PENSION ADVISORY BOARD/HEALTH & WELFARE BOARD OF TRUSTEES
QUARTERLY MEETING
APRIL 15, 2009

The Pension Advisory Board/Health & Welfare Board of Trustees, met for their Quarterly Meeting on Wednesday, April 15, 2009, in the Township Building. The meeting was called to order at 7:06 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: Eric C. Medrow, Chairman; Ronald G. Wagenmann, Township Manager & Trustee; Fred Santoro, Staff Liaison; Sgt. Andrew Andreyko, Police Representative; Daniel F. Dent, D.F. Dent and Associates, Investment Manager. Absent from the meeting were Barbara Frailey, Trustee; Robert W. McKernan, Non-Uniformed Representative; Chief Ronald M. Fonock, Secretary/Trustee, and Vince Mallon, Civilian Member.

MEETING MINUTES:

Since a quorum was not present, the Pension Advisory Board Minutes of October 22, 2008 and the Reorganization Meeting Minutes of January 21, 2009 were tabled until the next quarterly meeting.

PRESENTATION BY DANIEL DENT, INVESTMENT MANAGER

Mr. Daniel Dent, Investment Manager, presented the Pension Board with the portfolio performance reviews for the period ending March 31, 2009. The portfolio for the Upper Merion Township Police Plan reflected a -6.34 total return for the end of the first quarter. Mr. Dent pointed out that this compares with the various indices and that the equities were off a little more than 13%. He indicated that last year was a very disappointing year as well. The overall market in the first quarter at one point was down about 25%; however, it has begun to come back into April. Mr. Dent reported on three successful tests of the market lows. As of April 14 and 15, numbers are up about 10%, and equities on the year to date are almost at break even which is about where the market is. He noted that the S&P is slightly negative.

In commenting about the calendar year ending December 31, 2008, Mr. Medrow stated that performance has done well, other than in the equity account.

Mr. Medrow asked if calculation of percentages are based on gross of fees. Mr. Dent responded in the affirmative.

Mr. Medrow recalled mention was made last year that it was hoped that net of fees figures would be provided. Mr. Dent responded that this information can be provided.

Mr. Medrow commented that net of fees describes the actual performance of the account and would provide more accurate data so that the exact performance can be determined. Mr. Wagenmann expressed his agreement with this approach.

Mr. Dent indicated that he would provide retroactively net of fees. From a compliance regulatory standpoint it does not include administrative actuarial and would incorporate direct investment expenses which would be custodial and investment management fees.

Mr. Medrow stated that while actuarial expenses would not be included, these could be listed separately.

Mr. Santoro stated that it would just be an addition of a sheet in the report.

Mr. Dent stated that he would send the sheets because the rest of this report involves the portfolios. It is the same as the portfolio balance sheet in effect as of December 31, 2008 and the calculation on the fees will not change.

A brief discussion ensued regarding the equity portion and the difference attributed to the fixed income component.

Mr. Medrow asked for clarification about the reserve that is kept in cash to be used to pay benefits. Mr. Dent explained how the portfolio is managed in this regard.

Mr. Medrow asked if the benchmark on the equity side is the S&P 500. Mr. Dent responded in the affirmative.

Mr. Medrow asked if the benchmark on the fixed side is Barclays. Mr. Dent responded in the affirmative, and he pointed out that since 1990, the Barclays Government/Credit Index has a compound annual rate of return of 7.09 and the Fixed Income over that same time frame is 8.21.

In response to Mr. Medrow's question regarding annualization and obtaining absolute dollar numbers, a brief discussion ensued regarding these calculations. Mr. Dent responded that this information could be provided as part of the Pension Board's regular meeting.

Mr. Medrow stated that he would like to see a report with what is actually in the account. Mr. Dent stated that he could give that on a quarterly basis with each quarterly report and with any date parameters requested.

Mr. Medrow suggested starting out with the calendar year and providing updates on a calendar basis and also on a semi-annual basis to coincide with the date of Mr. Dent's presentation. He stressed the assurance that there are no fees.

Mr. Medrow commented that right now we do not know the total value in the account. Mr. Dent responded that as of March 31, it would be higher than that over the last two weeks, and that the total value is listed on the third page of the March 31 report and highlighted at the bottom.

Mr. Medrow asked if the total market value is almost $26 million. Mr. Dent responded in the affirmative.

Mr. Medrow asked how this figure compared to last year. Mr. Dent responded that he could provide a rough approximation and that the total return for the entire account was -19 last year and -6 right now and it fell roughly 25% from where it was.

