

Montgomery County Employees' Retirement Board

Meeting Minutes from Wednesday, February 3, 2010

A meeting of the Montgomery County Employees' Retirement Board was held on Wednesday, February 3, 2010 at 10:30am in the Commissioner's Conference Room, 8th Floor in Norristown, PA 19404.

Members present: Commissioner James Matthews, Chairman; Commissioner Joseph Hoeffel, Vice Chairman; Commissioner Bruce Castor; Controller Diane Morgan, Secretary

Also in attendance: First Deputy Controller Kevin Hoke; Deputy Treasurer Ava Tuturice; Chief Operating Officer Robert Graf; Deputy COO James Maza; Finance Director Randy Schiabile; Solicitor Barry Miller; Retirement Manager Marisol Lezcano; Pension Accountant John O'Brien; Director of Policy Steven Nelson; Economic Development Director Kenneth Klothen; Director of Communications John Corcoran

Outside Presenters: Malcolm (Skip) Cowen, Managing Director, and Kevin Karpuk – Cornerstone; Helen Hurilla, Relationship Manager – Wachovia Bank

Members of the Media: Margaret Gibbons – The Intelligencer

Secretary Diane Morgan called the meeting to order at 10:30am.

Helen Hurilla briefly discussed the transitional activities that will result from the acquisition of Wachovia Bank by Wells Fargo & Company. The transition to the Wells Fargo brand will take place in the first quarter of 2010. The reporting system for the pension custodian accounts will transition to Wells Fargo's system during the second quarter of 2010.

The quarterly report was presented by Cornerstone. According to Mr. Cowen, 2009 was an incredibly strong year, a good rebound year. For the past 10 years the pension fund had lost money in stock equities and for the past 15 years stocks gave 6 ½% returns and bonds gave 6% returns.

The fourth quarter was a strong quarter. The pension fund generated \$4 million in income. The change in market value was almost \$11 million. The flash report ended at \$411 million. The fund's portfolio has always done extremely well in down markets.

Current allocation is 50% equity exposure. Mr. Cowen expressed that the fund is where they want it to be; they want to get cash to work sooner rather than later.

There is nothing dramatic to report with respect to the individual managers. After three year return 7 of 12 managers are in the top quartile, 3 of the 12 are in the second quartile and 2 of the 12 are in the third quartile.

In terms of return, the pension fund is at 19.16% relative to the benchmark of 17.27% with 200 basis points relative to the benchmark. The aggregate performance was less volatile. Solicitor Barry Miller asked if Cornerstone was cherry picking funds compared to the general universe to which they responded, "absolutely not".

For risk and volatility the pension fund's beta number was 0.83 compared to the market at 1.00, which means the fund is less volatile than market. The goal is to be top 3 of peer group. The fund is absolutely

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being compensated by fees being paid to financial managers. In an up market the fund captures 92% of the growth, but only participates at 80% in a down market.

It is important for the Retirement Board to know that forward looking return numbers are expected to be significantly reduced for next year. This makes a big difference as to what you think you are going to earn, according to Cornerstone. There will be a dramatic change in return assumptions, affected by the national debt of all countries. Increased debt is not favorable for financial assets.

Cornerstone has not been successful in placing the structured note because the cap was reduced to 12% and is no longer attractive.

There are five things to keep an eye on:

- 1- Markets that have been subsidized
- 2- Sovereign debt
- 3- Financial regulations
- 4- Chinese monetary policy- global phenomenon
- 5- Corporate earnings

Recently there was a not so favorable article written about Piedmont. Wells will go public & returns will be watered down to 2% per year. Cornerstone would like to move tradable REITS to ING.

The last update was that the purchase of Harleysville by First Niagara is scheduled to close by March 12, 2010.


The next agenda item was the approval of the last board meeting minutes. Diane Morgan made a motion to approve the minutes and all were in favor.

Next, Ms. Morgan made a motion to add Barrack, Rodos and Bacine as another class action monitoring firm. They are located in Philadelphia and there would be no cost to the pension fund. However, Chairman Matthews asked for a request for proposal because the board knows nothing about the company.

Lastly, Ms. Morgan described the Retirement Scanning Project and mentioned that there might be a potential need to hire some hourly employees. Chairman Matthews requested a cost estimate.

Having no additional business to discuss before the board, Chairman Matthews adjourned the meeting at 11:20 am.

Respectfully Submitted,


Diane Morgan
Controller – Secretary