Roll Call: Present – Jack Cahalan, Township Manager, Cathy Gorman, Director of Finance, Molly Bender, Chris Leidy, Mary Curtin, Lou Mahlman, Peter Butera and Joe Scott, PSAB/Merrill Lynch

Absent- Priscilla deLeon, Council Liaison.

1. MRT Report-Joe Scott

Joe said after 15 years of service to PSAB/MRT, Merrill Lynch Corporate headquarters has decided to withdrawal from municipal pensions. After the first of the year, the advisor staff of Mr. Butera and Mr. Bender will no longer be with us. We have begun the interview process to vet potential replacements for the advisors. Individual municipalities will not be affected and are not required to do anything; we do this on your behalf. The plan, money managers, and individual managers that we have hired through Merrill Lynch, will not be changing. If we do change, it would be for a better possibility and that would be a normal process, even if they were staying. There should be little disruption in the plan. Unfortunately, we have to choose someone different as our monitors and advisors. It has been a fantastic working relationship and we are sorry Merrill Lynch is doing this.

Jack said is this by state or by corporate as a whole decision. Peter said it is not pension plans. It is all public governmental money.

Mary said does this have anything to do with recent class action suits that were settled. Peter said no, this actually started two years ago with all the new federal regulations. Merrill Lynch is in 50 states and has 50 different state regulators and with the public subdivisions below that and the amount of business, they claim it is not worth it.

Mary said is there any time lapse between Merrill Lynch exiting and the entrance of a new. Joe said no, we are trying to make this as seamless as possible. We have completed the first round of interviews and have another final round the first week of October. At the conference, which is mid October, our Trustees will brief the Board and the full Board of PSAB will vote. Between mid October and the first of the year, Merrill Lynch will work with whoever we choose to make the transition seamless. They have given us plenty of notice and help. One of our primary concerns was making sure we chose someone who has experience in PA and with PA municipal pension plans and municipal pension law because PA is unique with acts 205, 600, and 44 etc.

Cathy said are we looking at any potential increases in administrative fees. Joe said we are doing our best because that is a major consideration. At this point, I have no reason to believe there will be a change in fees. If there were, it would be strictly on the investment side, which I do not foresee. We will not know that until the second round of interviews because that is when they are required to provide specifics, but know that everything is negotiable. Cathy said the Township pays the administrative fees and the costs for the plan, not the plan itself. If it is unknown right now, I will budget the same. Joe said you pay the hard dollar administrative costs, not the soft dollar, those come off the top. You don’t pay the fees that would be affected. What you pay now should not be affected at all and I would be highly surprised if it is. The current fee structure is that the soft dollar fees come out of the returns and the trust pays that as a whole. On the hard dollar side, I do not see a change that would affect that.

Jack said I wish you well. You have always been good about providing information and answering questions and coming quarterly. Peter said thank you. We argued with the firm to keep who we have and not add new ones. The letter to PSAB says January 1, but if it takes longer than that, we are going to service it. Mary said I wish you good luck.

Joe said the other thing we are trying to settle is that they customize and give us these reports. This is a not something normal; this is abnormal and a big above and beyond for us. We told them what we wanted and this is what they produced. They take all the information from the whole trust and condense it to these few pages. I do not want to get a 30 page report and neither do you. Jack said one of the reasons we came to you is because we were dealing with that. Joe said I talk to municipalities who want to come into the Trust and one of the hassles is that we have to decipher what fees they really pay and what the structure is because the only thing they have is a 30 page report, which is so convoluted. Jack said we could never tell. Joe said I show them these reports and tell them that anybody, any Council member, or Supervisor who asked to see the report, within a few minutes would know exactly what is going on. We are working diligently. Even if we have to take that on internally, I hope that we don't, we will be doing something similar. It is not easy. Mary said Cathy would not want to interpret it for us. Cathy said for the record, no. Joe said we will do our best to ensure this phase is as status quo as possible.

Cathy said are there new Act 44 disclosures that need to be redone. Joe said thank you for bringing that up. What we will do is put together a regular one and disseminate it. Please give me a call if you don't hear from me or Linda Costa by March.

