

The regular monthly meeting of the Retirement Board of Allegheny County was held on October 16, 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 Frank DiCristofaro, Jennifer Liptak, Walter Szymanski, Chelsa Wagner, and John Weinstein were recorded as being present.

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

PUBLIC COMMENT

No public comment was made for the month of October.

APPROVAL OF BOARD MINUTES

The Board unanimously approved a motion by Mr. Szymanski, duly seconded by Mr. DiCristofaro, to approve the minutes of the September 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 August 30, 2014.

APPROVAL OF INVOICES

There were no Invoices received since the last Board meeting.

APPROVAL OF APPLICATIONS AS PRESENTED

The Board unanimously approved a motion by Mr. DiCristofaro, duly seconded by Mr. Szymanski, to approve 17 Retirement and 1 modification applications for October 2014.

The board unanimously approved a motion by Mr. Szymanski, duly seconded by Mr. DiCristofaro to deny the Disability application of member 94639 based on the opinion of medical consultant Dr. Costa and the independent examiners Dr. Kasdan, Dr. McGonigal, and Dr. Bazron.

EXECUTIVE DIRECTOR'S REPORT

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

- Explanation regarding the modification of retirement benefit for member 76141. Mr. Johnson explained that the member, who was on the police force, was involved in a settlement and once this settlement was resolved the figure had to be recalculated.
- Disability Applications were MTD 2, YTD 16.
- The total amount of Capital Calls: \$848,376.41. Included in this total was a large Siguler Guff Distressed R.E. Opportunities Fund, II, LP for \$450,000.00
- Mr. Johnson attended a Governmental Benefits Seminar presented by Rhoades & Owen law firm and Allegheny League of Municipalities on October 10, 2014 and presented on "How to effectively manage Disability Claims."

- Disability Pension Review: The Law provides that the board is able to verify those people receiving disability pensions are still totally & permanently disabled. There are currently 147 pensioners and in working with the solicitor and the medical consultants, it has been narrowed down to 5 that will be reviewed. As Dr. Costa reviews and provides updates, if a re-examination is necessary it will appear before the board as a recommendation.
- Impact of Act 125 on Re-employment: based on the solicitor's opinion-particularly upon employees who have been retired and who have come back- coordinating with HR to make sure these employees understand what it means to come back in terms of reemployment status when you were under the old law when you left and when you were under the new law when you come back.
- Mr. Johnson and Mr. Lindberg met with BNY several times since renewing the contract and have received a lending revenue estimate of the portfolio under the new terms and guidelines for the cash collateral. A tour of the securities lending floor at BNY has been scheduled. Any recommendations from the tour will be brought back to the Board.
- Mr. Johnson requested to attend the 16th Annual Public Funds Summit in January 2015. It draws two hundred plan officers and board members from around the nation and it's focused on public plans. The Public Summit was mimicked after this summit. Mr. Weinstein noted that there are budgeted funds for out of state travel. The cost is free for plan administrators, RBAC costs include airfare and hotel. It was estimated that the cost would be approximately \$1000. A motion by Mr. DiCristofaro, duly seconded by Mr. Szymanski to approve travel for Mr. Johnson to attend the Conference for Plan Administrators in 2015. Motion carried.
- Current news article links are provided in the report, which include "Bill Gross Quits PIMPCO for Janus" and others regarding how securities lending can help offset lower bond and equity return for pension investors.
- Chelsa Wagner asked a follow-up question regarding: Managers/Finders Fees. For transparency, are all fees being paid disclosed?
- Mr. Johnson responded that he convened a meeting of all consultants, and they acknowledged that it is already a practice that if there should be a fee, it should be disclosed. A follow-up search was conducted by our solicitor for any managers that haven't disclosed that they are aware of this practice. There is an update in the solicitor report.
- A draft document of the 2015 Budget will be included in the Board Book in November and will send an advanced copy of it for the Board to review and it will be on the agenda for December, after the Board has had a month to review it.

SOLICITOR'S REPORT

There are 4 items in addition to the solicitor's report.

- Incorporate that provision in all agreements going forward (that prohibits the use of finder's fees) This isn't explicit in most contracts, but that should be confirmed in writing in some way moving forward, as per the recommendation of the solicitor.
- CIM Investment Management Inc., Agreement: November 9, 2005, this agreement includes an investment manager's fee of 0.275% per Mr. Lindberg. That fee can be reduced to 0.25%, per Mr. Lindberg. So, I've prepared an amendment that would effectuate that reduction fee and would recommend that the Board would consider a motion to approve that amendment to the CIM agreement. A motion by Mr. DiCristofaro, duly seconded by Ms. Wagner to approve the amendment to the CIM agreement. Motion carried.

