

Retirement Board Meeting
September 2, 2014

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| Present: | Commissioner | Douglas Lengenfelder Mark Wissinger Thomas Chernisky |
| | Controller | Ed Cernic, Jr. Kristine Segear Dana Descavish |
| | Treasurer | Lisa Kozorosky |

Commissioner Lengenfelder called the Special Retirement Board meeting to order at 11:04 a.m.

Motion was made by Lisa Kozorosky to approve the minutes from the Retirement Board meeting held on August 4, 2014. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0.

Old Business:

1. The board discussed the language for a policy for board members to participate by phone at a retirement board meeting when they are not available. The need for this policy was due to the last retirement board meeting when two members were absent and participated in the meeting by phone. The Commissioner's solicitor Tom Leiden was questioned as to whether or not the votes counted. The solicitor advised that the votes count because nothing in the act says that they can't, but he recommended that a policy be established on members participating by phone. As secretary of the retirement board, Ed Cernic drafted policy language. The language would allow a member to participate by phone in an emergency situation when a quorum is needed and that only one member who is participating by phone would be allowed to vote. Board member Lisa Kozorosky was in agreement with a policy being established and the language. The board discussed the language and the need for a policy. After not being able to come to an agreement on the policy itself and the language, the board agreed to table the discussion for a future decision.

New Business:

1. Thornburg – At the board's August 4th meeting, the Board voted to remove \$7 million from Thornburg's \$12 million leaving \$5 million under their management. After further underperformance and the firm's recent changes in key personnel positions, the board consultant, Frank Burnette, emailed a recommendation to the board. That email prompted the special retirement board meeting today. Frank Burnette was unable to attend the special meeting, but did participate in the meeting via phone. Frank advised the board that based on the newly announced key employee change and the additional several months of underperformance, he now recommends that the board be terminated in its entirety. The board discussed the recommendation and Frank advised the board of the following information.

It should be noted that the Fund's other foreign equity manager is GMO where we now have approximately \$19 million invested which represents 10% of the Fund's total assets. With GMO's account balance already high, this Consultant feels uncomfortable with adding the additional Thornburg sale proceeds to GMO's management. Therefore, it is this Consultant's recommendation that we invest this \$5 million from Thornburg and an additional \$5 million from GMO's Foreign Equity Mutual Fund into the Vanguard International Growth Equity Mutual Fund. In this scenario, GMO would then manage \$14 million and Vanguard would then manage \$10 million which represents a fair diversification in this important \$24 million asset class. In terms of investment management fees, Thornburg currently charges 65 bps, GMO charges 74 bps and Vanguard charges just 35 bps. So Vanguard carries a material fee schedule advantage. If adopted, these changes would save the Fund approximately \$35,000.00 annually. In making this recommendation, please trust that this Consultant has considered other foreign equity offerings including Dimensional Fund Advisors, Harbor International, Thomas White International, and Wentworth. We believe that the Vanguard option is the best fit for the County because of Vanguard's multi-manager approach consisting of 3 independent foreign equity managers, all domiciled in Europe, which include Baillie Gifford, M&G Investment management, and Schroder Investment Mgmt. This fund has a large cap, growth tilt which complements the County's other existing foreign manager, GMO and their slight value tilt. As of 7-31-14, the Vanguard fund held 179 individual holdings, well diversified by geographic region and industry sector, with a 19.1% emerging markets weighting. Lastly, Vanguard's investment management fee is a highly

competitive 35bps. It should also be noted that Vanguard's past investment performance has exceeded its foreign equity benchmark over most time periods but has not necessarily excelled to the top quartile. However this recommendation is consistent with this Consultant's philosophy that we should not "chase" high performing managers at the "apex of their performance record" as this superior performance has a great tendency to regress back to the averages over time. Instead, we encourage selection of managers based on their research teams, their investment process and the consistency of their organization.

- Ed Cernic made the motion at the recommendation of the consultant to terminate Thornburg and invest the \$5 million from Thornburg and an additional \$5 million from GMO's Foreign Equity into the Vanguard International Growth Equity Mutual Fund. Motion was seconded by Thomas Chernisky. Motion carried. Vote unanimous 5-0.
2. The Retirement Board meeting scheduled for Thursday, September 25, 2014 will be canceled due to conflicting schedules. Business at that meeting will be handled at the next monthly meeting on October 23, 2014. The meeting will be held in the Commissioner's meeting room, 3rd floor after the 10:00 a.m. Commissioner's Meeting.

Motion was made to adjourn the meeting by Mark Wissinger. Motion seconded by Thomas Chernisky. Motion carried. Vote unanimous 5-0. Meeting adjourned at 11:20 a.m.

Ed Cernic, Jr.