

The regular monthly meeting of the Retirement Board of Allegheny County was held on Thursday, January 17, 2013, in the Gold Room, 4th Floor, Courthouse, Pittsburgh, Pennsylvania at 12:00 p.m.

An executive session was held prior to the meeting to discuss personnel matters.

When the roll call of the Board Members was made, Board members Weinstein, Wagner, Puzak, Liptak, and Szymanski were recorded as being present. Board member Fitzgerald and Gallagher were absent.

Also present were Tim Johnson, Executive Director; Rich Miller, Esq., Solicitor; David Lindberg and Felicia Bennett Wilshire Associates; and Ed Boyer of Asset Strategy.

APPROVAL OF BOARD MINUTES

The Board unanimously approved a motion by Mr. Szymanski, duly seconded by Ms. Wagner, to approve the minutes of the December 20, 2012, Board Meeting.

APPROVAL OF MONTHLY FINANCIAL STATEMENTS

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. Szymanski, to receive and file the monthly financial statements.

APPROVAL OF APPLICATIONS AS PRESENTED

The Board unanimously approved a motion by Ms. Liptak, duly seconded by Mr. Szymanski, to approve 5 Retirement applications and 1 Military application.

APPROVAL OF DISABILITY PENSION APPLICATION

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. Szymanski, to approve the Disability application of Linda Turnblacer.

REJECTION OF DISABILITY PENSION APPLICATION

Mr. Puzak moved, duly seconded by Ms. Liptak, to reject the disability application of Carolyn Pilewski. Members Weinstein, Puzak, Liptak, and Szymanski voted in the affirmative with Ms. Wagner abstaining.

APPROVAL OF INVOICES

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. Szymanski, to approve the following invoices:

Asset Strategy	\$23,750.00	October 2012 to December 2012
BNY Asset Servicing	\$17,500.00	January 2013
BNY Check Services	\$ 4,663.05	November – December 2012
CDBP&M (Solicitor/Interim Director)	\$18,310.06	November 2012
CDBP&M (Solicitor)	\$11,737.36	December 2012
Cowden Associates	\$18,250.00	July 2012 to September 2012

Eckert Seamans Cherin & Mellott	\$ 5,000.00	October 2012
Eckert Seamans	\$ 5,000.00	December 2012
Federated	\$11,610.09	July 2012 to September 2012
Mellon Capital	\$17,992.12	July 2012 to September 2012
PFM Group	\$25,000.00	October 2012 to December 2012
Pyramis Global 20120930-394-A	\$ 8,193.81	July 2012 to September 2012
Rhoades & Wodarczyk, LLC	\$ 191.50	December 2012
Schneider Downs	\$ 4,000.00	November 2012
Schneider Downs	\$ 4,000.00	December 2012
Schneider Downs (Tyler Technologies)	\$33,835.73	2013 Support and Maintenance
Wilshire	\$53,000.00	October 2012 to December 2012

EXECUTIVE DIRECTOR'S REPORT

Mr. Johnson provided the Board with his monthly status report of the Retirement Board. He took the time to explain the report presentation in detail. The report is based upon the strategic mission of the office and is divided into three parts. The three parts are as follows: Initiative One is customer service and education for members; Initiative Two is strengthening enterprise wide operations; and Initiative Three is partnering to reduce costs and sustain value. Mr. Johnson highlighted one item within each initiative that was provided to the Board. With regard to Initiative One, the Annual Report will include an expanded amount of information on the fund, trustees and future goals of the plan. That report will be ready for Board review for March. Mr. Johnson's intent is to complete an annual report followed by a newsletter in the fall. President Weinstein encouraged open communication and transparency for members. With regard to Initiative Two, the scanning and indexing of I files should be complete this month. The next step in the project is to index and scan investment information. The goal is to completely replace manual workflows with electronic workflows utilizing the OnBase System. Mr. Johnson commended the intern for her diligence with the project at the retirement office. With regard to Initiative Three, the President had directed in December that the investment managers convene and discuss ways to lower costs and improve return on investment. That meeting occurred on January 9, 2013, and included Board Members Weinstein, Liptak, Szymanski, and Puzak, and consultants Felicia Bennett, Chris Shelby, Ed Boyer, and Marc Ammaturo. The President asked Wilshire to prepare a recommendation regarding the US Equity Structure and Fixed Income Management Consolidation along with PFM recommendations. A draft was forwarded to the Trustees and Wilshire will comment on those recommendations in their report. Contracts have been extended and executed for Eckert and PFM and the documents for Pharos have been executed and returned. Capital calls that were directed and approved in December were executed.

President Weinstein requested clarification regarding the December approval of 2013 Return on Contribution Interest Rate. Mr. Johnson explained that the minutes should have reflected that the Return on Contribution Interest Rate would remain the same as 2012 as the solicitor had recommended. The rate in 2012 was actually .26% and will remain the same for 2013.

