

Montgomery County Employees' Retirement Board

Meeting Minutes from Tuesday, December 7, 2010

A meeting of the Montgomery County Employees' Retirement Board was held on Tuesday, December 7, 2010 at 11:00am in the Commissioner's Conference Room, 8th Floor in Norristown, PA 19404.

Members present: Commissioner Joseph Hoeffel, Vice Chairman; Commissioner Bruce Castor; Controller Diane Morgan, Secretary; Thomas Ellis, Treasurer

Also in attendance: Deputy Treasurer Ava Tuturice; Chief Operating Officer Robert Graf; Finance Director Randy Schiabile; Solicitor Barry Miller; Retirement Manager Marisol Lezcano; Pension Accountant John O'Brien; Executive Administrator to Commissioner Matthews Maureen Hayward

Outside Presenters: Malcolm (Skip) Cowen, Managing Director, and Kevin Karpuk – Cornerstone; David Reichert – The Hay Group

Secretary Diane Morgan called the meeting to order at 11:05am.

Cornerstone presented the quarterly report to review the third quarter activity. The capital markets were extraordinarily friendly. The market was up 10% for the quarter and in the last thirty days there was good up market capture.

However, the portfolio was underweight in riskier assets. There are significant problems in Developed Europe caused by macroeconomic issues. An inflation strategy was put in place by investing in alternatives, which are inflation sensitive assets. There is a good balance in asset allocation, 4:1 in domestic and international holdings.

There will not be an additional contribution made to the portfolio; it is not in the budget.

Overall the portfolio is performing well showing 7.5% good up market capture. The worst performing managers in 3 year numbers are Sterling and Valley Forge in the 58th. The inception cumulative portfolio is up 9% compared to the benchmark 2% since Cornerstone started.

Over the last three years the portfolio was flat. However, in the last 5 years it performed in the 31st percentile, growing 4.5% per year. The market was only up 0.98%. Unfortunately, the portfolio was unable to achieve the actuarial return assumption of 7.5% in this environment. Nevertheless, it is weathering the storm reasonably well.

Questions were raised as to the effect of government intervention and Mr. Cowen's response was that he believed more human intervention could create more economic problems. He went over Quantitative Easing. Basically the money supply is increasing and the Feds are buying bonds to put cash out into the system. This has some effect in lowering interest rates but what is not increasing is the velocity. Bank lending is still negative and there are currency wars. The Feds want to reduce the value of the dollar so goods will be more attractive over seas on the international stage, which will be good for the economy. Also, unemployment insurance benefits have been extended one year through 2011.

There is some positive news; it is possible that our US economy is getting some traction but the global situation is still in trouble. Human intervention in this area is uncharted territory and it is unknown what

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the effect will be on the international market. Ireland, Greece and Portugal need to be bailed out by the European Central Bank.

Cornerstone will continue a very conservative approach to the portfolio. The plan is to continue to make money as long as we do not have an external shock to the system. Europe could be an external shock to the system. International rates will normalize if the market continues to perform positively.

The portfolio is missing the upside of the market by not making additional contributions. The discipline of funding the Pension Plan is important to the plan long term. The ARC is currently approximately \$8 million and the aggregate is \$16 million.

Next, Ms. Morgan introduced David Reichert from the Hay Group to answer questions about the IRS determination letter. He explained that the IRS is getting more involved with government and church pension plans (tax exempt organizations). These determination letters were always required by the corporate plans. Previously, Act 96 was the plan document. However, the IRS would like it in their format, following certain guidelines.

The Hay Group recommends going through with the whole process buying the Retirement Board insurance in case of a future audit. The letter states that the plan document conforms to tax guidelines. However, it was pointed out by the solicitor that the IRS puts disclaimers that it is not a 100% guarantee. Also, there is no legal requirement to participate.

If the Retirement Board were to participate with other Counties and use the services of the Hay Group the cost would be \$6,000. If the Board were to decide to file a determination letter later, the cost could be more than \$27,000. It is based on the number of employees.

Treasurer Ellis made the point that he believes the Board would need to require an RFP process before deciding on the firm to prepare the letter.

The motion to prepare and file a determination letter was put to a vote:

Bruce Caster - NO

Thomas Ellis - NO

Joseph Hoeffel - NO

Diane Morgan – YES, it should be done as an insurance policy before it costs us much more.

On the motion of Ms. Morgan, seconded by Mr. Castor, the minutes of the August 31, 2010 meeting of the Board were unanimously approved.

Next on the agenda was the issue of a Cost of Living increase for 2011 and there was no support from the board.

Mr. Ellis asked the board what it plans to do in terms of the ARC. As a fiduciary, he believes that the Retirement Board has a responsibility to recommend to the Commissioners payment of the ARC.

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Currently, the Retirement Plan is 100% funded actuarially and 83% funded at current market value. The actuarial value of assets is \$493 million and the market value of assets is \$431 million.

Commissioner Hoeffel wants to wait for the investments to grow in the hopes that the ARC will go away. Mr. Ellis made a motion for a resolution to recommend to the Board of Commissioners a plan for funding the ARC over the next three years. This was seconded by Commissioner Castor and unanimously approved.

Having no additional business to discuss before the board, Commissioner Hoeffel adjourned the meeting at 11:50 am.

Respectfully Submitted,


Diane Morgan
Controller – Secretary