

# Montgomery County Employees' Retirement Board

## Meeting Minutes from Wednesday, December 2, 2009

A meeting of the Montgomery County Employees' Retirement Board was held on Wednesday, December 2, 2009 at 10:30am in the Commissioner's Conference Room, 8<sup>th</sup> 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: First Deputy Controller Kevin Hoke; Deputy Treasurer Ava Tuturice; Chief Operating Officer Robert Graf; Deputy COO James Maza; Finance Director Randy Schiabe; Retirement Manager Marisol Lezcano; Pension Accountant John O'Brien; Economic Development Director Kenneth Klothen; Executive Administrator to Commissioner Matthews Maureen Hayward; Executive Administrator to Commissioner Castor Sharon Cullen; Executive Administrator to Commissioner Hoeffel Jacqueline D Barnes

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

Members of the Media: Keith Phucas – The Times Herald; Margaret Gibbons – The Intelligencer

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

The quarterly report was presented by Cornerstone. The portfolio was making money mid quarter; 60% positive increase in 600 trading days. Mr. Cowen believes the rapid increase is masking a very fragile global economic position. The portfolio is defensive and he wants to maintain that defensive nature.

Cornerstone is very pleased with the way things are going; 13 out of the 15 financial managers beat their benchmarks in November 2009. October 2009 was an off month, but the fund still outperformed the market. The third quarter portfolio experienced a \$30 million change in market value and had an ending value of \$415 million. The growth is moving forward at a solid rate. Cornerstone added \$9 million to inflation hedges and has gotten them to where they want them to be. There is currently a 48% equity target. They would like to get some of the cash in portfolio to work and are looking at some structured notes which would add equity exposure.

Over the past three years 12 of the 14 financial managers have been in the top quartile; not a single manager was in the bottom quartile. Cornerstone favors a manager that leans toward quality stocks. According to their peer group ratings, Montgomery County's portfolio underperformed last quarter, but is in the top quartile for last the year, the last three years and the last five years.

The Harleysville transaction will close in February 2010 and there is a very good possibility that Cornerstone will become a private company.

According to the Asset Bubbles, there is a projected deficit. The US total debt is 10% of GDP. Within five years it will be 80% of GDP. Demands on the government will be astronomical. Cornerstone will maintain caution.

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Recently, Gartmore asked to move into a co-mingled product in which the County would absorb the major burden of starting the product. Cornerstone is thinking about terminating the relationship with Gartmore. They would take Gartmore's investments out and move them to another foreign firm at a later date after a manager search. Cornerstone is concerned about the size of the County's product and that it might not be getting the most attention. Gartmore was unable to explain why they underperformed. Cornerstone is also concerned about their business management.

Commissioner Castor made a motion to terminate Gartmore, seconded by Garrett Page. The vote was unanimous in favor of terminating the relationship with Gartmore.

Next, Garrett Page moved to approve the minutes from the last retirement board meeting, seconded by Chairman Matthews. The vote was again unanimous to approve the minutes from the meeting on September 30, 2009.

Hank Stiehl from The Hay Group presented information about the Annual Required Contribution (ARC). The actuary tried to apply some methods to lower the ARC. The Fund lost \$110 million in market value assets and gained back \$40 million. The market value is not back to where it was. The Fund needs more than just investment performance.

The latest ARC for 2010 is \$12.2 million, which is as low as possible. The following changes were made to reduce the ARC:

- 1.) Changed to the Asset Valuation Method, which makes the asset values higher.
- 2.) Changed to the Entry Age Funding Method, which lets you amortize liabilities over 30 years instead of 15 years in the Aggregate Funding Method.
- 3.) Lowered the Salary Assumption to 3.5% instead of the 4.5% that had been used

Had no changes been made the ARC for 2010, it would have been \$23 million. Commissioner Castor asked if the new methods could be used to lower the ARC for 2009. The answer by Hank Stiehl was yes, the ARC amount could be lowered by a couple million dollars. The new figures will be needed by next Wednesday, which Mr. Stiehl agreed to provide.

As of January 1, 2009 the actuarial present value of the Fund's liabilities was \$536 million and there will be an estimated \$580 million by January 1, 2010. The accrued liability was \$487 million as of January 1, 2009. The Pension Fund was 93% funded in 2009, which is excellent; 80% - 90% is average. In 2010 the Pension Fund will still be underfunded but relatively the same as 2009, somewhere in the low 90's, which is still excellent.

If the \$12.2 million contribution is made, it will not be reflected until January 1, 2011. It is not designed to get to a 100% funded ratio. Right now, no pension plans are 100% funded. If the \$12.2 ARC payment is not made, the County will start to have a Net Pension Obligation (NPO), which must be reported on the financial statements and will ultimately impact their bond ratings. Quite a few counties have NPOs but some have a negative NPO, which means they contributed more than the required ARC payment. It would have been helpful had the County contributed to the Fund during the years with \$0 ARC payments to cover the future bad years.

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Finally, there will be no cost of living increase for 2010.

Chairman Matthews thanked Garrett Page for his service to the board. Mr. Page responded by saying it was an honor to serve and he was glad to be of service.

Commissioner Castor introduced a resolution urging the Commissioners to provide funding for the County Pension Fund (see attached resolution dated December 2, 2009). It is his legal opinion as a fiduciary member that the Retirement Board continues to have a sound Pension Fund.

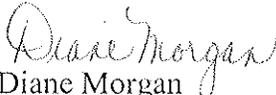
On motion by Bruce Castor to recommend to the Commissioners to take the advice of the Hay Group, seconded by Garrett Page, the resolution passed with a 4:1 vote.

In Favor: Bruce Castor, Garrett Page, Diane Morgan, Joseph Hoeffel

Apposed: James Matthews

Having no additional business to discuss before the board, on a motion by Joseph Hoeffel, seconded by James Matthews, the meeting was adjourned at 11:50am.

Respectfully Submitted,

  
Diane Morgan  
Controller – Secretary



**Resolution**  
**Retirement Board Meeting**  
**December 2, 2009**

On motion of Mr. Castor, second by Garrett Page

Be it resolved that the Retirement Board of Montgomery County hereby urges the Commissioners of Montgomery County to provide for funding for the County Pension Fund for 2009 in an amount consistent with the recommendation from the County's actuarial firm, The Hay Group, and develop a plan to meet the recommended contribution for 2010 should the need arise.

