Roll Call: Present – Jack Cahalan, Township Manager, Cathy Gorman, Director of Finance, Molly Bender, Chris Leidy, Lou Mahlman, Priscilla deLeon, Chuck Friedlander, Municipal Finance Partners, Joe Scott, PSAB, Jeffrey Herb, Morgan Stanley

Absent: Mary Curtin

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

Joe Scott had nothing significant to report for PSAB. Jeff Herb continued by saying through July the US economy continued to show improvement. Volatility picked up again at the end of June and we showed fairly strong equity markets returns up until July. The S&P 500 was up 3.37%. One of the best places after being the worst place to be last year was the international markets: ISCME Index, Developing Markets International, Europe, Japan all showed signs of improvement from an economic standpoint. Plus valuations are much less expensive than in the US which really drove international markets higher. Market was up 7.72% YTD. The fixed income markets showed a lot of volatility in interest rates this year. During the the first quarter we saw weak economic growth due to a significantly cold winter which caused interest rates to fall ¾. In the second quarter interest rates rose in May and June due to the anticipation that the Feds were going to raise interest rates in September or later in December. Over the last two months rates fell again due to concerns about what happened in China and relatively weak economic growth.

Through the end of June the overall bond market which is measured by the DC Barkley's Capital Aggregate was negative, down 80 basis points. Now through the end of July it is up 39 basis points. The overall intermediate market which is cash, T Bills, Money Market funds, and CDs, as measured by T Bills, is a 0% return. When the Feds increase their rates, if they do, in September or December the increase will only be 25 basis points. Even with this interest rate rise we will have a 0% return environment for these types of funds. Do not expect when interest rates rise to be earning more on your short term money market investments.

On the following page by a sector standpoint, this is the second quarter but it has held true through July if you focus on the QTD and the YTD. Healthcare has been a driver for the US equities market last year and as well as this year. The performance of health care stocks, HMOs, pharmaceutical companies, bio-technology companies are really driving the overall US stock market. Healthcare was the best sector YTD at 9.6% basis points over the last several weeks but that continues to be the best sector on a year to date basis as well.

Energy is the the worst sector as you may expect with energy prices being as volatile as they were. Energy is down 4.7% on an YTD basis. Consumer discretion is one of the better places to be on a year to date basis as well. Again, the expectations are that the consumers are continuing to spend now, with energy and oil prices falling, as they have more money in their pockets.

Utilities, a fairly small segment of the overall US stock market, have been the worst place to be; down almost 11% for the first 6 months of the year. This trend has continued over the last few months. The thought being with utility stocks is that utilities are really driven by income and the thinking is that the Fed is going to start raising interest rates so anything income related has underperformed on a year to date basis.

If you refer to the handout, starting about August 20th you see ~~a~~ real significant sell offs in the equity markets both negative and positive. Last week we saw one of the largest point drops last on Monday and then last Thursday one of the largest rises in the equity market. And again yesterday we saw a pull back on the equity markets and today we are seeing positive returns again so volatility has picked up significantly. Everything has been driven by China; again China to everyone's knowledge has been slowing for years. This should not be a surprise to the market, however, how quickly they continue to slow has been a real surprise to the market. The Chinese economy is moving from an export driven economy, whereas they were the workshop of the world, and now they are moving to a service economy as well as an internal consumption economy. Their ability to export and grow has diminished so they are revamping their economy to be more self-sustaining by providing more service sectors as well as internal services for the middle class. The slow-down in China is it causing concern for the global growth in the equity markets

For the US, corporate earnings have been on the negative side recently. This has been a negative from the market standpoint. It has occurred due to the significant rise of the dollar versus the other major currencies around the world. As the dollar rises it has an impact on corporate earnings. We feel that earnings have bottomed out and they will turn positive for the second half of the year. Global growth continues to be weak as impacted by China. Commodity prices have been a concern. The commodity prices have been falling throughout the world, again energy prices, steel prices, copper prices, aluminum prices; anything commodity related has been significantly impacted over the last several months.

There is certainly uncertainty and the markets do not like uncertainty. There is uncertainty around Fed policy. We are entering into a rising rate market. The Fed has been in a 0 return environment since the end of 2008. They have now announced that they are going to start raising interest rates. When is the question. It was thought it was going to be in September, now given all the volatility that may be pushed off until December. Clearly the market is concerned as to when that will take place.

