The regular monthly meeting of the Retirement Board of Allegheny County was held on Thursday, February 21, 2013, in the Gold Room, 4th Floor, Courthouse, Pittsburgh, Pennsylvania at 12:00 p.m.

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

Also present were Tim Johnson, Executive Director; Rich Miller, Esq., Solicitor; Chris Shelby and Felicia Bennett Wilshire Associates; Marc Ammaturo of PFM Advisors; and Ed Boyer of Asset Strategy.

APPROVAL OF BOARD MINUTES

The Board unanimously approved a motion by Ms. Liptak, duly seconded by Mr. Szymanski, to approve the minutes of the January 17, 2013, Board Meeting.

APPROVAL OF MONTHLY FINANCIAL STATEMENTS

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

APPROVAL OF APPLICATIONS AS PRESENTED

The Board unanimously approved a motion by Mr. Szymanski, duly seconded by Ms. Wagner, to approve 23 Retirement applications.

APPROVAL OF DISABILITY PENSION APPLICATION

The Board unanimously approved a motion by Mr. Szymanski, duly seconded by Ms. Liptak, to approve the Disability application of Michael P. O'Donnell.

APPROVAL OF INVOICES

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

Case/Sabatini	$8,000.00	December 31, 2012
CIM Investment	$10,599.93	January 22, 2013
Emerald Advisors	$22,119.19	January 25, 2013
Mellon Capital	$17,966.01	February 7, 2013
Philadelphia Trust	$6,988.75	February 6, 2013
PMG Advisors	$4,954.94	January 22, 2013
Schneider Downs	$ 45,835.73	February 11, 2013
Seubert & Associates	$37,770.00	January 31, 2013
Twin Capital	$14,594.88	January 23, 2013

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, sustain value and general/miscellaneous items.

Mr. Johnson highlighted the retiree payroll for February was processed this week and will be distributed February 28, 2013, on schedule.

The Board charged that we would have a written operating manual for office with regular policy updates to it, as well as personnel handbook. Three policy updates were made to the manual. The first policy update is the payment of contributions upon termination of employment. The Retirement Office would process the contributions on the same date each month to ensure data changes in the retirement system are accurately reflected and to ensure the tax payments to the federal government are made in a timely manner. The second policy change is the Calculation of Interest. At the December 2012 meeting, the Board approved 26 basis points as the return to members on their contributions. Currently, the interest is calculated on a daily basis and is run once a month, taking approximately two and a half days to calculate the interest. By changing to an annual interest calculation, for example, the impact with the 1% interest rate on a balance of $10,000 the change in one year would be $0.50. It would take one hour to run interest calculations on an annual basis versus a daily basis. Any employee that leaves the County during the year would still be calculated on a daily basis. The third policy update is retro pay and award pays. The Retirement office will be applying these pays on an accrual basis versus an actual basis. For a retro pay figure, funds will be applied the period money was earned.

The Retirement Office will be present for the Family Division of the Court - Adult section Employee Retreat on March 8, 2013. They were invited by the Court so those employees can understand the pension benefit better.

Mr. Johnson was pleased to announce publicly that his office is working on returning the calculation of payroll from ADP to the County's payroll system. Currently, only 3 employees are on the RBAC payroll. By facilitating transfer of function, it will improve consistency and continuity, as well as increase internal efficiencies with Treasurer's Office, Controller's Office and the Administration.

House Bill 546 was reported out of House Finance Committee in early February with no negative votes. The Bill is now tabled in House pending the perp report and is scheduled for a vote in early March.

The 5th Annual Pension Summit will be held Wednesday, May 22, 2013, not Thursday, May 23, 2013 at PNC Park. Gina Raimondo, General Treasurer from Rhode Island who is well-known for her work in pension reform and consensus building will be invited to speak.

President Weinstein requested information regarding the transition within the Retirement office. Mr. Johnson indicated that transition has been mostly smooth, thanks to the support of Deputy Treasurer Janice Vinci. A Fund Administrator from the Empyrean Group, LLC, a temp agency contracted by the County, will begin next week. He would be available for merit hire by County standards, should he perform to County standards. President Weinstein indicated that he was pleased and the retiree payroll is first and foremost the priority. Mr. Weinstein commended Mr. Johnson and his staff for getting the payroll completed on time, and noted that Ms. Vinci has done a beyond admirable job in assisting Mr. Johnson. He is glad she is able to assist and get the office up and running the best that we can.

