

The regular monthly meeting of the Retirement Board of Allegheny County was held on Thursday, July 17, 2014, in the Gold Room, 4th Floor, Courthouse, Pittsburgh, Pennsylvania at 12:00p.m.

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

Also present were Tim Johnson, Executive Director; Felicia Bennett of Wilshire Associates; Ed Boyer of Asset Strategy; and Brian Gabriel of Campbell, Durant, Beatty, Palombo & Miller.

President Weinstein welcomed newly elected director Frank DiCristofaro to the board.

PUBLIC COMMENT

Roger Westman, Secretary of the Allegheny County Retirees Association, addressed the Board regarding prior requests to increase the Cost of Living Adjustment (COLA) by \$25 per month. Since the requests have yet to be acted on, Mr. Westman provided examples of retiree stating what a COLA would mean to them. He presented examples such as, retirees being able to get off food stamps with a COLA, since his current pension is not enough to buy food. And Shirley L. has only \$32.32 left from her pension check after paying \$494 per month for rent, adding, "that's not much for groceries." Mr. Westman stated that the examples presented are just a small sample of the responses received. He asked that you take action for a cost of living adjustment.

APPROVAL OF BOARD MINUTES

The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. Szymanski, to approve the minutes of the June 19, 2014, Board Meeting.

APPROVAL OF MONTHLY FINANCIAL STATEMENTS

The Board unanimously approved a motion by Ms. Griser, duly seconded by Mr. Szymanski, to receive and file the monthly financial statements from May 31, 2014.

APPROVAL OF INVOICES

No Invoices were received since the last Board meeting

APPROVAL OF APPLICATIONS AS PRESENTED

The Board unanimously approved a motion by Mr. Szymanski, duly seconded by Mr. Puzak, to approve 26 Retirement and 1 modification applications for July 2014.

There were 2 Disability recommendations received from Dr. Costa and presented by the Executive Director for July 2014. The first recommendation involving member 94072 (SSN 2413) is that the member is totally and permanently disabled. The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. Szymanski, for the Disability application for member 94072 (SSN 2413) that he or she is totally/permanently disabled.

The second recommendation involving member 91649 (SSN 7938) is that the member is not totally and permanently disabled. The Board unanimously approved a motion by Mr. Szymanski, duly seconded by

Ms. Griser, for the Disability application for member 91649 (SSN 7938) that he or she is **not** totally/permanently disabled.

EXECUTIVE DIRECTOR'S REPORT

Mr. Johnson provided his monthly status report of the Retirement Board, highlighting the following:

- Member Numbers have been added to the disability letters.
- Contributions refunded MTD was \$468,197.24, YTD \$1,985,545.44.
- Total Gross Amount of Capital Calls: \$22,582,761.62
- Total Gross Amount of Allocations: \$10,500,000.00
- Update on Retirement Office Budget: YTD Variance at 62.47%

Lastly, election results have been added to the Director's report. He wanted to congratulate and welcome new board member Frank DiCristofaro.

Mr. Puzak stated that he has received several calls on how well the Retirement Board is being managed and he wanted to thank Director Johnson for doing a good job.

REPORT OF THE SOLICITOR

Mr. Gabriel stated that the board has our monthly report. Mr. Gabriel also wanted to note that we met in Executive Session to discuss a legal matter.

Also, the Solicitor discussed two actions items; one to clarify the Scope of Authorizations for hearing officers, to hear other appeals which are not necessarily disability related. He is suggesting to the board to put in a motion to amend the hearing officers' duties to include all appeals. The Board unanimously approved a motion by Ms. Liptak, seconded by Ms. Griser, motion carries.

The second item is regarding the Executive Director's authority to designate staff to sign and execute approved investment documents. The Board unanimously approved a motion by Liptak, seconded by Mr. Fitzgerald, motion carries.

CONSULTANT'S REPORT

WILSHIRE ASSOCIATES

Ms. Bennett provided the Market Update and Economic Highlights:

GDP: Real GDP surprised to the downside during the first quarter of 2014 by contracting 2.9%, the largest drop in economic activity since the recession five years ago. Consumer spending, the primary driver of growth, was mild while businesses allowed their inventories to deplete and exports fell sharply. Most experts believe that the economy will rebound during the second quarter – and early data supports that assertion.

Interest Rates: Rates in the long-end of the curve continued to fall for much of the second quarter, with the largest decline occurring in May. The ten year Treasury yield, which entered the quarter at 2.73%, equaled 2.53% at quarter end.

