

BOARD OF INVESTMENT TRUSTEES
Montgomery County Public Schools Employees'
Pension and Retirement System

MINUTES OF THE QUARTERLY MEETING

February 12, 2016
Carver Educational Services Center
Room 127
850 Hungerford Drive
Rockville, Maryland 20850

Board Members Present: Susanne DeGraba, Chair
Bob Doody
Joanne Hill
Craig Pernick
Monte Tarbox
Ted Urban, Vice Chair
Andrew Zuckerman

Others Present: Marisa Grant
Susan Lau
Kristen Doyle, Aon Hewitt Investment Consulting
PJ Kelly, Aon Hewitt Investment Consulting
Scott Scharfman, Mill Road Capital

Call to Order/Review of Minutes

Susanne DeGraba called the meeting to order at 8:30 AM. The Board reviewed the minutes of the November 20, 2015 meeting. The list of attendees at the meeting was amended to reflect Bob Doody's absence. A motion was made for the approval of the minutes as corrected and it was seconded. The Board unanimously approved the minutes.

Performance Review/2016 Outlook

Kristen Doyle reviewed the performance of the capital markets 2015 and year-to-date 2016. Equities were down, generally, for the year with domestic equities outperforming international equities which in turn outperformed emerging market equities. Similarly, the riskier sectors in fixed income markets also saw the greatest spread widening over the course of the year. The best performing sector for 2015 was core real estate where continued economic growth and improving property fundamentals supported returns. Ms. Doyle detailed the performance of individual investment managers who either delivered strong performance for the year or experienced more difficulty keeping pace with the volatility in the markets.

For the full-year 2015, the total fund edged up 0.1% exceeding the policy benchmark return of

-0.9% and matching the return of the secondary policy benchmark. This was the result of the alternatives portfolio's 3.0% return for the year which exceeded the returns of the primary and secondary benchmarks, -0.9% and 2.8% respectively. The market value for the pension was \$1.413 billion at year-end with contributions and investment earnings exceeding withdrawals by \$15.8 million.

In January, Aon downgraded Owl Creek Overseas Fund, the event-driven/distressed hedge fund in which the pension is invested. The downgrade was driven by concerns about the fund's future return profile following continued turnover on the portfolio manager/research team. This was followed by a detailed discussion by the Board. Given the nature of the lockup of the investment, the Board directed staff to continue to monitor the manager and fund flows. The Board will revisit the investment at each subsequent meeting before the next fund opening.

At the request of Trustees during the November meeting, Aon and staff had discussed changing the names of the benchmarks in the investment policy statement for improved clarity. Ms. Doyle recommended renaming the primary benchmark the "policy benchmark" and the secondary benchmark the "secondary policy benchmark". The Board accepted the recommendation.

Mill Road Capital

Scott Scharfman of Mill Road Capital presented to the Board. The pension is invested in the private equity firm's second fund whose strategic focus is on identifying public microcap (less than \$500 million in market value) companies that are attractive candidates to take private. Mr. Scharfman elaborated on the firm's investment team, deal sourcing, the market environment and exit strategy. Mr. Scharfman also discussed in detail the companies in which the fund has taken an ownership position.

2016 Outlook

Ms. Doyle and PJ Kelly presented the outlook for the remainder of 2016 and the investment strategies that Aon favors as tactical opportunities for funds over the medium-term. A detailed discussion ensued. Ms. Doyle and Mr. Kelly left the meeting.

General Discussion

Staff presented the monthly reports showing the pension cash flows and also updated the Board on the expected RFP for the consultant as a part of the normal 3-year review cycle.

Next Meeting

The next quarterly meeting is scheduled for Friday, June 10, 2016 in Room 127 of the CESC.

Upon a motion duly made and seconded, the meeting was adjourned at 12:05 PM.

Respectfully submitted,
Marisa Grant

BOARD OF INVESTMENT TRUSTEES
Montgomery County Public Schools Employees'
Pension and Retirement System

MINUTES OF THE QUARTERLY MEETING

June 10, 2016
Carver Educational Services Center
Room 127
850 Hungerford Drive
Rockville, Maryland 20850

Board Members Present: Susan Chen
Susanne DeGraba, Chair
Bob Doody
Joanne Hill
Craig Pernick
Monte Tarbox
Andrew Zuckerman

Others Present: Marisa Grant
Susan Lau
Kristen Doyle, Aon Hewitt Investment Consulting
PJ Kelly, Aon Hewitt Investment Consulting
James Leder, Brigade Capital
Greg Soder, Brigade Capital

Call to Order/Review of Minutes

Susanne DeGraba called the meeting to order at 8:30 AM. The Board reviewed the minutes of the February 12, 2016 meeting. A motion was made for the approval of the minutes as corrected and it was seconded. The Board unanimously approved the minutes.

Election of Officers

The officers of the Board serve a one-year term that coincides with the plan year. The Board voted unanimously to re-elect Sue DeGraba as Chair, Ted Urban as Vice-Chair and Marisa Grant as secretary.

Performance Review/2016 Outlook

Kristen Doyle reviewed the performance of the capital markets for the first quarter of 2016. The beginning of 2016 marked the third most volatile start to a year in the public markets since the 1920's. AHIC continues to not see the environment as one where the portfolio would want to take on additional duration risk. The firm expects that interest rates will rise, albeit gradually. For the first quarter the total fund returned 0.8% slightly behind the policy benchmark return of 1.1%. For

the first nine months of fiscal 2016, the total fund declined 1.2% which was a smaller decline than the -2.0% return for the policy benchmark. Real estate continued to be a strong contributor to total fund performance while the hedge fund portfolio was disappointing based on manager specific results. The market value for the pension was \$1.410 billion as of March 31.

Aon Hewitt has downgraded BlackRock Granite fund to a qualified rating (it previously had been a buy). The pension has been invested in the Granite fund since January 2008. Ms. Doyle discussed the reasons for the downgrade and the Board reviewed the overall strategy for the real estate allocation of gradually remixing the weight in the portfolio towards noncore real estate managers. A detailed discussion ensued about timing of anticipated cash flows and manager concentration. After motion was duly made and seconded, the following resolutions were unanimously approved:

RESOLVED, that the Montgomery County Public School Retirement System Trust request a full redemption of its holdings in BlackRock Granite Fund; and

RESOLVED, FURTHER, that the expected proceeds be directed to UBS Trumbull Property Fund until directed otherwise by the Board; and

RESOLVED, FURTHER, that the Chief Investment Officer, Marisa Grant, be hereby authorized and directed, in the name and on behalf of the Trust, to take such further action and execute such documents deemed necessary, appropriate and advisable to implement the foregoing resolutions.

Brigade Capital

James Leder and Greg Soder provided a review of Brigade Capital and the Brigade Credit Fund in which the pension has been an investor since October 2013. The firm sole focus is credit related strategies and it currently has assets under management of \$16.5 billion. Mr. Soder and Mr. Leder discussed the developments in the credit markets with respect to liquidity, the ebb and flow of demand by significant market participants and how these developments have shaped the positioning of the fund.

Next Meeting

The next quarterly meeting is scheduled for Friday, September 23, 2016 in Room 127 of the CESC.

Upon a motion duly made and seconded, the meeting was adjourned at 11:15 am.

Respectfully submitted,
Marisa Grant

BOARD OF INVESTMENT TRUSTEES
Montgomery County Public Schools Employees'
Pension and Retirement System

September 30, 2016
Carver Educational Services Center
Room 127
850 Hungerford Drive
Rockville, Maryland 20850

Board Members Present: Haydee Celaya
Susan Chen
Susanne DeGraba, Chair
Bob Doody
Joanne Hill (by phone)
Craig Pernick (by phone)
Monte Tarbox (by phone)
Ted Urban
Andrew Zuckerman

Others Present: Marisa Grant
Susan Lau
Kristen Doyle, Aon Hewitt Investment Consulting
PJ Kelly, Aon Hewitt Investment Consulting

Call to Order/Review of Minutes

Susanne DeGraba called the meeting to order at 9:30 AM. The minutes of the June 10 meeting were reviewed. A clarification was made to the language on Aon Hewitt's outlook for taking duration risk. A motion was made for the approval of the minutes as amended and it was seconded. The Board unanimously approved the minutes.

