

Retirement Board Meeting  
August 17, 2015

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

Commissioner Lengenfelder called the Retirement Board meeting to order at 10:06 a.m.

Motion was made by Lisa Kozorosky to approve the minutes from the Retirement Board meeting held on July 9, 2015. Motion was seconded by Tom Chernisky. Motion carried. Vote unanimous 4-0.

Ed Cernic reviewed the retirement summary. As of August 14, 2015 there were 1,046 retirees. Retirement payroll for July was \$971,820.50. There was a large amount of withdrawals/rollovers on August 14, 2015 totaling \$431,708.96. Motion was made by Tom Chernisky to accept the retirement summary report. Motion was seconded Lisa Kozorosky. Motion carried. Vote unanimous 4-0.

Mark Wissinger arrived at 10:10 a.m.

Mike Geiser from Ameriserv advised the Board that the current market value is \$186,486,856.38 and that all cash balances are below the 3% cash tolerance. Mike advised that today's market value compared to last year is \$1.5 million under but when you take into account the \$770,000.00 that has been transferred monthly totaling \$4.6 million the fund is ahead \$3,093,000.00. There was one month when the \$770,000.00 was not transferred. Motion was made by Ed Cernic to accept the Ameriserv report. Motion was seconded by Tom Chernisky. Motion carried. Vote unanimous 5-0.

Frank Burnette spoke briefly to the board about the economy. Frank advised that we are entering a period where the market is fully valued. During the 2<sup>nd</sup> quarter, the S&P 500 returned 0.3% for the quarter and 1.23% year to date. Fixed income was challenged with the rising global bond yields. At quarter-end, the total Fund's equity weighting was 61.8% versus its target equity weighting of 57%. Individual manager cash balances at quarter-end totaled \$1,486,037.18 which represents 0.79% of total assets. In early April, the Fund reduced its equity weighting by roughly 3% with the proceeds going back to the Funds liquidity manager, CS McKee. Additional equity reductions are anticipated over the next several quarters. In late May, the Board approved a \$10 million commitment to the Constitution Capital Partner's Ironsides Co-Investment Fund III. A capital call due on June 29<sup>th</sup> in the amount of \$5,534,451.70 was funded from equities. Constitution Capital Partners is here today to speak about the new investment. The Fund's 4% allocation to real estate investment trusts was moderately impacted by higher interest rates but fundamental earnings remain strong. The fund's 4% allocation to energy MLPs was moderately impacted by lower energy prices but fundamental earnings and distributions have not been reduced and 5-10% distribution increases are anticipated for 2015 and 2016. At this point, I am not making any recommendations and as you all know and are aware of, a successful investor is often rewarded for their patience. Ed Cernic noted that the managers ranking is important and if the managers are not consistently in the top 50<sup>th</sup> percentile that causes concern. Frank added that for the last 3 years the fund has shown a positive variance and there was a time when you were not able to say that about the fund. There are still three managers who remain on watch. CIM's watch status was initiated in September of 2012, they did exceed the second quarter benchmark in 2015 by 38 basis points. Navellier's watch status was initiated in September of 2013 and they have trailed the second quarter benchmark in 2015 by 122 basis points but exceeded the trailing twelve month benchmark by 185 basis points. GMO's watch status was initiated in March of 2015. Recently letters were sent out from GMO that some personnel changes were made. GMO has exceeded the second quarter benchmark in 2015 by 68 basis points. These managers will continue to be closely monitored.

