

Montgomery County Employees' Retirement Board

Meeting Minutes from Tuesday, May 24, 2011

A meeting of the Montgomery County Employees' Retirement Board was held on Tuesday, May 24, 2011 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; Thomas Ellis, Treasurer

Also in attendance: First Deputy Controller Kevin Hoke; Deputy Treasurer Ava Tuturice; Finance Director Randy Schiabile; Solicitor Barry Miller; Assistant Deputy Solicitor Jeff Albert; Retirement Manager Marisol Lezcano

Outside Presenters: Malcolm (Skip) Cowen, Managing Director of Cornerstone

Secretary Diane Morgan called the meeting to order at 11:40am.

Cornerstone provided the first quarter review of the Retirement Plan. They are reporting a soft spot in the economic data. According to the Goldman Sachs the price of oil will rise to \$130 per barrel. Mr. Cowen advised that we could experience rising interest rates. However, when evaluating the recovery, the market is up 96% since March 2009.

The GDP numbers have come out, but will be revised two more times. If they are revised downwardly, then things will be serious. Leading indicators are down. Sovereign debt is an issue. In June we will experience the end of the second round of quantitative easing. The Plan is in a similar position as last year. Mr. Cowen anticipates a 10% correction, which will create buying opportunities. European banks have huge exposure and are still weak. Profit growth has started to slow and there is tightening happening around the globe. Japan has gone negative, while China is trying to slow down. The situation in other international markets is significantly worse.

The Retirement Plan's portfolio is perfectly positioned for a soft patch. It had been lagging behind but now that things are correcting, we will go to the top of the class. The portfolio could lag in peer group rankings. The hope is to have a soft summer and come back in the fall to be in position to add to equities.

The first quarter was a tremendous quarter with significant change in market value. As of 5/23/11 the Plan was valued at \$445,230,000. In terms of asset allocation the portfolio is divided as follows: Cash 10%, Fixed 25%, Domestic Equities 42%, International 11%, and Alternatives 12%. To raise liquidity, Cornerstone sold Piedmont, Calamos Convertibles, S & P and some fixed income. By raising cash, they purchased floating rate notes i.e. Nuveen Preferred Securities (NPSRX) in case interest rates rise. The timing was good for the transfers.

In comparison to peer group, the portfolio has more cash and 10% less equities. The equity market is large mega cap companies. The S & P was up 6%. The Retirement Plan lags at 3.01% to the benchmark index of 3.67%. The large caps are underperforming, while the small caps are doing great. The liquid alternatives are doing quite well.

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When comparing financial managers to peer groups, one year numbers show five managers are in the bottom quartile. However, those same financial managers are in the top quartile according to the three year numbers.

Commissioner Castor expressed concerns about Alex Brown. Mr. Cowen responded by explaining that they have turned around from three years ago.

Mr. Cowen characterized the portfolio with the following points:

- Big companies have been lagging.
- Now that the market is correcting, we are seeing our financial managers rise to the top.
- "What is important is not how much money you don't make in an up market, but how much money you make in a down market," according to Mr. Cowen.

In 2010 we saw rallying in the four quarters with 10.73% return and performing in the 78th percentile. The median was 13.62%. The portfolio's three year number is 4.5% and performing in the 24th percentile. The three median is 3.6%.

Commissioner Castor asked how the Plan's asset allocation compared to the peer groups and Mr. Cowen explained that the Plan is 10% under in equities. Castor commented that it seems to be working and Mr. Cowen replied that the portfolio is holding together well but it is costing money because it underperformed in the last year. However, it is guarded against getting hammered in the down market. He added, "You cannot play offense and defense."

Cornerstone has done things tactically to be prepared for three year economy by trying to use asset allocation. The risk statistics are prudent. However, a little less up-market capture was experienced than Cornerstone would have liked. They plan to add to more passive strategies.

The Plan is fully subscribed to Bio Advance and Cornerstone would like to start divesting. It is a mature private equity that is holding together well even though it is down 30%. It is still in business with operating companies. Mr. Cowen believes the Plan will get back the investment. Of the 12% of the portfolio that is invested in alternatives, 99% is in liquid assets, except Patriot and Bio Advance. Patriot is very slow, but starting to pick up activity. There will be more capital calls by the end of June.

Commissioner Castor asked about redefining risk and Mr. Cowen explained that he would be that there is not another retirement plan in the state with a better volatility rating.

On a motion by Chairman Matthews, seconded by Commissioner Hoeffel, the minutes of the February 1, 2011 meeting of the Board were unanimously approved.

Next Diane Morgan went over the list of law firms that are currently monitoring the Pension Plan holdings for possible securities litigation claims. Two new firms sent information packets to members of the Retirement Board requesting permission to monitor the Plan. After a brief discussion, it was determined that there was no downside because there is no cost to the Plan.

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On a motion by Commissioner Castor, seconded by Commissioner Hoeffel, Cohen, Placitella & Roth and Barrack, Rodos & Bacine were unanimously approved to monitor the Retirement Plan.

Having no additional business to discuss before the board, Commissioner Castor made a motion to adjourn the meeting, seconded by Chairman Matthews. The Retirement Board meeting was adjourned at 12:15pm.

Respectfully Submitted,


Diane Morgan
Controller – Secretary