- The Board approved the appointment of CIM Inc. to oversee the Israeli Bond Portfolio. That motion authorizes an amendment to the existing agreement with CIM and reviewing the arrangement, which is a very target specific appointment, with Mr. Lindberg, it makes more sense to have a separate agreement that speaks only to the management of the Israeli Bonds. So, I want to make that clarification with the Board so that technically we won't be amending. I would recommend that we not amend the existing agreement, but actually enter a separate agreement that is separate to the Israeli Bonds portfolio. It was recommended that the Board consider a motion to enter into a separate agreement with CIM for the Israeli Bonds. Motion by Ms. Liptak duly seconded by Mr. Fitzgerald. Motion carried.
- During the July Meeting, the Board entertained a Motion to confirm the longstanding practice of the Board President to sign and confirm investment documents relating to agreements that have been approved by the Board. The minutes reflect that that the motion was for "the Executive Director's authority to designate staff to sign and execute approved investment documents." In order to clarify and accurately restate the Board's approval, the Solicitor recommends that the Board consider a motion to confirm and approve the Board President's authority to sign and execute investment documents relating to agreements that have been approved by the Board. A motion by Mr. DiCristofaro, duly seconded by Mr. Szymanski to approve. Motion carried.

CONSULTANTS' REPORT

- The markets have turned ugly in the most recent couple of weeks. In fact, yesterday, \$672 billion was wiped out of the global stock market in yesterday's down trading. Markets are down an additional 5% month to date, after being down 2% for the month of September.
- The GDP ended up being quite positive for the second quarter. Interest rates ending the quarter at 2.5% for the ten year with the recent stress in the market with the ten year yield in the market have dropped even below two percent today which means that bond returns have increased for the month.
- Inflation has been lower in fact, the break even rate has been lower and inflation ten years out some are even expecting just a 2% inflation rate going forward, even some talk of some concerns of deflation coming back into the market.
- Employment has been good in terms of numbers dropping to a 6.1% for the unemployment rate at the end of August.
- Under US Equity Markets, despite the negative 2% month for US stocks in September for the Quarter the US Equity Market was pretty much flat just up .08%. Large cap stocks for the quarter outperformed small cap stocks. Large cap stocks are up .8% but small cap stocks were at negative 6% return for the quarter. This is important because you have a slight overweight to small caps within the portfolio. US equities managers outperformed the benefit composite levels of small cap overweight were harmful for the quarter.
- Returns for the nine US markets were equally ugly. The all country world index was down 5.3% and was down 4.8% negative for the month of September. Month to date thru October that market was down another 5.7%. The trend of emerging markets outperforming developed markets continues. The emerging markets are down 2%; whereas the developed markets are down 6.5% MTD.
- Oil has dropped quite precipitously, with a reduction in oil value. Barclays aggregate is up 1.9% for the MTD.
- Long term bonds have the best return for the quarter up 6.25 % MTD with a drop in yield

- Commodities Index: down 6.25% reflecting oil declines. QTD down almost 12%. There have been some downturns in commodities which have posted a negative return. This is a little better than the Stock Market down 1.4% QTD. Down 5% for Equities.

David's Report:

- Sept. Monthly Blast: All asset classes were negative across the board for the month
- Total Fund Market Rate is \$836.25 million at end of September. Down about \$14 million from a month ago.
- YTD up through September about 4%. Overall we are up from last year by about \$14 Million. As bad as month was we added approximately 30 basis points to our Benchmark.
- Next Month there will be a full market summary.
- Asset classes in aggregate:
 - US Equities, our Managers did quite well withstanding impact from the juxtaposition from the Large Cap and Small Stock Funds.
 - Non Us Equities we are about 1% ahead of the Benchmark for the month of September.
 - Relatives ahead but the absolutes are negative from the Asset Class.
 - Fixed Income High Yield: Everything is close to Benchmark. REIT's we have a 2.68% return. Odyssey report will come out at up 3.2%.
 - Hedge fund Composite: Small investment, small positive return.
 - Commodities, our worst performing assets class, sold off over 6%, we are down 6%, but ahead about .25% in the Benchmark. Long term has added a lot of value, but current market has been quite negative on Commodities.
 - Bottom Line: Negative 1.88 for the month, this is the public market part of the portfolio, so everything exclusive of private equity and relative to the Benchmark we are 86 Basis points ahead.
 - US Equities performance, this is all the managers, things in transition Philly Trust and Cleveland Capital have been terminated. They are in the process of being transitioned right now.
 - New approved investment with Fusion, which is a global, equity portfolio will be funded as part of that transition.
 - Fragrasso underperformed by 56 Basis points.
 - Some solid outperformers from Small Cap managers, Ernest and Emerald, who had a few difficult quarters last year, each now adding about 2% in value just in September that helped our performance overall.
 - CIM Equity also an emerging manager, just a few basis points ahead of the Russell 200 for the month.
 - Managers did well given the market situation in the last month.
 - NON-US Equities: Bailey Gifford and 3 others, this market down over 4% nearly 5% for the month. Bailey Gifford did underperform by .5% coming from Country allocation and stock selection.
 - Philadelphia-Pyramis- Thornburg: All have been underperforming over past year.
 - Thornburg has caused some concerns with management and organizational changes, their performance was down, but the good news is they had significant outperformance by 4% this month.
 - All of the Non-US Equities are being worked on for structural analysis.
 - Fixed Income: CIM, C S McKee, near Benchmark on these, market down 68 Basis points, not a bad performance.

