

**BOARD OF INVESTMENT TRUSTEES  
MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS**

MINUTES – OPEN SESSION  
March 20, 2009  
101 Monroe Street, 15<sup>th</sup> floor  
Rockville, Maryland

Board Members Present:           Kelda Simpson, Chair  
  Gino Renne  
  Lodge Gillespie  
  Meg Menke  
  Steve Farber  
  Joe Adler  
  Jeff Buddle  
  Jennifer Barrett  
  Walt Bader  
  George Willie  
  Sunil Pandya

Staff:                               Linda Herman  
  Marc Esen  
  Brad Stelzer  
  Stuart Potter

Others Present:                   Mark Brubaker, Wilshire Associates  
  Mike Dudkowski, Wilshire Associates  
  Brad Atkins, Franklin Park  
  Amy Moskowitz, Counsel to the Board

***CALL TO ORDER***

Ms. Simpson called the open session of the Board to order at 8:37 a.m.

***DETERMINATION OF MEETING***

The Board unanimously approved a motion to move into closed session at 8:38 a.m. for the purpose of discussing the investment of public funds, pursuant to Maryland Code, State Government Article, 10-508(a).

Ms. Simpson called the open session of the Board to order at 10:15 a.m.

**Approval of the Minutes:** The Board requested an editorial amendment to the minutes. Mr. Farber moved and Mr. Bader seconded and the Board unanimously approved the amended minutes of the January 23, 2009 meeting.

**Asset/Liability Modeling-Cash Balance Plan (GRIP):** Ms. Herman informed the Board that employees in the Retirement Savings Plan (RSP) have until June 1<sup>st</sup> to elect to participate in the new Guaranteed Retirement Income Plan (GRIP) and that those who elect will have their balances transferred on July 1, 2009. Mr. Brubaker presented Wilshire's assessment as to whether any changes should be made to the current ERS asset allocation in anticipation of approximately 50% of RSP participants transferring to the GRIP. He discussed the estimated benefit payment stream for participants in the RSP (based on their age, projected retirement dates, and balances) and apprised the Board on the distribution of market values under different return scenarios. Ms. Herman noted that Mercer will be conducting their annual actuarial valuation of the ERS at June 30, 2009 and that the actual number of employees who transferred to the GRIP will be included in the valuation. Wilshire confirmed that the current ERS asset allocation policy was appropriate for the GRIP.

**Annual Review - Real Assets:** Ms. Herman presented an overview of the real assets program and the ongoing implementation of the 25% target allocation established by the Board in 2007. Mr. Potter outlined changes in the inflation-linked bond market, the TIPS market environment, and presented the annual review of Bridgewater. Staff recommends the Board approve Bridgewater's request to adjust the benchmark by shifting 5% from Sweden to Euroland. After discussion, Mr. Gillespie moved and Mr. Bader seconded, and the Board unanimously approved the following resolution:

**0903-04      *Resolved, That the Board approves changing Bridgewater's custom benchmark to reflect a shift of 5% from Sweden to Euroland.***

Mr. Esen reviewed the 2008 market environment for commodities and presented an overview of the weightings of the managers' portfolios in each market sector versus the benchmark.

Mr. Stelzer discussed the ERS private real assets program and reviewed the annual commitment pace under various return scenarios. Staff recommended the Board consider targeting \$50 million in commitments during 2009, down from the \$100 million approved by the Board in September 2008, and that the Board continue to reevaluate the commitment pace annually. Mr. Stelzer also presented portfolio construction guidelines for real estate by property type and geography, and natural resources based on diversification potential and inflation-hedge capabilities. The Board discussed changing the benchmark for the private real asset portfolio from the NCREIF to the CPI + 500 basis points as recommended by Staff. After further discussion, Mr. Gillespie moved and Mr. Bader seconded, and the Board unanimously approved the following resolution:

**0903-05      *Resolved, That the Board approves changing the benchmark for the private real assets portfolio to the CPI + 500 and the investment guidelines for the sector as outlined in the presentation material.***

**Risk Management Program:** Ms. Herman briefed the Board on revisions to the due diligence and oversight procedures in certain areas implemented by Staff during the past year to strengthen the evaluation of operational risks and to mitigate and monitor them. Staff continues to evaluate best practices and will present the revisions to the policies in the next few months for Board approval. Ms. Herman discussed current work being conducted on the risk budgeting system, in conjunction with Bridgewater and Wilshire.