After a brief discussion regarding last year's performance, Mr. Dent commented that the report he will provide in the future will supply more detailed information as to contributions. If there is a decline of a certain number of dollars, it will show how much of it has resulted from market changes and how much from contributions in and payments out.

Mr. Medrow asked for clarification about market to market regulations that were affecting banks. Mr. Dent responded that the portfolio is free of banking stocks; however, he noted similar situations with insurance companies. With regard to financials, he pointed out that there is one insurance stock in the portfolio – White Mountains Ins. Mr. Wagenmann stated that there are 700 shares of White Mountains in the portfolio. Mr. Dent commented that 700 shares is one half of one percent of the portfolio and it is quite insignificant.

With regard to White Mountains, Mr. Dent stated that it has not been impacted as much because they invested largely in government securities. They do not have a large portfolio of structured investment vehicles, and it is a conservative company in that respect. Consequently, there is minimal exposure.

Mr. Dent pointed out that banks were avoided entirely last year. With the sub prime debt and mortgage problems first surfacing in 2007, it became apparent that the housing area was going to be troublesome also consequently the consumer sector was avoided as well. However, he noted that what was missed was how pervasive all of these problems became.

Mr. Dent commented on the financial services companies in the portfolio and stated that they are not highly leveraged lending institutions that have a lot of liabilities, and they are not subject to market to market questionable assets.

Mr. Dent offered comments on the outlook and stated that in his view, we are in the process of stabilization and that the monetary policy is moving in the right direction. He added that we are going to go through a period of deleveraging. The economy expanded at an abnormally high rate because the spending was coming from borrowing, and there will be an extended recovery period.

Mr. Medrow asked about the unemployment rate, and Mr. Dent responded that it is 8 ½%.

With regard to unemployment, Mr. Dent stated that what is important with respect to the markets that anticipate this is that in all past recessions for the last fifty years since the WW II, when unemployment has peaked, the market has rallied. When the highest level of anticipated unemployment is reached, the markets will sense that it is not getting worse and will usually rally six months or so before a decline in unemployment is realized. Mr. Dent noted that there are those who say that unemployment will peak sometime late this year or early next year. Mr. Dent predicted that we have another six months in the trading range. He pointed out that within the equity portfolio the largest component is Life Sciences and he highlighted the positive aspects of this account. Also, in spite of what happened last summer with energy prices, Mr. Dent believes energy and natural resources are an area for recovery. He also commented on the growth in emerging markets in places such as India, China, Brazil, Asia, South America where raw materials are needed in order to industrialize.

Mr. Medrow asked about agriculture. Mr. Dent responded that Monsanto has been purchased. Monsanto used to be a chemical company and it is now an agriculture technology company. They bought DeKalb Agriculture and have been increasing their market share in hybrid seeds that are drought, insect and weed resistant. They also have the largest selling herbicide world-wide, the Roundup product line. Archer was sold since margins on ethanol are difficult to analyze because of all the new ethanol plants (currently 130 plants).

Mr. Medrow asked about the prognosis for inflation. Mr. Dent responded that, in his view, in three years, it will be a big problem. With recovery will come a reversal in monetary policy. He noted that we are printing an unbelievable amount of money now and inflation is a monetary phenomenon. There are going to be a lot more dollars chasing the same pool of assets.

Mr. Dent discussed the purchase of Rio Tinto which is the third largest mining company and he commented on the features of the coupon.

In addition to rising interest rates associated with inflation, Mr. Dent commented that an economic recovery should be coincident with improving natural resource mining mills prices and coverage from the earnings in natural resources should be improving with the improving economy which is causing interest rates to go up.

Mr. Medrow asked if we are looking at the natural resource area as a potential hedge against hyper inflation. Mr. Dent responded that he does not see hyper inflation.

Mr. Medrow stated he is looking at 11, 12, 13% inflation as hyper inflation, and in his view believes that is possible.

Mr. Dent stated he did not think it possible that the Federal Reserve would tolerate that on a sustainable basis. He indicated that in three years we will experience inflation. For this reason, the bond portfolio is structured within ten year periods.

Mr. Dent discussed what is being done within the equities and provided specifics on the list of purchases that include many repeat purchases building up positions and favored names.

Mr. Dent commented on last year's sales and purchases in this economic environment. He pointed out that the idea was to reduce the positions in the treasuries which are very clearly the most overvalued sector in the market where there is virtually no return.

Mr. Dent discussed the summary of the current portfolio compared to a year ago. He noted that the average maturity has been extended somewhat. He explained that the extension of maturities is due to the short term treasuries that were yielding 2% and less.

Mr. Medrow asked if we have stayed out of mortgages altogether. Mr. Dent responded in the affirmative.