Again the market has been positive up until the end of July but it has been driven by very low volumes. Not a lot of stocks have been driving the market. That is a concern. There has not been a significant correction, greater than 10%, in the US market since 2011. We have had low volatility over the last several years.

We continue to see improvements in the US economy, the second quarter GDP was released and it was upwards of 3.7%. A lot of that was growth taken out of the first quarter and put in the second quarter but the economy continues to show positive momentum. We continue to see positive momentum in Europe and Japan. Employment in the US continues to improve; there has been 58 consecutive months of positive employment growth. Manufacturing continues to improve; the auto and truck sectors continue to drive the manufacturing. We are over 17 million units in auto sales. Housing continues to improve. Savings rate has declined. That is a positive as it shows that the consumers have more confidence in their employment and the economy and they are spending more. We continue to see stimulus here in the US and on a global basis. Europe and China help stimulate the economies. We continue to see very low inflation here in the US and around the world. Energy prices are a real positive for the consumer with gas prices being low. Energy price drop is concerning from a jobs standpoint for certain areas in the country. The US, Europe and Japan are not moving into a recession. They are all moving to expansion out of a recessionary vibe and into an expansion mode.

Part of investing is putting up with volatility. To achieve above average returns, over the last 50, 60, 70 years with an average of 10% plus return, we have to put up with the volatility. Typically we see a pull back on an annual basis; a correction in the equity market. The sheet attached shows the annual returns of the S&P 500 over the last 35 years. So for example, the S&P was up 11% in 2014, however last year the equity markets were down 7%. This year we are down 13%. The last time we saw a real meaningful correction of greater than 10% was in 2011. The markets had a flat return for the year but the equity markets were down 19% in 2011 due to a fear of another global recession and with the fear that Greece, Spain, Italy, Portugal were ~~all~~ going to leave the Euro and they were going to collapse and default on their debt. There was a downgrade of US tech at the time. It was a very concerning environment. Over the last 35 years the market has produced a return of 14%. Returns have been positive the last 27 of 35 years. You are going to have corrections over time and they are healthy for the equity markets.

We ended July with total assets in the trust of $233,650,390. The trust is up 3% YTD. August is going to be a challenging month. The Managers have been very strong. Apex - Small Cap growth has been the best performer; up 17.02% with their index being 9.18%. Only two managers have underperformed. Those are Atalanta for the Large Cap Growth, they are on our watch list, and NFJ Allianz for International. Both have produced strong long term returns. Since the last meeting in March we had one termination. CS McKee. The problem with them was that they were a closet index. They were more expensive and below market returns. Funding went to the S&P 500 Index for predictable returns; this index was added last year.

The other increase was in core property real estate trust funding at the end of January. Property provides high income, potential capital depreciation, and stability of principal. Core real estate has been a real benefit. Joe asked ~~for~~ him to explain the difference between Core Property and REITs. His concerns with REITs were that they are driven by investors' expectations of income and interest rates. There is no protection in a down side environment. They recommended getting rid of the exposure in REITS and moving to property purchases last year. Joe asked if the funding remaining will be drawn down. Jeff confirmed by the next year it will be done.

By the end of July 32% of the assets were in fixed income providing stability. There is no exposure to high yield or junk bonds. Fixed income is the anchor. Large Cap is at 11%, Large Cap Value at 13%, Large Cap Growth at 14%; Mid/Small value at 6%, Mid/Small Growth at 5%, Real Estate at 7% and International is at 12% for the plan's asset allocations. Both of the international managers have the ability to invest in emerging markets.

As for managers, other than the CS McKee change, there haven't been any other changes. Our account is diversified by style and managers. No assets are comingled and they manage their own accounts. Each manager is managing the assets for the MRT.

In July we ended at 60.7% equity, 31.8% fixed income, 7.4% in real estate and .1% cash. For the year they have been overweight in real estate. Their target is 5 but they are at 7.4% and underweight in fixed income. This will be their strategy for the foreseeable future. This will hedge any potential loss when the Feds increase the interest rates.

The minimum and maximum target amounts create discipline. It allows you to harvest your gains when market changes. They meet with the trustee again in October.

Molly asked if they are expecting anything radical with the election. Jeff said there is always a possibility of something happening but there really has not been any policy changes being proposed.

