

RETIRMENT BOARD MEETING
November 30, 2010

Present:	Commissioner	P.J. Stevens Milan Gjurich Sam Valenty
	Controller	Ed Cernic Jr. Kristine Segear Dana Descavish
	Treasurer	Barb Kline
	Peirce Park	Michael Shone
	Valley Forge	Eston Griffin, III James Vogt
	CS McKee	Joseph Buongiorno Suda Vatsan

Commissioner Gjurich called the meeting to order at 9:30 a.m.

Motion made by Sam Valenty to accept the minutes of the August 24, 2010 meeting. Motion seconded by PJ Stevens. Vote unanimous 5-0. Motion carried.

Public Comments - None
Announcements - None

New Business:

- a. Adopt Policy – Death of a Retiree - Ed Cernic made the motion to adopt the following policy. In the event of a Retiree’s death after a direct deposit or check has already been issued and the amount is less than \$100.00 we will not attempt to recover. If the amount is more than \$100.00 we will pursue restitution of the monies. This policy is necessary due to the increase in volume of direct deposits and the hours of administrative work that would entail attempting to recover less than \$100.00. Motion seconded by Sam Valenty. Vote unanimous 5-0.

Mike Geiser gave the Ameriserv report. The month of October was a good month and November has been bouncing up and down. The total portfolio value including accrued on fixed income portfolio sector is \$154,023,595.86. As it stands, based on current market percentages on the portfolio we are over weighted \$5.6 million in domestic equity and \$1.1 million in global equity. Ed Cernic directed a question at Michael Shone as to what his recommendation is with the overweight. Michael Shone advised to wait for the performance report and decide from there.

Ed Cernic also commented that the Controller's office and Mike Geiser have been working more closely at keeping our money invested. Mike has been doing a wonderful job with Kris Segear in moving just the amount of money we needed all year long with the increase of retirees, so we were able to use that money more often and we appreciate his cooperation.

Ed Cernic made the motion to accept the Ameriserv report. Motion seconded by Sam Valenty. Vote unanimous 5-0.

Michael Shone also reaffirmed about Mike Geiser's work. Of all the banks that we deal with, he would rate Mike's service the best of all at moving the money around. There is always going to be a little lag between moving from one place to another and Mike jumps on it and moves more expeditiously and better than any other.

A presentation by Valley Forge Asset Management was given by Eston Griffin and Jim Vogt. Eston Griffin provided a brief update on what is going on with asset management in the past year. From a business prospective, they have really seen an increased appreciation from people who value them as not only asset managers but as managers of risk as well. They have outperformed in down markets and that is what happened in 2008 and early part of 2009. Jim Vogt advised on our account and reviewed the last 12 months. We ended last year with a great equity return and market and were cautious because government spending and government handouts drove everything. We have really begun to position the portfolio as more expense type of cash and with the holdings we have now, our dividend yield is up 50% from last year. The stocks we have now are up on average of 2.9% so on day one you're starting the beginning of the year up and can get the principal appreciation moving forward. The other area where there would be some principal appreciation is in stock sectors some in particular would be the gold mining sector, agriculture side of the economy and mega cap stocks.

Michael Shone posed a question – turn to page 24 of the performance report, pointed out Valley Forge is over weighted on materials, approximately 16½ %, compared to the S&P 500, which only has a little over 3%. However, the next column shows how the particular stocks did in that area and the S&P stocks materials were 17.71%, so your decision to overweight was the right decision, however the particular stocks you picked didn't do well at all. Valley Forge advised that the gold is not represented very well in the S&P materials. Ed Cernic commented that the facts are that Valley Forge did not perform as well with their picks as with the market. PJ Stevens commented that copper and gold are two different things. Copper is more industrial use and gold has a monetary medium. Ed Cernic questioned why the assets in cash were the third biggest part. Why is it that we are paying to manage cash? Explanation from Valley Forge if you look at performance from inception, April 2008 to end of 2010, we were at 100% in cash we would be at zero and the market would be down 7.12%. A lot of the money that we have made our clients is by buying low and selling high. We feel we are at the upper end. Ed Cernic commented and wanted all managers to understand that we know you are trying to make us money, however we are under extreme pressures at the County level and now being

budget time we have to put so much money in our county contributions and that comes as a tough pill to swallow that 8.6% is in cash. The cash percentage at the end of June was 6% and at the end of October there were some sells. The market at this time is high risk. Michael Shone suggests we monitor our cash position with Valley Forge. Requested historic data to see what their positions were going back five years. Valley Forge has protected well in 2008 when the market was down and during the second quarter of this year they did well. They tend to do very well when the market is down; when the market is up they tend not to give too much to the up side and are protected up and down that is a good tradeoff. PJ Stevens agreed with Valley Forge's philosophy in that they are looking down the road.

A presentation was given by Joe Buongiorno and Suda Vatsan from CS McKee. Report provided was from the end of September, he provided updated information through the end of November. Under Tab I – manage two pieces of the portfolio small cap equity piece as well as a fixed income. Tab I related to the small cap equity piece and the performance report in all the periods have been able to add value relative to our benchmark, which is the Russell 2000. The market has taken a decided turn for the positive since the end of September; small caps have rallied pretty significantly. The benchmark as the end of September YTD was up 9.12%. As of November 26, 2010, the benchmark is up to 18.34%. Continue to be ahead of the benchmark approximately 3%. Cash flow summary is now at \$18,487,000. The fixed income Tab II, the YTD up 6.96% versus the benchmark of 7.44%; this is a very strong year in fixed income, we don't expect to see this to continue going forward looking at returns over next five years in the neighborhood of 2.5%. I think you are going to generate more out of your other asset classes and get you closer to your actuarial assumption. Fixed income isn't going to be a place for that to happen. Through last Friday, the numbers haven't changed much. The benchmark is actually 7.03%; we have gained and are at 7%. Question from Michael Shone was what has caused the basis points to be up forty in a very short time. The response was the treasury market has backed up; not substantially but has given up some grounds. We are underweight in the Treasury market of 12% and the benchmark is 54%. We decided against Treasury and that has hurt us over the past twelve months. We felt that we didn't see value in owning Treasuries and saw more value in corporate where we have an overweight of 35% to the benchmark of 26%, also an overweight in government related of 28% and US Tips 22%. Tips have rallied substantially in the past few months and are where the gains have come from.

