Lower Saucon Township
Pension Advisory Committee Meeting
Meeting Minutes December 9, 2015

Roll Call: **Present** –Cathy Gorman, Director of Finance, Molly Bender, Priscilla DeLeon, Lou Mahlman, Joe Scott, PSAB, Jeffrey Herb, Morgan Stanley, Thomas Schantzman, call in

1. **Joe Scott, PSAB:** Joe Scott from PSAB said there are some changes in Pension Law with Act 44 disclosure forms. The one thing they are trying to do is rectify what they didn't do when they signed this bill in to law in 2009. They initially intended it for people who had more than 100 employees. This was taken out of the bill and it went to everybody. They tried to go back and rectify it. This means we wouldn't have to deal with some of this stuff from Act 44. They are trying to come up with some alternative options for municipal government plans for municipalities. They are also trying to get rid of the collective bargaining side. Those things are being contested and kicked around. Joe said the last he heard that the budget is still the big issue on the hill so this might get pushed back. A part from that, we have had no changes as far as administrative personnel. He took a look at our cost numbers and they are right around where they should be. He doesn't see anything significant in our monthly reports in assets. Cathy said she has made sure that the funding that has been put in is allocated correctly.

2. **Thomas Schantzman:** Thomas said that 2015 wasn't the greatest year. It was about 1.55, slightly ahead of the benchmark. There are some things that don't get declared on the report. We are happy with 1.55 because the risk profile of PSAB of MRT is a bit less than the risk profile of other MRT groups and the benchmark. We would have had a better number if it wasn't for NFJ Alliance. That is now up about 2% through last night. Unfortunately, NFJ has a divided bias. They like to buy companies with dividends. That puts them in companies that are big oil. They aren't emerging markets but they are big oil companies overseas. Thomas said what we haven't done is go into master limited partnerships (MLP). They have been more exposed to the decline in the price in oil more so than the big oil companies. They are down somewhere between 40-50% for the year. We have trended sideways and our numbers aren't much different. We have gotten better performance from our national equities lately. If we think of things in terms of the big picture, all the consumer debt that's gone away. Debt levels for people are very manageable. Debt management for countries is a bit high. We have seen the US go into more debt. It does bring down growth rates. If the US government is 30% of the economy, which it is, and you and I are 70%, and the US Government is constrained on spending, that hurts GDP growth. It does the same thing globally. Automatically we take off the table commodities. Commodities don't do well in that environment. We want to stay away from emerging markets. There is less than 1% in the emerging markets right now. We are staying away from the areas that get hurt when countries go into a lot of debt. Now the focus is back where it should be and that is on earnings. It is not great but we have got 4% earnings growth this year. We were expecting it to be close to 7%. China slowing down took that earning rate from 7 to 5%. Oil companies are not spending any money and that took another 1% off. When we try to focus on the next 5-7 years are stocks over bonds. The dividend on the S and T is higher than the interest rate on a 10 year government bond right now. On the news and internet there are claims that the Fed is going to raise interest rates. It is largely expected. People say don't worry about the fed because it is all tied in to the price of the stock market. Only certain things will get hurt by this. It will be real estate investment trusts that we will be out of completely by January. Utilities will probably get hurt. The majority of our money has positioned to benefit with an increase in interest rates. This is probably then most of our peers which are in more long dated bonds. This is not where we want to be. We want to be in very high quality bonds. Very long dated treasuries will get hurt and mortgage backed securities. When rates rise, people don't tend to refinance their mortgage and don't get their money back as quickly. What the risk stress testing, you are looking at better down capture in equities but what we are really focused on is where are the interest rate sensitive areas that could get hurt by the rise of interest rates. We have done our best to get rid of them. We haven't gone in to emerging market debt. It is for very patient investors with a very high risk tolerance. In terms of positioning, other than taking your real estate position down to 0, we have been

focusing all new money AEW Cor Property trust. It has more than double return on rates. It trailed the benchmarks but it is not distressed property. The index has some distressed real estate in it. They like the positioning of AEW. The biggest culprit is bonds. With a 2-3% return is all we can really expect. He feels stocks won't be the culprit but bonds won't. Priscilla asked Thomas if he was nervous about taking on the AEW. He said they really wanted to take down the NIG and real estate investments trusts particularly between 2013-2014 were about over 35% over that period. We benefited from the greatly. However, it was over what it should have been. Real estate prices only rose by 6% those years. It is a lot of fast money moving into that space because it had a decent yield of 3% and the 10 year return looked amazing. The problem is that to own real estate publicly, you are paying 16% premium for the same property you can own privately. That was the decision that was made and it is paying off well. The public real estate game is overvalued, a lot of fast money that can come and out at any time, and yields in real estate are closer to 5% and we are only getting 3%. We own very high quality properties such as apt buildings, shopping centers and corporate space. We will get 5% yield and we will pay par for the property. We don't want to abandon real estate completely. Priscilla asked if NFJ has anything to do with gas for the pipeline. Thomas said no it has to do with oils such as petroleum.

3. **Financial Reports**: Cathy said we have received $199,962.57 in state aid to offset expenses.

4. **Advisory:** Cathy said we have updated our website with the most current profile of our consultants according to state regulations.

5. **COLAS:** Based on the decrease in the CPIW average over the third quarter for Mr. Sfredda, he is not entitled to an increase in 2016. The same applies to Mr. Young and Mr. Jones. Their pension will not be increased. Mr. Jones is at 10.7%, Mr. Young is at 9.3% and Mr. Sfredda is at 26.6%.

6. **Manager Retirement:** Jack Cahalan is retiring and has opted for the lifetime pension. Since he is the acting CAO, Cathy had checked with our actuary and they both agreed it should be signed off by the President of Council.

7. **CAO:** The manager of the township is the CAO. Cathy said whoever is appointed manager in January or interim, that person would be acting as the CAO.

8. **Minute Approval:** September 2015 minutes were approved.

9. **Meeting Schedule:** Next meeting is scheduled for March 9, 2016 at 11:00 am

Meeting adjourned at 11:44 am.