Lower Saucon Township
Pension Advisory Committee Meeting
December 14, 2011
Minutes

Roll Call:

Present: Chris Leidy, Uniformed Plan Representative; Molly Bender, Non-Uniformed Plan Representative; Priscilla deLeon, Council Liaison; Lou Mahlman, Members; Jack Cahalan, Township Manager; Cathy Gorman, Director of Finance; Chris Cap and Joe Scott from PSAB. The time was 11:10 AM.

1. **MRT Report** – Chris Cap said he read the minutes from the meeting before when the Committee spoke to Bill Bender, via speakerphone. There was quite a comprehensive review of the economy. Bill went into a number of different subjects. Over the years, what they've been able to do was give an extensive background of their whole theme. You've met the entire team over the years. Joe Scott has been with us a number of years. He took a brief hiatus and has been back with us the last two years.

   Chris said at the last board meeting, he recently got promoted to be Vice President of the PSAB. Their CEO is retiring after 25 years. This is really where his heart is. They went into a lot of deep discussions over the year, but Joe has taken those responsibilities that Chris has been performing over the years. Chris is still going to be coming in here periodically depending on his availability. There's only so much time to spread their resources to 67 counties across the State. It becomes very difficult, but Joe will be assisting us in that measure, and when he's not available, it could be Chris or Linda. Variety is good, and they are showing you that strength in the team. The Pension Committee congratulated Chris and welcomed Joe.

   Chris said looking at your finances, you are about $1.232 million in excess on your non-uniform pension plan. The statement you have here reflects a negative 3.08%, just slightly above 3%. That's where the markets are. It's a half point off from when Bill Bender last briefed you. The markets have been very volatile. If you look at the news, there were a lot of 300, 400, 500 point days with those major swings. Europe is a major factor.

   Chris said in the Police Pension plan, you are $4,038,761. You are in the balanced fund for the Police Fund and it's down about 3%. That's where the things stand. The Trustees have been doing their due diligence. They met back in October at the Nittany Lion Inn, and they had extensive deliberation on a bunch of different issues. They also are scheduled for January 13, 2012 to have their review from the previous year with Merrill Lynch on the performance of their portfolio.

   Chris said if you look at the updated numbers, through November 30, really what's carrying the portfolio is the Wedge balanced account. Bonds continue to outperform equities, much to their surprise. If you go back to 2008, that was the asset class that really performed well. They had double digit growth the previous two years for this plan, and this year, they've been trading in between that range of down 4% up to 2.5%. It's been kind of a range right now with the uncertainty overseas and Europe - a lot of instability with the banks, increased capital requirements on banks, and the threats of monetary easing in Europe and the United States. Those were all factors that Bill covered pretty extensively at the last quarterly meeting.

   Chris said the bonds continue to perform and we continue to have a relationship with the endowment funds. They still have some precious metals and commodities still built into the overall portfolio. As far as changes, they are going to re-evaluate how they approach the market next year. There's also some discussion about treasuries and how well they will yield next year, so trying to meet those expectations and assumption rates, will be a major concern, not just for this plan, but for a lot of municipal pension plans across the country because the earnings have not been robust as compared to the previous two years. We've recovered quite well in the 2008 dangerous market we had for that period. We have twelve trading days left, so those 300 to 500 swings, we're hoping to turn it into a positive number, but our top priority has been to try to overcome and avoid any downturn in the portfolio, and really guard against the downside. That's why they didn't overextend into equities. He remembers at the start of this year, they had a number of their accounts that questioned them why they didn't go to 70% or 80% equity. As everyone anticipated, the storm was clear. They kind of clung to the 35% to 40% range for bonds, and he's glad they did. They are 57% equities right now, and 35% bonds. The alternative remains about 5% allocation in the portfolio and the customary 3% in cash for the entire portfolio.

Chris said PASB has increased to about 213 accounts, so they've grown a bit and that improves the economies of scale for the entire plan. They are excited about that, and they are back up to about $160 million in assets. The key addition that was discussed at the last board meeting they had, they ended up terminating Aletheia as there was a change in management there. There were a few research analysts that broke off. In the past, he, Peter and Bill have explained in the past that when they pick up that someone on a staff has left and they see a mass exodus, the red flags do go up. They have terminated manager's that are in the green. They are up and they have some future thoughts about their future sustainability, and if they can perform properly.

Chris said they did hire Winslow Capital, which you've probably seen them on NBC. Mr. Winslow is world renown as one of the top investment managers out there. He has a very distinguished mind. If you Google him, you'll see a great deal on that firm. It's one of the higher profile firms they have hired in recent years, and they just deposited that money on December 1st, so you'll see that on the next statement. They are hoping that creates a little more momentum for us up in the large cap space. Next year, based on the economists that they are hearing from at Merrill Lynch and Bank of America, there's a lot of concern what the performance will be on the small caps, so they are going to continue to remain heavily invested up in the large cap spaces. The large caps now, the only major green account they have is CS McKee which is based out of Pittsburgh. They've performed quite well. It will be interesting to see how they will reallocate their funds and how they approach next year based upon the economic conditions. Europe is a key player in the cards right now. They are watching that very closely. If the Euro does break up, how they proceed from there, what kind of yields can they anticipate from the treasuries and how much allocation they will need to support the portfolio and guard against any downturn.