APPROVAL OF 2013 RETURN ON CONTRIBUTION INTEREST RATE

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Ms. Wagner, to set the 2013 Return on Contribution Interest Rate at .26 percent.

REPORT OF THE SOLICITOR

Solicitor Rich Miller provided to the Board the Solicitor's Monthly Confidential Report. Mr. Miller also discussed three recommendations for board action. The Board is in need of a hearing examiner to deal with retirement claims by retirees and applicants. A proposal was received from Kevin Acklin, Esquire, of the firm Leech Tishman. The proposal includes a negotiated rate of \$250 per hour from the typical rate of \$350 per hour. Mr. Acklin's resume was provided to the Board members. Mr. Puzak commented that Mr. Acklin graduated from Georgetown University Cum Laude and Harvard University Cum Laude.

ValStone Contract documentation invested \$20 Million in March 2012. The documentation has recently been modified and reflects good changes for Allegheny County.

Mr. Miller also recommended with concurrence from the Executive Director the termination of an employee with Vendor #1735117.

APPROVAL OF SPECIAL HEARING OFFICER

Board Member Mr. Puzak motioned, duly seconded by Mr. Szymanski, that the Board approve Kevin Acklin, Esquire, of the firm Leech Tishman as Hearing Examiner at a negotiated rate of \$250 per hour. Board Members Weinstein, Puzak, Liptak, and Szymanski voted in the affirmative, Board Member Wagner abstained due to professional affiliation.

APPROVAL OF VALSTONE PARTNERSHIP

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Ms. Wagner, to approve the ValStone Partnership Agreement.

TERMINATION OF EMPLOYEE

The Board unanimously approved a motion by Ms. Wagner, duly seconded by Ms. Liptak, to terminate employee with Vendor #1735117.

CONSULTANT REPORTS

WILSHIRE ASSOCIATES

David Lindberg provided a Capital Review and a quick review of performance for year end. At the end of the year, the equity markets were up about 16% both within the US and outside of the US. Unemployment remains at 7% and CPI remains unchanged. Consumer sentiment declined in December primarily due to the fiscal cliff. The Fed will continue to keep rates low.

Mr. Lindberg highlighted some of the funds. In US Equity, the Wilshire 5000 Index is up 16.1% up last year and up 3.5% year-to-date for 2013. In Non US Equity, the MSCI Index up 16.8% and up 2.4% year-to-date. Mr. Lindberg shared the flash report with some of the high level data. The total fund stood at \$754 million at the end of 2012, and was up 13% but lagged the benchmark by a little more than 1% for the year primarily from the US Equity and High Yield classes. In looking at the five year numbers, the fund is ahead .20 basis points. The information

on the flash report is preliminary. Mr. Lindberg shared that Symons Capital underperformed with an 8% return versus a benchmark of 17.6%. Philadelphia Trust also lagged by 4% with a return of 12.2%. Mellon Equity and Twin Capital are close to their indexes. Non US Equity was up 17.5% for the year versus 16.8%. Baillie Gifford and Pyramis are ahead of their benchmarks. Philadelphia and Thornburg were lagging in the one year numbers. With Fixed Income, the Core Portfolio is up 5.1% for the year versus 4.2% for the policy benchmark. For the year, each of the managers have outperformed with the exception of PNG. In year-to-date, the High Yield portfolio, the fund lagged with a return of 13.9% versus 14.8%. The TIPS Portfolio had an 8% fixed income return versus a benchmark of 7%.

Ms. Bennett discussed the handout that was provided to Board Members entitled the U.S. Equity Composite Structure Analysis and Recommendations which is a result of the meeting to discuss ways to increase efficiency in the portfolio, reduce costs, and improve manager performance that was held on January 9, 2013. The old structure analysis which was completed in 2007 had an allocation with targets of 10% in All-Cap (Active) and 36% in Large Cap (Passive), and the rest to active both large and small. After analyzing, the recommendation is to eliminate the All Cap (Active) allocation and increase the allocation to Passive US Equity. The recommended structure improves the risk/return profile by increasing the expected information ratio of the U.S. equity composite. Within the U.S. Equity market, Wilshire recognizes that the large capitalization portion of the market is a more efficient area than small capitalization stocks and, therefore, more difficult to add value. Eliminating the target allocation to all capitalization equity managers will result in the termination of: Snow Capital Management and Symons Capital Management. All capitalization equity managers tend to have a large capitalization equity profile despite their ability to invest across the broad market which reduces their likelihood to add consistent value which has been borne out in their performance. Wilshire is recommending that those allocations be transferred into the Large Cap Equity Passive Index fund. Wilshire recommends utilizing State Street Global Markets as the transition manager. State Street is one of three approved transition managers and is the index fund manager that the Board currently utilizes. Using State Street will be a low cost way to transfer securities moved in kind within those asset classes. This results in \$11.5 Million from Snow Capital and Symons to Passive Index Fund. President Weinstein asked if the fund would be overweight in the large cap index fund, but Ms. Bennett assured that the fund would be slightly underweight of target. President Weinstein asked the length of time Symons has been a manager and how much was invested in the fund. Mr. Lindberg informed the Board that Symons Capital has been with the fund since November 2011, and their performance was 9.1% versus a benchmark of 18.2% and was initially given \$2.5 million to invest. Pending Board approval, the adoption of the new structural targets will lower the incremental index fund costs by 2 basis points and save management fees being paid on the \$11.5 million.

