CITY OF PITTSBURGH

COMPREHENSIVE MUNICIPAL PENSION TRUST FUND

QUARTERLY BOARD MEETING

CITY OF PITTSBURGH
MAYOR'S CONFERENCE ROOM
FIFTH FLOOR
CITY-COUNTY BUILDING
PITTSBURGH PENNSYLVANIA 15219

THURSDAY, SEPTEMBER 3, 2015
1:00 P.M.

APPEARANCES:

Comprehensive Municipal Pension Trust Fund Board:

Ms. Debbie Lestitian, Chairwoman
Mr. Bruce Kraus, Member
Mr. Michael Lamb, Member
Ms. Margaret Lanier, Member
Mr. Richard Ruffolo, Member
Mr. Ralph Sicuro, Member

Executive Director:
Mr. Paul Leger

As Counsel for Comprehensive Municipal Pension Trust Fund:
Frank, Gale, Bails, Murcko & Pocrass, P.C.
Frederick N. Frank, Esquire
Gulf Tower, 33rd Floor
707 Grant Street
Pittsburgh, PA 15222

As Presenter:

Mr. James Wesner, CFA
Marquette Associates
180 North LaSalle Street, Suite 3500
Chicago, IL 60601

(Whereupon, the Quarterly Meeting of the Comprehensive Municipal Pension Trust Fund commenced at 1:03 p.m.)

P R O C E E D I N G S

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MS. LESTITIAN: I call to order. We are ready to start the meeting of the Comprehensive Municipal Pension Board.

The first order of business is the roll call. City Controller Michael Lamb?

MR. LAMB: Here.

MS. LESTITIAN: Fire union president Ralph Sicuro?

MR. SICURO: Here.

MS. LESTITIAN: City Council president Bruce Kraus?

MR. KRAUS: Here.

MS. LESTITIAN: Madam Treasurer Margaret Lanier?

MS. LANIER: Here.

MS. LESTITIAN: Mr. Richard Ruffolo?

MR. RUFFOLO: Here.

MS. LESTITIAN: I'm here, Deb Lestitian. We have a quorum. Thank you.

The first order of business is the public comment. Is there anyone from the public who wishes to speak?

(No response.)

MS. LESTITIAN: Seeing no one, moving on.

The next order of business is the approval of the minutes from the prior meeting which was dated May 7th, 2015.

MR. KRAUS: So moved.

MS. LANIER: Second.

MS. LESTITIAN: Any additions or corrections?

(No response.)

MS. LESTITIAN: All in favor?

MR. KRAUS: Aye.

MS. LANIER: Aye.

MR. SICURO: Aye.

MR. LAMB: Aye.

MS. LESTITIAN: Opposed?

(No response.)

MS. LESTITIAN: Motion carries.

Bills and communications. The next item on the agenda is the report of the Executive Director. Mr. Leger?

MR. LEGER: Thank you, Madam Chair. There are a number of things that I want to talk about today, but let's begin with the numbers. The funding of the pension is $677 million, which remains at 58.3 percent as of June 30th. The return on the portfolio for the last 12 months ending at the end of June was 4.1 percent for the invested portfolio, and 5.5 percent for the composite portfolio, which includes the parking asset.

I am concerned about those numbers because our assumed rate of return is 7.5, and the city remains on the hook for any difference between the 7.5 and something less than that. I don't think that it is a culpability of this Board that the numbers are in five number because look at the stock market. I think we're doing better than the stock market has been over the last couple months.

But this is something that I've asked Kathy Butter to put together a spreadsheet showing what the city would owe on each scenario of one percentage point. So I'll have that eventually and be able to show you via e-mail exactly what amounts we would be on the hook for if our investment earnings fall below the 7.5 percent.

Any questions or comments about that?

MR. LAMB: Explain what you mean by that. What do you mean "on the hook for"?

MR. LEGER: Well, we've made commitments

through the ICA and -- basically through the ICA which holds us to account that we will pay the difference between the 7.5, which is our recognized rate of return, and something less than that. So if there's a gap --

MR. LAMB: When did we do that?

MR. LEGER: -- in the amount, let's say I assume I'm going to get 18 million and I only get 16 --

MR. LAMB: When did we do that?

MR. LEGER: I don't know the answer to when that happened, but I do know that I am reminded of that by the ICA on a regular basis.

MR. LAMB: I'm just curious. Like how did that happen?

MR. LEGER: I'd like to see a written --

MR. LAMB: Like how --

MR. KRAUS: Me, too.

MR. LAMB: What was the process by which the city made that commitment?

MR. LEGER: I don't know.

MR. LAMB: Okay. I'd like to know that.

MR. LEGER: Okay.

MR. LAMB: And then I guess my other question is when you say, "we're on the hook," wouldn't the amount of the hook, so to speak, be the difference between the annual budget amount to the pension and the

pension outlay? Right?
So if we're paying $85,000,000 in pension benefit a year and we're putting 60 in, and the employees are putting another 12 or whatever, that's 70-some million, wouldn't the potential delta there be $15,000,000?
MR. LEGER: I think that's a legitimate way to interpret it.
MR. LAMB: Yeah.
MR. LEGER: The way the ICA continually presents it to me is the difference between the 7.5 yield and what we are actually getting.
MR. LAMB: Well, that's just unrealistic; right? I mean, that's just a --
MR. LEGER: I don't disagree.
MR. LAMB: That's a nonsensical way to look at things because frankly if the market were to tank as it did in 2009, there's not enough money in the world, you know --
MR. LEGER: No, like 40 percent --
MR. LAMB: In all of the money available in the City of Pittsburgh, there's not enough money to cover that kind of a loss; right? So the goal is -- and this is at least my understanding of the goal, and maybe -- I'd be interested to see what the city actually

agreed to if they actually agreed to anything, what they actually agreed to here, but the point is that what the city's goal is, is to be cash flow neutral or positive in any year.

So that if we're paying out $85,000,000 a year, we want to make that up by some combination of our budgetary input, the employees' input, and market performance.

If in a given year we don't have market performance or have negative market performance, then we'd be on the hook for that amount, but to say that we're on the hook for losses in the stock market, that's just nonsense. That's just nonsense.

MR. LEGER: Well, I will ask for that in writing as to when that was ever given to the City.

MR. LAMB: Yeah.

MR. LEGER: And that it was not just some verbal at an ICA meeting.

MR. LAMB: I'd like -- yeah. And I think -- well, we don't have to talk about it here, but I think that gets to the heart of some of the dispute over this whole lawsuit, everything.

MR. LEGER: Uh-huh. Okay.

The parking asset value was $282,130,274 as of the end of June.

The second quarter MMO payment was made which was $10,715,074. That's standard that we would make. And the parking asset contribution was $3,344,000 as of June 23rd.

And there is a statement in your packet, I think, of the funding levels for each of the separate pension funds, showing where their funding status is.

I've also included a copy of the Auditor General's Task Force Report on pensions, which I would recommend everybody take a look at because I think they will form the basis of the governor's recommendations on pension reform.

Pittsburgh and Philadelphia are put into a unique position with any pension reform under these recommendations that allows us to put together a five-year plan for pension reform, and it's not very well specified as to what that is, or we have the option of simply going into the state pension plan.

The smaller municipalities under this order would simply be included into the state pension plan in the way that the teachers were in about 1970 or so.

School districts used to have their own pension plan and they were all swallowed up into a state pension plan, which actually seemed to work quite well for a long time, but now school districts have to pay pretty huge amounts to keep that pension plan funded.

So that set of recommendations by the Auditor General is something that we should take a look at and see if you think it has any policy implications for us.

The state assumed rate of return, by the way, is 6 percent, not 7.5 or 8 as most people seem to like. 6 percent would mean that we would again up the level of contribution in order to accommodate that shrinkage of the assumption. Okay.

MS. LESTITIAN: Can I ask a question?

MR. LEGER: Yes.

MS. LESTITIAN: So would it be advisable for this Board to form an investment committee? Have we ever had an investment committee before?

