

Retirement Board Meeting
May 1, 2017

Present:	Commissioner	Thomas Chernisky William Smith Mark Wissinger
	Controller	Ed Cernic Kristine Segear Dana Descavish
Absent:	Treasurer	Lisa Kozorosky

Pledge of Allegiance

Commissioner Smith called the meeting to order at 10:07 a.m.

Motion was made by Mark Wissinger to approve the minutes from the Retirement Board meeting held on April 11, 2017. Motion was seconded by Ed Cernic. Motion carried. Vote unanimous 3-0.

Ed Cernic reviewed the retirement summary. There are currently 1,091 retirees. April's retirement payroll was \$1,070,805.79. Motion was made by Mark Wissinger to approve the retirement summary. Motion was seconded by Ed Cernic. Motion carried. Vote unanimous 3-0

Thomas Chernisky arrived at 10:08 a.m.

Diana Karpen provided the Ameriserv Report. As of close of business on Friday, April 28, 2017, the value of the fund was \$188,426,101.76. All managers with the exception of Emerald are under the 3% cash balance threshold. Frank Burnette explained that they buy and sell throughout the quarter and that a little more cash is accumulated when you sell stock than usual so it could have fallen in that area of working on a reinvestment strategy. The 3% threshold is in place so we don't pay managers to hold cash. Motion was made by Ed Cernic to accept Ameriserv's report. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 4-0.

Frank Burnette reported that we had another good year and the trend is continuing. The markets have kind of struggled over the last five years because the economy never really started to grow as fast as everyone thought it could. Around spring of last year you started to see the energy come back into the economy and the corporate activities geared toward the higher level. This coincided with the employment and wage increases. The consumer then becomes more optimistic and spends money which then spurs economic growth. The election dynamic also boosted the stock market and Washington has become business friendly. Forecasts are now projecting earnings growth at 9%–12% for 2017, 2018 and a 12% growth for five straight years. Also it has been discussed that stock prices might move 50% in the next five years. Frank feels this is an extremely optimistic view. There is also talk that revenue will increase 3-4% some people saying 5%. In the course of ten years there hasn't been a whole lot of revenue increases. Frank feels this is all really a good background for holding stocks right now and that the fund should stay fully invested unless the board wants to do something differently. After reviewing the chart Frank provided on the S&P Index at inflection points, Ed Cernic comment how the chart goes up then down since 1997 but since 2009 it has been continue to go up at least double than any of the previous periods so it appears a correction is in our future. Frank advised the probability is that the economy will continue to do well over the next five years, corporate profits will probably not be as high as everyone is thinking but they won't be a drag. The valuations however will continue to move but at a slower rate and flattening out in terms of returns. Ed Cernic questioned Frank as fiduciaries of the fund what should the Retirement Board be doing to because so much still has to be earned. Frank advised that you still have to stay in the game. Frank continues to feel the board should diversify into non liquid private real estate funds. Diversifying the equity risk into some other publicly traded market values for long term is where the industry is going. Frank reviewed the fund. The total fund's first quarter 2017 return is 3.96% versus its benchmark return of 3.78%. The fund's 4.4% allocation to energy midstream MLP's have been impacted by lower energy prices but a significant recovery has occurred over the last few quarters. The fund's current yield is 7% with a projected distribution growth rate of 5%. Miller Howard's first quarter return was 4.64% and its trailing twelve month return was 24.09%. At the previous meeting, the Board authorized the Consultant and Controller to liquidate this investment if an appropriate market value is achieved. No liquidation has taken place to date. This manager remains on watch status. Ed Cernic asked Frank if the Board were to allow him to make different investments that have been talked about, would that money come out of equities. Frank advised it would be taken out of the publically traded REITs and go to a privately owned real estate fund and additional money from equities. To do the investment correctly, you would pull \$4 million from MLP's, \$5-6million from REITS and \$7-8 million from equities and allot \$15 million to 4% positions into the two new asset classes. At the request of the Board members, Frank will provide a performance review of the last 12-18 months on the Real Estate investment and the Private Debt Fund that previously presented to the Board. Frank then reviewed the current asset allocation. The fund is currently over weighted in equities 63.8% versus the target of 58%. The fixed income is underweighted 22.1% versus 28% and in non-traditional the allocation is on target at 14%. The total fund's rank is at the 51st percentile.

Andrea Leistra, Portfolio Manager and Patrick Kennedy, Portfolio Specialist from Integrity reported to the Board. Andrea advised that Cambria County started the investment with Integrity three years ago. The original investment was \$10 million. The investment has grown and Integrity is currently managing \$14 million for the plan. Integrity utilizes a team-approach to its bottoms-up fundamental analysis searching for stocks trading below the intrinsic value. Andrea advised there have been no changes in the management team. Pat Kennedy provided a performance review to the Board. As Andrea stated since inception, Integrity has performed well for the fund. However there was underperformance in the 2016 calendar year. That was the 4th year out of 18 years that Integrity had underperformance. Patrick advised that the underperformance was due to a few factors. The fund was underweighted in utilities and REITS, low volatile stocks, and the election. For the first quarter the fund returned 1.58%. The top ten holdings are 12% of the portfolio. We are currently positioned in the middle because the market is not cheap enough to get aggressive nor is it expensive enough to get defensive. Integrity had a first quarter return of 1.45% versus a -0.13% benchmark return.

Frank continued with his report. He reviewed Constitutional Capital Partners. The Board committed \$10 million to CCP's Ironsides Co-Investment III fund in June of 2015 which targets small to mid-cap equity co-investments located throughout North America. Since inception performance has exceeded expectations. CCP also now has a private debt fund. Their debt fund has all the characteristics that other private debt funds have. The fund is currently open and is a nine year commitment. Frank also reviewed the legal firm Kessler Topaz Meltzer & Check that monitors our fund to identify possible violation of state and/or federal securities law, breaches of fiduciary duties and instance of abuse by corporate management. There are no fees that Cambria pays unless they recover monies for on behalf of the fund. There are currently no cases for Cambria County.

Motion was made by Mark Wissinger to accept Frank Burnette's and Integrity's report. Motion was seconded by Ed Cernic. Motion carried. Vote unanimous 4-0.

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 May retirees: Barbara Porter and Jackie Bradley. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 4-0.

The next Retirement Board meeting will be held on Thursday June 15, 2017 at 10:00 a.m. in the Commissioner's Meeting room 3rd floor.

Motion was made to adjourn the meeting by Tom Chernisky. Meeting adjourned at 11.39 a.m.

Ed Cernic, Jr.