

RETIREMENT BOARD MEETING

November 21, 2011

Present:	Commissioner	P.J. Stevens Milan Gjurich Sam Valenty
	Commissioner Elect	Mark Wissinger
	Controller	Ed Cernic Jr. Kristine Segear Dana Descavish
	Morrison	Frank Burnette Robert Bulas
	Treasurer	Barbara Kline
	Treasurer Elect	Lisa Kozorosky

Commissioner Gjurich called the meeting to order at 9:26 a.m.

Motion made by Ed Cernic to accept the minutes of the August 29, 2011 meeting. Motion seconded by Barbara Kline. Vote unanimous 4-0. Motion carried.

Commissioner Sam Valenty arrived at 9:30 a.m..

Ameriserv Report – Presented by Mike Geiser. Down to zero on the fixed income. No longer using the sub account 5887, instead drawing from the 0814 sub account C.S. McKee. The first draw will be made this Friday for \$750,000.00 to cover pension payments. Another draw is schedule this year for approximately the same amount. Ed Cernic stated that it has already been estimated the amount of money needed from that fund as we go throughout 2012 and that amount is \$770,000.00 per month. This amount is based the number of retirees that have not filed their paperwork and the amount of the retirees at the end of 2011. If throughout the year we have more of a cash balance than we need then we will decrease that number. Motion made by Ed Cernic to accept the Ameriserv report pending numbers from Thornburg. Motion seconded by P.J. Stevens. Vote unanimous 5-0. Motion carried.

Public Comments - None

Announcements

1. Executive session was held on October 27, 2011 from 9:30 a.m. to 9:45 a.m. to discuss possible litigation. Motion made by P.J. Stevens to approve that meeting. Motion seconded by Ed Cernic. Vote unanimous 5-0. Motion carried.

Old Business - None

Retirement Summary - Ed Cernic presented the retirement summary. Update of retirees, retirement payroll, rollover and withdrawals, and hospitalization since last meeting. We currently have 917 retirees. November's approximate payroll is \$737,731.87 and the hospitalization payout was \$145,186.15 per month. Motion made by Ed Cernic to accept the Retirement Summary. Motion seconded by Barbara Kline. Vote unanimous 5-0. Motion carried.

Morrison Fiduciary Advisors – Frank Burnette and Robert Bulas

Frank advised that Bob Bulas and he would both be working very closely with the account and that he intends to be at every meeting. Ed Cernic introduced Frank and Bob to Commissioner Elect Mark Wissinger and Treasurer Elect Lisa Kozorosky. Frank advised that this pension fund is up for the year about 1 ½ percent. We are investing in stock markets not the economy. Reviews of charts from J. P. Morgan, stock market

trading at 11x earnings at a time when inflation is at one or two percent these are huge returns and are historically as high as they are going to get. Normally they are four to five percent above inflation and we are about seven or eight above inflation right now. The stocks are yielding about 9%. Operating earnings are higher now than they have been since 2000 and the cash flow that has been generated is equally impressive. Interest rates are extremely low and the annual returns have been positive twenty-four out of thirty one years. Our immediate objective is to review the plans Investment Policy Statement, which the draft is attached. Also, establish procedures for the efficient management of the plans cash flow rebalance the plans investments in accordance with the Plan's investment policy statement and evaluate managers to identify underperforming managers and to adjust manager performance benchmarks as appropriate. Our future objectives are to provide orientation to the new board members, identify additional asset classes in real estate and high yield fixed income. See if it is feasible to do a securities lending program with the cooperation of Ameriserv. Diversify the Plan's investment managers by adding a second small cap and large cap manager. Conduct searches to replace existing investment managers as determined. Evaluate the Plan's fee schedules and implement cost savings when appropriate. The Investment Policy Statement has been updated and is attached and needs to be approved. The attached draft has the changes highlighted in yellow and does define new procedures to all the interested parties for rebalancing to make decisions on an easier schedule. One of the changes would be when there is a need for rebalancing the rebalancing would be initiated by Morrison and then contact would be made with the Controller's office for discussion. When in agreement is made an email would be sent to the entire board. Then if there were no objections, Morrison would proceed with the rebalancing. Once all the board members have the opportunity to review the policy statement an approval can be made at the next meeting. Management of the plans cash flow come from C.S. McKee and all other managers will have no cash flow and be able to be fully invested and therefore we will not be paying managers to manage cash. Current asset allocation on page 11, total equity per policy states 61% and you dropped down to 57% in the down market which is a little underweight. Joe Buongiorno from C.S. McKee is on his way, he is attending the meeting because he would like to change his benchmark from small mid cap equities to just small cap equities. When he arrives he will talk to the board about this. Highlights asset allocation recommendations on page 13. Rebalance to a slight equity overweight and minimize large cap value bias and change from all world indexes to foreign-ex US indexes. Decrease global equity allocation by \$15 million, increase allocation to small cap by \$5 million and increase large cap allocation by \$11 million. Manager specific changes would be to convert GMO Global to GMO Global ex US, convert Thornburg Global to Thornburg Global ex US and terminate American Funds Global Equity. Change benchmark for McKee from SMID to R2000. To properly weight the growth manager position and not search for a new manager, add a large cap growth equity index manager and also convert Valley Forge's benchmark from S&P 500 to R1000 at their request. The following managers will be placed on watch, CIM, Biondo, and Highland. Changes reviewed on page 14. Question was asked by Ed Cernic to Frank as to the real estate target is 8% and there is no indication of moving the real estate number anywhere, is there a reason for that? Frank advised that a move in real estate involves a lot more discussion before taking any action. Discussed a Vanguard Index and the current Russell 1000 Growth is Biondo and Clearbridge, Biondo is on watch so no money will be added to them and there are a couple issues with Clearbridge, not Clearbridge as a manager here, but as a partnership of a local office of Raymond James. Also, Raymond and Highland have shown flexibility in working with us to make sure what they are doing for the fund is in the best interest of the fund. Frank advised that those are the recommendations that Morrison are making and would like to ask approval or how to proceed from here. Ed Cernic made recommendation to the Board to continue on with what we have because the new board may have other ideas. P.J. Stevens feels a review sometime prior to the first of the year would be good. Meeting scheduled for December 15, 2011 with current board and future board to approve changes and policy statements. Review of full disclosure on schedule of fees by taking the fee schedule for everyone of the money manager at the market value and clock what fees are indirect and what are direct for a total dollar amount. Clearbridge fee schedule is at 1.00% and that is high. Clearbridge knows that the fee schedule is high and they are going to work to find a solution, assuming we keep Raymond James. Highland is at 1.05% and foreign equity managers are usually 0.75% or less. There are ideas to lower

those fees as well. Other fees are good and the fund is currently at 0.37% and then when you take into the administrative fees, which are all reasonable, the plan is still under 50 basis points.

Joe Buongiorno passed out material and advised that they did make the request that Morrison have this discussion with the Board. Approximately three years ago, CS McKee came in and made a presentation for small cap equities and was hired for an allocation for small cap equities and then about a year ago the existing consultant had asked us to change that small cap equity allocation to Smid cap. There is not a problem with doing that and C.S. McKee is very capable of doing that. C.S. McKee already manages mid cap stocks as part of their large cap portfolios so it wasn't out of reach. C.S. McKee would be glad to continue to do that. It is C.S. McKee's belief that Smid cap is a little redundant and the reason is that large cap managers capture mid cap stocks already in their portfolio, The PSN chart that was handed out shows a ten years of history comparing the small cap universe to the mid cap. The Russell 2000, which is the small cap index, compared to Russell 2500, which is the SMID cap index. Two years ago Smid had a huge year and as a result it became the flavor of the day. That is why your prior consultant may have made that recommendation. The rest of the years there is a lot of correlation between the two so there is not really an advantage over the long haul to be in one versus the other. Small has proven to outperform mid and large and there is no reason to believe that that won't continue. On behalf of C.S. McKee, Joe recommends to have a dedicated small cap manager and realize you are getting your Smid cap with your large growth managers. Ed Cernic made the motion to for C.S. McKee to go from Smid to small cap. Motion seconded by Barbara Kline. Vote unanimous 5-0. Motion carried.

Frank also asked the board to make the motion for Valley Forge to move to the Russell 1000. P.J. Stevens made motion to move Valley Forge from S&P 500 to Russell 1000. Motion seconded by Milan Gjurich. Vote unanimous 5-0. Motion carried

Frank also advised that a goal of Morrison's is set a review schedule well in advance to allow for managers to make their selves available. At this time no schedule will be set due to the change of boards.

A review of total fund performance, total return, policy index, variance and rank. The total fund return has been a little below average. Biondo was recommended to go on watch for three reasons which were personnel changes, their investment style is to loose and since their inception date of June in 2010 they are 8.50% behind the index. CIM is also going on watch, currently trailing 1.75% and the other manager going on watch is Highland Financial and their performance is trailing. They have had a good October and presumably November and a lot of the deficit they may have recaptured. The reason they are going on watch is their fee schedule. P.J. Stevens made the motion to go with Morrison's recommendation to put Biondo, CIM, and Highland on watch. Motion seconded by Ed Cernic. Vote unanimous 5-0. Motion carried

New Business:

1. Distribution schedule. Ed Cernic reported that \$750,000 would be moved in November and December to fund outlays. In 2012, a schedule has been set up to move \$770,000.00 per month from C.S. McKee.
2. As a result of a recent review, the determination has been made that there are seven retirees who did not receive their opt out payment. One of the retirees has contacted us and will be going back onto the hospitalization. Ed Cernic is requesting that the Retirement Board allows the Controller's Office to process the opt-out payment of \$900.00 to the six (6) retirees who did not receive it. Motion was made by P.J. Stevens to make payment to the six (6) retirees who are entitled to the hospitalization opt out payment of \$900.00. One retiree is coming back onto the hospitalization. Motion seconded by Sam Valenty. Vote unanimous 5-0. Motion carried.

3. Also, during that review there were two (2) who were given the life insurance and should not have been. Ed Cernis is requesting that the Retirement Board allows the Controller's office to remove the life insurance from the two (2) retirees. Motion made by P.J. Stevens to remove the life insurance from two (2) retirees who received the life insurance in error at the time of their retirement. Motion seconded by Sam Valenty. Vote unanimous 5-0. Motion carried.
4. Determination need to be made on the eligibility of county employees to obtain the opt-out insurance when they have a spouse who is still working for the County at their time of retirement. There is no set policy. Motion made by P.J. Stevens that if a retiree has a spouse who will still work for the county at his or her time of retirement and that retiree chooses to be on his or her healthcare coverage, the retiree is not entitled to the Opt-out payment of \$900.00. Motion seconded by Barbara Kline. Vote unanimous 5-0. Motion carried
5. Motion made by Ed Cernic, Jr. to ratify the action taken by the Commissioner's Office through a Commissioner's Meeting at the recommendation of the Controller's office on the following November retirees: Debbie Scarton, Loretta Ramsey, John Finui, and William Jarvis. Motion seconded by Barbara Kline. Vote unanimous 5-0. Motion carried.

Motion made to adjourn the meeting by P.J. Stevens. Motion seconded by Sam Valenty. Meeting adjourned at 10:26 a.m.

Ed Cernic, Jr.