Peter Butera said first is the monthly report. You are in the balanced municipal retirement trust. The total is $173,249,707.00, which is up 6.28% year to date. The total balanced managed account balance does not include the cash account and endowment fund. We are up 6.85% and the index is up 6.52% without the cash drag. The average balance account is up about 6.5% and we are up 6.85%. We are doing a little better because of our bond allocations. You are not in the fixed account listed at the bottom, but that balance is $10,880,111.00, and a negative -.41%. Bonds are now negative for the year. The month of September is even worse.

Peter said if you look at the top of your balance portfolio, all the stock managers are positive double digits. The international managers are .54%. The international index is up 8% and our second international manager is at a -.79%. The international index is up 8% and driven by Japan, which is the best performing stock market this year. Japan is up over 20% this year. Both of our international managers are more conservative. They do not have a large allocation to Japan, which is holding them back.

Peter said the global real estate, which has done well the last two or three years, is now at break even, -.8%. The index is a -.64%. Real estate is very much affected by interest rates. Interest rates went up one full percentage point on bonds. The only rates that did not go up were short term, 12 month or shorter, because the Federal Reserve Bank controls that. If you are dealing with CD's at your bank, you will notice they have not gone up at all.

Peter said nobody controls the barter bond market. It is dictated by the participants and what they are willing to lend money at. When the US borrows money, it borrows at the 10 year treasury rate, which has gone from 2% to 3% from the end of June until now. For two years I've been saying rates are going to go up and it is happening now and will continue. We will probably see the 10 year treasury rate go from 3% to 4% by this year-end or the first quarter next year. Bonds are not going to be doing well for a period of time. We put the majority of it, $41 million, in short term with less than a three year maturity. They all lost .17%. Bond indexes are a -3%. Our long term core bond fund balance is $10,994,290.00 and is a -2.28%. The index is a -3%. About 2 years ago, instead of having all our money in core bonds, we did shift it into short term bonds, which protected us from the down side. You need to have about 30% or more of your money in bonds as a safety thing. A lot of clients ask me why keep the bonds when you know they are going to lose money and I tell them because you need protection in case of emergencies; it's going to be there no matter what.

Peter said the next page is the pie chart of what is with each manager and in each category. The third page is the asset allocation rebalance sheet. Bill and I, as your consultants and what your new consultant will do, help PSAB with asset allocation. This is where we spend the bulk of our time and is the main thing we do. This sheet may look different with your next consultant. We also help PSAB construct the investment policy. The new consultants will be looking at the investment policy, what you can and can't do, and it may change. The two main roles of your consultants are to draft the investment policy statement and make sure you follow and address the asset allocation. You want to look at those things with your new consultant and ask what their philosophy is. The money managers are separate contracts with PSAB and a lot of those won't change. We help PSAB negotiate the contracts and hire and fire those managers, but they are separate entities. The new consultant can change that, but you won't see much of a change on the money managers. Joe said they will be attending meetings.

Mary said is the rebalance done quarterly. Peter said it is done once or twice a year. It also depends on fund flow and if new plans and money are brought in because we will do it then, but if nothing changes, it is done at least once or twice a year. Cathy said you should be doing it when the state aid comes in. Joe said state aid is going to make a major impact and I've got about $14 million in two or three new plans coming in. Peter said what I want to highlight in rebalancing is that we have 30% in bonds, which is the lowest we can go. We are trying to keep the bond exposure as low as possible, but we have to follow the investment policy statement, which prevents you from getting into trouble.

Peter said on the stock side, we are at 64% and we don't see that going much lower. The highest we can go is 70%. As new monies come in, we will try to rebalance within those guidelines. I suggest you meet with your new consultants and get their philosophies on minimums and maximums and how they adhere to them, which is important.

Peter said the last page gives you an idea of what the world is doing or the indexes. The stock market is at the top, the S&P 500 index, the Dow Jones, which is the largest companies, and it is up 16.15%. The first one in red is the broad bond market, US Corp and Government and Mortgage bonds, and it is a -3%. To think of that in broad terms, if half of your money is in stock, half of 16% is 8%, and you would be to the positive 8%. If half is in bonds, half of -3% is -1.5%. 8% plus -1.5% and you are at 6.5%; that is how most balanced funds are followed. The bond category is at break even. My gut is stocks will hold those returns through the end of the year, or close to it, and bonds will look worse as rates keep going a little higher.

