Lower Saucon Township
Pension Advisory Committee Meeting

Meeting Minutes March 13, 2013

Roll Call:

Present: Molly Bender, Lou Mahlman, Cathy Gorman, Director of Finance, Jack Cahalan, Township Manager, Priscilla DeLeon, Council Liaison, Joe Scott and Peter Butera, PSAB.

Absent: Mary Curtin and Christopher Leidy

1. **MRT Report-Joe Scott**

Joe Scott said I focused on the yearend report and the administrative fees for the pension plans. I did the calculations and found them to be in line, about 75 basis points, where they should be. Unless there are questions for me, I have nothing further to report at this time.

Peter Butera said the first two months of 2013 have generated $700,210.00 in interest and dividends, stocks have appreciated by $4,739,198.00, adding about $5.4 million in growth, which is 3.36%. The average balance portfolio is up about 3% in universe and the stock market is up about 5-6%. Jack said you are talking about PSAB/MRT as a whole. Peter said yes. The balance for PSAB is up to $167million, making new records in growth. In the year 2012, we had interest and dividends totaling $4,334,558.00 and stocks appreciated by $8,441,573.00, generating a growth of a approximately $12.7million, which is 8.81%. The plan is up 146%, cumulatively, on the consulting basis, since 1997. We have generated $49,423,397.00 in dividends, appreciated the stock portfolio $39,780,028.00, and, combining those two, we have growth of over $89million.

Peter said the stock market is about an 18% standard deviation for the managers' portfolio. Your plan is a little less than 10%, about half the risk of the market. The return is a 5-6 year period of time and still higher than the market with less than half the risk. I tell people the return you get is important, but the amount of risk you are taking is very important on how you are getting that return. You are getting that return with minimal risk.

Peter said the monthly report balance is $167,078,754.00, which is up 3.36% for two months. You are not in the fixed account, but it is only up .59%. I've been talking for the last two years that bonds cannot keep up the returns and stocks should start doing better, it is happening this year. In your portfolio, I highlighted two bonds accounts; one is up .31% and the other is up .17%, indexes are a positive .09% and a negative .21% representing bonds are flat to negative so far this year where stocks are in the high single digits.

Peter said we have rebalanced and added some new managers making equal managers in each asset class. In large cap value, there are two managers with about $9,000,000.00 each. We have done the same with large cap core and large cap growth. In small/mid, we have three managers. Wedge has been with us for a long time, back to 1997. We kept International small and balanced, $6 million each. We have increased real estate because it has been one of our better performers. We added money there because last year it was up to about 20%. The bulk of bonds is short term. We shifted most of the bond money into shorter maturities so we won't feel as much of a hit when interest rates start to climb, which is staring to happen a little bit this year.

Peter said the rebalancing sheet will give you an idea how much assets are in each category and a percentage of the entire portfolio. International is 7.7%; we have been recommending 10%. We foresee that staying at 9% going forward. We kept that light based on everything going on overseas, especially in Europe. It is still not decided if the euro zone will stay together. Greece is too small to be a deciding factor, but Italy is large. If Italy has to leave, the euro zone may fall apart, which would be a negative for short period of time. We are watching it and keeping that low. Equities are 60% of the whole portfolio, the highest they've been in a while. We will probably keep it that way because we feel bonds are not going to do as well as equities. Bonds are 32% of the portfolio, which is the lowest it has been in awhile. We can't go below our investment policies, 30% in bonds nor more than 70% in stock, remember that protects you.

Peter said on the PSAB balanced retirement fund, the S&P is up 6% this year. The US T-bill is cash, meaning anyone in a bank account is getting nothing, and Bonds are turning negative this year. We believe that the equity life returns associated with bond markets, since 2007-2008, have returned high single digits, some of them 10%. We feel over the past three decades bonds have been positive. We see the asset classes as an important component of most investors' portfolios due to the diversification benefit, 2-3% type return. You have to have it as part of your portfolio because if you run into a crisis, like 2008, that protects you. We are not going to get rid of bond allocations, but we have shortened them quite a bit.

Jack said why is real estate doing so well. Peter said it did so poorly in 2007-2008, it got hurt. The stock market went down 37%; real estate went down 50%. We have all that rebound. Another factor is low interest rates. Dividends on our real estate managers are around 4-5%. It is attracting people who would normally buy bonds and they are buying real estate companies now. It is almost 6%; we could go as high at 10%. Jack said what mix is that, global/domestic. Peter said it is global. When we say global, 60% is in the US and publicly traded.

Jack said when did you replace the other managers with Shafer Cullen and Herndon. Joe Scott said July and October. Peter said we had a lot with NWQ and they were under performing. We replaced them with two different managers in each category and split the money evenly. Jack said that was the London Company and Luther King. Peter said yes. London and Luther King are small/mid, NFJ is a new international, Winslow is a new large cap growth, and we always had Wentworth. We always had the same core people, Neuberger and CS McKee. The two values are new—Herndon and Shafer Cullen. Joe Scott said NWQ was always a steady performer for us and then they took a turn.

Jack said do you see the sequestration having any impact. Peter said no, only on defense contractors, not the market as a whole.

2. Financial Reports

Cathy said the reports show the payments made out of the General fund to go back into the pension funds for the administrator fees and the unallocated administrator fees on a monthly basis.

3. COLA Increase

Cathy said Mr. Kozi received a 1.6% COLA increase, which totals him to 9.9% of his 30% max. Mr. Williams received 2% which totals him to 15.3% of his max 30%. They have been notified by letter. Cathy said I do want to state for the minutes, COLA allocations are multiplicative, the way the actuary calculates the COLA. They multiply the percentage out through the years to get to the amount that comes to the total, to make sure they don't get to the 30%. This has been explained to Mr. Kozi and Mr. Williams. Priscilla said is it what they thought it was. Cathy said they were adding them and it is not done that way. I will make note of that in their letters for future notifications.

4. US Department of Commerce Filings

Cathy said we receive these annually. We report information on our pension plans to the federal government. Chuck Friedlander provided the information and filed it. They were done on time and in accordance to the regulations.

5. Settlement Filings

Cathy said we received one yesterday for both plans. PAR Pharmaceutical, it's a securities litigation. If we see anything, it will be split between the two plans.

6. Approval of December 12, 2012, meeting minutes

Molly Bender made the motion, Lou Mahlman, second. All in favor.

Cathy said I do want to note, the reason I gave you December financial statements is so you can do a comparison from the beginning to the end of the year. Our actuarial assumptions were changed last year to recognize 7% and we have exceeded that in both plans. I'm hoping that with our next Act 205 filing, we receive better news than what we've received in the last couple of years. Joe Scott said were you higher or lower in actuarial? Cathy said we were 8/5 and we moved it down to 7/4 to keep in line with what was actually occurring.

7. **Adjournment:** The meeting adjourned 11:25am.

8. **Next Meeting:** June 12, 2013 @ 11:00 am