

The regular monthly meeting of the Retirement Board of Allegheny County was held on January 15, 2015, 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 John Weinstein, Ted Puzak, Chelsea Wagner, Frank DiCristofaro, Walter Szymanski, Rich Fitzgerald and Jennifer Liptak were recorded as being present.

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

PUBLIC COMMENT

No Public Comment

APPROVAL OF BOARD MINUTES

The Board unanimously approved a motion by Mr. Fitzgerald, duly seconded by Mr. Szymanski, to approve the minutes of the December 18, 2014, Board Meeting.

APPROVAL OF MONTHLY FINANCIAL STATEMENTS

The Board unanimously approved a motion by Mr. Szymanski, duly seconded by Mr. DiCristofaro, to receive and file the monthly financial statements from November 30, 2014.

APPROVAL OF INVOICES

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

| | | |
|--|------------------|-------------------|
| CLEVELAND CAPITAL | 10/1/14-11/20/14 | \$3,729.01 |
| Total Invoices for January Approval | | \$3,729.01 |

APPROVAL OF APPLICATIONS AS PRESENTED

The Board unanimously approved a motion by Mr. Szymanski, duly seconded by Mr. DiCristofaro, to approve 5 Early Voluntary applications, 8 Full Retirement applications, 1 Disability application, 2 Modifications and 1 Service Time Buyback for January 2015.

Ms. Wagner asked about member #98892 who intends on going before the personnel board with a request to be reinstated. It was inquired as to whether the pension application should be processed or held up until the official withdraw has taken place. Ms. Liptak stated that the initial request is to be addressed and if the applicant wishes to withdraw that request that would be addressed at another meeting unless there were technical errors involving the original application. Ms. Wagner requested that it would be helpful if the Retirement office would reach out to this individual to coordinate as this case was brought to her attention.

EXECUTIVE DIRECTOR'S REPORT

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

- The benefit dashboard displayed that there were 537 new members to the plan, 134 member deaths, 262 retirements and 2 active survivors for 2014.
- The investment administration dashboard showed that there were 79 Capital Calls totaling \$32,730,585.86, 4 Rebalancing totaling \$22 million, 11 Allocations totaling \$22,330,000.00, and 2 Terminations totaling \$11,400,000.00 for the 2014 year end.
- The retirement office operating budget ended up 3.78% under budget for the year.
- The 2014 year in review highlights were addressed. Out of the twelve months, six of the highlights were board accomplishments and the other six were administrative accomplishments. These administrative accomplishments were a compilation of the Controller's Office, Treasurer's Office as well as the administration.
- The Case Sabatini Audit begins January 26, 2015 in compliance with GASB 68 reporting format.
- The Web Calculator call-in demonstration is set to take place January 29, 2015 at 2:00pm.
- On January 31, 2015, the 1099's are scheduled to be mailed out.
- A Pre-retirement Workshop is scheduled for February 10, 2015.

Ms. Wagner asked Mr. Johnson who specifically from CIM manages the Israeli Bonds that are currently under CIM management. She also inquired as to whether CIM have other Israeli bonds that they manage. Mr. Johnson stated he was not aware of who specifically manages the bonds and directed the question to Mr. Lindberg. Mr. Lindberg stated that he is aware that there is a team from CIM who oversee the Israeli Bonds portfolio but is unsure of who specifically does the trades. It was stated by Mr. Lindberg stated that he is doubtful that CIM has other Israeli Bond portfolios but stated the reason that CIM was selected was to help the board by letting a manager select the bonds. Ms. Wagner requested that Mr. Lindberg look into providing this information so that a name of the specific trader can be determined in case there is a need for questions.

REPORT OF THE SOLICITOR

Mr. Gabriel provided to the Board the Solicitor's Monthly Confidential Report.

- Re: Member #91649, the board consider the recommendation of the hearing officer to adopt the Confidential Report of Proposed Findings of Fact and Conclusions of Law in the proposed order.

