

Montgomery County Employees' Retirement Board

Meeting Minutes from Wednesday, September 30, 2009

A meeting of the Montgomery County Employees' Retirement Board was held on Wednesday, September 30, 2009 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; Treasurer Garrett Page
Also in attendance: Deputy Treasurer Ava Tuturice; Chief Operating Officer/Chief Clerk Robert Graf; Solicitor Barry Miller; Assistant Deputy Solicitor Jeff Albert; Finance Director Randy Schiable; Retirement Manager Marisol Lezcano; Pension Accountant John O'Brien
Outside Presenters: Malcolm (Skip) Cowen, Managing Director, and Kevin Karpuk – Cornerstone; Chuck Freidlander – Municipal Finance Partners, Inc.

Secretary Diane Morgan called the meeting to order at 10:40am.

An update was given by the Solicitor's Office that the State House passed Act 44, amending the county pension law, permitting counties to spread their smoothing method over a longer period of time (10 years rather than 5), limiting the impact of one bad year. It could cut down the ARC by 25% but long term liabilities do not go away. The bill was signed and approved one week ago.

Also, there is strong consideration along with Chester County to try and get further relief, maybe even total relief from contributions in 2009 and 2010 by putting off paying during those years and just allow the individual County to deal with current liabilities to the fund. There is an argument that investments will return to prior highs and reduce required contributions. Before an action can be taken, the County must wait for a budget resolution from the State.

The quarterly report was presented by Cornerstone. Investment returns are pushing double the actuarial assumption.

Mrs. Morgan commented that the \$22.4 million ARC, estimated by the Hay Group for 2010, does not include the \$11.5 million ARC payment for 2009. Mr. Schiable stated that \$12 million is budgeted for 2010.

Commissioner Hoeffel asked if the County was fully funded. Randy answered by stating that we are actuarially underfunded due to the 5-year smoothing method and future liabilities.

Mr. Page asked for a risk analysis. Randy stated that if the pension was frozen, we would have enough assets to cover pension costs based on current payroll inflation and other assumptions. Commissioner Hoeffel commented that cutting payroll will reduce future liabilities.

Cornerstone returned to reviewing the quarterly reports. In August you can see huge numbers in a short period of time. Junk Rally was the cause with low quality securities appreciating very rapidly. The pension portfolio leans more towards high quality securities. Cornerstone believes that the market is ahead of itself. The County is 10% below its peer group but making \$0.50 on every \$1.00, according to Mr. Cowen.

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The target allocations have changed based on new investment policy. Logan Capital was sold and there was a reduction made in the Vanguard Short Term Fund. Additions were made to liquid alternatives. There is zero sign of inflation. If the market builds traction, it could see inflation growth down the road.

The County has met their benchmark for 3rd quarter performance. There is lagging by some active managers but that is normal according to Mr. Cowen. There is a broad market rally but it is speculative and there is a move to raise some cash by managers. The overall portfolio is up 14.9%, but only 50% of the portfolio is invested. In addition, Cornerstone has noticed some weakness with Gartmore and will be looking into it.

Mr. Cowen posed the question, "Do we play defense and preserve gains for actuarial impact, which involves some risk?"

Commissioner Hoeffel responded by saying that he would hate to plan for one point in time for the ARC payment, if the market is going up.

Next Mr. Karpuk turned to some administrative items that need attention. 1.) Since money markets have improved, Cornerstone recommends the County move from current Treasury Money Market back to Evergreen Institutional Money Market. They are back to yielding from 0 to 0.13%. 2.) He would like to modify the investment in REIT and change their policy. The Board would need to loosen restrictions on Simon Properties. 3.) Gartmore is the only manager we have at State Street. They are thinking of creating a mutual fund to simplify processes and have it become a line item at Wachovia, but this needs to be opened up for a deeper discussion.

It was so moved by Commissioner Castor to vote on the first item, seconded by Commissioner Hoeffel. The result was unanimous in favor of reverting back to Evergreen Institutional Money Market Fund. It was moved by Commissioner Castor to vote on the second item, which was also seconded by Commissioner Hoeffel. The vote was again unanimous in favor of loosening restrictions for Simon Properties.

