

PENSION ADVISORY BOARD/HEALTH & WELFARE BOARD OF TRUSTEES
NOVEMBER 16, 2011
QUARTERLY MEETING

The Pension Advisory Board/Health & Welfare Board of Trustees, met for their Quarterly Meeting on Wednesday, November 16, 2011, in the Township Building. The meeting was called to order at 5:30 p.m., followed by a pledge to the flag.

ROLL CALL:

The following members of the Pension Advisory Board/Health & Welfare Board of Trustees were present: Supervisor Erika Spott, Trustee and Liaison; Ronald G. Wagenmann, Township Manager & Trustee; Fred Santoro, Staff Liaison; Ron M. Fonock, Chief of Police/Trustee; Eric C. Medrow, Chairman; Vince Mallon, Civilian Member, Sgt. Andy Andreyko, Police Representative. Sudha Suryadevara, Non-Uniformed Representative was absent.

MEETING MINUTES:

It was moved by Mr. Wagenmann, seconded by Mr. Mallon, all voting "Aye" to approve the May 4, 2011 Quarterly Meeting Minutes as submitted. None opposed. Motion unanimously passed.

PRESENTATION BY DOUG WERLEY, ANDERSON AND ASSOCIATES

Mr. Doug Werley, Anderson and Associates, provided a synopsis of the police defined benefit pension plan and outlined the investment history since January 1, 2009 and how well, in general, the investments have done. He explained the pension consulting and actuarial services provided by his firm for the township. These services include preparation of the annual financial statements for all the various pension aspects such as Minimum Municipal Obligation (MMO) calculations and the Act 205 Actuarial Evaluation Report. Anderson and Associates does not deal in investments or make recommendations.

There was a brief discussion regarding the process involved in providing calculations that the township submits to the custodian bank for the issuance of checks.

Mr. Medrow asked for clarification about the relationship between Anderson and Beyer-Barber. Mr. Werley responded that Beyer-Barber is the actuarial firm that Anderson utilizes to prepare the Act 205 report which is done every two years and he provided other clarifications about their association. Following are additional highlights of Mr. Werley's presentation:

- while plans that Anderson administers lost, in general, 25-30%, in

2008 the Upper Merion Township's Police Pension fund lost only 19 ½% which was one of the best performers. Investments rebounded even more in 2009 and 2010.

- In order to prevent the plan's obligation from going up to an almost unmanageable level in 2009, Act 44 was enacted to provide financial relief for any local government pension plan, including special asset smoothing (deferring loss) and increased limit on actuarial value of assets.
- Even if economy suddenly gets going and there are double digit gains, the 2013 report could look worse than 2011 as a result of having to recognize more of the deferred loss.
- January 1, 2011 actuarial value of \$40 million includes the smooth assets.
- Township is in good shape as far as pension obligations out of the defined benefit plan for police officers over the course of the next five to ten years.
- Approximately \$2 million a year in pension benefits is paid out.
- October Consumer Price Index indicates retired police officers will receive 3% cost of living increase.

Mr. Medrow stated that there are seven people in the DROP and with a \$2 million obligation, assurance is needed to make sure that \$2 million is covered in terms of the money coming into the pension plan from contributions as well as the investment performance of the defined benefit plan. Mr. Werley confirmed that statement and said even the funding ratio is in reasonably good shape.

Mr. Medrow asked if the township is in good shape in terms of managing the \$2 million outflow. Mr. Werley responded in the affirmative.

PRESENTATION BY DANIEL F. DENT, INVESTMENT MANAGER RE: POLICE PENSION PLAN AND FUND

Mr. Daniel Dent, Investment Manager, presented his performance report dated November 16, 2011. He pointed out that while performance was down in the previous three quarters, there has been a nice recovery in that the equities are up 14% in the current quarter. Nominal return in bonds at 0.88. As of November 15, 2011 portfolio is at 4.93 for the total account. Fixed income is 3.55 year to date versus 7.75 for the index. Mr. Dent explained because of very little returns on treasuries and the risk if the rates were to go up to the principal they have been very defensive in fixed income; treasuries have been eliminated and currently all is in corporates. Interest rates not expected to increase until 2013.