Inflation picked up steam during the quarter as the Consumer Price Index was up 0.8% for the three months ending May. The CPI rose 2.1% for the year ending May 31. The 10-year breakeven inflation rate closed the second quarter at 2.36% up from 2.23% last quarter.

Employment: After a brief disappointment in December, jobs growth has returned. Total nonfarm jobs added averaged 234,000 during the three months ending May, with the average for all of 2014 a bit lower at 214,000 jobs. The unemployment rate has fallen from 6.7% in December to 6.3% in May, a level last seen in mid-2008.

Housing: Home prices rebounded in March and April after four months of declines as the S&P Case Schiller 20-city Home Price Index was up 2.0% for the three months ending April, 2014. For the past 12 months, the index was up an impressive 10.8%

US Equity markets showed that Wilshire 5000 increased 4.86% for the second quarter, posting its eighth consecutive quarterly gain. After a nearly flat April, the index was up strongly in both May and June and is up almost 25% since June 30 of last year. Large cap stocks outperformed small cap stocks during this period, and larger shares trailed during the past twelve months, however, up 24.75% vs. a gain of 26.37% for small cap stocks. The Wilshire US Micro-Cap Index was down approximately 1% for the quarter but produced a one-year gain of 26.39%.

Ms. Bennett discussed Non-U.S. Equity Markets and fixed income. The escalation of tensions between Russia and Ukraine threatened to impact important energy trade flows between Eastern and Western Europe, but the markets has continued to rebound second quarter returns were Non U.S. Equity above US equity for 5.03% or 21.7% for the year. Emerging Markets continue to recover out pacing development markets for the quarter.

In terms of Fixed Income, with the reassurance of the Fed, the fall in interest rates resulted in positive Aggregate up 2%, Tips recover 3.8% and High Yields spreads contract up 2.4%. Emerging market bonds have performed strongly in the first half of 2014 as well, with frontier market financing activity reaching new levels.

Real Estate and Commodity Markets – Real estate related equities extended their 2014 rally into the second quarter, with low interest rates providing broad market support worldwide. The first half of 2014 has seen many commodities rebound from disappointing results in 2013. Global geopolitical events have fueled a remarkable comeback in gold, where “safe-haven” trades have resulted in a 9.82% year-to-date jump in prices. Turmoil in energy-rich Eastern Europe and Iraq has fueled run-ups in the prices of crude oil (up 7.53% YTD) and natural gas (up 8.80% YTD) as well. MLPs rebounded from a relatively slack first quarter with a healthy rally in the second quarter, yielding excellent year-to-date performance.

Next, David Lindberg discussed the Monthly Performance Summary for periods ending June 30, 2014. The fund value at the end of June 30th is \$846.5 million up 4.6% for the calendar year to date. Good solid absolute return for half a year. This quarter up just under 3%, and the five year numbers annualize right on 12%, continues to be a good return environment post 2008.

US Equity for the quarter 3.88% behind roughly 1 percent relative to the benchmark. We are lagging a bit, as a few managers are underperforming and a difficult time in general for active management in US

equity over five years. It's been a strong management in general. Non US Equity is behind a quarter by 1.6%, and our most challenging period is one year where we are behind 3%. TIPS Fixed Income composite is close benchmark for the quarter. High Yield we have a higher quality portfolio than the benchmark itself, and a very strong return environment.

Mr. Fitzgerald stated that we use for US Equity Wilshire 5000, but what is used for non US Equity? Mr. Wilshire responded that we use the policy benchmark. Mr. Fitzgerald asked if this is similar to the S&P. Mr. Wilshire response was we use Country World Index Policy because historically the benchmark changes. How does the Wilshire 5000 compare to the S&P, the response is that they are close. The request was to list S&P 500 as well in the future.

TIPS had a good quarter. The index is up 3.8% for the quarter. The Real Estate Composite close to 29 basis points and close to the benchmark overall. The Hedge fund Composite is a small JP Morgan fund that is unwinding. The information presented is actually incorrect as a withdrawal was treated as price depreciation. The final executive summary will be correct.

Commodities negative quarter -1.52. Longer term commodities have been outperforming the benchmark as well.

Asset Classes Highlights: Mr. Wilshire asked that we look at the Quarterly Column to see what's driving some of the returns for the quarter were we lag you can see Fragrasso is behind 2.26% for the quarter. Mellon Equity nicely ahead by 1.15% for the quarter, Philadelphia Trust behind 1.37%, Twin Capital behind this quarter, but long term numbers remains ahead of benchmark. Apex Capital had a nice quarter of 1.3% ahead. The remainder of the US Equity portfolio is close to benchmark for the quarter. Emerald Advisors has great returns long-term, but a difficult quarter being 3.89% behind the benchmark due to stock selection. Cleveland Capital behind significantly of its benchmark 5.65% below for the quarter. CIM off to a good start 1.05% ahead for the quarter, 2.5% ahead for two quarters. Some of those emerging managers are impacting the US Equity overall.

