

PENSION INVESTMENT ADVISORY BOARD
MEETING MINUTES

A meeting of the Mt. Lebanon, PA Pension Investment Advisory Board (PIAB) was held Thursday, February 20, 2014 at 9:00 am in room D of the municipal building at 710 Washington Road, Pittsburgh, PA 15228.

The meeting was called to order at 9:15 am. In attendance were Board members Kevin Renne, Christopher McMahon, Mark Flaherty, Investment Consultant Marc Ammaturo and Staff member Andrew McCreery. Board Chairperson Mark Mistretta was absent.

The meeting minutes from the PIAB meeting held Tuesday, November 26, 2013 meeting were approved.

Mr. Ammaturo, PFM Managing Director, began a review of the 4th quarter 2013 performance of the pension plans. He noted the following.

1. 2013 was a strong year for domestic equities. Quantitative easing helped the plans as well as a purposeful overbalancing in equities during the year.
2. Emerging markets were less than expected for the year, down 2.6% in 2013.
3. Real estate did not keep up in 2013 after a strong year in 2012.
4. Fixed income had the most difficult year. Although fixed income indices were negative for our investments, all plan investments were positive. In the prior few months, the PIAB recommended changes that allowed the fixed income portions of the portfolios to become more diversified. Changes to the pension plans allowed the portfolios to take on more credit risk as opposed to interest risk.
5. The fixed income emerging market index was -5.6% in 2013.
6. Mr. Ammaturo stated that he wouldn't be shocked if there was a correction in the market, in the neighborhood of 10% in the near future.
7. Plan specific comments:
 - a. Police pension plan – Actual returns 16.88%
 - b. Employees' pension plan – Actual returns 16.90%,
 - c. Firemen pension plan – Actual returns 16.51%
 - d. Returns per indices for all plans was 15.60%
 - e. Domestic equity:
 - i. Stralem & Company is on the watch list – Underperformed by 4%
 - ii. Columbia Wanger and Royce Funds are active managers the plans are looking to replace.
 - f. International Equity:
 - i. Dodge & Cox had a great year

- ii. Virtus Foreign Opportunities Fund is a conservative fund, so returns were expected to be lower than the market may indicate.
 - g. Fixed income:
 - i. PIMCO – The second in charge at the company left. PFM will be watching developments with this investment in the near future.
8. Mr. Ammaturo mentioned that the Employees' fund needs to be rebalanced.

General Discussion

The Board started to discuss the possibility of changing the current arrangement with PFM from a consulting arrangement to a discretionary management arrangement. Mr. Ammaturo made a brief presentation about the benefits of discretionary management and what PFM would offer as the discretionary manager. He presented a cost analysis that would be cost neutral for the plans after making the change to discretionary management. This would be done by a lowering of investment fees due to PFM's ability to use index funds and collateralize the pension funds with other assets managed by PFM.

Discussion ensued about the benefits and drawbacks in making the change. The primary concerns that arose were:

1. Would it be in the best interest of the pension plans to move to discretionary management?
2. If we recommend discretionary management, is it in the best interest of the plans to issue a RFP for the services?
3. If permitted under Act 44, does it make sense to add an addendum to the existing PFM consulting contract to change to discretionary management?
4. If PFM was selected, would the plans issue a RFP for discretionary management in the future?

After deliberation, the group was comfortable with permitting PFM to draft an addendum to the current consulting contract to change to a discretionary management relationship with the caveat that the PIAB would issue a RFP within two years of the addendum for discretionary management services. In the interim, the following information was to be researched and a conference call to be conducted with all members of the Board to finalize the arrangements.

- i. Did we have a RFP for the renewal of the PFM consulting contract?
- ii. Does PFM have an example of the performance improvements of a client that changed from a consulting relationship to a discretionary management relationship?
- iii. Opinion of the Municipal Solicitor as to the requirements under Act 44 for a change of this nature.

Per Act 44 requirements, PFM had advertised for small cap managers to replace Columbia Wanger and Royce Funds. The Board decided to table the selection until items with respect to discretionary management have been settled.

The meeting adjourned at approximately 11:30 am.