

**Lower Saucon Township
Pension Advisory Committee Meeting
December 8, 2010
Minutes**

Roll Call:

Present: Molly Bender, Michele Hirner, Chris Leidy, Priscilla deLeon, Council Liaison; Jack Cahalan, Township Manager; Cathy Gorman, Director of Finance and Chris Cap from PSAB. The time was 11:04 AM.

1. **MRT Report – Chris Cap** – Chris said if you look at your Net Asset statement, you are going to notice there aren't any negatives there. It's really been kind of an up and down year. Right now year-to-date we are up 7.8%, which is generally right around the assumption rates. Where you sit right now, you are up 3.8% as of yesterday. There is a lot of uncertainty in the market. The October 31, 2010 Net Asset statement will look a lot more attractive when the November statement comes out. There were deposits for your Police Pension fund, and total receipts were about \$479,821.48. The numbers will look a little more attractive when you see them later this month. The Police Pension Plan is in excess of \$4,015,681.47. The Non-Uniformed Plan, more of the same thing, it appears your employee contributions have been in there on time and total receipts are \$183,347.27. Again, you are in excess of more than \$1.22 million as of October 31, 2010. The new Net Asset statements will be sent to Cathy very soon. Cathy said as soon as she gets them, she emails them to everyone so they get a chance to look over them before the next meeting. Chris said we deal strictly with municipal governments around the state, so they really insist on the statements monthly as we try to give you a true cash balance, a reflection of what the market activity was on the final trading day of the previous month.

Chris said moving on to the investments; he does have November 30, 2010 numbers there. There really is only one blemish on there which is Atalanta. They are under performing their index. They bet very poorly. We know what happened there. The other one is Goldman Sachs. That equity just depreciates significantly. It was one of the largest portfolios they had and it shows. They are down a fraction. The remainder of the players are performing quite well. This is another year where a lot of the indexes are really outperforming the active managers. It seems to be a trend that really is kind of held for the last 23 months. We still have some shiners here. Aletheia out of California is up 14.88%, a sizeable allocation there. Neuberger Select is under performing the index a little bit, but they've been up and down and we'll see where they settle for the remainder of the year. Large Cap Value has performed a little bit better. NWQ is out of Chicago. CS McKee is under performing just a little bit against their index. Wedge Capital is a Mid Cap Value is pretty much holding to their index. They are behind in this snapshot, but in the previous month they were right there. NWQ, for the Mid/Small Cap Value is outperforming. The small caps and the mid caps are really shining right now. A lot of the smaller companies are realizing the significant gains and their growth rates are starting to catch up as compared to 2008. Our cost of borrowing will go up. He doesn't know what kind of impact it's going to have. Merrill Lynch, our advisors, are monitoring it very closely. The Board of Directors just met in October in Gettysburg. There were no significant changes there, but in April, we'll likely have their performance looked at. The international indexes are not performing very well. This is a case where the active managers are outperforming the indexes. The index is down 0.32%; however, our two managers, NWQ and Wentworth are up 7.62% and 7.26%. For the amount we have there, almost \$14 million, that's kind of made up for some of the laggards in the upper part of the chart. There will be things that are going to be monitored in the international sector where we may make some adjustments on how we allocate our funds there. Wedge Short Term is up 5.27%, almost more than doubling the index, which is a US Treasury for 1-3 years. Wedge Balance is pretty much holding water. The ING Clarion REIT is one thing we did vote in officially at the last board of trustees meeting. We did incorporate a \$5 million stake. A lot of people look at REIT and say the real estate sector has been beaten down. The REIT we got involved in is ING which is out of Philadelphia. They really focus more in the international sector. They are not really focusing on residential properties; however, there are a number of businesses that they have been investing in and are in touch with debt service they have in place and collecting rent. That's been one of the big performers. The index is up significantly year-to-

date. It's up 13% or 14%; however, we're only had that piece in our portfolio for 2-1/2 months. That's why it's only a reflection of that limited period. We wanted to wait for things to clear out. Total balanced managed is 7.53%. The Endowment Fund is the alternative investments. There are precious metals and commodities in there. We are benefiting a little bit with crude oil. Money Market Distribution, we all know the news on that. It's very limited yields. We parked some of our cash there for payroll functions, etc. and we have about \$5 million that we are going to have to move into the market. A lot of that is excess state aid that needs to be transitioned. 7.36% is the total balance accounts and where we are right now. The Fixed Accounts, which you are not a part of, but just for comparison, is up 6.33%. We have about 31 municipalities of the 210 who are in our trust right now that want no exposures to equities whatsoever. That strategy worked out pretty well for the last two years for them. In 2008, it worked out very well, but with treasuries now and the deficit out of control, the extension of the tax benefits, they are up 4.17% as a ten year treasury. It's a pretty high yield for investors right now. We've gone back to shorter duration bonds in the portfolio. That's been our strategy that we discussed extensively with our Board of Trustees. Cumulatively, the trust is at \$558.5 million. We still maintain 210 municipalities. We have police uniformed, non-uniformed, municipal authorities, townships, counties, second class boroughs. We've been around since 1972.

Chris said on the Asset Allocation Rebalance, they are having a rebalancing session the second week of January. They will meet to make adjustments here and whatever cash they have left as a carryover from the state aid, where they allocate that is going to be a major discussion piece. Large Cap Value, our current weight is 11.2%. We're right around within policy which is 12% and recommended weight. Our Large Core, there's nothing really dramatic here. We consider going back to the international market and increasing that allocation. Historically, it's been between 5% and 10% and high as 12%. We have considered going up to 20%. There's a lot of other pension plans similar to ours who have taken larger stakes than that. That might be a possibility. Overall, stocks are 7.7% and bonds 34%. If you'll remember, back in 2008, we were at about 53% bonds, so we took a very conservative position to guard against that downturn. We really didn't know where the flow was for equities, so the allocation has gone down, but nonetheless we aren't abandoning bond exposure. Alternative Investments are at 4.7%. Cash is higher than it normally is. Our investment policy allows us to have up to 5% of cash and we're at the high end of that range for a total of 100% cumulative.