APPROVAL OF TWO-YEAR CONTRACT RENEWAL FOR ASSET STRATEGY SOLUTIONS

The Board unanimously approved a motion by Ms. Wagner, duly seconded by Mr. Szymanski, to renew a two-year contract agreement with Asset Strategy Solutions. The contract will have an increased scope to include work on investment administration. The contract will begin April 1, 2013 through March 31, 2015 and contract will increase by $5,000 per year, from $95,000 current annual to $100,000 annually.

REPORT OF THE SOLICITOR

Solicitor Rich Miller provided to the Board the Solicitor's Monthly Confidential Report. Mr. Miller indicated the Board should also be commended in the foresight for creating the process manuals that were very helpful during the transition of personnel.

No questions were directed to Mr. Miller's report.

CONSULTANT REPORTS

WILSHIRE ASSOCIATES

Felicia Bennett indicated that there were five items to review. The first item was the Investment Policy Statement Update. The Investment policy statement update was not in packet. Mr. Johnson sent out approximately 7 weeks ago. The content of the policy is unchanged and no feedback was received from members. The only things that change are the asset allocation targets, ranges around targets and the U.S. equity structure approved by the Board in January.

The second item reviewed was the Full Fourth Quarter of 2012 Executive Summary Performance Review. Performance of the Equity Markets, which has been very strong, last quarter showed a trailing one year returns for Equity Markets up near 30%. The Fourth quarter wasn't quite as strong, Large CAP Markets were pretty much flat, and Small CAP Value was the star performer last quarter and last year. Overall the US Equity Markets were up 16% over the calendar year and Small CAP Value up 21.5%. The strongest sector performance through the calendar year was Financials, up 26% and up 5% during the Fourth quarter, and was the best performing sector in Fourth quarter; contrasted with Utilities that were only up 2% for calendar year and negative 2% for Fourth quarter. This is quite a bit of range of performance by sector and will influence manager performances. Info technology was strong going into the fourth quarter, with Apple being a big contributor there because Apple stock was down 20% in fourth quarter which brought the whole sector down 5%. Lower quality companies stocks and bonds out-performed higher quality companies for the year, also influencing performance for individual managers. Fixed Income Markets were up about 4% for the year for Core Bonds; High Yield was up almost 16%, again the higher correlations with equities very strong performance out of the High Yield market.

Yields have continued to increase over the past quarter and the yield curve now has 10 years back up above to influence a negative return for Treasury's over the last quarter. Non US

Capital markets have very strong returns and are up 17%, almost 18% for Developed Markets and 19% for Emerging Markets.

For Asset Allocation, the Policy Target is reflecting the new policy that was adopted in October 2012 with 35% target weight to Equities, 27% to Fixed Income and 38% across the Alternatives. Variance between Target and Actual Allocations, Equities are overweight by 5% and the biggest under weights are in the Alternatives—Private Equity by 6.5% being housed in Public Equity; Real Estate underweight by 3% and Commodities by 4.5%. Real estate has a couple of opportunistic strategies to present and hoping the Board will be available to meet March 8th or 18th to interview those managers.

Attribution for the Fourth quarter was just behind by 5 basis points, performance at a whole was under by 60 basis points and policy by 51 basis points. Total year fund was up 13.36% against the policy benchmark up 14.36%.

Information was requested by the Board in January to revise category from All Public Funds to All Public Funds between $500,000,000 and $10,000,000,000. There are only 19 funds in that size range. Quarter return was 2.44, or in the 38th percentile. On the one year basis, performance was 13.6%, right around median for this group.

Composite returns for all the different asset classes, the US Equity was about 70 basis points behind and Non US Equity was 70 basis points ahead. High Yield Fixed Income was almost 1% behind because it is a more defensive, more conservative allocation and lower quality out performed higher quality. TIPS was ahead by 1% and Private Equity on a time weighted return basis was up 12.7% benchmarked against a lagged public equity market with a premium. Over short term periods, October 1, 2011 through September 30, 2012, the public markets were up almost 34%.

Real Estate had a good performance over 1.5% over their benchmark. Commodities had a great performance 4.6% ahead of their benchmark. For the quarter, Commodities had a very negative return 6.3, but the manager was strongly ahead by 5%. Israel Bond and Cash made an accounting adjustment to one of the Israeli Bonds and was marked up at a significant premium, but was marked back down to cost and is driving the negative 3% for quarter. Ms. Bennett is following up with bank to make sure this is correct.