In response to a question about the yield differential between the average of the corporate return versus the average of the treasury return, Mr. Dent responded the portfolio yield is currently at 3.4% on an average 5-year maturity. The 5-year is currently under 2%; and 1.5% more return undertaking the risk of being in corporates versus risk in treasuries. Mr. Dent noted that 8% return is

about as aggressive as you get with a pension plan.

In response to a question about the total allocation to fixed income versus equities at the present time, Mr. Dent responded October and November have been good. The 55% ceiling was not held and equities are now up to 61%. Mr. Dent noted that this is getting pretty high given the fixed pension liabilities, although a comment was made from the group that because of the way interest rates have been there is not too much concern about that difference.

Mr. Dent discussed the largest holdings and noted that the “real star” has been Fastenal with a market value over \$3 million and the cost a little over \$200,000. While it is doing great and the company will be expanding it is too overweight at 8.72% of total assets and today he trimmed back the Fastenal.

A question was asked if there is a sell program on Fastenal, and Mr. Dent responded in the affirmative. He indicated that it is scaled back as it strengthens. This stock in the last year was up 50% and when the stock reached 40% the sale program was initiated; 4,000 shares were sold yesterday at \$41. Current quantity of Fastenal is now 76,000.

A question was asked about financials, and Mr. Dent responded that banks and mortgage companies have been avoided entirely in the equities. The three “financials” that are included are Market Corporation, a premier insurance company, T Rowe Price, an asset manager, and Visa which is not involved with the bank problems.

Mr. Dent provided an historical overview of the average return on equities since 1926.

Mr. Dent explained his company’s philosophy on call features and bonds. He said normally they want to avoid call features, but at times accept a call feature in return for the step up.

Mr. Dent was asked to provide his view as to how 2012 will be. In response, he indicated that there will be a stock market trade within a range and there will be individual companies that are going to be able to do well. He is neutral to the outlook for the stock market and his outlook for the bond market is unremarkable.

Mr. Dent gave a glowing report about Ansys, Inc., a simulation software company, located outside of Pittsburgh.

A question was asked about the employment situation and what Mr. Dent predicts going into 2012. Mr. Dent responded that it may get down to 8 ½ or 8%, but he does not see it below that percentage because when companies are expanding they are figuring out how to do it with less labor component.

A question was asked about future interest rates, and Mr. Dent responded

they would stay stuck where they are right now.

With regard to the ten year pattern, a question was asked when the stock market does swing back if it is usually a small mid cap or large cap and if there is a pattern to this. Mr. Dent responded usually in a market recovery, if you go back to March of 2009 when the market bottomed and then came back the small cap companies because they were smaller and had a smaller market capitalization saw a higher percentage of appreciation. Because these companies have a smaller asset and revenue base when the economy recovers they would show higher percentage recoveries so they tend to be more volatile and snap back more and have a higher beta. They go up faster and go down faster, but Mr. Dent does not expect a rapid economic recovery. He referred to a study that went back and looked at past recessions and what the recovery was, not just in stock markets, but in employment, in GDP, in real estate values and the conclusion was not just in this country, but in many different countries, when the recession is caused by a financial crisis it takes much longer for recovery to take place and the rate of recovery is lower. For a recession following a financial crisis you are dealing with too much leverage and that is what we are going through now with the household sector paying down their debt. Since it takes time to pay down the debt, recovery is going to be extended and very sluggish.

A question was asked about corporate capital and if there is a lot of it on the sidelines right now. Mr. Dent responded in the affirmative and said companies have a lot of cash.

A question was asked what is going to cause companies to move that cash. Mr. Dent responded that some kind of clarification on tax policy is needed and if there were some kind of holiday or change of policy repatriating foreign earnings that would help; if there were some trade off with capital that came back to create jobs that would be very beneficial.

A question was asked about Europe, Greece, and Italy and how that is affecting us now and how it will affect us during 2012. Mr. Dent responded it is going to have some effect on us; however we are, in his view, in the strongest position compared with the various sections of the world. He said if Europe slows down which is a huge global economy we are not going to escape it and he is not optimistic on the ultimate solution.

OLD BUSINESS

None.

NEW BUSINESS

None.

ADJOURNMENT

With no further business to come before the Board, the meeting was adjourned at 6:49 p.m.

Alfred E. Santoro, III
Board Liaison

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Minutes Approved:
Minutes Entered: