

Montgomery County Employees' Retirement Board

Meeting Minutes from Wednesday, June 3, 2009

A meeting of the Montgomery County Employees' Retirement Board was held on Wednesday, June 3, 2009 at 11:00am 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

Members absent: Treasurer Garrett Page

Also in attendance: Deputy Treasurer Ava Tuturice; Chief Operating Officer/Chief Clerk Robert Graf; First Deputy Controller Kevin Hoke; Solicitor Barry Miller; Finance Director Randy Schiabe; Communications Director John Cocoran; Retirement Manager Marisol Lezcano; Pension Accountant John O'Brien; Solicitor Staff Member Tom Noonan

Outside Presenters: Malcolm (Skip) Cowen, Managing Director, and Kevin Karpuk – Cornerstone

Secretary Diane Morgan called the meeting to order at 11:20am.

Chief Clerk Bob Graf administered agenda and introduced Cornerstone for their First Quarter Review Presentation:

- Index Flash Report – The 1st Quarter was a disaster but April and May were good. April moved 10% and the YTD was up for NASDAQ. Riskier assets are starting to move in an extremely positive direction. In May commodities went up 13%. However, the recommendation is to remain cautious because banks still have problems that are unresolved and commercial real estate is terrible. Real estate prices are still dropping.
- Monthly Flash Report – In May liquid alternatives went up 7.5%. Market values increased by \$25 million in portfolio. By 6/1/2009 the Fund was at \$378 million, up from \$374 million in May.
- First Quarter Review Presentation Book – The 1st Quarter started at \$371.8 million and experienced a negative change in the market value. Moved from old asset target of 60% equity to new asset target of 47% equity exposure. Portfolio up 200 basis points relative to benchmarks.

Solicitor Barry Miller asked the question as to what benchmarks are being used. Cornerstone explained that they are using two indices based on the mix of investments.

Secretary Diane Morgan asked about the performance of the alternative investments. Cornerstone explained that they are also monitored and included in performance summary.

Since the last meeting Cornerstone made the moves previously discussed and 5% is reloaded. The results were good and they recommend staying within targets. Non-performing loans are accelerating and there are problems building capital in the banking industry. There is \$12 trillion in programs to end problems. Historically, this can become very inflationary down the road. The portfolio is positioned accordingly.

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Commissioner Bruce Castor asked, "How much of an increase in circulation is necessary to start inflation?" According to Skip, velocity and increasing economic activity is what we should monitor. There is the fear that when velocity accelerates inflation can occur. There is no inflation now because the lack of lending keeps the velocity low, which means less economic activity.

Commissioner Castor also asked, "How much money is being pumped into the economy?" Skip replied that it is only about 6-7% of the Gross Domestic Product (GDP).

Commissioner Castor asked if there was concern around the great deal of cash being pumped into the economy and when does Skip foresee inflation occurring. Skip explained that within the different programs money needs to be spent within a certain period of time. Commissioner Castro then asked, "When should we hedge against inflation?" Skip replied, "Now, in order to guard against inflation down the road. We want assets that are not tied to the equity market. We want to buy more liquid assets to be able to get out fast. We are at 5% exposure and want to get up to 10% exposure."

Skip requested to trim and raise liquidity. He wanted to raise \$30 million in cash from 3 managers: \$10 million from Alex Brown, \$10 million from PMG and \$10 million from Valley Forge. He proposed to defund fixed income and invest more in alternative baskets. This move was not a reflection on the managers but rather the next step from the last move. Retirement Board members agreed that no motion was necessary.

Cornerstone's last point of business was to request that NWQ Tradewinds be moved from Merrill Lynch to RBC in order to follow the broker. Tradewinds, the top 1% of its peer group, was with a broker at Merrill Lynch, who has since moved to a new firm called RBC and is requesting to keep the relationship with the County. He would like to have the investments transferred to RBC.

Skip recommended the move by saying the broker does a good job. In order to execute the transfer signatures and copies of the board members' driver's licenses are needed. Commissioner Matthews said if recommended, he will do it. However, Commissioners Castor and Hoeffel were not sure because they felt uncomfortable providing copies of their driver's licenses.

Commissioner Hoeffel asked for the name of the broker and Skip said his name is Lou Guerra. Once Commissioners Hoeffel and Castor realized they knew the broker, they quickly disagreed with the transfer. Skip explained that if the board does nothing, the assets stay where they are. The board did not take a vote.

In addition Skip will investigate the change with the Gartmore Manager. Also, Goldman investments were moved to Valley Forge.

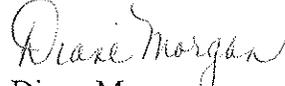
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On a motion by Diane Morgan, seconded by Joseph Hoeffel, the minutes for the April 8, 2009 meeting were unanimously approved by the Board.

Having no additional business to discuss before the board, on a motion by Diane Morgan, seconded by James Matthews, the meeting was adjourned at 12:15pm.

Respectfully Submitted,



Diane Morgan
Controller – Secretary

