

Retirement Board Meeting
May 13, 2013

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

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

Motion made by Tom Chernisky to approve the minutes from the Retirement Board Meeting held on April 25, 2013. Motion seconded by Lisa Kozorosky. Motion carried. Vote unanimous 4-0.

Ed Cernic reviewed the retirement summary. Currently there are 985 retirees; all but three retirees are on direct deposit. The Controller's office is still reaching out to those three receiving checks. There are approximately sixty eight employees who are still eligible for retirement due to the closing of Laurel Crest. The payroll for April was \$853,210.22.

Doug Lengenfelder arrived at 10:09 a.m.

Mike Geiser from Ameriserv provided the Board with an update. The total market value as of today is \$173,968,426.05. In comparison to the beginning of the year, the fund has made over \$16.1 million, this includes the drawdown of \$770,000.00 which was done once so far this year. There are two managers over the 3% cash thresholds which are FNB and CS McKee small cap. FNB is still in the transition stage of investing after recent changes were made at the last meeting. Motion made to accept the Ameriserv report was made by Ed Cernic, seconded by Mark Wissinger. Vote unanimous 5-0.

Morrison Fiduciary Advisors – Frank Burnette first provided a brief report on the economy. General comments on the fund were discussed. At quarter end, the total funds equity weighting was 64.3 % versus its target equity weighting of 60%. That overweight helped the fund. The individual manager's cash balances represented 2.2% of the total assets. CS McKee small cap, CIM and Valley Forge remain on watch status and are being monitored on a monthly basis. CS McKee and Valley Forge funds were cut back so the amounts they manage are similar to the amount managed by CIM. They are no longer a 10-15% weighting of the fund, but a 5% weighting, which makes them a little less impactful on the returns. Emerald's trading practices were reviewed and determined to be consistent with the manager's active investment style.

Originally with FNB, the fund was to invest in a different strategy which was approved by the board at the last meeting. The investment was to put 20% in high yield, 30% in floating rate and 50% in the traditional fixed income. The high yield market has moved so fast and the yields have compressed so much since the last meeting, the strategy needs to be changed to 60% invested into the Barcap Intermediate Government/ Credit index and 40 % into variable rate loan funds. Variable rate loan funds are still issued by high yield managers. The floating rate portion of the portfolio would be 75 % in the Highland Capital Management previously discussed which has the 30 bps fee and 25% with SEIX Ridgeworth. This is much different than your other fixed income manager and much different than where we were but that is by design. After further discussion between the board members and the investment consultant, Ed Cernic recommended 50% to stay as is, 20% high yield securities and 30% flexible floating rate securities. The high yield security bond that FNB is recommending is the Vanguard High Yield Bond Mutual Fund which can be moved in and out of daily if need be. Board discussion was held on the Highland Capital Management Fund.

- Motion made by Ed Cernic to change the fixed income side of FNB on the recommendation of Morrison Fiduciary Advisors and FNB due diligence. Motion was seconded by Douglas Lengenfelder. Motion carried. Vote unanimous 5-0.

Review of the asset re-allocation. In regards to the Vanguard Russell 2000 Index Fund which the board voted to invest \$3 million into that fund, the consultant learned that the minimum to invest in this particular fund is \$5 million. Even though we have \$40-\$50 million with Vanguard they do not value those assets when they considered the minimum for this fund. Therefore, we cannot make that investment. Another option is to invest in the Blackrock iShare Russell 2000 index which is effectively the same but the fees do go up. Discussion was held by the board members and their concern still with CS McKee's small cap fund.

- Motion was made by Ed Cernic to move another \$2 million from CS McKee small cap and put that towards the Vanguard Russell 2000 value index fund which will make the \$5 million needed to invest and also have the lower bps. Motion was seconded by Douglas Lengenfelder. Motion carried. Vote unanimous 5-0.