Non US Equity we have been struggling lately, followed by in the past several good quarters. Bailey Gifford, only in since 2009, has good longer term numbers, recent quarter is behind 71 basis points. Philadelphia International behind 37 basis points, but longer term lags as well. You added two things to this strategy emerging market, and small cap component, which will help a great bit.

Thornburg and Pyramis: Pyramis least actively managed of all of these, experienced a difficult quarter behind 1.7%. Thornburg, we are spending most of our time looking at Thornburg with recent organizational changes, and we redeemed \$10,000,000 from them just recently. For our structure target for Non us Equity this is targeted to be 20% of that structure and it is down to about 14% so it has a smaller bet on their performance. Non US Equity is the area we have most concern right now, and we will talk more about it in September.

Fixed Income good performance overall with CIM, CS McKee, Federated, Swarthmore nothing of any significant; composite itself is 37 basis points behind for the quarter, but 5 basis points ahead for the month.

High Yield our portfolio being more defensively positioned overall. Oaktree behind but we are comfortable, Sound Point up 3.8% calendar year to date. TIPS two portfolios Pimco is out performing and Ramco is underperforming and we will be looking at Ramco, in September.

Real Estate Morgan Stanley has the largest real estate investment. 2.9% return for the quarter, this fund is doing well, with 8.1% return. Real Estate is doing well over all.

Hedge Fund with the major component being Altair is up 1.32% YTD. Gresham Commodities behind for the month but ahead for the quarter at 23 basis points. This has been struggling in the past year but 3 years, 5 years inception numbers are very good.

Mr. Wilshire summarized that good absolute returns, a little of weakness in active management in US Equity and Non US Equity and Non US Equity is where we are focusing right now.

ASSET STRATEGY CONSULTANTS

Ms. Belmondo discussed that during Executive Session the retirement board interviewed two firms Medallion Wealth Management and Stoneridge. Given the overweight in the investments within domestic equity, it was decided to hold on doing anything at this time. PFM will do a presentation with recommendations on Emerging Managers in September to provide more analysis and additional information.

Mr. Weinstein stated that at last month's meeting we allocated an additional \$1MM dollars to CIM. Has that happened? The Executive Director stated that it was not in this report and will look into it.

NEW BUSINESS

Amy Griser wanted the board to know that the Controller would like to bring the communication policy to vote at the next retirement board. To emphasize the need was a recent letter that went out with the election ballots was sent without her authorization, and in our office viewed as "electronic forging" of her signature. The following statement should be placed into the record from Controller Chelsa Wagner:

The parameters that are covered by this proposed communication policy are very serious, as just in the past several months, we have discussed errors that would have likely been avoided had a communications policy been in place. – So we bring this to the boards attention, so that you have full information of yet another factor the Controller will be calling your attention to next month to urge that this board adopt the proposed communication policy in order to: 1. align themselves with best practices, but 2. at worst, to prevent serious missteps and misinformation.

Mr. Puzak asked what if verbally the President and/or Vice President states that anytime communication goes out that we will all be informed. Amy responded that the policy requires communication. For instance, there was an error on the letter that accompanied the election ballot, and that could have been avoided if it was sent out prior to the board members. Mr. Puzak is not sure how important it is to motion and approve the policy. Ms. Griser stated that the written policy may help avoid issues in the future. President Weinstein stated that the error was a typographical error. Ms. Griser stated the error is one thing but her not knowing and approving use of her signature on a letter is really the issue. Mr. Weinstein stated that this is the way the election letters have always been prepared, that the President and Secretary attest to the names on the ballot was all that was being conveyed, but if she does not want her name on the letter we can abide. Ms. Griser said that is not what she is asking, just would like to be notified.

President Weinstein informed that there will be no meeting in August. Executive Director reminded that we need to have authorization to perform the payroll for new retirement applicants and plans to send

an email to the board members approving them and then ratify them in the September meeting. The Board unanimously approved a motion by Mr. Fitzgerald, seconded by Ms. Liptak that the board provide authorization for the Executive Director to process payroll and pay any bills during the month of August which will then be ratified in the September Meeting. Motion carried.

ADJOURNMENT

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Chelsea Wagner", with a long horizontal flourish extending to the right.

Chelsea Wagner, Secretary