

Retirement Board Meeting
March 20, 2013

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

Commissioner Chernisky called the meeting to order at 9:37 a.m.

Motion made by Lisa Kozorosky to approve the minutes from the Retirement Board Meeting held on February 4, 2013. Motion seconded by Ed Cernic. Motion carried. Vote unanimous 3-0.

Morrison Fiduciary Advisors – Frank Burnette provided a performance summary through February 28, 2013. The fund is up 3.5% and March will have more of a positive performance. Asset allocation is 65% in equity, 36% in fixed income and 4% in Real Estate. In the fixed income portfolio, there are two managers who both have \$25 million dollars which is each 15% of the fund per manager. What needs to be discussed today is that the landscape of fixed income is changing. Interest rates and treasuries are down so far. A reasonable return will not be made with this fund from those types of investments. After discussion with CS McKee, they feel they can stick with the intermediate government credit portfolio with maturity dates no more than ten years, and within that mandate properly adjust the portfolio for potential rising rates or opportunities that present themselves in the credit market. FNB feels there is the ability to be more proactive and have a change in their benchmark. They are proposing to put in variable rate securities and add high yield to the portfolio. As a reminder, changes were made last year to the investment policy which now permits the fund to hold a target allocation of 7% in high yield with a range of a +/- 3% range.

Sam Piccioni, Senior Relationship Manager introduced Jeff Wagner the Senior Vice President and Chief Investment Officer. Jeff Wagner reviewed the current portfolio. Four years ago FNB started with Cambria County. FNB's promise at that time was to be conservative. A review of returns since January of 2009 show a return of 5.15% against a benchmark of 5.25%, 2010 a return of 5.27% against the benchmark of 5.89%, 2011 a return of 4.47% against the benchmark of 5.80%, and 2012 a return of 4.87% against the benchmark of 3.89%. The annualized return was 4.94% versus the benchmark of 5.20%. The risk in the portfolio was much lower than the benchmark and the return under but around it. Jeff provided a review of the portfolio and where the \$25 million dollars that FNB manages for Cambria County was invested. The money was broken down to the laddered bond portfolio with high quality names such as Johnson & Johnson, Walgreen, IBM and so on through 2017. The portfolio was also supplemented with investment grade corporate bond funds from Vanguard that are low cost but still investment grade. The bottom line is \$25,749,642.72 if everything was sold today. To emphasize the quality 82.71% of the fund is invested in AA+ bonds. The index has duration of 3.89 years and the portfolio is currently at 3.77%. Moving forward at the request of your investment manager we are happy to adjust your portfolio. The portfolio we have designed will look like no other portfolio we have. The proposal is 50% to stay as is and then split the other 50% between high yield securities and high yield floating rate securities. This portfolio will have a risk characteristic that 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. FNB has the ability to fluctuate the recommendation within reason.

- Motion made by Ed Cernic for FNB to invest 50% as is, 20% in high yield securities and 30% in flexible floating rate schedule. Motion seconded by Lisa Kozorosky. Motion carried. Vote unanimous 3-0.

FNB will use the Vanguard High Yield Corporate Bond for the high yield securities investment which has an internal Vanguard mutual fee of 13 bps. Highland Capital is a firm that has been doing variable rate loans for a long time, and has billions under management. Highland Capital is the firm recommended for the floating rate securities. Highland Capital recently opened an internal co-mingled mutual fund which they charge 30 bps for the first \$200 million. An agreement needs to be executed with Highland Capital.

- Motion made by Ed Cernic to execute a contract with Highland Capital as a sub-contractor to FNB for fixed income. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 3-0.

Sam Piccioni discussed the FNB's fee schedule with these changes. The current schedule is 10 bps on the mutual fund and 20 bps on the balance of the account. The total payment now is \$40,000.00 to FNB. This is a 53 bps discount from the standard schedule. Moving to the proposed portfolio, as discussed, the proposed fee is a flat fee of 15 bps on the market value. This is roughly \$2,000.00 less than what is currently being paid. That is a 55% discount off the standard schedule.

- Motion made by Ed Cernic to adopt the 15 bps flat fee schedule with FNB effective April 1, 2013. Motion seconded by Lisa Kozorosky. Motion carried. Vote unanimous 3-0.

Bill Titelman, Attorney at Law with the firm Grant & Eisenhofer presented to the board. Grant & Eisenhofer is a firm that concentrates on federal securities, corporate governance actions, and derivative litigation. Grant & Eisenhofer exclusively represent institutional investors, both public and private, who have been damaged by corporate fraud, greed and mismanagement. In the last seven years the firm has obtained recoveries totaling over \$12.5 billion. As a general rule, you should have more than one law firm to represent you. Each firm sees and finds different things. Ed Cernic questioned what would you do if each law firm brought you the same case. As per Frank Burnette, the firm defines cases that they want to pursue, and then you have to approve that litigation before you are committed. The chances of different firms wanting or presenting the same case are very slim. The decision of who to go with would be ultimately the Counties. The fee structure is negotiated on a case by case basis; the fee amount goes down as the recovery goes up. The firm only gets paid if there is a recovery and is paid out of the recovery. There is no fee to engage Grant & Eisenhofer. The firm monitors your investments and provides a quarterly report for free. The current Pennsylvania counties the firm represents are Allegheny, Dauphin, Montgomery, Berks and also the city of Philadelphia in addition to other A sample form monitoring agreement was provided.

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.
2. The Controller presented and reviewed the Pension Fund Financial Booklet, which is created by the Controller's Office and printed in house. The booklet is an easy to read review of the pension fund for current employees and retirees.
3. Motion made by Ed Cernic to approve the buyback request made by Alan Bertram to purchase per-diem time from June 6, 1994 through December 4, 1994 which is 5 months, 29 days in the amount of \$597.82. Motion seconded by Lisa Kozorosky. Motion carried. Vote unanimous 3-0.

Motion made to adjourn the meeting by Ed Cernic. Motion seconded by Lisa Kozorosky. Motion carried. Vote unanimous 5-0. Meeting adjourned at 11:45 a.m.

Ed Cernic, Jr.