Troy Mosconi was present from Thornburg to discuss with the board the funds invested with them. Troy provided a review of the firm's history. The firm is headquartered in Santa Fe, New Mexico and started 30 years ago. The firm was a fixed income shop and twelve years later got into the equity market and then the

international value product in 1998, which currently Cambria County is a part of. The firm is currently at \$91 billion assets under management and have approximately 250 employees. There has been no change in the investment process or organization structure. The equity markets are very comfortable right now. Valuations are very historically average. There is a lot of liquidity out there. As far as the portfolio, some of the stocks we owned have not come to fruition as we had hoped. Currently we are overweight in the consumer discretionary, healthcare and technology. We are underweight in financials, energy and materials. Overall we are pleased with the portfolio and where it is positioned. Question was raised by Ed Cernic as to why Thornburg missed the benchmark by more than 2% this year and last year. The reason for missing the benchmark this year is due to Japan and due to the emerging markets. The emerging markets have struggled. The missing of the benchmark for 2012 was due to the financials, European and the banks. Where we missed was by not having enough exposure to that area of the market which did not do great until the fourth quarter.

Jeff Davidek was present from CS McKee to discuss with the board the funds invested with them through fixed income and small cap value equity. Fixed income performance continues to be excellent. There is a slowdown in the bond market right now. The current portfolio characteristics are light in mortgage exposure and light in treasuries, favoring higher yield investment grade corporates and the U.S. Agency Bonds. The overall yield to maturities is 1.34% vs. the benchmark of 1.08%. CS McKee is optimistic that they can continue adding value for the plan because of this structure. Frank advised CS McKee to feel comfortable in making suggestions on the fixed income side. The small cap performance has been extremely difficult for the past year. The stocks that have really been performance leaders have been the deep value high dividend stocks. Managers who were overweight in telecom, high yield financials, and utilities performed ahead of the group however, the fund was underweight in those areas. CS McKee has focused on the relative value approach and faster growing portions of the market which are industrials and technology. If we get into an environment where inflation picks up the deep value bonds are likely to underperform the growth type companies that we are invested in. That is our strategy for equity and unfortunately we have been much too early in that tilt towards growth and that is our main reason for underperformance in the last year. So far year to date we have closed some of the performance gap. Semtech, which is the 2nd largest position of the fund, was up 22% for the quarter. Hecla mining was the worst performing stock in the portfolio due to a major mine accident late last year and recently took a hit on precious metals. The average yield of this portfolio is 1.16% vs. 2.11% for the index and the average growth forecast for this portfolio 12.3% vs. 10.6% for the index. We have a clear tilt towards faster growing companies and giving up dividend yield in the process. We feel while we have lagged the market in this upward move a lot of it has to do with investors thirst for yield. We also believe the fundamentally quality in the portfolio if there is some type of market correction the fund will do better in a down market scenario. In the small cap sector for total firm the assets under management has gone from \$1.2 billion AUM and currently is at \$1 billion AUM.

Frank Burnette continued his report. The next quarterly board meeting will be held on August 12, 2013 which Navallier is scheduled to present. Performance for the fund has not been well. There are managers who have underperformed which we have discussed and noted, but also there were not any managers who really out performed. The total Fund returned 5.82 vs. a 6.21% return for the 1st quarter ranking in the 43rd percentile. For the trailing 12 months, the ranking in this fund is around the 80th percentile and we want to be at the 25th percentile. Despite all of this the fund is growing. Over the last four years there was a 13% return. The overall mix of the fund is good. We are providing the managers with feedback and they know the work that needs to be done for the fund.

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 March Retirees: Barbara Kolesar and Georgianne Mulligan. Motion seconded by Lisa Kozorosky. Motion carried. Vote unanimous 3-0.

Motion made to adjourn the meeting by Mark Wissinger. Motion seconded by Tom Chernisky. Motion carried. Vote unanimous 5-0. Meeting adjourned at 11:32 a.m.

Ed Cernic, Jr.