The Board unanimously approved this motion by Mr. Fitzgerald, duly seconded by Mr. Szymanski.

- Re: Class action proposal from Milberg, LLP where Petrobras is the defendant. A recommendation was made by the solicitor that the Board authorize the Board President to execute a retainer agreement with Milberg, LLP subject to two conditions:
 - a) Receipt of a revised retainer agreement that includes the additional language proposed by the Solicitor and accepted by Milberg;
 - b) Receipt of a final recommendation from Milberg on or before January 30, 2015 to proceed with an application for appointment as lead plaintiff.

Mr. Weinstein pointed out that the estimated loss to the Allegheny County Retirement System were in excess of \$400,000.00. Mr. Gabriel pointed out that the filing deadline is February 6, 2015 and is the reason it was being brought before the board at this time.

The Board unanimously approved this motion by Ms. Wagner, duly seconded by Mr. Szymanski.

CONSULTANT'S REPORT

WILSHIRE ASSOCIATES

David Lindberg provided a summary of the Capital Market review.

It was a strong year in the U.S Equity markets. The index was up 12.71% while the Non U.S. markets were -3% for the year. U.S. Core Fixed Income markets were up 5.97%, High Yield Bonds up 2.45% and TIPS were up 3.64%. Commodities were -17.01% for 2014, while Real Estate was up 8-10%. The preliminary report shows returns for 2014 estimated at 4.3% and total market value at the yearend was \$833,735,000.00.

Mr. Lindberg discussed the Monthly Performance Summary for periods ending December 31, 2014. In the Monthly Performance Summary active management struggled in High Yield Bonds and TIPS. The Total Fund x Private Equity reached 3.08%CYTD which added 1.04% to the benchmark. The Total Fund with equity included was 4.34%CYTD putting it -1.41% behind its benchmark. As for the asset classes in the U.S. Equity portfolio, every manager that exists in the portfolio has added value for 2014. Cleveland capital and Philadelphia Trust were terminated so this did effect the portfolio slightly. As for the Non US Equity portfolio, Philadelphia International, Thornburg and Pyramis all underperformed for the year. The new emerging manager Fusion which is a global equity, after 1 month of being in the portfolio, has exceeded its benchmark by 2.55%. Fixed Income managers modestly under performed for the year. High Yield and TIPS have struggled with the benchmarks but have yet have outperformed other High Yield and TIPS managers. Morgan Stanley in the Real Estate portfolio showed no return for the month because it was not yet reported but CYTD return was 9.51%. This was a difficult year for Commodities portfolio with oil prices plummeting as they have been. For the year the Total Fund was 4.34% making the Market Value \$833,735,000.00.

During the Retirement Board Executive Session and there was a working session to restructure the Non US portfolio. Ms. Bennett summarized the recommendations to the board from Wilshire. The recommendations are as follows:

| Revised investment structure for the non-US equity asset class | |
|--|---------------------------|
| <i>Current</i> | <i>Revised</i> |
| MSCI ACWI ex-US Index | MSCI ACWI ex-US IMI Index |
| 20% Baillie Gifford | 40% Baillie Gifford |
| 40% Pyramis | 20% Pyramis |
| 20% PIA All Cap | 20% PIA Small Cap |
| 20% Thornburg | 20% SSgA ACWI ex-US Index |

Board actions:

- The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. DiCristofaro to terminate Thornburg.
- The Board unanimously approved a motion by Mr. Fitzgerald, duly seconded by Mr. Szymanski to transfer Thornburg assets (\$25.5 million) to Baillie Gifford.
- The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. Szymanski to convert PIA from MSCI ACWI ex-US all cap mandate to non-US small cap mandate via guideline amendment, subject to approval of documents by solicitor.
- The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. Szymanski to hire State Street Global Advisors (SSgA) for MSCI ACWI ex-US Index fund mandate, amend existing agreement with SSgA to include investment in this second fund.
- Reduce the Pyramis allocation by half of the assets (\$32.5 million) in the existing Pyramis account.
- Fund new SSgA index assignment with approximately half of the assets (\$32.5 million) in the existing Pyramis account.
- The Board unanimously approved a motion by Mr. Puzak, duly seconded by Ms. Liptak to change the non-US Equity asset class benchmark from the MSCI ACWI ex-US Index to the broader MSCI ACWI ex-US IMI Index.

