Lower Saucon Township
Pension Advisory Committee Meeting

Meeting Minutes September 12, 2012

1. **Roll Call:** **Present** – Molly Bender, Chris Leidy, Mary Curtin, Lou Mahlman, Cathy Gorman, Director of Finance, and Chris Cap, PSAB Vice President. **Absent – Jack Cahalan, Township Manager, and Priscilla deLeon, Council Liaison.**

2. **MRT Report-Chris Cap**
Chris Cap said I included the most updated asset statement for the plan. Based at this juncture, the Police Pension Plan is at a little over $4,088.000.00 million dollars. We are still awaiting state aid, but overall you are up 5.9% YTD through reporting for August 31, 2012. The allocation is 60/35 for the overall portfolio, with no real changes to the trust. We are at about 214 municipal pension plans, we are in excess of $165 million in assets, and there are no legal issues pending. The major change, on the manager side, we terminated NWQ. They have had some major overhaul with their management. The detail I heard was their top stock picker left and started his own firm. We elected to move on and the MRT subcommittee is interviewing new managers on September 23rd. We are making a change of that space on the international side. Beyond that, the complexion of the portfolio really has not changed that much. Still protecting against the down side, with this being an election year, Bill Bender and Peter Butera, have given you several updates, and Joe Scott was here to see you last time around. We are trying to diversify the people coming in to see you. We feel encouraged by the performance of our managers up to this point, with the exception of NWQ, that is the one we are monitoring very closely. We did retain them in a large cap value side. They are a little bit behind their index at this junction, but we feel very secure on the overall the stability of the fund. If you look at the capital appreciation on your account, there is some growth right now. From an actuarial standpoint, you have been moving forward in a positive direction and you are right around your actuarial assumption rate. We will see what happens in the final months of the year. The next full Board of Trustee meeting will be October 12 and the MRT subcommittee will be meeting on the 23rd in Harrisburg to interview 3-4 perspective managers to fulfill the responsibilities of NWQ. Beyond that there are no changes to the trust. The allocation is right within investment policy and on the recommended weight and the fixed income portion we are at 60/35. Five percent will remain in that space of alternative investments. We are not expanding that at this time. The cash side ranges between 0-2%, depending on the time of the month with our payroll, and I am not aware of any payroll issues of your retirees, but overall we are in full compliance. We have been audited and those audits will be mailed out in the next month to all members. The allocation, from what I understand in some of our meetings, is to cling to that 60/35 split, with the 5% alternatives and readjusting in the cash. We feel that is a pretty reasonable position at this point. We talked about it in the previous meeting, and Bill Bender has done some conference calls to the fact, there is still concern about your major concern that the performance of the overall markets could have a major impact. That is a very unpredictable variable and we will have to react appropriately if that were to occur, but things are stabilizing a bit and the market has had a pretty good recovery in the recent weeks; that is a positive sign. Lou asked any possible impact based on the Arab world? Chris said certainly. Geopolitical events are something you have to monitor. We are also talking about looking at the economic forecast. There was a major concern about the drought in the Midwest and at the same time the barges moving down the Mississippi running aground and what impact that would have in the overall economy and markets. Believe it or not, from a supply standpoint, it would have major disruption. Geopolitical events and the Presidential election will determine what course of action we will be taking in the Middle East, certainly not the most stable part of the world right now, and certainly impact the markets, which you can't discount by any means. Mary asked which way you think the market is going to go based on a Democratic or Republican president. Chris said the data that I have seen is that the market has performed better under Democrat administrations. The assumption has always been that when they were Republican administrations, generally the market responds. You have to look at the cyclical events that

accompany it, like in the Carter and Clinton years, it was a tremendous period of growth. From a cyclical standpoint, we are very concerned about the Federal Reserve actions moving forward. We are heavily leveraged in the short term bond space. Under the wedge, we have $41million in shorter duration bonds instead of longer duration bonds. We continue to believe, based on the economic forecast from Merrill Lynch that the Federal Reserve, at some point, has to raise rates. They are close to 0% right now. The longer term core bond is actually outperforming the shorter term bonds by about two points. Nonetheless, at some point, that performance does reverse itself and we are trying to position the portfolio appropriately. That being 35% of the account, it is pertinent we stay well positioned. As far as the housing market, the other major source of debate has been what do we do with FANNIE MAE. Both candidates have some different perspectives on that, but you have campaign positions and actual policy positions, if or when they do take office, so I think we have not heard the last of the housing market. Mary said do you think it is still going down; do you think it has hit bottom yet? Chris said in different regions it has actually started to recover quite well. However, how we continue to finance those properties to maintain that market if Fannie Mae is not in a position to finance a lot of those properties, that could have a negative impact. If you look at our portfolio, one of the big bets was the global rates. ING Clarion is up 16.14% YTD. That was a move we made a little over a year ago, with some calculated risk, but we felt the housing market was beat down so bad that we are buying at a lower portion of the market, and it has certainly sprung back. 16.14% has added a lot of yield to this portfolio, and from a calculated bet standpoint, it paid dividends for us. If we maintain that rate in the portfolio moving forward, it will directly correlate with what the banks do, how they stable are, and will they continue to finance lives and properties. Their weak portfolio is essentially their stocks, but they are very high dividend paying stocks. You will notice the international dynamic, that has added to it. You have a lot of office complexes that are trying to reintroduce those leases at rock bottom rates, so the market is deleveraging itself, but at the same time moving forward quite well. Cling to that 5-7% stake in real estate investment trusts.