MR. LEGER: To my knowledge, we have not; but, yes, I think it might be wise to have a smaller committee which could meet on a more regular basis to talk about where investments are, how they are performing, and maybe what actions we should take in relationship to the state as they go forward with any pension changes that they may or may not put together.

Also, the next item I'm going to talk about is the Emerging Managers Program that we discussed at the last meeting, and that committee could form a basis for analysis of proposals under any RFP that we put out.

So, yes, I think that might be a good idea.

The chair could assign a committee.

MS. LESTITIAN: Okay. Is that how it works under the bylaws?

MR. FRANK: You have to appoint a committee.

MR. LEGER: Yeah.

MS. LESTITIAN: Appoint a committee, okay. Okay. Thank you.

MR. LEGER: So if you'd like to do that, you're certainly within your bylaw rights to form such an entity as long as it is smaller than the -- one more than a quorum. Smaller than a quorum.

MS. LESTITIAN: Smaller than a quorum, okay.

MR. LEGER: Okay. Let's talk about the emerging managers program. I have the RFP once again with very few revisions from the last time we saw it. There are two issues that remain with it. Well, there are three actually. The most fundamental issue is do we want to do this at all?

The second issue is how much money do we want to commit to it? And I had recommended $10,000,000 originally. Allegheny County puts in 7.5 percent of its fund, but Allegheny County has had better performance over the years than we have, so they can afford to put more at risk than we can.

And the second major issue was what geographic area do we want to cover? Do we want -- we could open this to the entire United States. We could make it Allegheny County. We could make it the City of Pittsburgh. We could make it the region that is recognized for economic purposes by, say, the Allegheny Conference. All of those things are things that could be decided.

My preference would be, and please debate this, if you would empower a committee that you would establish to make those decisions and put the RFP out with some of that information in it, then get the responses back and then debate the responses so that the real discussion will occur when you have people on the table with proposals.

If you debate the RFP for too long, then it will never go out or it won't go out for a very long period of time. We can put this RFP out with no result. We are not bound by the fact that we need to put out any money on responses to the RFP. So why not go ahead and put it out, let people respond, and see what kind of responses we get?

A second issue was we thought last time

perhaps if we did this, we would have to change our investment policy. And after discussion with both the manager and the solicitor, I think we don't need to change the investment policy, that people responding need to work within our investment policy. If they can't do that, then they may be too big of a risk, and so we don't need to do anything with the investment policy. We can simply include that in the RFP so people understand what areas of investment we are committed to.

MR. LAMB: Uh-huh.

MR. LEGER: Let me just reiterate why we're doing this. This is an attempt to give small, local investors a chance to work in this arena. It is not simply a way of adding more people to the portfolio or anything like that. If these people are selected and they are given a share of the investment, they may grow to the point where they're just part of the portfolio, they're no longer a local emerging manager, and then we could take the money that they used to be committed to and open that again to more local managers.

If they fail, then they're treated by the manager the same way any other failing investment would be treated. And nobody here at the city would have the competence to do the vetting of each organization overall, so I would ask Marquette to use its standard vetting procedures to look at anybody who would answer the RFP.

Any discussion or questions or --

MR. KRAUS: No.

MR. SICURO: Question.

MR. LEGER: Yes.

MR. SICURO: I see you included the county's guidelines for --

MR. LEGER: I did, yeah, so that they're there.

MR. SICURO: And are we going to have or adopt policy guidelines that we're going to have for our Board as to -- I mean, we have the RFP which identifies a lot of those things in there that we would follow, but that's still just an RFP. I think we should still have something that dictates exactly what our purpose is.

You know I've got to go over this again. I don't remember if you had in there last time any restrictions or limitations on their fees out there. I'm sure we're in a negotiating position that they want the business, that we could cap some of the fees to make it more beneficial to us to want to give them our business.

MR. LEGER: Sure, we can do that. We can put together some recommended policies, circulate those, have people comment on them before so that they could actually be adopted before the next meeting when you might, somebody might make recommendations about who to fund, and that's a good idea to do that.

Yes.

MS. LANIER: Is there a limit on the managing partners? Is there a limit on how many we select?

MR. LEGER: On the number?

MS. LANIER: Yeah, the number.

MR. LEGER: No. The way I was looking at it was a limit in the amount of money so that if you had $10,000,000, or whatever the figure turns out to be, you could have ten people with $1,000,000 each, you could have one person with $10,000,000, you could have two people with five each, and that would be up to the evaluation committee, and we would evaluate this the same way we would a standard RFP as if it were a city RFP which it is not, by the way. It's an RFP of this Board.

So this RFP, if you wanted me to go ahead with posting it, would be posted on the pension website, which is going to be more robust as time goes forward, and also e-mailed to people who have expressed an interest in being part of this process.

MR. LAMB: I would just add, I mean I have become very impressed with the process that Marquette goes through in evaluating different managers. And so, you know even the existing managers that we had when they came on board, the work they did out in the field talking to those managers out there, so I just want to make sure we're not lessening that, that evaluation. You know what I mean?

MR. LEGER: No. It's exactly the same as it would be for any other investment.

MR. LAMB: I mean I understand wanting to help out local guys, but we're not going to help out local people at the expense of the Fund.

MR. LEGER: Correct. Thank you.

MR. LAMB: And so we want to -- and so I just want to reiterate that, and really pat them on the back a bit for the good work that they do in evaluating these potential managers and just make sure that that continues.

MR. JAMES WESNER: I certainly appreciate your kind remarks, but one thing that will also be included in the RFP will be what we call at Marquette our request for information, which is a 100-plus question investment focus packet. So this, which was drafted by staff and the solicitor, captures all of your kind of city requirements for the fund. We will then, on top of that, have our investment due diligence packet which will go through all of that information.

If there is a subcommittee established, we would then present those findings to the subcommittee, and then on top of that, once a smaller subset of managers was identified, you know, our director of manager research would come into Pittsburgh and we would do on-sites at all potential candidates to do that operational due diligence before we would approve any funding of a manager.

So it's going to be, just as Controller Lamb outlined, be the same process that you've done with all of your other managers.

MR. LEGER: It's also possible that we could issue the RFP without a dollar amount and without a geographical framework and simply let people respond and then make those elements part of your evaluation process. So if you got somebody that was from Allegheny County, you could evaluate them higher than someone from California, if somebody else were to propose from there.

So those become -- there are things we don't have to put into the proposal. It may generate more proposals.

MR. LAMB: That's what I'm worried about.

We could get inundated with proposals if that happened.

MR. LEGER: We could.

MS. LANIER: It would narrow down your prospects.

MR. RUFFOLO: I thought the initial discussion was how far in Allegheny County or outside it was we could consider?

MR. LEGER: It was, right. Do you want to have that discussion, or is there a sense of the Board as to where you would like to make that geographical bound?

MR. SICURO: Just a question to clarify. The way it's in the proposal now on Page 4, the definition of local, I assume that's what we're going by --

MR. LEGER: Yes.

MR. SICURO: -- would be --

MR. LEGER: That's a proposal.

MR. SICURO: Yeah, it's a proposal.

MR. LEGER: A proposed document.

MR. SICURO: But I'm just saying as of right now, so we're going to make a change to that? We're talking about --

MR. LEGER: You could, yes, if you want to do that.

MR. SICURO: We'll worry about being inundated with responses. If we left it at city alone, that's got to limit it somewhat.

MR. LEGER: Is that big enough?

MR. LAMB: Does that limit us too much? What are your thoughts? I mean I don't know. Does it limit us too much?

MR. LEGER: My thoughts are that I could do it to a sort of tri-state regional economic system so that you could get Washington, Allegheny, Greene Counties, the southwest chunk of Pennsylvania that you would allow to bid because there are companies that service the area, but are not necessarily located within the geographical bounds of the City of Pittsburgh, which may be too small.

MR. KRAUS: Could you research that and bring that back to us on December 4 to make the decision then?

MR. LEGER: I could, but then that would delay issue of the RFP for another three months which is fine with me. We ought to take our time to do this, but I think that there are a lot of people willing to answer the RFP fairly quickly, and if we could make a decision on that -- maybe one way to do this is to recommend in the proposal that we are most interested in proposals from either Allegheny County or Allegheny, Washington, Greene, or however you may want to do that.