ASSET STRATEGY CONSULTANTS

Mr. Boyer presented the following recommendations to the board:

- The Board unanimously approved a motion by Mr. Puzak, duly seconded Mr. DiCristofaro to extend the ValStone term for an additional year to end January 27, 2016, subject to approval of documents by solicitor.
- The Board unanimously approved a motion by Mr. DiCristofaro, duly seconded by Ms. Liptak to approve the seven amendments to the contract put forth by Constitution Capital also known as Ironsides, subject to approval of documents by solicitor.
- The Board unanimously approved a motion by Mr. Puzak, duly seconded by Mr. Szymanski to invest assets (\$3 million) to Morgan Stanley Mid Cap Buy Out Fund, subject to approval of documents by solicitor.
- The Board unanimously approved a motion by Mr. DiCristofaro, duly seconded by Mr. Szymanski to invest assets (\$3 million) to Entrust Op Fund III, subject to approval of documents by solicitor.
- The Board unanimously approved a motion by Ms. Wagner, duly seconded by Mr. Puzak to invest assets (\$3 million) to Blackstone II, subject to approval of documents by solicitor.

NEW BUSINESS

Mr. Weinstein brought to the attention of the board and those present about the article in the local daily paper from the Auditor General about the pension funds in Pennsylvania. The Auditor General made recommendations throughout Pennsylvania regarding anti-spiking provisions. Mr. Weinstein stated that Allegheny County is currently the only county in Pennsylvania to have already taken the provisions. Mr. Weinstein asked Mr. Johnson to get in touch with the reporter that did this article and inform them that Allegheny County has already enacted what the Auditor General has requested.

Mr. Weinstein provided the board with a presentation that was put together regarding the Cost of Living Expense (COLA). At the beginning of 2015 the fund is projected to be indefinitely solvent and capable of paying benefits to vested members of the plan. A five year plan for COLA was recommended by Mr. Weinstein. A recommendation of \$20 per month increase in monthly benefit for all members retired at least one year to begin February 2015. The Board will consider future COLA if the following certain criteria are met:

- Every two years COLA will be considered for further evaluation. The next consideration will be in 2017.
- Market Value of Assets must reach specific dollar thresholds. The target is for 12/31/16 assets to reach \$950million, and 12/31/18 to reach \$1,050million.
- Actuarial projections presented in the Contribution Recommendation Report each December must show that the fund is projected to maintain solvency.
- Similar projection that includes the COLA under consideration must also show that the Fund is projected to maintain solvency.

- The Board retains the full discretion to approve any COLA, even if the criteria as set forth above are met.

Mr. Weinstein stated that by adopting this plan the Board will demonstrate its support to initiate legislation delegation to allow for discretionary COLA's to take the form of a bonus. Mr. Weinstein asked Mr. Fitzgerald to assist the board with convening the senate and house delegation. Mr. Weinstein stated that if there were any kinds of bills coming up for Allegheny County in 2015 where there could be an amendment that would empower the Board to give bonuses out as opposed to raises that it be addressed. Mr. Fitzgerald stated he would carry out the request. Mr. Weinstein thanked Brad Rigby of Cowden Associates, Janice Vinci and Mr. Johnson for their help in putting together the new policy. It was asked of Mr. Johnson by Mr. Weinstein, to develop a way to relay this action to the retirees.

The Board unanimously approved this motion by Mr. Puzak, duly seconded by Ms. Liptak.

ADJOURNMENT

The Board unanimously approved a motion Mr. Puzak to adjourn the meeting.

Respectfully submitted,

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

Chelsa Wagner,
Secretary