APPROVAL OF TERMINATION OF CONTRACTS

Upon the recommendation of consultants Ms. Bennett and Mr. Lindberg of Wilshire Consultants, the Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. Szymanski, to terminate the contracts with Snow Capital and Symons Capital to in order to rebalance the portfolio.

APPROVAL OF STRUCTURAL TARGETS

Upon the recommendation of consultants Ms. Bennett and Mr. Lindberg of Wilshire Consulting, the Board unanimously approved a motion by Ms. Liptak, duly seconded by Mr. Szymanski, to adopt the structural targets for US Equity moving \$11.5 million to State Street, a passive index fund.

In discussing the funds, Mr. Puzak requested a report sorted by fund to include the amount of money initially invested, the amount of fees incurred as well as how much they have made. Mr. Puzak believes that this report would be easier for members and the general public to understand. He also suggested expressing the information already shared by the consultants to the Board in dollar value as opposed to percentages, which would increase communication and transparency with members. President Weinstein also suggested converting the benchmarks as well. President Weinstein also shared that there are two ways that generate revenue for the fund and they are by contributions by employees and the County and by better performance by fund managers. It is the objective of the board to hire fund managers who are stellar and outperform the benchmark. That is the challenge for the consultants.

Ms. Wilshire also discussed PFM's review of the Emerging Manager Program, focusing on managers' performance. There are four products PMG Advisors, Core Fixed Income to Erect Funds I & II, Cleveland Capital. PFM has recommended terminations of PMG Advisors as well as Erect Funds I based on their lack of ability to meet their performance objectives. Wilshire Consultants concur with PFM's recommendations.

President Weinstein questioned what was going to happen to the \$8.5 million. Ms. Bennett recommended the assets stay in core fixed income and be given in kind to Federated which will bring their allocation equal to CS McKee. The other monies will be given in cash to cover contributions as they come in. Wilshire will monitor. CS McKee is the 4th highest quartile in fee structure. President Weinstein requested that Wilshire discuss with CS McKee their fees.

Wilshire also recommends raising cash flow to raise capital and is recommending \$10 million come from high yield which is the most overweight asset class and split that amount equally between Oak Tree and Penn Capital. Those funds will be the source of funds for benefit payments and capital calls.

TERMINATION OF FUND MANAGERS

Upon the recommendation of PFM Advisors and consultants Ms. Bennett and Mr. Lindberg of Wilshire Consultants, the Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. Szymanski, to terminate PMG Advisors with \$5.2 million and the Erect Fund I with \$3.3 million.

APPROVAL TO REDUCE HIGH YIELD CATEGORY

Upon the recommendation of Wilshire Consultants, the Board unanimously approved a motion by Mr. Puzak, duly seconded by Ms. Liptak, to authorize the reduction of the high yield category by \$10 million and rebalance it between cash and benefit payments.

APPROVAL TO INCREASE ALLOCATION

Upon the recommendation of Wilshire Consultants, the Board unanimously approved a motion by Mr. Puzak, duly seconded by Ms. Liptak, to authorize Federated to accept the assets of PMG Advisors at the time of liquidation.

MISCELLANEOUS

President Weinstein has been invited by Draper Triangle to participate in their Advisory Board along with an alternate. President Weinstein suggested that Vice-President Puzak be the alternate.

APPROVAL OF DRAPER TRIANGLE ADVISORY BOARD PARTICIPATION

The Board unanimously approved a motion by Ms. Liptak, duly seconded by Mr. Szymanski, to approve the appointment of President Weinstein and Mr. Puzak (alternate) to the Draper Triangle's Advisory Board.

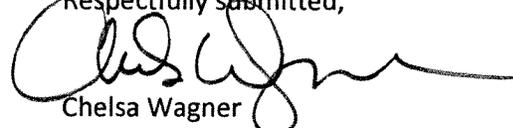
APPROVAL OF RETIREMENT OFFICE CLERK

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. Szymanski, to approve the hiring of Kelly Deasy as a Retirement Office Clerk effective February 1, 2013.

ADJOURNMENT

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. Szymanski, to adjourn the meeting.

Respectfully submitted,



Chelsa Wagner
Secretary