Chris said the next page that goes back to where we are right now. The large cap core and large value growth, about 1/3rd of the portfolio is in that large cap space. Some years back, they had a significantly higher space in the mid cap space. They are only at about 10% right now. International had lagged down on the portfolio right now, as you can imagine. What's occurring in Europe, which is where the portfolio is vested, we do have some investments in some of the emerging markets, on a limited basis however. The future of China right now is in question right now whether they will have some quantitative easing and what will occur with their overall currency. We continue to hover between the 35% to 40% space. The alternative we've talked about and decided not to go above 10%. He thinks that will be another topic of discussion next year whether or not that's what we need to do to hedge the portfolio. Generally, the endowment fund performs very well in the bare markets and it's a very well diverse portfolio. Expanding out of 10% will be a topic.

Chris said if you go to the next page, just to reinforce, he knows Peter has explained a lot of the work is done. The battle has been won and lost depending how you allocate the money. If you are allocating managers on the economic conditions for that particular period, this is where it's most important. They will give the trust a haircut. He won't jump ahead and project exactly what their recommendations will be to the board in January. Right now, it's 56.84% total equity, 34.55% fixed income and the alternative is a shade below 5% and cash we hover between the 3% and 4% range.

Chris said he already mentioned the U.S. consumer, and that's a big question and what impact that will have on the overall portfolio. Slower economic growth is another key factor that Merrill Lynch has briefed them on based upon their research. It's something that is going to factor in how they are going to reposition the portfolio. U.S. Treasuries, and they have been saying it for the last couple of years, they are going to tilt towards the negative side. They shifted their portfolio just recently down to shorter duration bonds, in anticipation of the Fed is not going to keep rates at 0% forever. They want to make sure they don't go long term money necessary. If you look back, the longer term bonds are performing quite well right now as they up about 7% year-to-date; however, the question is how long will the Fed continue to maintain that posture. The world right now continues to buy U.S. Treasuries at a feverish clip. As they continue to buy those, there's a lot of confidence in the dollar right now as there's not much confidence in any other currency and if you look at it, gold just went down significantly. It's down trading at about $1640, and it was just in excess of $1900 just a couple of weeks ago. There are a lot of uncertainties out there. You may not get the best market price for gold right now. It's an interesting time right now with the precious metals. You have a lot of central banks that are really accumulating the precious metals, not just the United States, but other countries. The question is how that plays out with the markets. If there is some sort of breakthrough in Europe, that could very well revitalize the market very quickly. That's something we are watching very closely, and Bill gave you a very long list of potential scenarios that could play out. Bill does extensive homework for us. Peter has a different approach and they complement each other very well.

Chris said in January, they will be reviewing the AIM reports, which give you a comprehensive look on how they do. All of our Manager's are in negative territory right now, but they are outperforming their peers from these classes. Depending upon the class, that's where the economy is right now, down about 3%. We'll see where we close out this year, but we feel right now we are pretty well positioned. Twenty-five percent of the DOW earnings to date contribute to one stock, and that's Big Blue – IBM. That's interesting. If you go back to 2008, one thing that really jumped out at you was really only three stocks. That's the kind of market we're in. We continue to do our due diligence. We do our homework and will report those events to you as they become available.

2. **2011 MMO's** – Cathy said the MMO's were paid on time in accordance with State regulations. They did receive a substantial amount due to a change in State law due to their collective process to go towards that funding. We received $274,225.10 which covered pretty much the MMO's. Since this was received after the last Pension meeting and we were required to fund the pension plans within thirty days of receipt, we approached Council and asked them to waive the distribution policy for this period as it's a one-time gift from the State and Council agreed and we funded both Pension plans. It was $91,646.00 and $182,579.10 for the uniform plan. We were short about $525.00. That will be in the budget. As for next year's MMO's, based on the last meeting, we changed our actuarial assumptions. We presented those recommendations to Council and once they approved the assumptions, they adopted the MMO's that reflected those new actuarial assumptions and we made the changes. Molly said that means the Township doesn't have to pay anything into the pension funds? Cathy said they paid all but $525.00 for this year, but next year we'll be paying quite a bit more. It was a nice surprise for everyone. The State made repeated efforts to advise everyone that it is a one-time event and not to rely on this for next year. It's a one-time thing. Chris said they haven't really announced how they are going to do that procedurally. Cathy said it's going to be a budget adjustment. Chris said that will be on their list next year in terms of giving them guidance and he's sure PSATS will do more the same. You would think the State would be more cognizant as to what your timelines are and your expectations are from a budget standpoint. Cathy said you can pay your MMO at any time; it's just that the municipality is going to have to upfront the money first. Chris said Cathy's concerns are duly noted as they are hearing that.

3. **Financial Reports** – Cathy said this shows that we are refunding both plans, and it also shows the MMO payments.

4. **<u>COLA Increase – G. Sfredda – January 2012</u>** – Cathy said we usually make note of this at a Pension meeting. His anniversary date is January 1 and his COLA increase, pursuant to the regulations we adopted, is 3.6% which brings him up to 20.6% of the 30% he can get. A notice has been sent to him advising him of how much his pension is going to go up next year.

5. **<u>Settlement Filings:</u>**

   A. **<u>AIG – October 28, 1999 – April 1, 2005</u>** – Cathy said we received this from AIG for October 28, 1999 to April 1, 2005. Usually we don't see any refunds, but in the event we do, she will let you know. It's probably minimal, at best, and it would be allocated based on what percentages each plan would be at that time, how much each plan would get.

6. **<u>Approval September 14, 2011 meeting minutes</u>** – Cathy said if no one has any comments or corrections, they will get posted on the website tomorrow. The Act 44 disclosure forms are also on the website. They are from professionals who actually perform services for the plans.

7. **<u>Set Date for Next Meeting – March 14th at 11:00 AM</u>**

8. **<u>Adjournment</u>** – The time was 11:40 AM.