MR. LAMB: I think limiting it to the city is too small.

MR. LEGER: I think so, too.

MR. LAMB: You know so I don't know if you go county or if you go bigger than that, but I think limiting it to the city is too small.

MR. KRAUS: So I don't understand the economic system we're referencing. Can it be limited to three counties?

MR. LEGER: Oh, it could be limited to anything you want.

MR. KRAUS: Can it be Allegheny, Greene, and Washington Counties?

MR. LEGER: It could be that. It could be only Allegheny. It could be the City of Pittsburgh, but as the controller has said --

MR. LAMB: Well, what makes up the MSA?

MR. LEGER: It goes into West Virginia and you may want to exclude West Virginia, but that's entirely something that --

MR. LAMB: What about the counties of the SPC? I mean, what's that?

MR. LEGER: I think it's 13.

MS. LESTITIAN: That's 13, yeah.

MR. LEGER: So part of those go into Ohio.

MS. LESTITIAN: Uh-huh.

MR. LAMB: Oh.

MR. LEGER: And I don't know if we want to open the door to Ohio.

MR. JAMES WESNER: The problem with having more than -- just from the experience I've had in conversations with some of the managers, whether it's the kind of the metropolitan area or the different areas you were referencing, even if you go out to a 100-mile radius around the city, I don't think you're going to get probably more than ten responses.

MR. LEGER: Right.

MR. JAMES WESNER: I think that would capture everyone who's expressed an interest, but then you're not going to get inundated with -- because I've gotten numerous calls from folks across the country who see misquotes in the financial trade regs in saying that the City of Pittsburgh is doing an emerging manager program, and everybody gets excited and starts calling.

I've reminded them that the conversation so far had been that it was a local emerging manager, potentially going to be a local emerging manager program. So I think if you keep it to Western

Pennsylvania or even areas you're going into part of Ohio and West Virginia, in those counties of those states, since it's probably not going to include Columbus, it's not going to include Charleston, you're probably not going to find an investment management shop that would meet your other criteria.

MR. LAMB: Right.

MR. LEGER: There is a difference that if you did Chicago, for instance, you would get enough people to respond in just the city limits. It wouldn't be a problem. Or New York.

I agree that Pittsburgh itself probably does not have a big enough base to be able to get the number of answers that you could get consideration on.

MR. KRAUS: So what formal action by the Board would need to be taken to change that scope?

MR. LEGER: I think I would need a motion to propose the scope that would be put into the proposal.

We do not need a money scope because that can be left on the table until you get your proposals. They're negotiable. Somebody could say, "I want $50,000,000," and you could say, "You can have 5," and see if they can work with that.

But I would need a motion about the geographic area that you would want to cover, I think, so we can put that in to keep the people from proposing from places that are obviously just not going to get the business. It's a waste of their time and ours.

MR. RUFFOLO: As a mileage requirement? Would that be better or by county?

MR. LEGER: I think that's the easier.

MR. RUFFOLO: That would be easier, yeah, I think.

MR. LAMB: Local means within 100 miles of the City of Pittsburgh limits?

MR. RUFFOLO: Because 100 miles puts you into --

MR. LEGER: Into Ohio.

MR. RUFFOLO: Probably into Ohio.

MR. LAMB: Yeah, that's okay. I mean, I don't have a problem with that.

MR. LEGER: Okay. So Youngstown could, for instance, could get on the train maybe.

MR. KRAUS: Who's going to draw that boundary?

MR. LAMB: I mean Harrisburg would be outside of it.

MR. LEGER: Yeah. Well, we can draw the boundaries through GIS.

MR. KRAUS: Could we take a recommendation from Marquette?

MR. JAMES WESNER: I need my map out to know. You're going to get up into Cleveland with 100 miles and Erie, but, again, I don't think if you go outside -- and I hate to just go around arbitrary mileage numbers -- 50 or 100 when I'm not certain what counties and areas that represents, but I would probably think that -- again, I hate to throw out a number. I think 50 would probably capture everyone who has expressed an interest if that captures all of the called-out counties around the city.

MR. KRAUS: You know I just don't want to make a decision --

MR. LAMB: 50 probably would probably take it in.

MR. KRAUS: -- without fully understanding the repercussions. If we could at least see a map, but I would be comfortable with a recommendation from Marquette today, for me anyway, who has a better handle on what the repercussions of that decision would be.

MR. LEGER: Also, I am the one who has to manage the paper and the income from the proposals, and I don't have a problem with 100 miles because that would take you in Washington, Butler, Greene, and the other counties, but allow a little bit of carry-over into Ohio and maybe West Virginia.

MR. LAMB: I mean with 100 miles you're going to get out beyond Steubenville which is okay. Do you get as far as Youngstown?

MR. FRANK: Maybe.

MR. LEGER: Probably not. That's kind of halfway to Cleveland.

MR. LAMB: Yeah.

MR. RUFFOLO: It's actually less than 100 miles.

MR. LEGER: Is it?

MR. LAMB: Is it less than 100 miles to Youngstown?

MR. KRAUS: Believe it or not, I think it's less than 50, like 50 or 60 miles.

MR. LEGER: Yeah, it's about 45 minutes.

MR. LAMB: But it wouldn't get you to Akron.

MR. LEGER: No, it would not get you to Akron.

MR. LAMB: Right.

MR. LEGER: It certainly won't get to Cleveland.

MR. JAMES WESNER: And I'm not familiar.

MR. KRAUS: Cleveland is like 140, I think.

MR. LAMB: It wouldn't get to you Erie, and it wouldn't get you to Harrisburg.

MR. LEGER: No, but it will get Butler. It will get Washington. It will get the other counties that we consider to be metropolitan.

MR. RUFFOLO: Greensburg.

MR. LAMB: Morgantown.

MR. LEGER: Yes, Morgantown. And remember that when the evaluation committee makes its decisions, you can decide one of your elements is where the location of the company is.

MR. LAMB: Yeah. That's right. That's right.

MR. LEGER: That's perfectly fine.

MR. LAMB: Yeah.

MR. JAMES WESNER: You could do within 100 miles of the city and within the State of Pennsylvania, and that kind of cuts everything else off so you're not having to worry about it, so.

MR. LAMB: I don't know. Either way.

MR. RUFFOLO: I'd prefer to keep it in Pennsylvania.

MR. LEGER: Okay.

MR. RUFFOLO: With the mileage. I'd rather go mileage. Minimum 70, but no more than 100.

MS. LANIER: 100.

MR. LEGER: So does that mean that what you had proposed, the 100 miles, but within the State of Pennsylvania, would be something that we could consider? I don't want to make the motion for you.

MR. LAMB: Yeah.

MR. LEGER: And I know this puts everybody in sort of a sloppy arrangement here.

MS. LESTITIAN: Should I ask for a motion?

MR. KRAUS: Well, perhaps the chair might be willing to suggest what a motion might look like, and one of us can make that motion? We're going to get too complicated.

MR. LEGER: Yeah.

MR. LAMB: I think the motion should amend the RFP definition of local to mean within 100 miles of the City of Pittsburgh limits and within the State -- and within the Commonwealth of Pennsylvania.

MR. KRAUS: Okay.

MR. LEGER: Yes.

MS. LANIER: Within 100 miles of the City of Pittsburgh and within --

MR. LAMB: Within 100 miles of the city

limits and within the Commonwealth of Pennsylvania.

MR. LEGER: It would be easier if we made it 100 miles from downtown Pittsburgh because if you do it on the city limits, then the thing is going to look like that (indicating).

MS. LESTITIAN: From the City-County Building?

MR. LEGER: From the City-County Building, that's fine. The center of the universe.

MR. KRAUS: Where's our attorney? I just want to make sure what we're doing we're allowed to do.

MR. FRANK: Yes, it's permitted.

MR. KRAUS: Okay.

MR. FRANK: And this is an RFP. So you're putting this --

MR. LEGER: Yes, we're putting this all down into numbers.

MS. LANIER: Within 100 miles of the City-County Building, is that what we're going to say? And within Allegheny County?