From a manager perspective, Snow Capital is being terminated, as decided at January meeting. Mellon Equity had a good performance, largely from stock selection in the quarter and is a little behind over the one year period, but stronger on trailing numbers since inception. Twin Capital had an enhanced equity manager, underperformed 4 quarters in a row by modest amounts, which led to an underperformance of almost 80 basis points. They ranked median in their peer group, tilted toward larger CAPS stocks. Earnest Small Value underperformed on the one year basis by 3.86%, while they are positive and did rank ahead of median by peer group, 48th percentile, they had a difficult benchmark to meet. However, they did outperform by 175 basis points for quarter. Most Small CAP value managers, more than 75% underperformed their benchmark. Cleveland Capital Emerging Manager was one of the top quartile managers. Emerald Advisors had a good performance and were in the top quartile within their peer group. Apex Capital was 5% ahead of their benchmark for the year. Philadelphia Trust is sector neutral and their stock selection hurt them. They ranked 75% over the one year period and were behind their benchmark by almost 4%. Symons has been terminated and will be transitioned by end of the month. Fragasso has only been in for one quarter and had a good performance. All in all, US equity with some of those lagging performers were down 70 basis points relative to the benchmark, but very strong absolute return over 15% for the year.

International equity had a strong performance for Baillie Gifford and was the top quartile manager over the long term, although a little behind on quarter. They were ahead over 4% since inception of that relationship. Philadelphia International was the weakest manager and underweight in emerging markets and had top quartile performance in the fourth quarter. Their other performance was within expectations.

PMG Aadvisors assets have been moved to Federated in-kind leaving four managers in Core space, two in High Yield and two managers in TIPS space.

Core managers had strong performance for a one year period. Core Bonds were up 4.2% and Composite up over 5%. High Yield for both managers was underperforming relative to the benchmark because both are positioned more defensively. They had strong absolute returns, almost 14%, out of High Yield performance for year and 3% for the quarter.

TIPS within Fixed Income were very good. PIMCO was very strong, up 9.4%, and ranked in the very top of their peer universe in the 7th percentile on a one year basis and 30 percentile on 3 year basis. Western Asset Management is in top 3rd of this universe as well. Alternatives for all commitments for next quarter show I-Networks added funding of $2 million in January and CCA Blue had a $3.8 million allocation, 2.9% of fund. As of December 31st, $155 million was committed to private equity. Over $100 million has been drawn down, with $54 million remaining to be called. IRR since inception for composite was up almost 8%. IRR for managers, compared to peer universe, are above the median. Morgan Stanley is the main Real Estate manager for Prime Funds and outperformed their peer group by 1.6%, almost 12% return out of core Real Estate for the year. They had a very strong income return about 5.5 -6% cash flow back to fund on those real estate securities. Detailed statistics on managers' performance are in the packets.

Chris Shelby from Wilshire Associates provided an update on January and markets since the end of the year.

The third item for Wilshire Associates was the Capital Market review. The US Economy added 157,000 nonfarm, payroll jobs to the books, keeping unemployment at 7.9% for the month of January. Business continues to expand the ISM non-manufacturing index about 50% for the 37th consecutive month of expansion. Consumer numbers increased 1.2%, due to a resolution of financial crisis/fiscal cliff, but payroll tax increase brought consumer sentiment back down a little bit. Gold is down to its low as of 2012, $1,575 per ounce; Housing is down 8.5% in January, but still up almost 24% over the year.

Equity markets had very strong equity market performance YTD, with the Wilshire 5000 up nearly 7% through yesterday's close. Stocks and Small CAPs outperformed Large CAP stocks; within the S&P 500 - Consumer Staples and Health Care lead, although hand full of very strong sectors in S&P 500. The 10-year Treasury yield still above 2 %, a significant increase in Yield. All of US equity is positive, with aggregate bond index and TIPS both down.

The fourth item presented was the Flash Report. Asset Allocation was updated through January 31, 2013 with Non US Equity remaining overweight. Total market value thru January 31, 2013 is $768.2 million, a strong performance on a total fund level, up about $11.5 million thru January. Total fund performance for month was up 2% and its benchmark was up 1.58%. The fund performed very strongly and was up 11.66% for the year and outperformed the benchmark.

