

Montgomery County Employees' Retirement Board

Meeting Minutes from Thursday, May 17, 2018

A meeting of the Montgomery County Employees' Retirement Board was held on Thursday, May 17, 2018 at 2:00 PM in the Commissioners' Board Room, 8th 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 2:09 PM.

Approval of Minutes of February 15, 2018 Meeting

Chair Arkoosh called for a motion to approve the minutes of the February 15, 2018 meeting. Treasurer Salas so moved, Vice Chair Lawrence 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 2018 YTD. Mr. Dortone started his presentation by informing the Board that the market value of the Pension fund was \$520,690,383 as of 3-31-2018. Mr. Dortone noted that as of 3-31-18 we had 2,576 retired and 425 vested employees in the plan which was a net increase of 13 participants. Additionally, Mr. Dortone noted that for 2018 the County expected to contribute approximately \$9 million to the retirement fund. Also, Mr. Dortone indicated that as of 3-31-2018 the overall performance of the fund showed an ROI of (1.28%) with makeup of the funds at 67.3% equity based and 32.7% in fixed income products. Finally, Mr. Dortone informed the Board that the 2018 Actuarial report was nearly complete and would be presented at the next Board meeting by Mr. Hank Stiehl of Korn Ferry. Mr. Dortone noted that Vanguard and SEI would give a more detailed analysis of the fund's and the overall market's performance.

Vanguard Performance Review

Chair Arkoosh called on Mr. William Burns to present Vanguard's performance review. Mr. Burns noted that this was the first time in nine (9) fiscal quarters that the overall market had a negative return. Mr. Burns noted that the Real Estate segment was especially affected by the down turn. Chair Arkoosh asked if we should reduce our exposure in that segment. Mr. Burns indicated now was not the correct time, the market is near the bottom and likely to come back so the County should wait it out. Mr. Dortone asked Mr. Burns about YTD returns. Mr. Burns felt returns would be muted in the 5% range. Chair Arkoosh then asked how the shift in the trade

policy could affect us. Mr. Burns felt a slight increase in tariffs would actually be good since the US's are among the lowest. Mr. Burns felt the market would be volatile in the future but emphasized we stay the course as solid but not spectacular returns are projected.

Mr. Burns started the review of our Vanguard portfolio. He noted that Vanguard managed assets as of March 31, 2018 were \$465.3 million. Mr. Burns stated that the **domestic equity fund** as of 3-31-18 saw a return rate of (0.59%) compared to a benchmark rate of (0.60%). Since its inception, the rate of return for the domestic equity fund as of 3-31-18 is 13.13%, compared to a benchmark of 13.11%. Mr. Burns noted that the **international equity side** as of 3-31-18 saw a return rate of (0.44%), compared to a benchmark of (1.14%). Since its inception, the rate of return as of 3-31-18 for the international equity fund was 7.52%, compared to a benchmark of 7.48%. **The fixed income** portion of the portfolio as of 3-31-18 showed a return rate of (1.30%), compared to the benchmark of (1.48%). Since its inception, the rate of return for fixed income as of 3-31-18 was 2.49% compared to a benchmark of 2.42%. The final component of the portfolio, **real estate/other investment (REIT) funds** as of 3-31-18 the return rate was (8.07%) compared to a benchmark of (8.06%). Since this fund was established it has produced a 6.46% rate of return compared to a benchmark of 6.54% rate as of 3-31-18. Finally, the total portfolio rate of return year to date as of March 31, 2018 was (1.35%) compared to a benchmark of (1.55%), and since its inception the return rate is 7.88% vs. a benchmark of 7.77%. Chair Arkoosh asked for any Board comments or questions, seeing none she called on Roger Messina from SEI to present next.

SEI Performance Review

Chair Arkoosh called on Mr. Roger Messina of SEI to present the portfolio and his market update. He noted that SEI managed assets as of March 31, 2018 were \$52.8 million. Mr. Messina stated that as of 3-31-18, the rate of return on SEI managed funds was (0.14%) compared to a benchmark of (0.48%). Finally, Mr. Messina noted that since its inception our rate of return as of 3-31-2018 was 8.44% versus the benchmark of 7.68%.

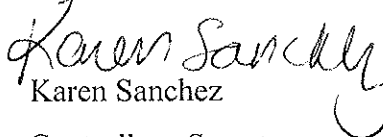
Mr. Messina agreed with Mr. Burn's that the beginning of 2018 has been a very volatile period. Mr. Messina maintained that the volatility was caused by the upward shift in investor's interest-rate expectations and the increased possibility of a trade war. With this volatility in mind Mr. Messina noted that an allocation change was made to increase our international holdings. He did point out that our portfolio has outperformed the benchmarks in all time periods reported and YTD it is 164 BPS higher. SEI is optimistic that equities will generate a 7% - 9% ROI. SEI believes the US economy will continue to perform positively as domestic companies are doing well aided by lower tax rates and accelerating revenue growth. Mr. Messina did warn that higher energy prices could dampen economic growth. SEI feels that achieving stability in the US markets is key to attracting investors from around the world and until SEI sees an aggressive tightening of monetary policy and indicators for a recession they will give the market the benefit of the doubt.

Chair Arkoosh called for any Board questions and comments. Seeing none, Chair Arkoosh 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. Controller Sanchez so moved, Vice Chair Lawrence seconded the motion, and the motion for adjournment was approved unanimously at 2:41 PM.

Respectfully Submitted


Karen Sanchez

Controller - Secretary