MR. SICURO: And I'll second the motion.

MR. LAMB: And within the Commonwealth of Pennsylvania.

MS. LESTITIAN: We have a second by Mr. Sicuro. Further discussion?

MR. KRAUS: I'm okay.
MS. LANIER: I second.
MS. LESTITIAN: All in favor?
MR. KRAUS: Aye.
MR. LAMB: Aye.
MR. RUFFOLO: Aye.
MS. LESTITIAN: Opposed?
(No response.)
MS. LANIER: Okay.
MR. LEGER: Thank you. I'm sorry to put you through that, but I didn't see any other way to do it.
MS. LESTITIAN: That's fine. That's good.
MR. LEGER: All right. So if we do have an investment committee, then the investment committee could also be the first cut at evaluation of some of the proposals.
MS. LESTITIAN: Should we discuss the investment committee, or does that come under new business?
MR. LEGER: I think we can do it now if you want.
MS. LESTITIAN: Do it right now?
MR. SICURO: My question is formality. Do we need to -- we didn't yet make a motion to release

the --

MR. LEGER: No, you did not. I'll get back to that.

MS. LESTITIAN: So further discussion on formation of an investment committee?

MR. FRANK: You're going to do this first?

MS. LESTITIAN: What do you want to do first?

MR. LEGER: Do you want to do this first?

MR. FRANK: Yes.

MR. LEGER: So I'm asking for a motion to release the RFP for a 40-day period?

MR. KRAUS: So moved, but with discussion.

MR. SICURO: Yes, that's fine with me. Second.

MR. KRAUS: Okay. My question is very quick. The reason to choose a 40-day period? I'm just curious.

MR. LEGER: Just to give people enough time to, as they move toward the end of the year, to look at what their assets are and to give us the most robust proposal they possibly can.

MR. KRAUS: Okay. Thank you.

MR. LEGER: And to set up a questioning period also where people can submit questions to us and we answer those questions to all responders on the website so that everybody can see the answers to those questions.

MR. LAMB: How soon do you want to -- how soon would you want to release?

MR. LEGER: Within a week.

MR. SICURO: And my question is a broken record. The guideline, policy, whatever we want to call it, will be completed before we actually accept anybody into the program?

MR. LEGER: Yes. Yes. And we can do that by circulating -- we could actually have a subsequent posted meeting in order to accept that policy if you'd like to do that, or you can wait until the next meeting to accept the policy. But I would circulate the policy enough so that everybody sees it. Everybody has a chance to comment on it. I'm not going to write a policy that is the Board's when I am not a member of the Board.

MS. LANIER: What is the time frame to have the partners in place?

MR. LEGER: I think that if possible we'd like to approve some awards by the December meeting which is December 3rd.

MR. KRAUS: 4th, I think.

MR. LEGER: Is it?

MR. KRAUS: 3rd. No. You're right.

MS. LANIER: Do we have enough time I mean being that if they go out this week?

MR. LEGER: I think we do. Do you have enough time to vet them over that period of time?

MR. JAMES WESNER: I think it is enough time. This meeting is early enough in September that the deadline, if this RFP was issued next week, the deadline is in mid October.

MR. LEGER: Yeah.

MS. LESTITIAN: Mid October. Thank you.

MR. JAMES WESNER: That gives us a full month to do the due diligence, to come here, do on-sites at the selected -- we wouldn't do on-sites at every one, but we would do on-sites with the managers that we look to recommend.

MS. LANIER: Okay.

MR. JAMES WESNER: And that could be done.

MS. LANIER: Okay.

MR. LEGER: And remember, an RFP is not a commitment to fund; it is a commitment to examine.

MS. LANIER: Examine.

MR. LEGER: And so you could fund no one or you could not fund on December 3rd, but carry that over to the first meeting of January if you needed more time to consider it. It's not -- there's no door-slamming on anything here. There's no time period that we're constricted by.

MR. LAMB: Is there anything that needs to be formally done to set -- to create the ten million set-aside, or is it --

MR. LEGER: Not if we're doing it under the current investment policy, it's just another manager --

MR. LAMB: Okay.

MR. LEGER: -- that would be incorporated.

MR. LAMB: Okay. Yeah. Okay.

MR. LEGER: If we change the investment policy, then we'd have to carve out some kind and address that with a different investment policy.

MR. LAMB: I guess my question is how do we hold to -- moving forward, how do we hold to the ten million figure?

MR. LEGER: We don't.

MR. LAMB: That's just advisory?

MR. LEGER: I think we can put it without a figure in the RFP and let people propose what they need, and then have a discussion with the appropriate proposers about the amount that they could manage.

MR. LAMB: Right. Okay.

MR. JAMES WESNER: And we have different criteria for different asset classes when it comes to, you know, minimum size of the organization, minimum number of assets in a particular fund. We're going to have fee discussions. There will be a lot of kind of moving pieces, and that will be a nice luxury to have an investment committee in place, subcommittee, and I think we can have some additional conversations on some of those topics, but a lot of factors will come into the ultimate decision.

MR. LEGER: But if we don't put a dollar figure in, that gives us actually more flexibility to deal with what we may get. We might get somebody that we consider to be absolutely stellar and put them in at a higher dollar figure than that, so.

That just gives you -- the biggest thing here is not to take undue risk.

MS. LANIER: Right.

MR. LEGER: We all have a fiduciary responsibility to manage this fund for growth, not for loss even if we are trying to fund local business.

MR. SICURO: And I assume Marquette will also guide us as to when we get to that point, what amount we should be at or release to anybody?

MR. JAMES WESNER: We will provide you with a recommendation on each manager and what we think is an appropriate amount.

MR. LEGER: If any.

MR. JAMES WESNER: If any, correct.

MR. LEGER: Okay. So there is a motion on the floor.

MS. LANIER: So the motion is to --

MR. LEGER: The motion is to permit me to release the proposal --

MR. KRAUS: The motion seconded.

MR. LEGER: -- as written without a dollar figure and limited to the new definition of the geographic area.

MR. LAMB: And it was seconded?

MS. LESTITIAN: Yes, it was.

MR. LAMB: Great.

MS. LESTITIAN: We're in discussion.

MR. LAMB: Okay.

MS. LESTITIAN: So all in favor?

MR. LAMB: Aye.

MR. SICURO: Aye.

MS. LANIER: Aye.

MS. LESTITIAN: Aye.

MR. RUFFOLO: Aye.

MS. LESTITIAN: Opposed?

(No response.)

MS. LESTITIAN: Motion carries.

MR. FRANK: Okay.

MR. LEGER: One caution I would give everybody is now that we are issuing an RFP, if you are contacted by possible proposers, then you need to refer them to me and you need to guard your language so that you don't do anything that could be construed as a commitment to a proposer or approving or rejecting anything that they may offer. The only way that they may offer is through a response to the proposal. Please feel free to give them my number, and I will respond to them.

Any other discussion on the RFP or the emerging managers program?

(No response.)

MR. LEGER: We had expected to do an explanation of the indirect costs, but we are having some difficulty getting our numbers on the Ceridian payroll cost associated with the pension so we'd like to postpone that until the next meeting, at which time we'll have a better sense of exactly what we are billable from the Ceridian pension -- or the Ceridian payroll system. And I think that is all.

MR. FRANK: You want to do the investment committee?

MR. LEGER: Yeah, that would be something if you want to appoint the investment committee now.

MS. LESTITIAN: I think it makes sense to do it now since we're talking about doing the RFP. I'm envisioning the investment committee being three members of the board who are willing to commit the extra time and effort to help not only with the vetting process for the emerging markets program, but also to work closely with Marquette as we're in this volatile market. That's kind of what I was thinking when I first mentioned investment committee.

If there's any further discussion about that? Does anybody have any other idea?

MR. KRAUS: I'll volunteer.

MS. LESTITIAN: You do? Thank you.

MR. KRAUS: Uh-huh.

MS. LESTITIAN: Ralph? Yeah?

MR. SICURO: I'll volunteer as well.

MS. LESTITIAN: And I'm willing to serve, too, if that's fine.