Composites: SNOW & Symons have been instructed to cease trading and will be reallocated into index fund. US Equity Composite was essentially flat for the month, although equities were up 542 and had a strong absolute performance. Non US Equity composite was slightly behind, but had a strong absolute performance for one month, with a composite up over 3.5%. Core bonds, as the interest rates rose throughout year so far had negative effect on bond indices, your bond managers & bond composite outperformed market by 11 basis points, but still down about .5%. High Yield was stronger in absolute performance and up 1% for quarter and for compost 1.3% for index. TIPS were down as the Yields rose & Index was down as well. Commodities rebounded a bit from the Q4 performance of down over 6%; manager outperformed nearly 3% and index up nearly 2.5%.

Finally, Ms. Bennett provided an update on the Fee Report provided in January 2013. CS McKee had an effective fee of 41 basis points based on an outdated fee schedule. They have been charging 23 basis points since about 2003 and put them in the first quartile, the lowest cost of fixed income manager. President Weinstein also received an email from Mr. Rossi of CS McKee clarifying the fee. Ms. Bennett indicated they are attempting to renegotiate with Earnest Partners for a new fee. They will also revisit Penn Capital fee.

APPROVAL OF ADOPTION OF ASSET ALLOCATION TARGETS, RANGES AROUND TARGETS, US EQUITY STRUCTURE APPROVED IN JANUARY

Upon the recommendation of consultant Ms. Bennett of Wilshire Consultants, the Board unanimously approved a motion by Ms. Liptak, duly seconded by Ms. Wagner, to adopt the asset allocation targets, ranges around targets, US equity structure approved in January.

PFM ADVISORS

Mr. Ammaturo discussed the brokerage program. In 2011, PFM was tasked with taking a closer look at the policy and approved broker listing & revising the policy and broker listing. In 2011, PFM was tasked with specifically with looking to include local, female, minority and disabled veteran's owned brokers.

PFM worked with RBAC's Governance and Business Process Committee to complete the following tasks. First they analyzed other public plan brokerage policies to incorporate into Allegheny County's policy. The current policy approved in March 2012. The second task was to develop a comprehensive broker questionnaire. Third, an advertisement was published in local newspapers and publications to solicit interest in the program. PFM received twenty responses to this advertisement. Next, they reviewed the questionnaires in detail and created a list of approved brokers. Finally, they submitted the approved brokerage policy with approved broker listing to applicable RBAC money managers.

Ongoing brokerage tasks to ensure the program is effective include a quarterly summary of brokerage activity, continuously collect and analyze brokerage questionnaires (on website), recommend applicable brokers for inclusion to the program, submit brokerage policy to any new money managers to grow program, contact managers with little or no broker activity, review brokers that have not received any commissions and recommend a third party to provide a review of RBAC's trading costs approximately every 3 years .

From the twenty questionnaires received, five are based in Pennsylvania, one is based in Pittsburgh, twelve are Minority owned, four are Female owned and three are Veteran owned. Of the ten approved brokers, four are based in Pennsylvania, one is based in Pittsburgh, five are Minority owned, three are Female owned and two are Veteran owned.

Of the commission dollars by broker, BPU Investment Management, Cabrera Capital and Greentree Brokerage Services had sizable dollars being traded. Bley Investment Group, Clancy Financial Services, Pacific American Securities and Mischler Financial Group had zero activity after three quarters and should be revisited.

Philadelphia Trust, Emerald Advisors and Philadelphia International had significant dollars being dedicated to your approved brokers. Mellon Capital, TWIN Capital, Apex Capital and Earnest Partners are low volume traders, so better to look at their percentages.

President Weinstein stated if the total commission paid is $35,000, and $7,800 was used for our broker listing, it is 22% and below the policy, when the policy is 25%. Managers aren't following policy and asked for Mr. Ammaturo's recommendation to fix this. Mr. Ammaturo responded by saying they are only into first quarter and can talk to managers to understand what is the headwinds, if any, for not using brokers on approved listing. Sometimes it takes time to get to know brokers. President Weinstein asked who are the other 78% using? Mr. Ammaturo indicated JP Morgan, Goldman's, etc., or the "big" shops. He said there needs to be an analysis of trading costs every three years from outside party to see you are getting best execution. President Weinstein did not remember the last time they had a review and said that managers must adhere to the policy.

President Weinstein would like Mr. Ammaturo to meet with the managers and report back to the Board.

ADJOURNMENT

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

Respectfully submitted,

Chelsa Wagner
Secretary