset allocation.

Frank Burnette continued with his report and reviewed the recommendations for using different Vanguard index funds for the large cap growth and to consider using active management for the small cap allocation. Question was raised from Ed Cernic if there would be any fees in changing the index funds with Vanguard. Frank advised that there would not be any fees. Another question from Ed Cernic is should we be looking at a completely different company than Vanguard to do the same thing, instead of having all in one basket. Frank advised that the next step he would be recommending would be taking money from Vanguard Russell 2000 Small Cap Index and having it actively managed. Additional material was reviewed by Frank with the board in regards to having more active management in small cap. The company recommended by Frank is Emerald Advisors. Emerald Advisors is headquartered in Lancaster, PA and has \$2.8 billion in assets under management. Frank provided a performance history which they continue to beat the index over a long period of time. The fee structure is 60 bps which is competitive.

- Upon recommendation from Frank Burnette, Ed Cernic made a motion to liquidate the County's balance in the Vanguard Russell 2000 Index Fund (which as of November 19, 2012 was \$5,766,763.86), to the management by Emerald Advisors in Emerald's Small Cap Growth Equity product benchmarked to the Russell 2000 growth index with a fee of 60 basis points. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 3-0.
- Upon recommendation from Frank Burnette, Ed Cernic made a motion to re-benchmark CS McKee Small Cap Core Account from the Russell 2000 Index to Russell 2000 Value Index. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 3-0.
- Upon recommendation from Frank Burnette, Ed Cernic made a motion to transfer the County's entire balance in the Vanguard Growth Index Fund to the Vanguard Russell 1000 Growth Index Fund. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 3-0.
- Upon recommendation from Frank Burnette, Ed Cernic made a motion to transfer the County's entire balance in the Vanguard Large Cap Value Index Fund to the Vanguard Russell 1000 Value Index Fund. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 3-0.

New Business:

1. Motion made by Ed Cernic to establish the Retirement meeting schedule as presented for 2013. Motion seconded by Mark Wissinger. Motion carried. Vote unanimous 3-0
2. Motion made by Ed Cernic to keep the interest rate on retirement monies at 4.75%. Motion seconded by Mark Wissinger. Motion carried. Vote unanimous 3-0.
3. After review and discussion by the Board, motion was made by Ed Cernic to not issue a COLA. Motion seconded by Mark Wissinger. Motion carried. Vote unanimous 3-0.
4. Motion made by Ed Cernic to approve the buyback request made by Richard Steel to purchase two years of Military Service from August 1965 to August 1976, in the amount of \$7,387.86 via a lump sum, purchase date of November 30, 2012. Motion seconded by Mark Wissinger. Motion carried. Vote unanimous 3-0
5. 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 November retirees: Hanna Garver, William Burns, Sally Shook, Rae Ann Lanzendorfer and Lorraine Baith. Motion seconded by Mark Wissinger. Motion carried. Vote unanimous 3-0.

Motion made to adjourn the meeting by Ed Cernic, motion seconded by Lisa Kozorosky. Motion carried. Vote unanimous 3-0. Meeting adjourned at 12:00 p.m.

Ed Cernic, Jr.