MR. LEGER: All right. That's three so any more than that would be --

MR. RUFFOLO: I'd like to be considered an alternate in case somebody has to drop out for some reason.

MR. LEGER: Okay.

MS. LESTITIAN: Okay. Thank you. Thank you both.

MR. RUFFOLO: Thank you.

MS. LESTITIAN: So do I have to do a motion for that?

MR. FRANK: No.

MS. LESTITIAN: Okay. We're just appointed?

MR. FRANK: No.

MS. LESTITIAN: Okay.

MR. LAMB: Great. Thank you.

MS. LESTITIAN: Thank you both. Thank you.

MR. LEGER: And now, the investment portfolio.

MS. LESTITIAN: Back to Mr. Wesner.

MR. JAMES WESNER: I would say you thought those conversations were uncomfortable, now we're talking about the equity market.

MS. LESTITIAN: Now we have the investment committee.

MR. JAMES WESNER: Lots to discuss. I

will try to keep my remarks brief, and I will try to guide you between a few different documents. You know what you have in your books right within the front cover, behind the front cover is an index performance sheet through the end of August. We obviously know the selloff occurred mostly at the last week or so of August, so even though they're not pleasant to look at, those are some of the most current numbers.

What's up on the screen is our second quarter market environment. So this is the meeting where we should be discussing the second quarter report. Obviously a loss has happened in the last two months since that quarter ended. So I'll be brief with conversations on the second quarter report both from a market environment and from your portfolio.

We also do have within the book here -- I'm sorry. I'm just going to have it on the screen because it was just e-mailed to me this morning. We will have a brief flash of your portfolio performance through the end of August. Obviously we don't have all of the numbers in yet, but from where, you know, they are sustaining marketable securities, I'll put that up on the screen just to show you that briefly as well.

The big picture -- and I'll use the single page within the book as the guide. The big picture is that the markets have sold off over the last couple of weeks, the equity market, and actually within the very front, just the second page into the book, is just this market. It says, "Monthly Market Performance -- Monthly Performance Summary August 31st."

And so a couple weeks ago we actually started to see the decline of the market in China. That market had been up over 100 percent over the previous year, and we started to see a lot of money come out of that market. A lot of local investors there started to participate in the market, and subsequently lost a large amount of their capital.

That coupled with the story in Greece, all of these other areas -- Frederick, it's actually before the black cover.

MR. FRANK: Okay.

MR. JAMES WESNER: So a lot of movement within the overall market. A lot of geopolitical kind of global issues that have been affecting market performance images.

Here in the United States you think typically the economy is a big driver of our equity market. The economy has continued to do pretty well. The issue has been rather that, you know, all of these other issues around the globe have caused folks to not think about what's going on in the market and focus more about what's going on in China, what's going on in Greece and around the rest of the world.

So in the US in the second quarter our economy did expand by 3.7 percent. So there are good things continuing to happen within our economy. Inflation is low. Growth is at a nice moderate pace. We wish it would be slightly higher, and equities have done well over the last four or five years as a result of that.

So we hadn't had a dislocation in the equity markets or a correction of 10 percent or more in a couple of years. So essentially you know it's coming, but you never know what the triggers are going to be.

In this case the trigger was China that triggered as well as a few other geopolitical issues. And so as you see on the summary page for the month of August, US equity markets on average were down about 6 percent.

We have had a little bit more of a decline at the beginning of September. Monday was a bad day, but, you know, the last couple of days have been better. Today, last I checked, it was up. So these numbers are pretty reflective of where we are, and so the month was down 6 percent about on average. For the year the S&P is down about 3 percent so the broad market is down about 3 percent.

Just the themes, growth has outperformed value, so the technology, the healthcare stocks have outperformed the value-oriented stocks, a lot of that is energy. So oil has still been kind of weighing down the markets, any energy-related company.

So it's really a matter of where managers have been, whether they've been in growth or value, you know, but the damage has kind of been done across the board. Whether you're large cap, small cap, everything has been down a couple of percent on the year.

The middle section is international equities, so you have a couple of different within your portfolio. To start the year, emerging markets through April were actually up 10 percent. So emerging markets, that's Brazil, Russia, India, China, the BRIC countries as they're referred to, up 10 percent. We've seen a huge decline since that in those areas, so the emerging markets are now down 13 percent on the year. So from up 10 to down 13 over the course of the next three months after April 30th, but broad international is slightly positive for the year.

The developed market is just marginally higher. So overall the international markets have slightly outpaced the domestic markets.

Fixed income is the bottom section. The big discussion within the fixed income world has been, "What is the Federal Reserve going to do with short term interest rates?" Tomorrow will be a big day for that. Tomorrow is the last jobs report from the Department of Labor before we get the decision from the Fed later on in September.

If we see a strong jobs report tomorrow, you can actually see that will rattle the markets a bit because folks will think strong job reports means the Fed will raise rates. They're going to raise rates a quarter of a point, so .25 percent, in either September or December. After that we think they're going to pause for a while to really let the markets digest that.

But in the short term, the markets are going choppy. They'll overrespond or overreact to that small little increase in rates. We know it's going to happen, and I think that's just something to be aware of as investors.

The short term volatility shouldn't affect the way you manage your portfolio. You're long term investors, and you shouldn't have any liquidity needs over the next couple of months, so that's another positive. So you can kind of withstand some volatility there.

The fixed income for the year, bonds are basically flat to up 1 percent for core bonds across the board. Higher-yielding bonds had been performing well. They gave a little bit back in August. They're marginally higher. The best performing area has been what we call leveraged loans. You have a small little allocation of that within your core bond portfolios.

And the weakest area in the bond world has been international bonds. You don't have any international fixed income exposure, but that has been the weakest area in the bond market.

Any questions on the broad areas of the market?

MR. LEGER: I just have one, and that is if the Fed raises the rate .25 percent and we have housing in our portfolio, what does that do to that section of the portfolio? Because that's where the immediate panic will arrive.

MR. JAMES WESNER: So when you look at bonds as a whole, interest rates going up causes bond prices to go down, but the question is which rates are going up? The Federal Reserve only controls the short end of the curve. So if the short bonds go up, you know mortgages are linked to a 10-year or a 30-year rate. The 10-year, 30-year rate might not move at all. It might actually go down. We don't know what the response is going to be there. So what's going to be the bigger driver of overall bond performance is how does the market interpret the Federal Reserve rising rate?

The Feds rising rates on its own isn't going to have a huge effect on your portfolio because that's just more short, overnight lending rates and not the 10 to 30 year treasury rate, which play more into the rates that companies borrow at.

And up on the screen -- and I hate to jump around, but I'll just reference it up on the screen -- some of the figures here, I'll scroll through, there's just a few things to only report quarterly. So just real estate, since you do have real estate within your portfolio, and the important thing to note here with real estate is real estate through the second quarter was actually up almost 7 percent, and so you'll see that when we look at your individual managers.

Real estate has been a nice kind of place of calm within these volatile markets. Real estate assets are only priced on a quarterly basis, so when you have all of this movement, real estate assets aren't moving very much. They're valued privately, and so we don't expect even as the third quarter valuations come out on September 30th, in the weeks right after that we don't expect to see a huge move in real estate performance.

So that's a nice piece of your portfolio that's done well, and then the other piece that I'll reference is the hedge funds. We'll look at your manager performance, but this has actually been a year, 2015, where hedge funds have outperformed the long only equity in the markets. So it's been a very nice time to have some hedge fund allocations because those managers have outperformed the core part of the marketplace.

With that, the first thing I will jump to is the quarterly report. This is the report that is behind Exhibit 2 in your book. And here the only things I want to highlight within the quarterly report are obviously some of that real estate performance that I noted is only reported on a quarterly basis, but I also want to highlight your rankings versus various public pension fund peer groups. And why I think this is important is because when we were talking about not meeting your seven-and-a-half percent actuarial rate of return, I wanted you to see that the asset allocation decisions that this Board has made has put your fund in a very good position relative to other public pension funds.

And in the most recent environment, as Paul was alluding to a little bit, no one is meeting their actuarial rate, so I think it's just important to know that, and as you get asked questions, you have the right information at your fingertips.

