

Retirement Board Meeting  
August 12, 2013

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

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

Motion made by Lisa Kozorosky to approve the minutes from the Retirement Board Meeting held on July 11, 2013. Motion seconded by Tom Chernisky. Motion carried. Vote unanimous 4-0.

Ed Cernic reviewed the Retirement Summary with the Board. As of July 31, 2013 the total number of retirees is 992. The Retirement Summary shows the activity since the last quarterly Retirement Meeting.

Ameriserv report was provided by Diane Karpen. As of today, the market value is \$174,337,790.13. That is approximately a \$15.7 million increase from 2012 year end. Only two accounts are currently over the 3% threshold of cash on hand. CS McKee is one of them; however a withdrawal of \$770,000.00 will occur on August 20<sup>th</sup> to make pension payments. CS McKee also did trades at the end of the quarter, so they were in the process of repositioning the portfolio. Raymond James is the other account over the 3% threshold. Mike Geiser commented to the board on the latest fund added to the FNB account which is Highland. Highland is a collective investment fund. The fund has to be valued a month in arrears due to waiting for their statements. There is currently \$8 million in the fund. Frank advised he may be able to get the information to Ameriserv sooner. Mike advised he would need the report by no later than the third business day of the month. Also, in regards to the Emerald portfolio they are very heavy traders. There have been times where there were up to 51 trades in the same actual investment across the quarter. Charges are based on the individual trades with is \$12 per trade and on global \$75 per trade, which Cambria does not have at this time. Ameriserv will group the trades, so we will basically be getting charged for each block, so if there is a buy and sell in the same block we would only get charged for the buy and the sell, but if there were multiple buys and sells in the same block there would still only be two trades. Motion to accept the Ameriserv report was made by Ed Cernic, seconded by Tom Chernisky. Motion carried. Vote unanimous 4-0.

Morrison Fiduciary Advisors – Frank Burnette advised that the fund had a 10% return as of July 31, 2013. The three year numbers have averaged above 10% and the fund has significantly exceeded the actuarial assumed rate over the last five years. Ed Cernic pointed out that there is a steep increase over the next few years in the last actuarial assumption because of the number of retirees vs. active employees, contributions are down and we need to rely on the managers more. The new actuarial numbers will need to be looked at. Frank advised that we need to continue to contribute as much as is needed and use very conservative numbers to keep the contributions up. The board needs to be realistic of what may occur in the future. As far as the economic summary it is important to note that we are not really investing in the economy, we are investing in the stock and bond market. The stock market continues to take the two thirds of the economy that they feel that they can make money in. Earnings continue to increase, although the easy earnings have been made, future earnings will have to come from greater productivity which is very possible and also from increased sales which is feasible but needs economic growth to go with it. We are currently trading at 14.5 times earnings which translate to a 7% yield. The equity market still has life. Some changes have been made in the fixed income portfolio which was timely. FNB now has variable rate and high yield in their portfolio which changes the risk profile just at a time when interest rates are starting to rise. Currently the fund is still 3-5% over in equities at a time when equities are yielding much more than fixed income. The following managers are still on watch, CS McKee Small Cap, CIM Large Cap and Valley Forge Large Cap. In May, CS McKee and Valley Forge funds were reduced. Currently the three watch managers have \$5 to \$6 million dollars each for the fund. Some managers are currently out of the target range in the asset allocation and a rebalancing will need to occur. Raymond James/ Navellier and Valley Forge are here to present to the board.

Larry Giannone from Raymond James introduced Navellier. Navellier and Associates, through Raymond James, manages a large cap growth equity since early spring of 2012. Navellier has a disciplined approach to stock and large cap investing. They have been consistent for years. Pete Burchfield, Senior Vice President and Institutional Regional Director of Navellier presented to the board. He has been with Navellier for eleven years. Navellier has been in business since 1987 managing growth equity stocks. There have been a lot of different markets over the years. Navellier has underperformed in the past and also have outperformed in the past. The large cap growth strategy has had the same team, same process and the same philosophy has been used for almost sixteen years. Cambria County's portfolio currently has 41 stocks and Navellier finds the most fundamentally superior stocks through their discipline. Jim O'Leary, Lead Portfolio manager for Navellier spoke about the stock selection and some steps that are important, some of which are identifying what is driving stock prices and finding strong fundamentals. He reviewed the Large Cap Growth fundamental factor model that Navellier uses and advised that the model is updated every quarter. Navellier looks to purchase strong stocks that generate the earnings, the sales and the margins and put those in the portfolio eventually when those earnings come out; typically those types of portfolios do extremely well particularly in a down period. Navellier portfolio is currently over-weighted in energy, consumer discretionary and utility sectors while underweight in industrials, materials, and technology services. Navellier has been trailing the benchmark since inception by 419 basis points, year to date 248 basis points. The last quarter there has been progress.