2. **Financial Reports**

Cathy reviewed the contributions to each plan as reported; $10,643.20 in the Non – Uniform plan and $20,395.47 in the Uniform plan. She reviewed again that the September fees were missed in 2014 and the plan was made whole in 2015. As of July the Non-Uniform plan has $1,885,781.13 and the Uniform plan has $5,606,740.09.

3. 2016 MMOs

Cathy said the 2016 MMOs being presented are based on the 2015 actuarial evaluations. The Non Uniform Plan is $83,613 and the Uniformed Plan is $289,892. The MMO's will be submitted for Council approval at their next meeting.

Chuck Friedlander presented a power point with charts. The normal cost has gone up and the organization payments have gone down a little bit. The 2015 valuation based on the new information from the 2013 valuation; they are almost identical. There is no big impact on the evaluation. From 2009-2013 we had to ramp up contributions at a fast level. Actuarial smoothing is beneficial because it adds stability and decreases volatility. Our increase has been moderate. There have been no major economic events. The state aid does fund a portion of the Uniformed plan, but the township has to make a major contribution. At the end of 2008 the market value dipped fairly low and has been steadily increasing since. Not only are the actuarial and market values growing, they are smoothing down a bit. From 2012-2014 we have had pretty standard returns around 7-7.5%. Even as the market has gone from 8 to 15 to 6, you end up in the same place eventually. We are catching up from being underfunded. By 2011 the plan was down to 82% but now it is over 90% funded. We are past any danger points.

Non uniformed funds have some gains in the MMO this year. For 2016-2018, gains will decrease but will increase as soon as payroll increases. The unfunded liability plan is negative. It doesn't mean it is in the negative. It is so minimal that we do not worry about it. In 2013 and 2014 we have contributions to the Non Uniform plan. Those contributions are down this year. When you are looking at the fund and the amount the state is contributing, the majority of it is going to the Uniform plan. We are nowhere near losing state aid~~e~~. Priscilla asked Chuck did he mean there is a chance there won't be state aid for Non Uniform Plan? Chuck said no because the State looks at the entire township, not ~~an~~ each individual plan. They recognize both plans and the allocation between plans is arbitrary anyway. Cathy said when your state aid comes in, Council directs per a policy they put in place to allocate the unit value to whatever plan that employee is in. Non uniform is one unit and uniform is two. This policy has been in place since 2010. It was done in a similar fashion before; however, there was no formal written policy or guidelines in place.

State funding is based on underfunding not the unfunded liability. It is based on overall MMO. Molly said that part of previous negotiations for Non-uniformed was that state aid would go to the fund which would ~~the~~ not require employees to contribute to the fund. It would fund their plan.

Cathy said in an audit situation the state doesn't care what plan it goes in to as long as it goes into either of the 2 plans. Chuck said it just needs to be deposited within 30 days. It is a budget item which is a total MMO. The state aid is revenue and is one number not two. Priscilla asked how member contributions are determined. Chuck said that currently member contributions are only made by department heads. Priscilla asked what the police were required to contribute. Chuck said 2% in 2015, 2.25% in 2016 and 2.50% in 2017. Priscilla asked if there were more contributions made by employees, would there be less needed from taxpayers? Chuck said that is correct.

Chuck said 2008 was a bad market year that we have recovered from. Over a 2 year period, the police fund went from 4.4 million to 5.6 million. The non-uniform went from 1.375 million to 1.853 million. The funds are growing and are keeping up with liabilities. The assets are almost caught up to the liabilities compared to the big gap at the end of 2009. The plan is becoming better funded. Molly said it is becoming better funded without member contributions. Chuck agreed, but said that without the member contributions the township would have to contribute more.

He said a lot of municipalities have suffered from unfunded liabilities going on the books as actual liabilities and it is affecting their equity. However, that is not something that affects us yet. Priscilla asked if it is something we are preparing for. Cathy said we are on a modified cash basis so we are not required to do it yet but eventually when we are required to report it we will be there.

4. **COLAS:** Cathy wanted to note on the agenda that Ron Jacoby is not getting a COLA increase in November because the CPI went down over the last year. He cannot receive less, so he will stay at the same amount.

5. **Minutes Approval:** There was no meeting in June. March 2015 minutes were approved.

6. **Meeting Schedule:** Next meeting is scheduled for December 9, 2015 at 11:00 am

Meeting adjourned at 12:07 pm.