Michael Shone provided a short education piece to show both value versus growth and also what large, small, and mid caps have done. Pierce Park went to CS McKee about a month to two months ago for a number of clients and said that there was an absence of mid caps in the portfolio. Mid caps has been the best performer over a period of years up to 25 years. It is not too big of a cap and not too small of a cap. Michael Shone requested CS McKee to talk about the SMID products that they now have to offer.

Suda Vastan offered information on the Small cap portion of the portfolio. The portfolio has seen gain in the third quarter due to the last one and a half months. The market has rallied due to the sense of relief. The market is still marching ahead at a slow pace. Suda

Vatsan reviewed the top five contributors to Performance. A small cap portfolio the market capitalization is anywhere up to two billion, SMID is two billion to ten billion and the benchmark is different. Even though the stocks recommended would be in the small cap area many of them would grow into the SMID area. Ed Cernic requested a sample of what SMID picks they have done since the first of the year and what their actual numbers were of the performance from January 1 of this year to the current time. Michael Shone interjected and agrees with Joe from CS McKee that going forward it is going to be near impossible to get the same returns we have over the past decade. Ed Cernic commented our policy states 33% in fixed income and currently we are at 31.1%, so we are off of the target. The board needs to make a decision as to whether or not we change the policy. CS McKee advised what they have done for other clients is they manage an all cap portfolio, combining the existing product, which is the core equity product, 92% large, and mid cap stocks and 8% of small cap and run an all cap portfolio and manage against a different benchmark against the Russell 3000. This is just simply carving out the mid cap part of our large cap product adding it to the small cap product and its SMID cap. Ed pointed out that CS McKee is 1% or less in cash on their holdings so there money is invested.

Actuary Presentation by Michael Shone. Have always tilted toward value versus growth, not that value will always outperform growth, but 2/3rd of the year it had and has historically in the down market. It does not do as well in the up market, but still overweighs on returns. Over the past 25 years, all caps or all valued stocks up 10% average per year with growth at 8.6%. Best performer of all mid cap value. Worst performer is the small growth area – small companies go out of business. Would now like to see mid cap as a big part of your portfolio but maybe a little more so. Depending upon what index used, the mid cap is up 15-25 % of the overall portfolio. Review of our portfolio, large at 64.53, medium 15.77 and small 19.70 and compare medium to mid cap, if you use 25% that is the target that means you are underrepresented relative to the average. Small cap you are overrepresented. Do we want to have more in mid cap and is there an easy solution. In your case, the solution would be to widen out the mandate that is given to CS McKee and you change the overall market cap distribution to 25.20% mid and 10.27% small. The question from Ed is do we have the faith in them as managers to do that and they have certainly shown us in both the sectors they manage for us now that they have done a good job. Michael Shone advised that the pricing we get from them for small cap and mid cap is cheap. What needs to be decided is to stay with the current investment policy. Ed Cernic commented he is not against reevaluating the policy, until the decision is made we need to work within the perimeters we have. PJ Stevens stated we need to seriously study this, because fixed income is going nowhere. Suggestion by Ed Cernic to schedule workshop prior to next quarterly meeting. Michael Shone provided performance report. Highlights were the total fund returned 8.2% for the quarter, giving over \$11.0 million, third quarter return was better than the average public defined benefit plan. The out performance for the quarter was from American Funds Capital World Growth and Income. Put them on the radar screen only because they have gotten so large and it may be hard for them to continue. Also outperforming was GMO Global Equity last quarter, but is lagging this quarter. Underperformance for the quarter was Valley Forge – which was to be expected. Biondo raise the flag on them they were

up 7.1 but the benchmark is at 13.0. That is a big underperformance for one quarter. CS McKee small cap was discussed and their performance was very good. Fixed income CS McKee long term numbers looking good – lagged a little this year because they got defensive sooner than anyone else. FNB is losing to the benchmark every quarter. American Funds is a very good fund, watching them because they may have gotten too big for themselves. Thornburg going to vary off and on and have lagged some in the past quarter. GMO has been steady and Highland has been doing a good job. Real Estate has done well.

Ed Cernic requested Michael Shone's recommendation to rebalance. Michael Shone recommends sitting tight right now until the policy is looked at. You are still within the guidelines, allowed to go up to 70% equity and are at 68% equity. Need to make a fundamental decision as to what your target will be. Ed noted that our real estate is under 2.7 million dollars, does the board want to consider raising that prior to workshop. Michael Shone advised it could be increased by 1% and move \$1.5 million and decide where to take it from. Ed Cernic made a motion to move \$800,000 from Biondo and \$700,000 from Valley Forge Asset Management into the Real Estate Index. Motion seconded by Barb Kline. Vote unanimous 5-0.

Motion made to adjourn the meeting by Ed Cernic, seconded by Sam Valenty. Meeting adjourned at 11:00.