

Retirement Board Meeting
February 3, 2014

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

Commissioner Lengenfelder called the meeting to order at 10:05 a.m.

Motion was made by Tom Chernisky to approve the minutes from the Retirement Board meeting held on January 23, 2014. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 5-0.

Ed Cernic reviewed the retirement summary. The summary reports all new retirees, the retirement payroll, withdrawals and rollovers, and the hospitalization fees paid since the last quarterly retirement board meeting. January retirement payroll was \$882,208.29 and as of January 31, 2014 there are 1011 retirees. Motion was made by Mark Wissinger to accept the retirement summary report. Motion was seconded by Tom Chernisky. Motion carried. Vote unanimous 5-0.

Diane Karpen from Ameriserv provided the Ameriserv report. The fund is currently at \$180,422,873.74 and all cash holdings are under 4%. Mike Geiser advised that the new manager Integrity, which were approved at the last quarterly meeting for small cap, has been funded \$10 million and all rebalancing is completed. Motion was made by Ed Cernic to accept the Ameriserv report. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0.

Frank Burnette introduced Andrea Leistra from Integrity Asset Management. Andrea is a Senior Investment Manager with Integrity and will be the funds relationship manager. Andrea specializes in serving municipalities and she has a team of nine portfolio managers. The parent company of Integrity Asset Management is Munder Capital Management. The headquarter office is located in Birmingham, MI and there is also an office in Boston, MA. In 2010, Integrity Asset Management located in Cleveland, was acquired by Munder Capital. Munder Capital's current assets under management are \$17.8 billion, which consists of \$2.9 billion in Fixed Income, \$600 million in International Equity, and \$14.3 billion in Domestic Equity. Of the \$17.8 billion, \$5 billion represents the assets managed by Integrity. Integrity employs a bottom-up due diligence process to identify what they believe are high quality companies for investment. The investment process of Integrity is to invest in the right company, at the right price, at the right time. Reports will be provided to the Secretary of the board and to the Consultant on a monthly and quarterly basis. The monthly report consists of the portfolio composition, changes in the portfolio and the performance will be detailed against the benchmark. Ed Cernic requested the report also show net of fees. The quarterly report will consist of performance review, account performance, market review and outlook and portfolio summary among other information. The final report which is sent on a quarterly basis is written by the Chief Investment Officer of Integrity. This report is named the Catalyst and provides a market overview.

Frank introduced Chelsea Westhoff from Vanguard. Chelsea provided her background with Vanguard and she will now be the relationship manager with Cambria County. She provided a brief background of Vanguard and pointed out that Vanguard is the only mutually owned Investment Company in the world, which means the shareholders are owners of the funds. Vanguard is serving in twelve countries and has over \$3 trillion in assets under management. In 2013, Vanguard had a net cash flow of \$137 billion. Chelsea reviewed the funds Cambria County has with Vanguard. Vanguard manages \$59 million for Cambria County. The market value of the funds Cambria County has with Vanguard as of January 2014 are \$17,062,398 in Russell 1000 Growth Index Fund, \$30,382,165 in Russell 1000 Value Index Fund, \$3,449,835 in Russell 2000 Value Index Fund and \$8,274,973 in the REIT Index Fund which totals \$59,169,371.00. Chelsea advised that there is an 8 bps fee on each of the funds being managed by Vanguard. However, Ed Cernic noted in the handout provided that the Russell 2000 Value Index Fund showed a 24 bps fee. Chelsea explained technically that the actual fee is 8 bps. There is a term acquired fund fees and expenses that is mandated by SEC to include 16 bps as extra expense in the expense ratio for business development companies, however the client is only paying the 8 bps. The 16 bps has no economic impact to the fund. Frank Burnette questioned who is paying the fee? Chelsea explained that the fees are going back into the fund. Frank question for clarification are the gross returns of the fund reduced by the 8 bps and not the 16 bps? Chelsea advised that the 16 bps are returned to the fund. The board needs to have more clarification on the SEC regulation and how this affects the cost of the fund and where the 16 bps are charged to. Chelsea advised she will get back to the board with more information on the SEC regulation and the answers to their questions.