Moving to old business, Commissioner Hoeffel asked if all securities are with Wachovia, except RBC and State Street. Tradewinds moved to RBC because Lou Guerra changed firms. Mr. Guerra's relationship is the only one with a finder's fee. Commissioner Hoeffel believes it is a good idea to keep everything together and wants to transfer Tradewinds to Wachovia.

Commissioner Matthews is completely opposed to this suggestion and asked how Mr. Guerra continuing to work with Tradewinds hurts the taxpayer.

Mr. Cowen explained that the cost is neutral. Tradewinds is part of the Rap Program, which requires a broker. He also mentioned that Lou Guerra does what he can to keep Cornerstone informed.

Mr. Karpuk said there is an issue with transferring Tradewinds to Wachovia. Tradewinds has many in Rap Program atmosphere. The board would need a new manager and take money away from Tradewinds.

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In order to keep Tradewinds the board would need to keep the current broker, RBC. Tradewinds is performing in the top 1% of their peer group.

Commissioner Hoeffel withdrew the motion and responded by saying Tradewinds is a good investment. However, he refers to the minutes from the previous meeting and notes that Tradewinds could have stayed with Merrill Lynch under a new broker. In his opinion a Retirement Board decision should be needed to move securities.

There was then a unanimous vote for ratification of the move so the securities can stay where they are.

On motion of Commissioner Hoeffel, seconded by Commissioner Castor, the minutes from the June 3rd meeting were unanimously approved.

Under new business, Mrs. Morgan updated the board about a new link on the Controller's web page for the Retirement Board. She would like to add a pension estimator to the intranet.

On motion of Commissioner Hoeffel, seconded by Commissioner Castor, it was unanimously approved to put out an RFP for a pension estimator without the vote of Commissioner Matthews.

The next agenda item regarding Fiduciary Liability was presented by Mr. Albert. The Solicitors Office surveyed the issue because of potential class actions. They received two responses with all appropriate disclosures:

- 1.) \$18,000/year \$3 million coverage
- 2.) \$20,000/year \$5 million coverage

Mr. Albert recommended option 2 so the Retirement Board is protected. Major funds have coverage, immunity does not always work.

On motion by Commissioner Hoeffel, seconded by Commissioner Castor, the purchase of option 2 was unanimously approved.

Mr. Albert continued onto to the next agenda item with regards to the DROP Program. The program is outside County Pension Law. There was an issue that was brought out of Bucks County that a county really cannot have the DROP Program. An appeal was taken to the Commonwealth Court. Act 44 says that DROP is now legal for a county. The DROP Program is currently being discussed with the County Detectives. It might be eliminated from the Detectives' contract. Negotiations look like they are going into arbitration.

Commissioner Castor asked if this would have a good financial impact on the Retirement Fund.

Mr. Albert replied by explaining that it is a benefit to the employee. However, the program is cumbersome. Legality was their principal issue. You could argue that it is good or bad. There is a little bit of a downside for the County. Employees benefit because they can make more money investing their pension.

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Mrs. Morgan then asked that the Retirement Board web link be accessible under the Departments page on the County web site. It was unanimously approved to add a link for Retirement on the Departments page.

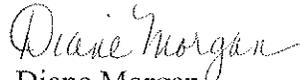
Finally, the board meeting ended with a presentation from an actuary, Chuck Freidlander. He believes his firm is filling a need for alternative actuarial services to Counties. His goal is to use innovation to provide old fashioned services. His firm is small and only wants to work with five to ten counties. There were references available from his current clients.

Commissioner Castor asked Mrs. Morgan when the actuary contract will be up for renewal. She replied by stating that it is renewed annually.

After Mr. Freidlander finished his presentation Commissioner Matthews let him know that the Retirement Board would look over his materials and get back to him.

Having no additional business to discuss before the board, on a motion by Diane Morgan, seconded by James Matthews, the meeting was adjourned at 12:00pm.

Respectfully Submitted,


Diane Morgan
Controller – Secretary