Chris said the next page tells you the company names, where everything is. The next page, the S&P Index is up 5.75% through yesterday's trading. The markets are performing quite well. There's a lot of uncertainty about how Portugal, Ireland, Greece are going to perform. The world is really watching that closely and the monetary easing is a major factor. Last year, Peter Butera was here talking about deflation, and it kind of reversed. Now with the \$600 billion being pumped into the economy by the Fed, inflation could be the issue. In a lot of cases, inflation could actually hold in corporate earnings, so that could help equities. It could be very bad for us as individuals though.

Chris said this is a very boring report. The uncertainties continue. He doesn't see any other sectors being added to the portfolio besides some adjustments. Alternative investments, we might make some minor adjustments there and go deeper into commodities. Environment, commodities, there's been a lot of speculation there and you can get yourself caught buying in high and selling low, and you want the reverse of that.

2. **Killed in Service Insurance Update – Ordinance & Insurance Policy Cancellation** - Cathy said she wanted to update this from the last meeting. We got approval from the Police Association that they are in agreement with it and Council passed the ordinance so that the State is now covering the Killed in Service insurance and we notified the insurance provider and effective January 1, they will terminate the insurance coverage.

3. **Uniform Pension Plan Representation (C. Leidy & Alternates)** - Jack said Chris Leidy was appointed by the Council to represent the Police Pension Fund with two alternates: Officers Haggerty and Hantz. They will attend if Chris is busy. We're fully represented now.
4. **Master Plan Documents – IRS Compliance** – Update - Cathy said these had been reviewed by the Solicitor. He was agreeable and thought there was no conflict in the bulk of the documents. The documents are now being reviewed by the actuary to make sure of any recommendations he may have and to make sure they are consistent with the ordinances we have. Once she gets confirmation from him, we'll get copies to everybody and ask Council to adopt the resolution. We'll be IRS compliant by January 31st. Jack said copies were sent to the UAW and uniformed FOP. We did get comments back. Cathy said nothing is changed in it. The ordinances are still what they are. There is just a document for IRS compliance which covers everything what our ordinance has. It's in one report instead of paging through numerous ones. Jack said it saved us a considerable amount of money as we didn't have to go out and get a Solicitor to create this document from scratch. Chris Cap said the MRT is awaiting the opinion of the IRS, but feel very confident. From an administrative standpoint, the IRS has really slowed down. There's been a major backlog in a lot of their reviews with the non-profits as well as the private sector of businesses. He was glad to hear your comments that your Solicitor felt pretty confident.
5. **Act 44 of 2009 – Disclosure Compliance** - Cathy said we did receive responses back from every party, even if they are not required to, but anyone we felt should disclose the information, we had them fill them out, which includes our Solicitor, our Labor Solicitor, PASB and Chuck Friedlander. The ordinance or act states that anyone who is actually paid from the fund is required to do this. We felt in our best interest that everyone who is associated with anything that has to do with the fund, that would impact its financial solvency, should file it. We received all of them and they are posted on the website under the Finance tab. Chris said that is an annual disclosure. It was bit of a labor intensive task. He said they have to go to the Board of Trustees to make sure there were no conflicts of interest with any municipal plans we deal with. That there were no contributions for example, to the ball field. That there were no contributions for example to your campaign committee. Even to the Republican or Democratic committee in a municipality. If they made a contribution to one of your elected officials, they would have to forfeit our contract and part ways. The Auditor General will be looking at it, and of course, retain that information. We are not getting full clarification from the department on what kind of criteria they are following.
6. **G. Sfredda – COLA Notice** - Cathy said Council passed a resolution establishing that the COLAs would be based on the Social Security index at a certain time period and the officers wanted it based on actual retirement date instead of the beginning of the year. What we do is when she receives notification from Chuck as to what the increase would be based on that index, she advises the recipient what that increase is or if there isn't one. The last couple of years there hasn't been because Social Security hasn't raised there's either. A notice was sent to Greg that as of January 1, he was not to expect any more than what he's getting right now.
7. **Financial Reports** - Cathy said this is a report where she just shows the payments they make to both plans and any dividends we receive or any settlement filings. They are usually very limited as the attorney's gobble all of that up if someone files a lawsuit for the security exchange commission. Sometimes they do get settlements from prior investments. She itemizes them on the sheet so everyone knows where the money is going and they can see it on a monthly basis.
8. **Settlement Filings:**
 - a. **Ryan Ashley Brant (Take Two Interactive Software)** - Cathy said we did receive one settlement filing, which was Take Two, which we made investments from 2002 to 2006. What normally happens even though whoever was our investment provider at that time of the settlement whenever they are alleging that, whatever they did, that investment management

team does the filing, so sometimes Blue Ball will do it, and whoever is responsible for it will handle it.

9. **Approval of September 8, 2010 Meeting Minutes** – Jack said we post these minutes on the Township website under the Finance section. If there are no problems with these minutes, they'll put them on the website after the meeting.

Jack said since it is in the minutes, do you want to make a note that the non-uniformed plan death benefit clarification issue was looked into after the last meeting and a memo was sent out to the individual's who could have been affected by that. The union was copied on that. Michele and Molly indicated that this was correct.

10. **Set Date for Next Meeting** – The next meeting will be on Tuesday, March 9th at 11:00 AM.
11. **Adjournment** – The time was 11:32 PM.