HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
HOWARD COUNTY RETIREMENT PLAN

JOINT MEETING OF THE RETIREMENT PLAN COMMITTEES

October 23, 2014

A joint meeting of the Retirement Plan Committees for the Howard County Police and Fire Employees' Retirement Plan (the "Police and Fire Plan") and the Howard County Retirement Plan (the "Employees Plan") (jointly, the "Plans") was held on Thursday, October 23, 2014 at 1:30 p.m. in the Columbia/Ellicott City Room at the George Howard Building, 3430 Court House Drive, Ellicott City, Maryland 21043.

Police and Fire Plan:

Members Present:

Acting Human Resources Administrator: Wanda Hutchinson
Director of Finance: Stanley Milesky
Budget Administrator: Ray Wacks
Representative, Police Department Supervisory Employees:
Jason Luckenbaugh (Non-Voting Member in Fiscal Year 2015)
Representative, International Association of Firefighters, Local 2000:
Richard Ruehl

Members Absent

Chief Administrative Officer: Lonnie Robbins
Representative, Fire and Rescue Supervisory Employees:
Joseph L. Calo, II (Voting Member in Fiscal Year 2015)
Representative, Howard County Police Officers' Association, Lodge 21:
Mark Thomey

Employees Plan:

Members Present:

Acting Human Resources Administrator: Wanda Hutchinson
Deputy Director of Finance: Rafiu Ighile
Budget Administrator: Ray Wacks
Representative, American Federation of State, County and
Municipal Employees Local 3080: Kim Drennon
Representative, American Federation of State, County and Municipal
Employees Local 3085: Dale R. Chase

Members Absent

Chief Administrative Officer: Lonnie Robbins

Also present for all or a portion of the meeting were:

Steve Peters, County Auditor's Office
Sima Taghavi, Department of Finance
Eric Ralph, Summit Strategies Group
Paul W. Madden, Whiteford, Taylor & Preston L.L.P.
Terry Reider, Retirement Coordinator, Office of Human Resources
Chuck Lindenberg, Representative of Local 3085
One Member of the Public

Wanda Hutchinson acted as Chair of the meeting and Paul Madden acted as Secretary. The minutes of the September 26, 2014 meeting of the Joint Committee were unanimously approved.

It was noted that this will be Ray Wacks' final meeting as a member of the Committees. The Joint Committee thanked Ray for his many years of leadership and service.

Wanda Hutchinson reported on the process for selecting an employee representative to replace Nicole Griffith. Two candidates have expressed interest in the position. They will be interviewed by the Pension Oversight Commission next week. The Pension Oversight Commission will make recommendations to the County Executive.

Wanda also indicated that a full report on providing iPads for members of the Committee would be presented at the next meeting.

Scott Kemper made a presentation on behalf of LSV Asset Management. LSV is the large cap value manager for the Master Trust. LSV's investment process relies on an analysis of quantitative value indicators and momentum factors to reach an expected return. Its "buy-list" are those stocks in the top 15% based on expected return. Stocks are sold when they move out of the top 40% based on expected return or when the stocks have excessive weight in the portfolio. The process ranks a broad universe of stocks and seeks to invest in 100 to 125 stocks. There are strict risk parameters to control the portfolio's tracking error relative to the benchmark.

The Master Trust has invested in LSV's large cap value equity portfolio since May of 2000. The market value of the Plans' investment with LSV is $50.3 million. On an annualized basis, LSV has returned 10.2% as compared with the annualized return of the Russell 1000 value index, which was 6.7% over the same period. The cumulative return is in excess of 300%. The one-year return for the year ending September 30, 2014 was 21.2% as compared with the benchmark return of 18.9%. Mr. Kemper noted that the portfolio has a

deep value and smaller cap bias and that holding periods for stocks average three to five years.

After completing his presentation and addressing questions of the Committee and consultants, Mr. Kemper left the meeting.

Next, Andrea Morse and Hamlen Thompson provided the report of Westfield Capital Management on the Master Trust's investment in Westfield's large cap growth fund. Westfield has $17.0 billion in assets under management and 61 employees. The firm specializes in growth equities across the market capitalization spectrum.

Westfield's equity philosophy is to invest in companies with accelerating or underappreciated earnings growth. Westfield uses fundamental research to identify inefficiencies and investment opportunities. Hamlen Thompson noted that Westfield had a "horrible" 2011. He indicated that Westfield invested in good companies but did not have a good portfolio because all of Westfield's large holdings were correlated in 2011.

The market value of the Plans' investment with Westfield is $49.1 million. Since inception (June 30, 2010), Westfield has an annualized return of 19.25% which is lower than the benchmark Russell 1000 growth index performance of 19.76%.