Al Winters, Chief Actuary and Heather Linn, Actuarial Associate from CBIZ presented to the board the Annual Actuarial Review. The review consists of actuarial valuation overview, 2015 valuation results, GASB 68 highlights, assumption review and recommendations. The valuation is a financial model which calculates emerging liabilities, develops actuarial contributions and prepares financial statement disclosure amounts. The key inputs for this is plan demographics, plan benefits, assets and assumptions. Over the life of the plan the total plan costs then equal the total plan benefits less investment earnings. As of January 1, 2015 there were 688 active participants in the plan and 1,032 retired participants. The plan demographics is important to watch because the funding policy is somewhat dictated upon the percentage of payroll. The actuarial assumptions are based on estimates of future 7.5% investment return, 4.5% salary increase, retirement average age being 63, and the life expectancy table RP-2000. This table was released in 2001. The Society of Actuaries released a new mortality table in October of 2014 and it

showed that people are living longer. The valuation results show that there is an unfunded liability of \$17,697,671.00 and that the funded percentage of the fund is 91.44%. This percentage is very high within the state and across the country. The current funding policy for 2015 is 8.93% of payroll and going forward will be 10% of payroll as long as the plan remains between 85% and 110% funded. Al Winters spoke briefly about the new GASB 68. This is the new pension accounting which is effective for FY2015. The new accounting now requires the unfunded liability to be reported on the balance sheet and the pension expense is calculated differently.

Al reviewed the mortality assumption, the investment return and the salary scale with the board and what effect the changes would be to the fund if the board changed the assumptions. A switch to the new mortality table would increase the plan contribution by approximately \$710,000 per year and increase the pension liability by approximately \$7.2 million. Auditors have been pushing for the adoption of the RP 2014 for financial disclosures but there is some leeway for governmental sponsors due to exclusion of governmental data from the RP 2014 study. There is argument being made that the life expectancy in this part of the country is more related to the RP-2000 table versus the new RP-2104. Currently, the investment return assumption is 7.5%. If the return was changed 7.25% the liability would possibly increase by \$6-7 million. The salary scale assumption rate currently used is 4.50% but the most common is 3%. The effects of changing the rate to 3% using the same mortality table and the same rate of return would decrease the actuarial contribution to \$2,282,142.00. The reason the Cambria County uses the salary growth assumption of 4.5% is due to the several union contracts consisting of salary increase between 2.5% to 3%, plus there are some contracts that include incentives.

In conclusion, the actuary recommendations to Cambria County is to consider updates to the salary scale and mortality assumption for FY 2016 valuation and to consider amending the plan to update actuarial equivalence factors for determining plan benefits to the same used for funding.

Ed Cernic noted that the retirement estimator that CBIZ has been working on for employee use is almost ready and once it is ready will be made available on the website for employee use.

Robert Hatch and Peter Melanson presented to the board. Constitution Capital Partners is a private equity firm formed in 2008 with the firm's partners having been investing together for over 26 years and is based in Andover, MA. The product that Cambria County invested in is Ironsides Co-investment Fund III. This is a product that you invest directly into privately owned real market businesses in North America that are established, up and running and profitable. Investing more money into these business enables the business to improve the operating systems and the management team which will take the business to the next level to be even more profitable. The CCP team has generated top quartile investment performance in all funds managed by the team. Some of the current funds in this investment to date that have closed are Acino Holding AG, Chuze Fitness, Hojeij Branded Foods, Light Twoer Rentals, OmniSYS, PATS Aircraft Holdings, Service Express, Inc. Truco Enterprises, Video Equipment Rentals, and Vision Ease. Pending funds are Project EOS and Project Pearl. The total co-investment at this point is \$142.8 million, with the target investment being \$225 million. The fund is expected to be fully funded by the first quarter of 2016. As of the end of June, \$71.8 million has been committed to the co-investments. The internal rate of return on the \$71.8 million that has been invested for a little over a year is 25.1%. Subsequent to June 30, 2015, an additional \$71 million has been committed.

Motion was made by Ed Cernic to accept the reports given by Frank Burnette, CBIZ, and CCP. Motion was seconded by Doug Lengenfelder. Motion carried. Vote unanimous 5-0.

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 one additional July retiree Tracy Stafford and August retirees: Linda Babyak, Hugh Balsinger, and Pamela Kokus. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0.

Next meeting is scheduled for Thursday, September 10, 2015 immediately following the 10:00 a.m. Commissioner's Meeting.

Motion was made by Mark Wissinger to adjourn the meeting. Meeting adjourned at 11:52 a.m.

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Ed Cernic, Jr.