**Semi-Annual Risk Report & Amendment of the Derivatives Policy:** Ms. Herman noted that the Board's Derivatives Investment Policy requires individual counterparty exposure be limited to 5% of MCERS assets. As of December 31, 2008 the exposure to Deutsche Bank was 7.62% due to the reduction in the number of counterparties available and FX Concepts ending their swap with AIG in September and beginning to use Deutsche in November. Mr. Potter discussed the requirements of the Board's policy and the risk associated with counterparty exposure on a notional and profit and loss basis. After discussion, Mr. Farber moved and Mr. Renne seconded, and the Board approved, the following resolution:

**0903-06**      ***Resolved, That the Board approves the following changes to the Derivatives Investment Program:***

- **Increasing the limit for notional counterparty exposure to 10% of MCERS assets**
- **Limiting gross gain/loss exposure to each counterparty to 0.5% of MCERS assets**
- **If any counterparty exceeds either of the limits stated above, Staff will inform all managers that within 10 days of notification, no additional derivative exposure may be initiated with that counterparty until further notice unless the trades are being placed to reduce risk with the counterparty.**
- **Changing the derivative reporting requirement by managers to monthly.**

**Northern Trust Securities Lending Program:** Mr. Potter updated the Board on Northern's securities lending program and presented Staff's recommendation that the Board, as a risk control measure, lower MCERS' participation level in the program by continuing in the staged withdrawal process. After discussion, Ms. Menke moved and Mr. Farber seconded and the Board unanimously approved the following resolution:

**0903-07**      ***Resolved, That the Board approves continuing to participate in the securities lending program with Northern through the staged withdrawal process.***

**Stable Value Fund Options:** Ms. Herman presented an overview of the stable value providers offered in the Retirement Savings and Deferred Compensation Plans and issues being faced by both providers in the current market environment. Staff recommends that the Board expand Wilshire's current contract to include an analysis of the product offerings, evaluation of alternatives, and preparation of a recommendation. After discussion, Mr. Renne moved and Mr. Farber seconded and the Board unanimously approved the following resolution:

**0903-08**      ***Resolved, That the Board approves expanding Wilshire's current contract to analyze and quantify current risks in the stable value portfolios, evaluate alternatives, prepare a recommendation and conduct a search for a new provider, if warranted, for a fee of \$10,000.***

**Compliance & Audit Committee Report – Annual Vendor/Manager Disclosures:** Mr. Bader reviewed the minutes of the Compliance & Audit Committee meeting conducted on March 9, 2009 noting all Board members signed the annual affirmations. In addition, annual disclosures were received from all but two Board vendors. Ed Lattner, from the Office of the County

Attorney, discussed provisions of the Montgomery County Ethics Code relating to meals and/or gifts provided by vendors including vendor sponsored client conferences.

**Adelphia:** Ms. Moskowitz discussed the status of the Adelphia lawsuit initially brought by a former investment manager, W.R. Huff. Ms. Moskowitz explained that the court ruled that the ERS, along with W.R. Huff's other clients, must bring the claim against Adelphia. Because the law firm, Lowenstein Sandler, now directly represents the ERS, and Huff is no longer the Board's investment manager, the Board and the County Attorney's Office should sign a contract with Lowenstein, Sandler. The Board could also explore the possibility of independently settling its claims. Mr. Farber moved, and Mr. Willie seconded, and the Board unanimously approved the following resolution:

**0903-09      *Resolved, That the Board approves Lowenstein Sandler representing the ERS in the Adelphia lawsuit and directs staff and counsel to explore the possibility of a settlement.***

**Due Diligence & Continuing Education:** Ms. Menke noted that there were four requests for travel which required approval. Mr. Buddle moved, Ms. Menke seconded, and the Board approved the requests.

**Private Equity:** Mr. Atkins discussed the current private equity market environment and the impact the credit crisis and overall economic weakness has had on fundraising, the structure of new deals, and merger and acquisition activity. He reviewed the current portfolio commitments and manager performance.

The Board requested that Wilshire prepare a similar analysis for the next meeting.

There being no further business of the Board, the open meeting session was adjourned at 12:45 p.m.

Respectfully submitted,

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Joseph Adler, Secretary