Roll Call: Present – Jack Cahalan, Township Manager, Cathy Gorman, Director of Finance, Molly Bender, Joe Scott, PSAB, Mary Curtin, Priscilla deLeon (via phone), Jeffrey Herb, Morgan Stanley

Absent: Lou Mahlman, Chris Leidy

1. **MRT Report – Joe Scott, PSAB and Jeffrey Herb, Morgan Stanley**

Joe Scott said in looking back into the previous year for the administrative expenses we always look to see how much ~~was~~ the total amount of administrative expenses was to see that we are staying within the parameters. We are looking to be within 75 to 100 basis points or .75% to 1% of your costs. Both plans were within that tolerance. The Police Pension Plan had about 75 basis points for the year and the Non Uniform Pension Plan was within 88 basis points so we were well within the norm. He also brought Mr. Herb with him. There were no major changes administratively. We are still status quo. Mr. Herb will speak about our past performance and moving forward into this year.

Jeff Herb referred to the handout as of the end of the year and ~~and~~ an update as of the end of February. In page one of the March 11th report; the end of 2014 was a very good year for the US equity markets, volatility significantly picked up in the second half of the year but US markets ended the year with record highs and that has continued into 2015. Volatility has picked up significantly. The two big surprises last year from a market standpoint were that no one predicted the significant drop in interest rates. Everyone thought interest rates were going to rise in 2014 but that was not the case. Interest rates had, in general, fallen throughout the year. As well as oil prices; no one predicted the drop in price or collapse of oil prices which continues in 2015 as well. From an index stand point, index returns were very strong but that was a challenge from an active manager standpoint because how you weighed energy; if you overweighed it or under weighed energy, that had a real dramatic impact from a return standpoint. The US economy continues to improve; again one of the reasons why we continue to see positive equity market numbers. The oil prices were a real significant event from the market standpoint. It has been a real benefit from the consumer standpoint; everyone likes paying $2.50 per gallon for gas, but it has been a concern from an economic standpoint because the energy sector has been the real potential for growth from a job standpoint in the US. So how the fallen oil prices impact drilling; job growth has been a concern from an economic standpoint.

Corporate earnings for 2014 came in at record levels. It drove the equity market. The place to be last year was in REITs; Real Estate Investment Trusts. Last year's returns were up 28%. We do have exposure there. Investors flocked to anything with high dividend income as interest rates had fallen throughout the year, investors moved to areas with high dividend income to offset the loss of the falling interest rate. The S&P was up 13.69%, the Russell 2000, a measure of small cap stock, the worst place to be domestically, was up 4.89 %. The worst place to be last year was international, MSCI down 4.9% due to the the conservative growth coming out of Europe. But really it was the rise of the dollar compared to the euro. That impacted performance of local currency. The European stock market did well but the rise of the dollar had a bigger role.

As for fixed income or bonds, the overall US bond market was up 5.69%. The intermediate bond market was up 3.12%; Cash, T Bills had a 0% return. Again interest rates falling were due to global rates falling throughout the world and demand. As money flowed into US bonds; demand increases; the interest rate falls. For T Bill and Money Markets, the Federal Reserve said the rates will increase the second half of this year but it will be raised minimally; 25 or 50 basis points. We are going to be in this 0% return for cash for the foreseeable future.

From a sector standpoint, from looking at the market broadly; the worst place to be was energy. Energy was down 7.8% last year. Utilities was the best place to be last year as it was up 29%. This has nothing to do with the outlook or growth of utility companies but had everything to do with investors moving money to REITS for high dividend income. It has been the total opposite for 2015. The best place to be is healthcare up 25.3% in 2014

Where we stand year to date for February, volatility has significantly decreased during the first three months. January was a negative month, February was a strong month and March has been volatile. Best place to be right now is International up 6.5%, money has been moving out of the US into Europe due to valuations. International stocks have been inexpensive. The US Stocks up 2.58% year to date and Mid Cap stocks up 2.53%. This year has increased due to corporate earnings coming in below expectations due to the rise of the dollar compared to the euro and the concern about when the Federal Reserve will increase interest rates. The economy has continued to surprise and the job market has been better than expected. The volatility is there because we are doing better than expected and there is concern as to when the Federal Reserve will increase interest rates.

The bond market was up .96% and T Bills up 0%.

MRT total return of 7.6% in 2014, total assets $222,432,925.00. A number of changes occurred in 2014. The MRT added S&P indexing, adding allocation to passive investment management. It is low cost and has predictable returns. Also, adding core real estate, reducing REIT exposure. Direct property ownership provides high income, capital depreciation, stability of principal, potential growth and inflation edge.

January through February the MRT is up 2.57%; total assets in the amount of $235,357,833.00 as of the end of February. From a strategy standpoint the MRT is investing in different investment styles and managers. Mid Small cap style companies 6%, 4% in mid small growth, 9% in international, 31% in fixed income, 3% in cash, 13% in large cap growth companies and 14% in large cap value companies and 14% large cap core companies and 6% in direct real estate and REIT.

From a managers allocation standpoint we have managers for each of the investment styles. There are two managers managing each of those investment styles so we are diversified in style from an overall manager standpoint. Each manager is in separate managed accounts, they are not mutual funds; they are not comingled with other investors. Each manager is managing for the MRT separately.

The MRT Asset allocation for the end of the year - 60.4% in equity, 30.7% in fix income, 3.1% in cash, 5.8% in Real estate, Cash was on high side at year end since the MRT added new members at the end of the year. Assets would be rebalanced as needed. There is a specific target and range meeting minimums and maximums, this provides a discipline and takes the emotion out of it; to realize gains and purchase assets that are under-valued.

Re- enforcing the oversight process for the MRT; there is an investment policy statement. It had been updated last year. It lays out the roadmap for how the assets are managed. It tells the managers what they can and cannot purchase and the purchases that are prohibited, it also lays out the investment strategy with minimums and maximums. The managers have a copy of the statement and must sign off on the statement; therefore, if a manager violates it they are held accountable to the MRT. There has never been a case, but they acknowledge the statement.

From an asset liability or cash flow stand point you always want a relationship for the assets or cash flow of the MRT of assets coming in and out. You do not want to end up like in 2008 with a negative market situation and you need to sell off securities at a loss to cover cash flow. You always want to make sure that there is a relation to the cash coming in and going out. As for the asset allocation, it is done on a monthly basis as opposed to a quarterly basis. Rebalancing is done on a monthly basis. We are in contact with managers monthly, sometimes weekly. Each manager we visit annually has to answer questionnaires, and we research and oversee the managers. Performance reports are done monthly. We spend a great deal of time with the trustees as well. We are always reviewing and educating them on the economics and if we have the appropriate asset allocation in place.

Mary asked what the prediction is for this year. Jeff said he feels we will have a similar return as last year unless there is a significant rise in interest rates. Volatility is going to be an issue. We have had a strong economic market environment for the last 5 years but the market is mature and will create instability. Are we going to see a pull back on the equity market? We won't see something like in 2008 again, that was the worst since the 1930s. Clearly nothing is on the horizon but the US market is up 210% since 2009, so are we due for a correction, yes. It is normal to correct itself, 10% is possible but we are still looking for a positive return. Data shows that the economy is improving, is it accurate? Inflation is low. The global economy is weak. The Federal Reserve is no real hurry to raise rates. We are looking at low single digit returns. Cathy noted that it is good that the Act 205 is being done this year as we had decent returns. It should help with the valuation.

2. <u>Financial Reports</u>

Cathy said in the financial report you will see that we inadvertently missed paying the September administrative fees for the plans. Our actuary, auditors and I noticed the error at the same time so she thinks it is good for this committee to know that there are three people overseeing the plan to ensure that payments are made. We reimbursed the plan in the first quarter of 2015. We also received the additional money from the State for the finding on the Uniformed Plan audit, which was the missing individual from the AG 385 that was noted in the Audit report. That was received at the end of 2014.

3. <u>Policy – Notifying employees of pension benefits eligibility</u>

The Auditor General's office has requested or suggested that we have a policy in place to notify individuals who are no longer employed by the Township that they have a vested pension benefit available to them when they reach the age of 65. These are previous employees that are vested but pursuant to our ordinances were not eligible to receive a lump sum payment when they left our employment. Mary asked how often we have to do it. Cathy said originally we had thought when the Act 205's were filed, but they are requesting it be done once a year when the certifications are done by our Actuary. -Cathy said that the mailing will notify us if there is a change of address. Molly asked if we had any now. Cathy said the one uniformed person submitted paperwork to receive his contributions back. One of the Non-Uniform employees is now a Uniformed employee and was not entitled to take his allocation out since he is still an employee. There is a resolution in place covering his eligibility to receive his allocation. Mr. Killo and Mr. Lutz were vested but not eligible to receive the lump sum provision so I would need to notify them. They have not received notice from our office. Mary asked about Mr. Shelly. Cathy said he is still a township employee and the ordinance states that he must terminate his employment with the Township to be eligible to receive the lump sum so he will be eligible to receive his allocation in accordance to the ordinances when he retires. Molly asked if this impacts the plan. Cathy said no, it is just a notification. She said that the only thing she thinks that would change in the amount given to them is the interest earned. Jack suggested that the word vested be added and we are looking for a recommendation from the committee to bring to Council. Molly asked what would happen if the non-uniform people were to start contributing again and they were not vested when they terminated employment with the Township. Cathy said she believes it is the same as the uniformed that if an employee leaves employment before vested, their contributions would be calculated by the actuary and the options for the withdrawal of these contributions would be given them. Mary made a motion made to approve the draft policy and-forward it to Council for approval. Cathy said she would notify the Police representation.

4. COLAS

Retired Officer Koszi effective May 1st; is entitled to .2%; totaling 11.7% of the 30% eligible. Retired Officer Williams is due an increase of 1.4%; a total increase of 18.1% of the 30% permitted. As we get these from our actuary we sent notice to the officers and notify PSAB to modify their payment. Joe Scott asked if we have a life time cola cap. Cathy confirmed the maximum is 30%. Cathy said Jack asked at the last meeting why the one retired officer has a lower cola percentage than the officer that retired after him? Cathy said she checked with the actuary and was told that the CPI decreased between 2009 when Officer Young retired and 2010 when Officer Jones retired. The average CPI-W for 8/2008 and 10/2008 was 214.211 and for 8/2009-10/2009 was 211.342. Officer Young did not receive a COLA at 2/2010, as the CPI had decreased as described above. When the 2/2011 COLAs were determined, Officer Jones's was larger as he started with a lower based CPI at retirement. Act 600 does not allow cost of living increases larger than the increase in the CPI since retirement. He will get there but got delayed.

5. Settlement Findings

None

6. Minute Approval: The minutes from the December 10, 2014 meeting were reviewed and approved. Jack said we should note that the uniformed contract was approved and that the language regarding the disability provisions has been modified to reflect the language in Act 600. The correction in the contract should address the finding in the Auditor General's audit. Since our actuary used the Act 600 assumptions for the disability provision, no study was required. Mary asked when the new employment contract started. Jack said it starts effective January this year for three years.

9. **Meeting Schedule:**

Next meeting June 15, 2015

Adjournment 11:55 a.m.