

# Montgomery County Employees' Retirement Board

## Meeting Minutes from Tuesday, September 13, 2011

A meeting of the Montgomery County Employees' Retirement Board was held on Tuesday, September 13, 2011 at 11:00am 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; Thomas Ellis, Treasurer

Also in attendance: Director of Policy Steven Nelson; Chief Operating Officer Robert Graf; Deputy Treasurer Ava Tuturice; Finance Director Randy Schiabe; Solicitor Barry Miller; Assistant Deputy Solicitor Jeff Albert; Retirement Manager Marisol Lezcano; Pension Accountant John O'Brien; Director of Communications John Corcoran

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

Secretary Diane Morgan called the meeting to order at 11:10am.

Cornerstone provided the second quarter review of the Retirement Plan. Most of the year the market was doing well and the Retirement Board ran a conservative portfolio. The Fund was protected against the market correction. Third Quarter to date: S&P down 12%, Internationals down 17% and the portfolio is only down 5%. As the market declines we are losing money. The challenge actuarially is to manage the downward pressure on interest rates. The problem with low interest rates is they increase the actuarial liability of future benefits.

Last year the market was speculative and as soon as the market changed, financial managers began to do quite well. Inflation sensitive assets are doing great and making a lot of money. We are not in crisis mode.

Taking a macroeconomic perspective, bad politics and bad policy are not making things easier. Corporate balance sheets are clean and people are going to look at equities. The Fund is underweight for target on equities. Long term plan is to increase equities. Cornerstone anticipates seeing stocks in a pretty attractive class.

In terms of the global debt crisis, federal spending needs to be fixed and borrowing is unsustainable. The velocity of money has dropped substantially. With regards to the sovereign debt crisis, Cornerstone believes the government should be selling longer term bonds and locking in low interest rates.

High quality stocks have historically outperformed lower quality stocks. The Plan is making money during correction and also took money off the table just before the Dow fell. According to Cornerstone, we are right on target and underweight in international investments that are really getting pounded right now. The portfolio has recovered 90% by the end of the 2<sup>nd</sup> Quarter, which was a very positive quarter. It outperformed median of peer groups. The Fund is capturing 83% of an up market and 81% of a down market.

Cornerstone wants to sell preferred stocks and put a strategy in the portfolio that bets on the dollar. They would like to hedge from things getting worse and are going to bet against other currencies. Relative to everyone else, the dollar is doing better. The US does enough business with foreign banks to be impacted

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by their defaults, but other currencies are worse than we are. Mr. Cowen will send an email with possible scenarios.

On a motion by Chairman Matthews, seconded by Commissioner Hoeffel, the minutes of the May 24, 2011 meeting of the Board were unanimously approved.

Next Diane Morgan went over the Annual Required Contribution (ARC) for the Montgomery County Employees' Retirement System as determined by the actuary. The ARC for 2011 is \$9,318,649 and the current Net Pension Obligation (NPO) is \$15,550,436.

Under old business Chairman Matthews asked if the Plan is defensible against the current 4% interest rate that is paid on member contributions and the answer is no because according to the County Pension Law 4% is the statutory minimum.

Next Mrs. Morgan shared samples of the revised Pension Capsules that will be provided to new employees during orientations. The Retirement Board thought they looked good and no changes were recommended. Vice Chairman Hoeffel did comment that the pension statements are not accurate for those employees who might have breaks in service time. It was explained that there are bullet points explaining this handicap of the system.

Finally, Mrs. Morgan announced that the Retirement Manager, Marisol Lezcano, will be leaving the County as of September 30, 2011 and taking a position with Citizens Bank. Members of the board wished her well.

Having no additional business to discuss before the board, Chairman Matthews made a motion to adjourn the meeting, seconded by Vice Chairman Hoeffel. The Retirement Board meeting was adjourned at 11:55am.

Respectfully Submitted,

Diane Morgan  
Controller – Secretary