3. Financial Reports

Cathy said in the back of the packet are the financial reports I provide on a quarterly basis. We are recording and reimbursing the pension funds for their administrative costs, which are stated on the MRT Monthly Fund Balance reports. We have paid through July, and since I have August reports, they will be going in this month.

4. COLA Increase Ron Jacoby

Cathy said I want to advise you that retired officer Ron Jacoby's COLA is up and based on the actuary and the resolution we passed as how to determine his COLA rate, he will be getting a 1.5% increase as of November 1, which will get him up to 7.6% of his 30% max.

5. 2012 Act 205 Recovery Program

Cathy said we have to file this every year. It was sent to our actuary for review. Nothing has changed from the last year we filed. We have opted not to smooth over the last time we hit a stumble block. She said remember the Government said we were able to smooth loses over a period of time, which we opted not to do, and recognized our liability and our costs directly. That is what this report states. We have no changes in our decision regarding that. This report will be signed by the CEO, which is Jack, and will be mailed out by the due date.

6. 2013 MMO Approval

Cathy said you will see in your packet, the 2013 MMO for the Police plan is determined to be $258,715.00 and for the Non-Uniformed plan it is $82,475.00. We need to bring this to your attention first, and then it will go to Council for approval at the meeting next week, which it will then be input into our budget for 2013. Mary said this is our obligation? Cathy said yes. It is based on what the actual payroll is supposed to be at the end of this year, including what would be our normal costs and the amortization payment of our liability over the next years, and any member contributions that are anticipated by the end of the year. Mary said did this increase from 2012? Cathy said Uniformed has increased slightly, Non-Uniformed has decreased slightly. There have not been major or substantial impacts in wages, so this is pretty much on par. We remain consistent over the last couple of years. Chuck will be doing the valuation next year, and depending on the market portfolio, and where we stand with that, this could modify. Next year if the market does well, our liability will be lower. If the market decreases, then it might be a little bit harder, but as we stated, every year at this time the next year actuarial valuation will be a snapshot, and that will project what our MMO's will be for the next two years. So far, contractually and economically, we have been falling in line with what our actuarial assumptions are. I do not project it would be that much of a change unless something drastic happens. You will see these MMOs on the next agenda for Council approval. Molly said what is going to be a payout for Neil? Cathy said the Beneficiary forms were sent for that. Molly said does that come out of the Pension account? Cathy said yes. Right now it stands at $5000.00, for anyone who dies while employed. Unfortunately, we did lose a member of our Non-Uniformed recently. Mary said I was sorry to read that, he was way to young. Cathy said all the documentation has been forwarded to his family to complete so they receive their entitlement. I did want to make mention regarding the MMO, Chuck did email me and stated the 2012 State aid unit value will be $3576.1098, about a 10.5% increase from the 2010 MMO. Last year we received a lot more, which covered both MMO's. We budgeted our State aid based on what we received on 2010, and we will be getting about 10% more than that, which is good, but it still is not enough to cover what our obligations are.

Mary said who is the other representative for the Non Uniformed now that Michele is gone. Cathy said maybe Molly can explain. Molly said it never was split; we were together, like an alternate. I was the member and she wanted to be part of it so we asked for the alternate. Cathy said but normally, historically, there is always one representative from each Union. Mary said one other question, are the Employment Agreements in place? Cathy said Non-Uniform extended for one year under the current agreement and the Police covers up to 2014.

7. Act 44 Compliance filings

Cathy said we must do this every year around this time, and post them on the website come October. I will be sending the forms out to the consultants. This is a mandated form which shows all the consultants who handle anything with our plan and is not in collusion with anybody else. Their priority is to who is working on the plan and what truly their interests are. We are legally obligated to have them file this form and post it on our website on an annual basis.

8. **Settlement filings** Cathy said we have not received any.

9. **Approval of June 13, 2012, meeting minutes** – All in favor.

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

11. **Next Meeting:** December 12, 2012 @ 11:00 am