Investment Consultant

The Board reviewed the additional information provided by the finalists. The Board discussed the long-term performance of the pension investment portfolio, the changes made to the portfolio over the past five years and the portfolio's current composition, the likelihood of additional resources being allocated to staff, the expectations of where the consultant would be needed to supplement staff, and the feedback received from reference checks. The Board also considered the finalists' track records with respect to adding value to client portfolios, the cost proposals, and the potential disruption caused by any transition. After a lengthy discussion of all of the information received including input from staff and a motion was duly made and seconded, the following resolutions were unanimously approved:

RESOLVED, that a recommendation be made that the contract to provide investment consultant services to the Board of Investment Trustees of the Montgomery County Public School Retirement System Trust be awarded to NEPC, LLC; and

RESOLVED, FURTHER, that the Chief Investment Officer, Marisa Grant, be hereby authorized and directed, in the name and on behalf of the Trust, to take such further action deemed necessary, appropriate and advisable to implement the foregoing resolution.

Performance Review/Manager Updates

Kristen Doyle and PJ Kelly joined the meeting. Ms. Doyle discussed the performance of the portfolio in the second quarter and the performance for July. The sharp declines in the global equity markets following the late June vote on Brexit were largely reversed in July. Performance in the bond markets was strong due to spread tightening and declining interest rates. Within the alternatives portfolio, the private equity and real estate managers collectively delivered strong performance. For the fiscal year 2016 ending June 30, the total pension portfolio return was -0.3%, 0.6% higher than the -0.9% return for the policy benchmark. The fiscal year return was 0.2% higher than the secondary policy benchmark of -0.5%. The policy benchmark is a blended index that represents 2/3 the MSCI ACWI IMI index and 1/3 the Intermediate Barclays Aggregate Index. The secondary policy benchmark consists of underlying indices that reflect the various strategies used by the managers in the alternatives portfolio. For the three years ended June 30, the pension portfolio delivered a return of 5.4% versus a 5.3% return for both the policy and secondary policy benchmarks.

Aon Hewitt and staff updated the Board on developments at several managers. Alphadyne, the macro hedge fund in which the pension is invested, announced that it will be restructuring the fund and the partnership. The transition will take place over the next two years. The Board discussed the fund's reason for the change and the possible effects on the fund's risk/return profile given the eventual departure of the team based in Singapore. The Board also received an update on the York Credit Opportunities Fund which has recently undergone a re-rating review at Aon Hewitt. The Buy rating has been reaffirmed. The Board also discussed developments at the Granite Fund. The Fund's redemption request will take a longer period to fulfill than originally anticipated.

Owl Creek

The Board revisited a review of Owl Creek. In January, Aon downgraded Owl Creek, the event-driven/distressed hedge fund in which the pension has been invested since 2011. Aon Hewitt and staff discussed what has transpired with the fund since the downgrade. The Board discussed the rationale for the downgrade. After a motion was duly made and seconded, the following resolution was unanimously approved:

RESOLVED, that the Montgomery County Public School Retirement System Trust request a full redemption of its holdings in Owl Creek II, Ltd; and

RESOLVED, FURTHER, that the Chief Investment Officer, Marisa Grant, be hereby authorized and directed, in the name and on behalf of the Trust, to take such further action and execute such documents deemed necessary, appropriate and advisable to implement the foregoing resolutions.

Staff Update

Sue DeGraba has served as a Trustee since 2002 and as chair of the Board since 2013. Mrs. DeGraba announced that she will be retiring as of December 1. Several trustees expressed their deep appreciation of Sue's contribution to the Board and its accomplishments over the years.

Upon a motion duly made and seconded, the meeting was adjourned at 11:00 a.m.

Respectfully submitted,
Marisa Grant

BOARD OF INVESTMENT TRUSTEES

Montgomery County Public Schools Employees'
Pension and Retirement System

November 18, 2016
Carver Educational Services Center
Room 127
850 Hungerford Drive
Rockville, Maryland 20850

Board Members Present: Susan Chen
Susanne DeGraba, Chair
Joanne Hill
Craig Pernick
Monte Tarbox
Ted Urban
Andrew Zuckerman

Others Present: Marisa Grant
Susan Lau
Kristen Doyle, Aon Hewitt Investment Consulting (phone)
Joseph Romanies, Aon Hewitt
Thomas Vicente, Aon Hewitt

Call to Order/Review of Minutes

Susanne DeGraba called the meeting to order at 8:30 AM. The minutes of the September 30 meeting was reviewed. A motion was made for the approval of the minutes and it was seconded. The Board unanimously approved the minutes.