Frank Burnette reviewed the general comments about the fund. The total fund's equity weighting at year end was 65.6% versus its target equity weighting of 60%. Individual manager cash balances at year end represented 0.4% of the total assets. The watch status managers currently are Navellier's large cap growth and CIM large cap core. CS McKee small cap was terminated in January and proceeds were transferred to the new Integrity Asset Management's small value equity account. In November, the board voted to engage Grant and Eisenhofer to provide the fund with portfolio monitoring and securities litigation services. Also as a side note, SEIX Investment Advisors has been purchased by employees and LightYear Capital. FNB utilizes a SEIX mutual fund in their fixed income account. Frank reviewed the asset allocation as of January 15, 2014. A review of the performance summary shows the fund beat the index for the year by 1.05 bps and the total return was 17.92%, which is exceptional. Currently, there are no funds ranked in the bottom percentile. CIM is trailing the benchmark and is in the 80th percentile and is not missing the benchmark by a lot. The other fund on watch is Navellier Equity which trailed the benchmark by 2.29%. Frank advised he is comfortable keeping these managers on watch. The board reviewed the meeting schedule for the remainder of the year and the managers scheduled for each of the quarterly meetings. Frank is also available to attend any of the monthly meetings. The total fund fee schedule analysis was reviewed and currently the Total Plan Fees as a percentage of Total Plan Assets is 42 bps. Ed also questioned what the fees going forward will be for CS McKee since they were terminated for their small cap. The fees will be 25 bps going forward on their fixed income.

Frank provided a presentation on Private Equity to the board. Private equity investors purchase stock or debt securities in non-public companies with valuations more attractive than publicly traded equities. Private equity can be made in a single company, a fund of companies or a fund of fund of companies. Private equity can take 5 years to be fully invested with a 10 to 12 year final liquidation period. The monies invested will be locked for 10 to 12 years. Frank explained the process of how the money is drawn down over the years. Until that money is drawn down it stays fully invested in Cambria County's pension fund. Ed Cernic expressed his concern of not being at a comfort zone yet with Private Equity, but he is not opposed to the idea. Ed feels the current managers have been doing a great job with the fund and the board is conservative in maintaining control of our assets, but also feels the board has been liberal by taking advantage of the upswings in the market. Ed still needs to get into a comfort zone with the added risk that private equity would be to the fund. Frank asked if Ed felt publicly traded stocks are more or less risky? Ed feels that they are less risky because there is more of a track record. Also, he has concerns that there is no way to value our investment during those investment years, and the ending value can fluctuate greatly. In stocks, our managers can get in and out quickly and we know the value. Doug Lengenfelder feels the opposite. He does feel there is less control in Private Equity but thinks that it is less risky than publicly traded stocks. Doug commented that Private Equity does give you the diversity to compensate what maybe in the future for the market. Lisa asked if Private Equity investors are more invested and committed and Frank advised that yes they are because they are invested in these funds as well. The returns historically have exceeded publicly traded equity returns over most short and long term time periods. The two firms that Frank is recommending and sees as a good fit for Cambria County are Neuberger Berman and Hamilton Lane. Neuberger Berman has a fund size of \$750 million and Hamilton Lane has a fund size of \$1 billion. Neuberger Berman is located in Chicago and has been around for twenty plus years and have over twenty funds. They have already raised money for another fund and have invested into 15 – 20 companies. That fund is already 18 months into the life cycle. The fund is still open and Cambria County could get into which would jump start the returns. Hamilton Lane is out of Philadelphia, PA. They co-invest with larger funds when they pick companies, so there would be approximately 25 specific company investments and as a result the fee schedule would be less. The schedule of fees for Private Equity funds are very expensive. Neuberger Berman has two layers of fees. The fees for Neuberger Berman are less than 1% plus 10% after the standard rate of return is received. The second layer of fees is at the actual Private Equity manager fund level and is 1.5% plus 15% after the standard rate of return is received. Hamilton Lane has only one layer of fees which are less than 1% plus approximately 10% after the standard rate of returns is received. The Board is interested in hearing presentations from each firm. Doug advised that he will not be available from February 18th through the 26th. Arrangements will be made to bring them in as soon as possible.

New Business:

1. Motion was 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 February retirees: Brian Swartz, Cecelia Lipps, Jeffery Holler and Pamela Davidson. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0.

The next Monthly Retirement Board Meeting is scheduled for Thursday, March 27, 2014 in the Commissioner's Meeting room, 3rd floor.

Motion made to adjourn the meeting by Mark Wissinger. Motion seconded by Tom Chernisky. Motion carried. Vote unanimous 5-0. Meeting adjourned at 11:28 a.m.

Ed Cernic, Jr.