So up here (indicating) right now, you know we don't have any managers on alert. I will have a recommendation today on one manager to place them on alert. We did at the last meeting discuss -- I said I was going to take State Street Emerging Markets off of alert. Their short-term performance had improved significantly and they continue to improve, so we'll highlight that in a bit.

As usual, we have the book laid out here where we have one sheet with the total fund portfolio which includes the parking asset. And then the page on the right side is only the invested portfolio. Again, that's the challenge of having the parking asset in here is that you can't rebalance out of the parking asset, so you're always going to be subject to whatever is in there.

So if the public markets go down, the percent that the parking asset is of your fund is going to increase. So right now the parking asset is almost 42 percent of the fund, and this is before the recent decline in the equity market. So right now the parking asset is probably up to almost 43 percent of your assets.

Here within the invested portfolio which is on the right-hand side there (indicating), that shows that you are very close to your target allocations. Here what we focus on when we either need cash for benefit payments or have cash coming in, we looked at this allocation to try to get back towards our target to try and actually rebalance the fund because again we can't control the parking asset, so this asset allocation is what we utilize for rebalancing purposes.

You know I'll jump forward a few pages and actually jump down to what is Page 8 of the PDF and what is Page 6 of the book. And these are the rankings that I was referring to. So I'll try to blow this up a little bit. Maybe not. The mouse isn't working, but if you look there or look on your sheet, the returns year to date through June, the total fund was up 3.2 percent, the one year basis, and the fund was up 5.5 percent inclusive of the parking asset.

That puts you in the top percentile of your peer group. The parking asset helps kind of put you over the top. So versus other public pension funds out there through June 30th, you know you were basically the cream of the crop.

If you go down to the next section there, which is listed as the Total Invested Portfolio, your invested assets were up 4.1 percent. Still in the ninth percentile. So you're still in the top 10 percent of your peer group. So your investment portfolio did well. The parking asset was accreted to performance, so that's why your top line was so strong for the last year.

And if you look over the two-year, three-year, four-year basis, since you've implemented your new asset allocation, you know you're in the top quartile for all time periods, both for the total portfolio, and, for the couple lines down, for the invested portfolio.

So the asset allocation decisions that you've made in regards to the investable portfolio, those have worked well for you, and the parking asset has been kind of just doing what we expected it to do, give you that 7 percent income on a quarterly basis.

So I think all in all the performance is good. And also the final thing I'll point out is if you go back further towards the five year and the ten year, five year you're well above your seven-and-a-half percent actuarial rate, ten year, you're not. But again most public pension funds over that same ten-year period are not going to be above seven-and-a-half percent.

It's just the way the asset allocations work. We haven't gotten that much out of bonds and equities over that time period. So this information is always here whether it be on an annualized basis on Page 6, or Page 7 which is a calendar year.

MR. LAMB: I'm just going to quickly say, you know, 6.4 over ten years, that's inclusive of the period of the crash in 2009, so you know seven and a half I would argue we should be lower than that. As a matter of fact, I've been arguing that for the last seven or eight years, and I'm pretty roundly criticized for arguing that in some circles, but for the ICA to suggest that we have to make up that difference when, in the long term, the long-term return is much closer to that rate of return than maybe the year number would reflect.

MR. JAMES WESNER: And if you look over on Page 7, you see that over the last -- it actually outlines the last 11 years, not just the last ten years, but over the last 11 years there have only been three years where you failed to meet the seven-and-a-half percent level.

Unfortunately 2008 was significantly below that which has a big weight on things going forward. 2010 was an unusual year because of some asset allocation moves that were made to protect from the state takeover.

So really if that hadn't taken place, 2010 would have been over. So really it's only 2008 and 2011 where you underperformed that seven-and-a-half percent actuarial rate of return.

So I kind of joked to Paul before. You can't sit on it if you book the gains when you're over seven-and-a-half percent, so the top does truly hold you accountable when you're below seven-and-a-half percent when it's mostly driven by markets.

MR. LEGER: Perhaps we should demand a refund of some sort.

MR. LAMB: Well, it's interesting. I just read an article about bad August. You know when you have a bad August, you tend to have a very strong fourth of the year-end quarter, so who knows. Maybe we'll have a good fourth quarter and it will go back up where we need to be.

MR. JAMES WESNER: I think the takeaway there is very endpoint specific.

MR. LAMB: Yeah.

MR. JAMES WESNER: So whatever happens in the most recent time period really does have an effect even when you're looking at five, seven, ten-year numbers, from what's rolling off, sometimes we forget what's rolling off on that end of the ten years, and then you're bringing on a whole tough couple of months in the most recent periods. You know that can move a ten-year number by, you know, a half a percent very quickly. So again it's always important to look back at the long-term performance, calendar years, rolling time periods, and if you guys ever need information, you know don't hesitate to reach out to us. We can slice and dice your numbers however you need them.

But Page 8, we'll just go through and look at the managers. So all in all again performance is relatively good across the board. You know fixed income is giving you over the intermediate term exactly what you want. Your ranking well there. US equities are doing pretty well.

The most important thing that I'll direct you to is the bottom of Page 8. You know we have had some weakness in your small cap manager Guyasuta. You know while they are still slightly above the benchmark from that three-year basis here at the quarter end, they are now under that on a three-year basis as we look through the period of August. So I am recommending just putting them on alert.

You know I like to put managers on alert a little quicker than normal, but then I like to give managers a little bit more time than normal before I terminate. My advice to clients is always, "You never want to terminate a manager when they're doing really poor if nothing else has changed with their team because what are you going to do? You're going to go look for the manager with the most -- with the best performance in the most recent period, and you're going to sell low and you're going to buy high, and that's not the way you want to do it."

So I think it's prudent to put them on alert. We've had numerous conversations with them. I sat down with the team two weeks ago when I was here in town. They're focused on improving performance, but I think it's just the right thing to do, just put them on alert. So I would ask after we get to kind of the new business, to have that motion and put them on alert.

Over on Page 9 I have something here I want to outline is how when you have managers on alert and you have patience with them, they can recover.

So on the international side MFS, which is your core international manager, has been doing an excellent job for you. Over the one-year period the market that they're in is down 4.2 percent. They're only down four-tenths of a percent, so if they saved you four percent on the downside essentially net of fees, so very much you're getting your money's worth, as I like to say.

State Street, which was one of your emerging market managers, there you had them on alert. We took them off alert most recently because they have outperformed. So year to date they're outperforming by over a percent and a half. On the one-year basis they're outperforming by over 2 percent net of fees, and so, again, managers go through cycles.

Our goal is to make sure that we're monitoring them to make sure that nothing changes with their core team, their process. That's really going to dictate long term underperformance is if members of the team leave. There's other issues organizationally, but if nothing is changed, we give managers a little bit of time.

And then the other area and newer manager for you is ABS. This is a hedged manager within the emerging markets base. You know I got word from them yesterday that they expect to only have realized one-quarter of the downside of the broad emerging markets in August. So we don't have formal numbers from them yet, but where emerging markets are down kind of 6, 8 percent, we're probably going to see it down only 2 percent number out of them. So exactly kind of what we wanted to do here, protect on the downside. Thinking that there may be a correction, we had one. You got a little bit of protection there with your emerging market manager.

Your other hedge fund managers, ABS' core strategy performed very well. Up six-and-a-half percent over the last year. EnTrust, a little bit under. They have a different strategy there, and then the EnTrust Special Opportunities Fund, I discount performance there because that's -- they're making new investments. It's more private equity-like, so having returns there can be a little misleading.

And then really the star of your portfolio over the last year or so has been real estate. RREEF AMERICA II which is a core real estate fund, up 14.7 percent over the last year. Cornerstone, which is your more conservative of the two managers, less leveraged, so they're not going to get as much upside from leverage in good times. Still up 10.6 percent.

So overall your real estate was up 12.7 percent over the last year. So a nice counterbalance to the volatility that we're seeing in the core markets.

And the only thing that I'll end with, just because I think we have to because I have the numbers, is just a quick glance at August performance, and we'll just look at it quickly because things changed very fast.

So for the month of August, the core portfolio down about 2 percent, the invested portfolio down 3.5 percent. The nice thing with the invested portfolio down 3.5 percent, the benchmark, your custom benchmark was down 4.3. So more managers protected on the downside which is what we want to see.

Fixed income, obviously that's your more conservative area, only down three-tenths of a percent. Equities, you know had a rougher go obviously down 5.4 percent over the one-month period, but Guyasuta, they had a rough July. They actually had a decent August and outperformed by a percent and a half, but their three year number, as you see, is still now below the benchmark.

And then MFS slightly underperformed their benchmark as did State Street, and we don't have the ABS number in yet. We don't have any of the -- on the next page we really don't have any of the hedge fund managers' information in yet either, but, again, those are the strategies that should be protecting you on the downside.

So all and all we know August was a tough month. We have those. We just haven't had one for a while, so I think it feels a little more severe because we almost became accustomed to these nice, steady markets, but hopefully, as Mr. Lamb was saying, we get a pop into the end of the year and we can end up with some higher numbers.

We probably, you know, probably aren't going to see a six to seven-and-a-half percent rate of return, but you never know.

Any questions on the broad markets or portfolio in general?

(No response.)

MR. JAMES WESNER: Great. Thank you.

MS. LESTITIAN: Okay. The next item on the agenda is the Solicitor's Report.

MR. FRANK: Thank you. You'll recall at the last meeting I was asked to issue an opinion as to whether there was any conflict of Ms. Lanier serving as the trustee of the fund in view of her employment as the treasurer of the City of Pittsburgh reporting to Mr. Leger. I issued that opinion. All of the trustees should have received it. I found it is not a conflict, except that if there's anything directly related to Mr. Leger, such as a fee we're going to give him, additional compensation which is not something we've discussed previously, but if there was something directly impacting him, I felt that she should abstain from that. But, otherwise, I found no conflict with regard to her service. If there's any questions about that opinion, I'm available to answer them now.

Otherwise, fortunately, it's been a fairly quiet time. We have been continuing to file certain class action claims, and also we filed a claim in the Lehman Brother’s bankruptcy, which apparently was one of our investments some time ago, and we did receive a small distribution from the Lehman Brothers' bankruptcy and hopefully may continue to receive some more. And that's essentially it unless anybody has any questions.

(No response.)

MS. LESTITIAN: Questions?

(No response.)

MS. LESTITIAN: No?

MR. LEGER: The small distribution is $6,000.

MR. FRANK: Okay.

MS. LESTITIAN: Okay. Thanks, Mr. Frank.

Now we move to the Presentation of Resolutions. There's only one for today. It's Resolution 3-15 authorizing the payment for professional services rendered by Frank, Gale, Bails, Murcko & Pocrass, P.C. in the amount of $3,785.20 for the months of April, May, June, and July of 2015. I think everyone has copies in your packets.

Do we have a motion?

MR. KRAUS: Motion to approve.

MS. LESTITIAN: Second?

MR. RUFFOLO: I'll second.

MS. LESTITIAN: Discussion?

(No response.)

MS. LESTITIAN: All in favor?

MR. KRAUS: Aye.

MR. RUFFOLO: Aye.

MR. LAMB: Aye.

MR. SICURO: Aye.

MS. LESTITIAN: Opposed?

(No response.)

MS. LESTITIAN: Motion carries.

New business. Mr. Wesner, you mentioned putting Guyasuta Investors on alert for three year underperformance.

MR. JAMES WESNER: That was the one recommendation, correct.

MS. LESTITIAN: Do I have a motion?

MR. SICURO: So moved.

MS. LANIER: Second.

MS. LESTITIAN: Discussion?

(No response.)

MS. LESTITIAN: All in favor?

MR. LAMB: Aye.

MS. LANIER: Aye.

MS. LESTITIAN: Aye.

MR. SICURO: Aye.

MR. RUFFOLO: Aye.

MS. LESTITIAN: Opposed?

(No response.)

MS. LESTITIAN: Motion carries. Any other new business?

(No response.)

MS. LESTITIAN: No?

MR. SICURO: Not new business, but I have some questions that I wanted to ask.

MS. LESTITIAN: Sure.

MR. SICURO: I wonder who can answer this question. One of the things I want to know is do we have a funding policy for the comp board? I was reading through some of the GASB statements, and they've mentioned several times in there about having funding policies for pension funds.

Do we have one established for us? And should we have one if we don't?

MR. LEGER: I'm not sure what you mean by a funding policy. You mean for expenses that we pay or --

MR. SICURO: No, just funding the pension fund itself, what the contribution rates are, things like that. Basically they do, in their terms, they develop the arch which is our MMO, and I don't know if we have one. I've never seen one.

MR. LEGER: I don't think we have any detailed funding policy, but they're governed by state laws and ordinances of council, and any other actions that this board may have taken that I am not aware of.

MR. LAMB: The only other thing I would say is that the Act 47 recommendation as passed, you know, it suggests an MMO plus figure. So I would say that would be a funding policy, but other than that, no.

MR. LEGER: And that has the power of ordinance because that's been accepted in the past by City Council.

MR. LAMB: That's been passed by council, right. Right.

MR. LEGER: So, yes, in that sense, but they're all outside agencies. There's no immediate inside one. If you wanted us to collect them together and put them into one statement, we could probably do that. Would that be helpful?

MR. SICURO: I'm just curious because, like I said, I was going through those and they referenced having them and didn't know if we had anything like that, so I figured this is the best place to ask.

MR. LEGER: Okay.

MR. SICURO: Also, I have a question for Mockenhaupt who I believe is represented here today.

The experience study that you do on -- it's every two years; is that correct?

MR. LEGER: Yes.

MR. SICURO: Are we due for one, and when is that expected to be?

MR. STIMPSON: Well, the valuation is due every two years.

MR. SICURO: Okay.

MR. STIMPSON: There will be one as of January 1, 2015, that's due to be completed by March 31 of '16.

MR. SICURO: Okay. But is that the same thing as your experience study that you published? I believe the last one was done in '13, or was I wrong?

MR. STIMPSON: Well, the actuarial valuation report is done every two years. They're -- and that's what the funded components are based off of. The experience study is a testing of how the assumptions are working out. That's done every five years.

MR. SICURO: Every five years, so we're not due for another one then until '18; would that be correct?

MR. STIMPSON: Right. Although quite often we bump it up a year to do it in conjunction with valuation, so probably '17.

MR. SICURO: In '17. One more question for the actuary because it's been going back and forth with a lot of stuff with the pension reform stuff that's going on out there.

Normal cost as percent of payroll, do you have in all of your reports out there that you put together -- correct me if I'm wrong. We have -- I can pull it up here real quick. For each of the funds you have listed for the police 12.871 percent, fire, 15.456 percent, and for municipal, 7.7 percent of payroll is to be paid in as a contribution to the funds; is that correct?

MR. STIMPSON: I'll trust your numbers. I didn't look that up.

MR. SICURO: Okay. Just for a referencing point, so just so you know where I'm reading from, it's from your report.

MR. STIMPSON: The normal cost is actually the cost of accruing benefits for your active members. The total contribution is the normal cost plus a provision for administrative expenses, plus an amortization payment which is for all of your past liability, you know, the funding whole, it's a payment to pay that off over time minus projected employee contributions. All of those put together becomes the MMO.

MR. SICURO: Right.

MR. STIMPSON: And going to your previous question, most states don't have an Act 205. The Act 205 -- under Act 205, the MMO is a state-mandated funding policy.

MR. SICURO: Okay.

MR. STIMPSON: And your Act 47 plan, which designates MMO plus, is also our funding policy that the city has agreed to.

MR. SICURO: I followed you, what you're saying as to what we come up with our contribution. I guess the question is is more how are we coming up with the normal cost percentage? Is it because of what the Act 205 dictates to us? Are we backing into that number or -- I don't know where are we coming up with that amount to be funding or the funds, is that at the right percentage of payroll that should be going in?

MR. STIMPSON: Yes. The normal cost percentage is based on the benefits in the plan and the assumptions that were used to project what the projected benefits are.