Election of Officers

The officers of the Board serve a one-year term that coincides with the plan year. Sue DeGraba, Chief Financial Officer of Montgomery County Public Schools, is an ex-officio member of the Board. Ms. DeGraba was elected to serve another term as Board chair beginning July 1, 2016 however she will retire on December 1. After a motion was made and duly seconded the following resolutions were unanimously passed:

RESOLVED, that Ted Urban serve as chair of the Board of Investment Trustees for the remainder of the plan year; and

RESOLVED, FURTHER, that Susan Chen, serve as vice chair of the Board of Investment Trustees for the remainder of the plan year.

Performance Review/Manager Updates

Kristen Doyle summarized the market environment in the third-quarter which was characterized by strong equity returns driven by international and emerging markets equities. Bond prices started to move lower reflecting firming beliefs that the Federal Reserve would continue to increase the fed funds rate. For the quarter ending September 30, the pension portfolio return was 3.6%, 0.2% lower than the 3.8% return for the policy benchmark. The policy benchmark is a blended index that represents 2/3 the MSCI ACWI IMI index and 1/3 the Intermediate Bloomberg Barclays Aggregate Index. The portfolio was essentially in line with the secondary policy benchmark which had a 3.5% return for the quarter. The secondary policy benchmark consists of underlying indices that reflect the various strategies used by the managers in the alternatives portfolio. The alternatives portfolio returned 2.4% for the quarter, 1.3% lower than the primary alternatives benchmark which is the policy benchmark and 0.30% lower than the secondary alternatives benchmark.

Actuarial Report

Tom Vicente and Joe Romanies from Aon Hewitt presented the most recent actuarial valuation. Mr. Romanies and Mr. Vicente reviewed the changes in the participant data that affected the actuarial estimates. As of July 1, 2016 the funding ratio based on the actuarial value of assets had improved to 81.0%. Based on market value of assets, the funding ratio slipped to 76.6% from 79.5%. Mr. Romanies and Mr. Vicente also reviewed the three components that determine the recommended MCPS contribution to the pension. These are normal cost, expenses, and amortization. The decline in the overall contribution percentage to 4.11% of payroll versus 4.18% of payroll in the previous year was largely due to changes in amortization. The Board asked about the assumptions and discussed the results.

Investment Return Assumption

The Investment Policy Statement includes an objective of managing plan assets prudently so that the investment return is maximized utilizing reasonable levels of risk in order to meet or exceed the targeted 7.5% actuarial rate of return. That actuarial rate of return is determined by the Montgomery County Public Schools Board of Education. The Board discussed the probability of consistently achieving the existing 7.5% target in the future. Various factors including expectations of inflation, interest rates, and demographics reduce the likelihood that a 7.5% return could be achieved with prudent levels of risk for a pension plan. Upon a motion made and duly seconded the following resolution was unanimously approved:

RESOLVED, that Staff draft a letter on behalf of the Board of Investment Trustees addressed to the Fiscal Management Committee recommending that the Committee consider the reduction of the assumed investment rate of return for the pension plan; and

RESOLVED, FURTHER, that Staff circulate the letter for review by the Board and Staff is to consider the letter approved by a trustee if no comments are received by him or her.

Staff Update

Marisa Grant discussed some changes to the Open Meeting Act which could affect the Board. The Board discussed the issues and requested that the general counsel come to a meeting to provide more advice on the matter.

Ms. Grant reviewed changes in the monthly plan assets. Ms. Grant noted that some of the holdings in illiquid securities were legacy securities that remained in the trust after the termination of former investment managers. Staff had worked with the custodian BNY Mellon to identify the holdings in that account which could be sold. A sale would require that the pension open a brokerage account. The Board discussed how to structure the account to have proper controls to manage the account. Upon a motion made and duly seconded the following resolution was unanimously approved:

RESOLVED, that Montgomery County Public Schools Retirement System Trust open a brokerage account at its custodian bank BNY Mellon; and

RESOLVED FURTHER, that Chief Investment Officer, Marisa Grant, be hereby authorized and directed, in the name and on behalf of the Trust, to take such further action and execute such documents deemed necessary, appropriate and advisable to implement the foregoing resolution.

Open Discussion

The Trustees discussed a bill introduced before the Montgomery County Council that would direct the County pension and the County consolidated health benefits trusts to divest from certain fossil fuel companies in certain accounts. The Trustees discussed the possible implications for the Trust and whether the Trust should work to adopt an ESG policy. The Trustees requested that an educational item be added to the agenda in the coming year to discuss this issue further.

Upon a motion duly made and seconded, the meeting was adjourned at 11:00 a.m.

Respectfully submitted,
Marisa Grant