

Retirement Board Meeting
June 23, 2016

Present:	Commissioner	Thomas Chernisky Mark Wissinger William “BJ” Smith
	Controller	Ed Cernic, Jr. Kristine Segear Dana Descavish
	Treasurer	Lisa Kozorosky

Commissioner Chernisky called the meeting to order at 11:21 a.m.

Motion was made by Mark Wissinger to approve the minutes from the Retirement Board meeting held on May 16, 2016. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 5-0.

Frank Burnette reported to the board. He wanted to point out that the next quarterly meeting is scheduled for August 15, 2016 and that is when the actuary CBIZ will be attending. Frank cautioned the board to listen to what he has to say. The actuary will explain every detail of the fund as far as benefits paid out, benefits yet to be paid out and what the fund is at now. Ed Cernic pointed out that is why he explained at the Commissioner’s meeting earlier today that we didn’t supposedly lose money because we paid out benefits in the amount of \$12 million last year. Frank also wanted to update the board that they will be receiving an updated policy statement emailed to them to review. The policy statement is updated periodically. Frank advised the board that the biggest reason he was here today was to talk about one manager that is underperforming, which is Miller Howard who manages the Master Limited Partnership. The asset class is in the basket of energy type 1 companies which got caught up in a foiled price fall. It was previously reported that the investment was down somewhere between 20% and 30% at its bottom. Since then, we have come out of this demise and the asset class has come back up. If it weren’t for the individual stock picks of Miller Howard this asset class would be making money. The board needs to be aware and weigh in on the fact that we did not generate the index return in this investment because the manager made some stock bets that worked against us over the last 6 or 9 months. The manager has underperformed its benchmark by 10%. The way our investment policy statement reads; material benchmark underperformance is a reason for termination. Frank stated the actual asset class is something he still believes in. He believes that the business of transporting natural gas through pipelines is only mildly affected at the most. The portfolio we have does not have horrible price commodities or price sensitivity to it. The original stock purchased through Miller Howard has continued to generate the income they advertised. The asset class generated approximately 6%, so if it weren’t for this material underperformance Frank’s advice would be to overlook the underperformance and stay committed to the asset class and stay the course to recover. Ed Cernic stated he is not happy that the fund lost that much money. Ed still believes the concept of transporting natural gas and oil through pipelines is a good concept. Both BJ Smith and Mark Wissinger agree. Frank advised the board that so far this asset class as of May 31, 2016 has a return of -1.24. Since inception February of 2015 the return was -27% vs. the index -21%. During the month of June the asset class continues to do better and has outperformed the benchmark by 3%. The original investment was \$7.5, then later an additional \$2.5 was invested. That is when it bottomed out. The \$2.5m investment is now making money. Another thing to recognize is that the exact income that this portfolio suggested would be produced when we originally made the investment is exactly what has transpired; a 6% yield. Frank Burnette is recommending to the board to stick with this investment and feels the class will fully recover. Mark Wissinger agrees to stay the course. Ed Cernic recommends that the Board listens to Frank’s recommendation and ride it

out and reevaluate at the next quarterly meeting and see where we are at. Both Mark and BJ agree. Mark feels the concept is solid.

As requested at the previous board meeting, Frank reviewed the foreign tax issue and advised that the foreign taxes paid by Cambria County are immaterial and should be accepted as normal costs of making investments until the annual foreign taxes paid approaches \$5,000.00 annually. Most of the fund's foreign investments are implemented by way of mutual funds which effectively "block" the fund from these taxes. At the mutual fund level, the fund managers have an effective way of managing and recovering foreign taxes so the fund is substantially insulated from this issue. For the managers that do hold separate securities, an occasional holding may be impacted by foreign taxes and so it makes sense that the fund monitor these foreign tax costs and have the Custodian report these costs with their routine annual report. Ed Cernic states he wants to know what the process is and if the process is not to elaborate he wants every dollar that the fund can get. Frank advised the process is to pay someone to research and recover the money but that you would pay out more than you would recover. Frank advised that there are tax documents that need to be filed for foreign taxes and can be costly. Frank advised that since August of 2014 the foreign tax withheld totaled \$1,030.46. The majority that had foreign tax withholding was investments made by Integrity. Ed asked is it possible to put this in the lap of the managers and have it in their contracts to recover foreign tax costs. Frank states that may be possible. Frank advised the board that he will look into it further.

Lisa Kozorosky questioned Frank if there is any significance of the British vote to leave the European Union. Frank advised yes there is significance and it will affect the market. The vote is today. Frank will keep his eye on this matter and advise the board as more develops.

Motion was made by William "BJ" Smith to accept Frank Burnette's report. Motion was seconded by Lisa Kozorosky. 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 June retirees: Douglas Palko, Gaynell Shrift, Martha Matta, Thomas Schreyer, James Hoenshell, and Jane Farabaugh. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0.

The next scheduled Retirement Board Meeting is Thursday, July 14, 2016 immediately following the 10:00 a.m. Commissioner's meeting in the Commissioner's Meeting Room, 3rd Floor.

Motion was made to adjourn the meeting by William "BJ" Smith. Meeting adjourned at 11:49 a.m.

Ed Cernic, Jr.