The funding theory is that during a person's working career, you set aside money to fund their benefits so that by the time someone stops working, there's enough money accumulated to fund all of their payments in retirement.

MR. SICURO: Okay.

MR. STIMPSON: When you break that up over someone's 25-year career, or however long one would work, the normal cost is the amount that is allocated to one year work of service, and the actual accrued liability would be the present value of future benefits for everyone who is no longer working, plus the sum of all of the past normal costs for the current active members accumulated with interest.

So your actuarial accrued liability is theoretically where you would want your assets to be at any given point in time if you were on track in funding.

MR. SICURO: So that if I'm understanding you correct, the normal cost that we talk about for a percentage of payroll would not be the amount that you would pay in to actively fund for that benefit?

MR. STIMPSON: Well, the normal cost is

the amount that you would be paying in to adequately fund for that benefit for your current active members.

MR. SICURO: Correct, for your current active members. So if that is correct, if I'm understanding you correct, in reference to, let's say, police, for example, where the city is stating a 12.871 percent is the normal cost gross, that's including expenses, if they were paying in to Social Security which is, am I correct, 6.25 percent?

MR. STIMPSON: Social Security, yes.

MR. SICURO: So the city pays, because they don't pay that obligation, less or just over half a percent for the benefit that they receive? Because they're only paying -- or they pay 6 percent into their benefit which comes off of that normal cost.

MR. STIMPSON: Hold on. Could you --

MR. SICURO: Sure.

MR. STIMPSON: -- go through that again for me?

MR. SICURO: Okay. Normal cost -- I'll go to fire only. We'll go to fire for us.

MR. STIMPSON: Okay.

MR. SICURO: Firefighters normal cost, according to this report, is 15.456 percent of payroll. Now, firefighters pay seven-and-a-half percent of that

15.

MR. STIMPSON: Okay.

MR. SICURO: I mean, is that true? The normal cost is both employee and employer contribution?

MR. LEGER: It's all sources.

MR. SICURO: Well, not all sources. I think state aid is above that. State aid is not included within the normal costs.

MR. STIMPSON: Well, no. The normal cost is the underlying cost, and employee contributions, employer contributions, and state aid all go to pay that.

MR. SICURO: That goes in to pay the MMO. I get that.

MR. STIMPSON: Right.

MR. SICURO: But not the normal cost percentage of payroll for the benefit? Maybe I'm asking it wrong.

MR. STIMPSON: The normal cost -- if your question was the normal cost, is the normal cost net of employee contributions? It is not. It is gross.

MR. SICURO: It is with it; correct?

MR. STIMPSON: Correct.

MR. SICURO: So if I take out the employee contribution, that will be subtracting that percent, and the leftover is what the percentage of what the city is putting in for that benefit? That makes sense to me.

MR. STIMPSON: Yes.

MR. SICURO: Which on a firefighter would be 8.456 percent which is the remaining amount.

MR. STIMPSON: I'll trust your math.

MR. SICURO: Fair enough? It's just a little math. Then if I were to take off what the city would have to put in if we didn't have the defined benefit which would be -- have to have Social Security which would be another 6.25 percent. If I take that, the city is only paying in 2.206 percent above Social Security rate into the pension fund for the benefit? Am I getting you confused on the numbers?

MR. STIMPSON: Well, you're just looking at the cost of the current benefit plus, you know, the larger portion of the unfunded amount it pays --

MR. SICURO: Well, yeah, I know the unfunded liability portion that they pay above and beyond the percentage of payroll. I'm just looking at percentage of payroll, trying to understand that.

MR. LAMB: They're paying that anyway. That's right.

MR. STIMPSON: Yeah.

MR. SICURO: They would be paying that

anyway. So if they're only paying not what's unfunded, what's accrued including the years that no one paid anything into the fund; right? Because that liability is still there.

So just on the benefit of a new person being hired above Social Security, they're paying 2.06 percent above that; is that correct?

MR. STIMPSON: Yeah, they're -- yeah, the cost of the current benefit under the pension plan is about 15.4 percent.

MR. SICURO: For a new person, not the old liability that was there?

MR. STIMPSON: Right. Right. For the current active worker.

MR. SICURO: Okay.

MR. STIMPSON: As opposed to Social Security being 6.2 times two.

MR. SICURO: So, but that math, if you do the math and you're paying above Social Security rate by 2.2 percent?

MR. STIMPSON: I'll trust your math; but, yes.

MR. SICURO: Okay. All right. I just needed to know that for sure if I was reading this correctly because I hear all the time how defined benefits are unsustainable, but they're not. If they were properly funded from the beginning, we wouldn't have the hole that's really the part that's unsustainable.

A benefit today, if it was created from day one being only 2.2 percent over Social Security, sounds like it would be sustainable to do. And I just want to make sure the actuary is agreeing on the numbers that we see from the reports.

MR. LEGER: It would be sustainable if that had always been put in, which it wasn't.

MR. SICURO: That's correct. That's correct. We can't correct their mistakes from the past.

MR. LAMB: To take this further, though, but doesn't it then -- and maybe this is probably a better example with the municipal fund than the fire. Basically what you're saying, though, is that if you move to a defined contribution plan today, at least for the first few years it would actually cost the city more than the defined benefit plan is costing them right now?

MR. SICURO: Yeah. For the firemen --

MR. LAMB: For the current employees, not counting the liability, but for the current employees because the liability they're going to have to pay into.

MR. SICURO: They owe that within one

year, if I'm correct.

MR. LAMB: So a new employee coming in and getting a defined benefit plan, if -- maybe I'm reading too much into what you're saying, but are you -- is the argument that two employees coming in, one defined contribution, one defined benefit, if the defined contribution will actually cost the city more in that given budget year? Or maybe --

MR. SICURO: Depending on the match of the contribution.

MR. LAMB: Well, that's right. So, yeah, you do defined benefit.

MS. LESTITIAN: If there's no match, it doesn't cost the city anything.

MR. LAMB: That's right. That's right.

MS. LESTITIAN: Right.

MR. SICURO: Well, except for the unfunded liability which from years past --

MS. LESTITIAN: Right.

MR. SICURO: Which would actually be owed in one year, if I'm correct.

MR. LEGER: That's correct, technically. Uh-huh.

MR. SICURO: When you close the plan, technically you've got to fund it.

MR. LAMB: Interesting.

MR. SICURO: I just wanted to make sure the numbers were correct, and as I was trying to get to that same point, the police would be only just over a half percent over Social Security costs. Okay. Thank you.

MR. LEGER: Thank you.

MR. LAMB: Ralph did his homework.

MS. LESTITIAN: Yeah. Good. I'm glad he's on the investment committee.

Okay. Continued Business, is there anything continuing?

(No response.)

MS. LESTITIAN: No. The next meeting of The Comprehensive Municipal Pension Trust Fund Board will be on Thursday, December 3, 2015 at 1 p.m. right here in this conference room again.

May I have a motion to adjourn?

MR. LAMB: So moved.

MS. LESTITIAN: Second?

MR. SICURO: Second, uh-huh.

MS. LESTITIAN: All in favor?

MR. RUFFOLO: Aye.

MR. LAMB: Aye.

MS. LANIER: Aye.

MR. SICURO: Aye.

MR. KRAUS: Aye.

MS. LESTITIAN: Meeting adjourned.

(Whereupon, the meeting concluded at 2:18 p.m.)

C E R T I F I C A T E

COMMONWEALTH OF PENNSYLVANIA :
COUNTY OF ALLEGHENY : SS.:

I, Margaret J. Exler, Registered Professional Reporter, do hereby certify that the foregoing pages containing the proceedings before the COMPREHENSIVE MUNICIPAL PENSION TRUST FUND were transcribed by me from machine shorthand.

I hereby certify that the foregoing pages are a true and accurate transcript of said proceedings to the best of my hearing ability.

I do further certify that I am not a relative of any party hereto, nor am I otherwise interested in the event of this action.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal of office at Bridgeville, Pennsylvania, on September 21, 2015.

MARGARET J. EXLER, RPR