- Two High Yield Managers: down almost 2% so looked pretty much like equities for the month. Oaktree a little behind it...Penn Capital down 36 Basis points.
- Two TIPs assignments, PIMCO and Western. PIMCO behind by 34 Basis points for month...Western ahead a little. A comment about PIMCO with the resignation of Bill Gross, lots of media coverage. The portfolio was not directly managed by Bill Gross, and he was the key manager who left. No recommendation to terminate the portfolio, but will continued to be monitored by the firm very closely.
- Morgan Stanley Real Estate Investment – 4% return for the month. A little ahead of the Benchmark of 3.2%. At three and five year market we have had about 12% return from this investment.
- In the Executive Summary, Private Equity accounts, Gresham Strategic Commodities assignment had 22 Basis points in a difficult market environment. Commodities have been a good diversifier over the past three years, but Equities have had negative returns.
- Mr. Boyer:
 - A few issues to deal with is the allocation of money that has come back. Draper Triangle has returned approximately \$7million YTD. They will be sending additional funds in the first quarter as a result of realizations, approximately \$2.7 million. With this performance it was recommended to add an additional \$3.5 million in allocations with them. That would be going from \$10 million to \$13.5 million.
- John Weinstein:
 - So based on the \$7 million coming back to us, you are recommending we reinvest \$3.5 million of that money back into the fund?
 - I would like to but a motion forward to give Draper Triangle an additional \$3.5 million
 - Motion by Mr. Fitzgerald, Seconded by Ms. Liptak.
 - Unanimous recommendation by Board, Motion Carries.
- Mr. Boyer:
 - Corry Capital where they have a realization of, that means that one of the life insurance policies has paid off...\$4.5 million. It is recommended they send back \$2 million to the portfolio and reinvest their current \$2.5 million in their current product which is the Black Fund, which will satisfy Mr. Puzak's interest. So this is our recommendation for this fund. Motion by Mr. Fitzgerald, seconded by Ms. Liptak.
- Ms. Wagner:
 - Just from memory I recall how their future fund, maybe the Black Fund falls into this category, would be slightly different, similar in the concept, but we may not expect the same level of returns. I know we have gotten very good returns.
- Mr. Boyer:
 - First it will be a larger size. It will mean greater diversification which on one hand may provide a greater element of safety and on the other hand, it may not do quite as well as the current fund. On balance they have been very good on selecting good policies and pricing them right. They should be a credit to the overall value of the portfolio.

NEW BUSINESS

- Mr. Boyer stated that as he has mentioned in previous reports that this portfolio in the private equity side is having a number of realizations. On Valstone 4, it is conceivable that with our \$20 million allocation we will have all that money back with or by the end

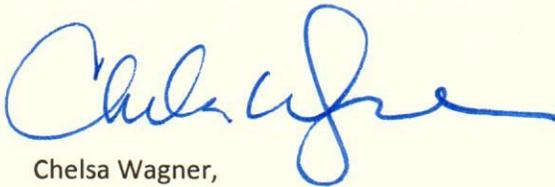
of March of next year (2015). Recommendations will be brought to the Board when the analysis on this fund is complete.

- Mr. Weinstein:
 - The Private Equity goes to the whole basis of the purpose of diversifying us as much as possible, and strengthening the fund.

ADJOURNMENT

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

Respectfully submitted,



Chelsa Wagner,
Secretary