

PENSION INVESTMENT ADVISORY BOARD
MEETING MINUTES

A meeting of the Mt. Lebanon, PA Pension Investment Advisory Board (PIAB) was held Tuesday, May 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 9:05 am. In attendance were Board members Mark Mistretta, Kevin Renne, Christopher McMahon, Investment Consultant Marc Ammaturo and Staff member Andrew McCreery. Board member Mark Flaherty came in at approximately 10:25 am.

The meeting minutes from the PIAB meeting held Thursday, February 20, 2014 meeting were approved.

Mr. Ammaturo, PFM Managing Director, began a review of the 1st quarter 2014 performance of the pension plans. He noted the following.

1. Quarterly updates on indices worth noting were as follows.
 - a. S&P 500 was up 1.8%.
 - b. Barclays Aggregate up 1.8%
 - c. Developed countries equity was not keeping up with domestic equity
 - d. Real Estate indices were up over 9%
2. Mr. Ammaturo stated that he projects a 1% increase in bond prices over the next 5 years and he does not expect bonds to increase as they have in the last 12 months because bond prices have dropped. 10-year treasury notes are at 2.5%.
3. The plans have generally gotten out of emerging market investments.
4. The plans are effectively managing interest rate risk on the fixed income side and have introduced credit risk within the last 12 months.
5. Small cap equity investments are an area in which cash can be pulled if needed. The plans need to reduce interest rate risk from small cap equities.
6. Plan specific comments:
 - a. All three plans were under the target policy returns for the quarter, but 12 month returns exceeded the target policy.
 - b. Police pension plan – Actual returns 1.82%
 - c. Employees’ pension plan – Actual returns 1.88%,
 - d. Firemen pension plan – Actual returns 1.88%
 - e. Returns per indices for all plans was 1.99%
 - f. Domestic equity:
 - i. Active equity managers did not keep up with relative indices.
 - ii. Stralem & Company is on the probationary list – Underperformed by .5%

- iii. Atlanta Capital – Lower than expected returns, but confident they will bounce back. The investment is still new to the plan portfolio.
 - iv. Columbia Wanger and Royce Funds will be replaced.
 - g. International Equity:
 - i. Dodge & Cox and Virtus Foreign Opportunities Fund performed well for the quarter.
 - h. Real Estate:
 - i. Investments in real estate exceed benchmarks.
 - i. Fixed income:
 - i. Changes to the bond managers at the end of 2013 seems to be paying off. The bond managers are adding value to all three plans.
 - ii. PIMCO has been moved to the watch list because 2 of the investment managers have left. Performance has been satisfactory, but this development needs to be monitored.
 - iii. Templeton Global Fixed was down in the quarter, but the 12 month and since inception returns have been phenomenal.
 - j. All three plans had a negative cash flow due to benefit payments not being completely offset by investment returns.
7. Mr. Ammaturo mentioned that all three plans need to be rebalanced once a new small cap manager has been chosen.

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. McCreery updated the Board with the opinion of the municipal solicitor. The opinion of the solicitor was that this change would be in essence a new contract and should be done under the guidelines of Act 44; therefore, any change to discretionary management should go through the RFP process. The Board gave direction to Mr. McCreery to submit a draft RFP for the Board's review by the next scheduled meeting.

Per Act 44 requirements, PFM had advertised for small cap managers to replace Columbia Wanger and Royce Funds. After reviewing the numerous proposals, PFM recommended PNC Capital Advisors, LLC. There was a motion and a second to replace Columbia Wanger and Royce Funds with PNC Capital Advisors. The motion passed 3-0.

The justification for the selection that will be published on the municipal website is as follows:

“Per PA Act 44 guidelines, PFM Advisors acting on behalf of Mt. Lebanon, issued an RFP for Small Cap U.S. Equity investment management services to replace Royce Premier & Columbia Acorn. After providing a fair deadline to the RFP and gathering the responses received by January

25th 2014, PFM evaluated each response and ranked the candidates. The ranking included numerous quantitative factors, including size and length of performance track record of the managers, as well as qualitative factors such as backgrounds of the portfolio managers and whether the funds had been closely monitored by us previously. Of the 78 responses received, PFM then performed more extensive analysis on the top 8 candidates. This analysis included an examination of risk statistics and other quantitative metrics, a qualitative analysis of the team and process, and a correlation analysis to determine the best fit with the current Mt. Lebanon portfolio. Three finalists were selected based on the evaluation of their team, processes, performance, fit within the portfolio, and fees. After a presentation of the candidates and a discussion on the merits of each, Mt. Lebanon selected PNC Capital for the allocation.”

Discussion ensued about the recently received 2014 actuarial valuations for the three pension plans. Specifically, the Board was interested in bringing in the municipality’s actuary to discuss the merits of an Asset Liability Management (ALM) study on the pension plans and the possibility of mortality tables changing in the near future. The Board directed Mr. McCreery to schedule the municipality’s actuary for the next scheduled meeting.

The meeting adjourned at approximately 10:30 am.