After completing their presentation and addressing questions from the Committee and consultants, Mr. Thompson and Ms. Morse left the meeting.

Next, Rafiu Ighile and Eric Ralph provided the Committee with the report and recommendations of the Investment Subcommittee. Rafiu stated that the Subcommittee convened earlier that morning to interview two private equity fund of fund managers: Drum Capital Management ("Drum") and Neuberger Berman ("NB"). Members of the Joint Committee confirmed that they have no relationships with either Drum or NB and that no representative of Drum or NB contacted them in connection with the Joint Committee's decision. Eric Ralph noted that the private equity commitment model prepared by Summit Strategies and approved by the Joint Committee calls for a $15 million commitment to a distressed debt or special situations manager in 2014. During the July, 2014 meeting, Summit Strategies recommended that the Committee interview Drum and NB. These were the two firms in Summit's top tier in the area of distressed debt and special situations. After hearing presentations by Drum and NB, the Investment Subcommittee unanimously recommended that the Master Trust make a $15 million commitment to the NB fund.

Rafiu indicated that it was the consensus of the Subcommittee that both firms were highly qualified and likely to do an excellent job as fund of fund managers. The biggest differentiator was the fees. Because of the fee structure and some additional discounts, the NB fee will be approximately 48 basis points lower than Drum's fees. This results in a savings of $70,000 annually.

After discussion, and upon motion duly made, seconded and unanimously approved it was

> RESOLVED that the Committee adopts the recommendation of the Investment Subcommittee to make a commitment of $15 million to the NB Crossroads XXI Special Situations Fund, subject to legal review and completion of due diligence.

Eric Ralph also noted that Summit recommended an allocation during 2015 to one or two small buy-out funds of funds. This is in accordance with the commitment schedule.

Eric noted that the Master Trust has made commitments in the past to two small buy-out funds of funds: Adveq Europe V (2012) and with FLAG Private Equity V (2013). Both FLAG and Adveq are still in Summit's top tier of small buy-out fund of funds managers. Both managers are offering new funds of funds and have offered the Master Trust early closing discounts. After discussion, and upon motion duly made, seconded and unanimously approved, it was

> RESOLVED that the Committee will make commitments of $15 million to the FLAG Private Equity VI fund of funds and $7.5 million to Adveq Europe VI, subject to completion of due diligence and legal review.

Next, Eric reviewed the Asset/Liability Study prepared by Summit Strategies Group for the Employees Plan, the Police and Fire Plan and the combined Plans. The key findings on a combined Plan basis are as follows: As of July 1, 2013, net cash flow was 2.5% of assets as a result of contributions exceeding benefit payments by $15.9 million. On a combined basis, benefit payments, which were $28 million for the year beginning July 1, 2013 are expected to reach $74 million for the year beginning July 1, 2023. Projected yearly contributions as a percent of payroll are expected to fall from 21% to 18% by the end of the 10 year projection period, as payroll growth is expected to exceed employer contribution growth.

Net cash flow is positive the first five years of the projection period but negative thereafter. Eric noted that net cash flow as a percentage of market value of assets is a measure of the liquidity needs of the Plans. Negative net cash flow will need to be covered by income generated by the portfolio or by liquidation of assets.

The actuarial accrued liability of the combined Plans is $803 million and is expected to rise to $1.553 billion by July 1, 2024. The funded status of the combined Plans (79%) is expected to improve to 99% by the end of the projection period. However, Eric noted that the projection of 99% funding level as of July 1, 2024 is based on an assumed annual return of 7.5%. Eric pointed to the chart on page 19 of the study which shows the funding levels and the employer contribution percentages associated with various assumed rates of return.

Next, Eric reviewed the capital market assumptions. The asset class assumptions use a 10 year investment time horizon and are net of fees. Eric noted that most asset classes are not expected to return 7.5%. The 10 year expected return based on the Plans' current target allocation is 6.9% with a standard deviation of 10.2%. Eric pointed to the charts on pages 22 through 24 which show the 10 year expected return of various target allocations. Eric noted that the introduction of some additional asset classes could increase the 10 year expected return without increasing volatility. Members of the Committee indicated their willingness to learn about these new asset classes. Eric indicated that he would continue the discussion at the next meeting.

Next, Sima Taghavi presented the Statements of Revenue and Expenses (Budget vs. Actual) as of June 30, 2014 for each of the Plans and presented the Estimated Revenues and Expenditures for the fiscal year ending June 30, 2015.

The Subcommittee unanimously approved the budget. The Committee was reminded that the next meeting will take place on December 3, 2014 in the Ascend I Building.

There being no further business, the meeting adjourned.

Respectfully submitted,

Paul W. Madden
Secretary of the Meeting

2116046