

# Montgomery County Employees' Retirement Board

## Meeting Minutes from Thursday, February 15, 2018

A meeting of the Montgomery County Employees' Retirement Board was held on Thursday, February 15, 2018 at 2:00 PM in the Commissioners' Board Room, 8<sup>th</sup> Floor, One Montgomery Plaza in Norristown, Pennsylvania.

Members present: Commissioner Dr. Valerie A. Arkoosh, Chair; Commissioner Kenneth E. Lawrence, Vice-Chair; Commissioner Joe Gale; Controller Karen Sanchez, Secretary; and Jason Salus, Treasurer.

The meeting was called to order by Chair Arkoosh at 2:04 PM.

### Approval of Minutes of November 16, 2017 Meeting

Chair Arkoosh called for a motion to approve the minutes of the November 16, 2017 meeting. Vice Chair Lawrence so moved, Controller Sanchez seconded the motion. The motion to approve the minutes passed unanimously.

### Retirement Fund Performance Review

Chair Arkoosh called on Chief Financial Officer Dean Dortone to update the Board on the performance of the retirement fund for 2017. Mr. Dortone started his presentation by informing the Board that the market value of the Pension fund was \$536,928,549 as of 12-31-2017. Mr. Dortone noted that as of 12-31-17 we had 2,568 retired and 420 vested employees in the plan which was a net decrease of 1 participant. Additionally, Mr. Dortone noted that for 2017 the County contributed approximately \$9 million to the retirement fund. Finally, Mr. Dortone indicated that as of 12-31-2017 the overall performance of the fund showed an ROI of 14.7% with makeup of the funds at 67.8% equity based and 32.2% in fixed income products. Mr. Dortone indicated that SEI and Vanguard would give a more detailed analysis of the fund's and the overall market's performance.

### SEI Performance Review

Chair Arkoosh called on Mr. Roger Messina of SEI to present the portfolio and market update. He noted that SEI managed assets as of December 31, 2017 were \$53.9 million. Mr. Messina stated that at 12-31-17 the rate of return on SEI managed funds for the year ended 12-31-2017 was 16.58% compared to a benchmark of 14.67%. Finally, Mr. Messina noted that since its inception our rate of return as of 12-31-2017 was 9.07% versus the benchmark of 8.31%.

Mr. Messina noted that 2017 was a very successful year for our overall portfolio growth. Our portfolio has outperformed the benchmarks in all time periods reported and YTD it is 171 BPS higher over. SEI feels that while 2018 will be a positive year due to economic growth in

developed economies and full employment they are still expecting increased volatility in the equities markets, pulling those markets lower. However, Mr. Messina mentioned that while it's disconcerting, these are normal developments in the course of market movement and are to be expected. Mr. Messina indicated that there is a danger that the Fed and other central banks could step up the pace of interest rate increases beyond those already projected, but passage of the US Tax bill should provide modest growth in 2018 and be a catalyst for additional gains in corporate profits and the equity markets. SEI will continue to give the market the benefit of the doubt until we get an aggressive tightening of monetary policy and see the outlines of a looming recession. Chair Arkoosh called for any Board questions and comments. Seeing none, Chair Arkoosh called upon Mr. William Burns from Vanguard to present next.

### **Vanguard Performance Review**

Chair Arkoosh called on Mr. William Burns to present Vanguard's performance review. Mr. Burns agreed with Roger Messina of SEI that 2017 was a very positive year for the County with equities leading the way. He noted that due to our allocation strategy of Equity (68%) vs Fixed (32%) we achieved the performance desired and were able to provide diversity to our portfolio to balance our exposure. Mr. Burns indicated that 2018 would be another positive year for the fund with globalized growth leading the way. However, he cautioned that inflation and a higher than expected bounce in wages or continued strengthening in the labor markets could present challenges to growth in 2018. The Global investment outlook for 2018 and beyond is one of higher risks and lower returns. Vanguard is keeping an eye on the global markets for the next 6 months to 1 year to see if a change in our investment policy might be needed. Mr. Dortone commented that Vanguard had sent a memo with this information to the commissioners so they can meet with Vanguard at a later date to discuss these topics.

Mr. Burns stated that Vanguard managed assets as of December 31, 2017 were \$480.5 million. Mr. Burns stated that the **domestic equity fund** at 12-31-17 saw a return rate of 21.21% compared to a benchmark rate of 21.19%. Since its inception, the rate of return for the domestic equity fund as of 12-31-17 was 14.06%, compared to a benchmark of 14.04%. Mr. Burns noted that the **international equity side** at 12-31-17 saw a return rate of 27.56%, compared to a benchmark of 27.85%. Since its inception, the rate of return as of 12-31-17 for the international equity fund was 8.06%, compared to a benchmark of 8.19%. **The fixed income** portion of the portfolio as of 12-31-17 showed a return rate of 3.37%, compared to the benchmark of 3.63%. Since its inception, the rate of return for fixed income as of 12-31-17 was 2.93% compared to a benchmark of 2.90%. The final component of the portfolio, **real estate/other investment (REIT) funds** as of 12-31-17 the return rate was 4.92% compared to a benchmark of 5.07%. Since this fund was established it has produced a 8.84% rate of return compared to a benchmark of 8.93% rate as of 12-31-17. Finally, the total portfolio rate of return year to date as of December 31, 2017 was 14.66% compared to a benchmark of 14.36%, and since its inception the return was 8.66% vs. a benchmark of 8.60%.

Chair Arkoosh asked for any Board questions and comments. Seeing none, she moved on to Public and Board comments.

**Public and Board Comment**

Chair Arkoosh asked for public comment, and seeing none Chair Arkoosh asked for Board comment. Seeing none, Chair Arkoosh called for a motion to adjourn. Vice Chair Lawrence so moved, Controller Sanchez seconded the motion, and the motion for adjournment was approved unanimously at 2:34 PM.

Respectfully Submitted

A handwritten signature in cursive script that reads "Karen Sanchez". The signature is written in black ink and is positioned above the printed name.

Karen Sanchez  
Controller - Secretary