Peter said Bill and I sat in on the interviews for the new consultants and one of things we want them to do is take our data from 1997. It sounds like they will be able to incorporate our past data and you will have the numbers going forward. This sheet gives you a visual for the fact that you are up 6.28%. On the top line, you have interest and dividends totaling $3,008,379.00. The stocks appreciated $7,135,856.00. We are over $10 million dollars in added value to the plan, not counting the contributions that came in or the withdrawals that went out to pay retirees. We started the year with a balance of $161,595,127.00 and now we are at $173,249,708.00. The plan is up 157.29% since 1997. In total, we added interest and dividends of $51,290,504.00 and the growth of stock of $43,509,447.00. It is great to see $94 million in growth.

Peter said the last page is a picture I pulled yesterday, September 10. It is technical, but on the right side it is giving you the stock market, the S&P 500, going back to the Great Depression in 1929.

There have been three major down drafts that have lasted for 10 year periods or more. The last one was 2008-2009. Going back to the tech bubble of 2000-2001 it created a negative decade for stock returns. Since then, we have broken out. The S&P hit a wall of a low, about 800 in March 2009. The S&P is now at more than 1600. We have more than doubled since 2009 and it just the beginning of a break out. We should have another 3-4 years of this or more. Stocks, stock returns, companies' profits, and their balance sheets, look really good. Interest rates going up, which is a negative, but going from historically abnormally low rates of below 2%, to 3% now is not going to affect companies profits that dramatically.

Peter said things look good and the international markets have calmed down to a positive 8%. Granted our market is up 16% and they are only up 8%, but even over there we feel things have calmed down. With the new money coming in from PSAB, we will probably add a little bit too international because we are at 9% and we like it to be at 10%. International stocks are a lot cheaper than ours.

2. Financial Reports

Cathy said the Township has reimbursed the non-uniformed plan $8,836.53 and the uniformed plan $24,255.66, which covers us to the July investment period.

3. COLA Increase Ron Jacoby

Cathy said the COLA increase for retired officer Ron Jacoby is as of November 1 and will be 1.7%, which brings him to 9.4% of the 30% max, which is based on the price index in place.

4. 2014 State Aid

We were notified that state aid was increased by $300 per unit value. We will receive an additional $6-7000.00 more in state aid this year than what we projected from last year. Those payments will be made and received this month. We will pay the MMO's first thing in October pursuant to state law.

5. 2013 MMO Approval

Cathy said at the last meeting, I advised the board that we would be revising MMO's. The last time I presented preliminaries. What you have now will be brought to Council's attention for their approval at the last meeting in September and will be in the 2014 budget. The MMO for the uniformed plan for 2014 is $272,162.00 and the non-uniformed is $88,962.00. Mary said how much of this a budget obligation is. Cathy said all of it.

Joe said it is good to see that you used the 1/1/13 evaluation because it is not happening everywhere. Cathy said we want to recognize the liability ahead of time and settle it up now. Mary said can we anticipate budgetary impact like this one each year. Cathy said it depends on the market and contracts. We are still paying off liability from the smoothing of the last two times that we approved it. Cathy said we are down to almost $40,000.00 of liability left for the non-uniformed plan. The uniformed plan is more, around $700,000.00. My goal and what has been recommended by professionals to do, is to recognize the debt and not smooth anymore. Your target amount should be your actual cost, which is the estimated payroll cost with the normal cost percentage on top of the MMO. Between state aid and contributions, whether they are employee or municipality that is the cost you should cover every year. Mary said are we negotiating any contracts right now. Jack said we started the non-uniform. Mary said the police contract is settled now. Jack said yes, that will expire next year.

Cathy said I do not foresee any issues and this will remain stable if we continue this course. Hopefully, we will have good returns and with the next evaluation our amortization payments might disappear. I would say this is more in line with what we will be seeing. Joe said you are fortunate to be in a position to do that. We have been telling people to pay what you can and not to do what you are allowed to do. Mary said what does the () yield now. Cathy said $440,000.00 Mary said our obligation is almost there.

6. **Settlement filings**

(a) AIG Securities

Cathy said we received one from AIG Securities. We usually do not receive funding for these, but I note them on the agenda to get them on record that we have received them.

7. **Approval of June 12, 2013, meeting minutes** – All in favor.

8. **Adjournment:** Meeting adjourned at 11:30am

9. **Next Meeting:** December 11, 2013 @ 11:00 am