

Retirement Board Meeting
August 4, 2014

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

Commissioner Wissinger called the meeting to order at 10:04 a.m.

Motion was made by Mark Wissinger to approve the minutes from the Retirement Board meeting held on July 17, 2014. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 5-0.

Ed Cernic reviewed the attached Retirement Summary. August retirement payroll was \$902,292.61 for 1019 retirees. There were a total of \$468,513.23 in withdrawals from the fund since the last quarterly meeting in May.

Nick Debias presented the Ameriserv report. The market value on July 28, 2014 was \$187,645,242.61. All trades were ceased on August 1, 2014 due to a significant upgrade to the Ameriserv accounting system. Balancing is being completed today and all trading will resume later today. 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 from Morrison provided his report. Rebalancing was done in June to reduce equity by 3%. At quarter end the funds equity weighting was 64.8% versus its target weighting of 60% and the international equity weighting was 14.2 % versus the target of 12%. Twin Capital is interested in presenting to the board. They are an enhanced index manager from the Pittsburgh area. Ed Cernic feels that it is a good idea as we go on to stay as diversified as we can without losing any value in our fund and it would be worthwhile to listen to their presentation. The board agrees that they would like to have Twin Capital present and they will be invited to a future meeting.

Vanguard's REIT Index Fund has appreciated past its target weighting of 4% of the total fund. Ed Cernic stated that \$4 million was invested into the real estate fund a few years ago and the fund has more than doubled. The fund is currently at \$9,598,976.00. Frank is recommending that the real estate fund be reduced by \$5.6 million and the money moved into the CS McKee Fixed Income fund. Ed Cernic questioned why the money was being moved all into CS McKee and not any to the FNB fixed income. Frank advised the reason the money should be placed into CS McKee fixed income rather than FNB fixed income is due to CS McKee being underweighted by 2.5% and FNB underweighted by .5%. Also, CS McKee is constantly funding benefits.

- Motion was made by Ed Cernic at the recommendation of Frank Burnette to reduce Vanguard REIT by \$5.6 million reducing that fund to the original investment of \$4 million and move the money into the CS McKee fixed income. Motion was seconded by Lisa Kozorosky. Vote 5-0. Vote unanimous.

Frank advised the board that an updated Investment Policy statement was in the back of the handout and all the changes in the policy statement have been highlighted. The policy has been in place for three years. A lot of the changes in the policy consisted of better wording and also that the chairman and the controller agreed between meetings to have the authority to make a change when necessary with board notification. The updated policy investment statement will need to be reviewed by the Retirement Board and discussed at the November 3rd quarterly meeting in detail.

Frank reviewed the watch status managers. CIM has exceeded its benchmark by 40 bps for the 2nd quarter and 11 bps over the trailing 12 months. Navellier trailed its benchmark by 74 bps for the 2nd quarter but exceeded it by 52 bps over the trailing 12 months. Thornburg, who is here today to present, trailed its benchmark by 177 bps for the 2nd quarter and by 690 bps over the trailing 12 months.

Frank also reviewed an analysis of Integrity's commissions due to their abundance of trading. Integrity's trading cost for March through June were \$18,437.00 and the management fee is \$109,000 per year. However, the investment gains in the fund have been approximately \$1 million. There are options that we can look into which could be frowning against managers with such a high trading volume or we can somewhat justify it by making sure the cost vs. profit is acceptable. Ed Cernic requested Frank to look into this because of the high trading volume. Ed is okay with the high trading volume as long as the fund is seeing a profit. The board agrees that Frank needs to continue to keep track of the cost vs. profit.

Frank discussed the funds returns. Over the last five years the fund returned 12%, over the last 12 months 17% and the year to date returns are at 5.41%. The fund is currently on track to meet the actuarial assumption this year and generate progress in the fund status. Frank pointed out that Thornburg has trailed the benchmark by 3% per year. Most international equity managers have beat their benchmark.

Christa Maxwell, a senior portfolio specialist presented on behalf of Thornburg. Thornburg currently has \$88 billion of assets under management and \$37 billion in International Equity Strategy. There are 37 managing directors in the firm. Christa reviewed Thornburg's performance. In 2012, the fund was up 16.26 % and in 2013 the fund was up 16% and outperformed by 88bps. All of the underperformance that Thornburg has experienced has occurred during the first quarter of this year. Our consultant tracks the performance differently than Thornburg. The consultant tracks each year's return whereas Thornburg tracks the total annualized combined return. Annualized performance is always affected by the most recent performance. During the 1st quarter there was a rotation out of Japan and out of the emerging market names. A review of the sectors the fund is broken into shows a negative return in financials, information technology and consumer energy which has hurt the fund. The top three detractors were Yandex, Lululemon Athletica, and Adidas. Thornburg's investment philosophy is to buy promising companies with sound business fundamentals at a discount to their intrinsic value. The three basket approach which Thornburg uses was evaluated and changed effective April 1, 2014. The three basket approach is 40% basic value, 40% consistent earner and 20% emerging franchise. Basic value are companies in Thornburg's opinion are financially sound with well-established business selling at low valuations. Consistent earning companies exhibit steady earnings growth, cash flow characteristics and/or dividend growth. Emerging franchise companies are those in Thornburg's opinion are in the process of establishing a leading position in a product, service, or market with the potential to grow at an above average rate. Unfortunately, Thornburg was unable to protect on the downside and they apologize for that but with these changes will turn this around. Ed Cernic asked Christa if there were any changes in the top management of the firm and she advised there were no changes.

Scott Blumenthal presented on behalf of Emerald Advisors. Emerald Advisors investment philosophy is to maximize returns and minimize risks by capitalizing on the inefficiency inherent in small cap markets. Scott informed the board that a portfolio manager has never been turned over in the history of Emerald. Currently, Emerald is behind on the benchmark due to the first half of the second quarter. Performance within small capitalization and most notably small capitalization growth stocks trailed their value and larger capitalization counterparts during the quarter. The technology sectors was the most challenged this quarter as a result of disappointing stock selection within the software, communications, and semiconductor industries. Performance within the financial services and healthcare sectors were also a detractor. The consumer discretionary sector was the largest positive contributor to return for the quarter. Scott reviewed the returns after major market troughs and believes that there is still room to go, approximately six to eight quarters.

The board members discussed Thornburg and their performance. Ed Cernic is not ready to terminate Thornburg but feels their funds should be reduced. Thornburg currently has \$12,308,963. Doug Lengenfelder commented that he agrees that Thornburg's funds should be reduced.

- Motion made by Ed Cernic at the recommendation of Frank Burnette to reduce Thornburg by \$7 million, move \$5 million to GMO and \$2 million to CS McKee fixed income. Motion seconded by Lisa Kozorosky. Motion carried. Vote unanimous 5-0.

Frank advised that this will then make the fund allocation for foreign equity weighting move from 14.2% to 13.2%, equity weighting move from 65% to 64% and the fixed income equity weighting move from 33% to 34% vs a fixed income target allocation of 36%.

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 August retirees: Robert Schreyer, Robert Feathers, and Pamela McCall. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 4-0.

The next scheduled Retirement Board Meeting is Thursday, September 25, 2014 at 10:00 a.m. in the Commissioner's Meeting Room, 3rd Floor. The next quarterly meeting is scheduled for Monday, November 3, 2014 at 10:00 a.m.

Motion was made to adjourn the meeting by Ed Cernic. Motion seconded by Lisa Kozorosky. Motion carried. Vote unanimous 5-0. Meeting adjourned at 11:34 a.m.

Ed Cernic, Jr.