Jim Vogt from Valley Forge Asset Management presented to the board. Valley Forge was founded in 1969 and manages assets in excess of \$4.7 billion. Valley Forge's investment policy consists of short-term preservation of capital, long-term growth of assets, large cap core strategy utilizing growth, value and total return companies, careful analysis of risk/reward and diversification. Currently Valley Forge has 8% weighting in gold mining stocks. Valley Forge has been buying gold stocks since 2002 and the move up was tremendous. However, more gold mining stocks should have been sold sooner as the price of metal went up. With the European recession and China pulling back their reigns, the money producing Asian economies did not support the next move up. Over the last ten years there have been three corrections, but Valley forges believes that this is still in a bull market. Historically the bull market and commodities last 17 to 20 years and currently we are 12 years into this and we are waiting for the last phase. Valley Forge has reduced their position by a little and a lot of stocks have been up 25% in the last six weeks since the last correction. If gold stocks were removed from the portfolio, the rest of the stocks have been in line. Valley Forge will stick to their discipline and stay the course and feels that there should be big boom going forward. The rest of the stocks are up 20% and the S&P is up 20%, it's the gold stocks that are down 10% and that is a 10% weighting and that is basically the underperformance. We are somewhat underweight in financials, under 5% from 2000 to 2012, but we are up to an 8% weighting now and financials have been the strongest sector. We are overweight in health care and consumer staples. Ed Cernic asked Jim to tell the board what we can expect in the next six months and in the next year. Valley Forge sees the Fed pulling back and it is all led to abnormal pricing. Typically when the Fed pulls back, the equity market pulls back and everyone goes into fixed income, but with the last pull back, everything was sold, interest rates were up and prices were down. The best case scenario would be 2 ½ GDP growth, 2-5% movement in the stock market over next 6 to 9 months and we get another 10% and the fed doesn't pull back at all. The worst case scenario would be a 20% correction. We are exposed to benefit in any of those areas.

The Board discussed both the presentations from Navellier and Valley Forge. Navellier is so new and in this short time they have missed the benchmark. In the last quarter they have made some progress. Currently they have \$12 million of the fund and Frank advised he would be comfortable placing them on the watch with that amount of money and at the next quarterly meeting, if there is no correction, possibly pull some money from them.

- Ed Cernic, at the recommendation of Frank Burnette, motioned to put Raymond James / Navellier on watch status. Tom Chernisky seconded the motion. Motion carried. Vote unanimous 4-0.

Frank Burnette reviewed Valley Forge and unfortunately there is very little that can be redeemed in terms of performance. They have been ranked at 98% in the first quarter, 97% year to date and at 99% at one year. They see themselves as a firm that preserves capital which positions the portfolio to miss some of the upside so that they protect in the down market. Valley Forge's portfolio held a significant overweight to gold mines relative to its benchmark which has contributed to the account's underperformance. Half of Valley Forges assets were already reduced in May.

- Tom Chernisky, at the recommendation of Frank Burnette, motioned to terminate Valley Forge and move the funds to index managers knowing at some point the Board would hire another active manager. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 4-0.

Under policy, Frank will follow up with an email to all the board members the terms of rebalancing these funds. Once the board approves, the rebalancing will be executed.

New Business:

1. Motion made by Ed Cernic to ratify the action taken by the Commissioner's Office on two additional July retirees: Judith Barr and Kenneth Betz. These retirees signed paperwork after the July Retirement Board Meeting. Motion seconded by Mark Wissinger. Motion carried. Vote unanimous 4-0.
2. Motion made by Ed Cernic to ratify the action taken by the Commissioner's Office a on the following August Retirees: Timothy Shuman, Rose Patterson, Dianna Zentack, Patricia Dulashaw, and Leona Yahnert. Motion seconded by Mark Wissinger. Motion carried. Vote unanimous 4-0.

The next Retirement Board Meeting is scheduled for September 26, 2013 at 10:00 a.m. in the Commissioner's Meeting Room 3<sup>rd</sup> Floor.

Motion made to adjourn the meeting by Ed Cernic. Motion seconded by Lisa Kozorosky. Motion carried. Vote unanimous 4-0. Meeting adjourned at 11:48 a.m.

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Ed Cernic, Jr.