A question was asked about investment style and philosophy and whether there is reaction to the positive or negative of the actuarial study. Mr. Dent responded in the affirmative. He pointed out that if you are badly under funded, you would be asked what kind of risk profile you want. If you are concerned about further erosion of the assets to support the liabilities, the question then becomes do you want to become increasingly conservative or do you want to move out the risk and return to try to generate higher returns. If upon receipt of the actuarial study you find that you are sufficiently under funded so that an adjustment must be made in the investment program and the asset allocation between stocks and bonds, then it would be addressed.

Mr. Medrow asked how this is communicated. Mr. Santoro responded that he gets a copy of the report on what we need in three months, six months, nine months, twelve months. Mr. Wagenmann responded that he gets the actuarial study.

Mr. Dent stated that this interpretation is part of the whole investment management process as the market is monitored. At the present time, given the losses in the market and the opportunities in the corporate vs. treasury, by just going into corporate vs. treasury we are increasing the credits. We are going from full faith in credit riskless treasuries to corporate risk in those bonds but we are getting paid 400 to 500 basis points more income.

Mr. Wagenmann stated that the township is sending letters and talking to state legislators to urge that they modify the state law on the amortization schedule on the pension plans. He noted that they have done this once before and have taken thirty years for a brief period of time. Mr. Wagenmann pointed out that as we go through the next actuarial cycle, it is hoped that the requirement would be loosened up as it would be of immense help in regard to the out of pocket dollars that the police have to put in. If the state money does not meet the annual obligation than the township will ultimately make up the difference. Mr. Wagenmann offered the suggestion of putting the target date on where the Dow was, the value of the Dow on a certain date and if the stock market returns to that value, then the next actuarial cycle would revert back to the 15 year amortization.

Mr. Medrow stated that he thought the S&P 500 might be a benchmark. Mr. Wagenmann responded that whatever they want to use as a benchmark would be acceptable rather than have some arbitrary decision made by the state legislature.

Mr. Medrow noted that he read an article in the recent press that the state legislature is introducing another bill to try to consolidate all the state pension programs and turn the defined benefit plans into defined contribution plans. He commented that it runs against the township's best interest. Mr. Medrow pointed out that while defined benefit plans are "dinosaurs," it is a nice "dinosaur" to have for the police at this point in time since they get the guarantee that they would not get in a defined contribution plan. Mr. Wagenmann noted that the non uniformed plan is a defined contribution plan and by law they must have a defined benefit plan since they are under a different act.

On the equity side, Mr. Medrow questioned if investments are being made in the international global market. Mr. Dent responded that investments are not being made directly as such. He explained that the reason he replied in this manner is that holdings are analyzed in each portfolio and the global economy has become very homogenized. He pointed out that there are Dutch and French companies that have 50% of their revenues in the United States. There are companies like Intel with over 80% of their revenues coming from outside the United States. Mr. Dent stated that it is not as clear any more what is a foreign company other than one that is domiciled and headquartered in a foreign country and sells in that country or surrounding countries' markets. Most of these companies have become very global, and what he does is look at the portfolio and at the percentage of each company's revenues that are coming from outside the United States. He explained that an equity portfolio with about 35% of the revenues coming from outside the United States is where the real exposure is because that is where the foreign exchange exposure is. The companies that have operations overseas are earning in euros, francs, Australian dollars, or marcs. The currency risk is going to be how those specific currencies or that group of currencies as a basket is translated into U.S. dollars. The exposure of 35% overseas which would be higher with larger capitalization companies is an interesting way to look at it because most people feel that the more stable investments are the large capitalization companies. Mr. Dent pointed out that these are the ones that have more exposure to emerging and developing markets outside the United States so you have greater currency risk there.

A brief discussion ensued regarding the auto companies. Mr. Dent stated that the Chinese auto companies are doing well and are at full production. Mr. Medrow stated if GM was strictly a European or Chinese company, they would be tremendously profitable right now. It is the American side of the company that is dragging it down.

With regard to the management of the equities, Mr. Dent commented that their guiding strategy is that a lot of time is spent interviewing managements of companies directly at their facilities and also at his company. They consider industries to be the best in class managements in growing businesses. In getting to know the managements over time a high comfort level is developed with them.

Mr. Dent provided an interesting example of a company in the portfolio that is the only company without a slowdown in business – Stericycle, Inc. – a medical waste company. Another company that has been very strong is Idexx, a supplier of instrumentation to veterinarians.

Mr. Dent provided an interesting technical statistic and he stated that the lows basically occur in October and November and on March 10; it went down to lows again. On the third testing of the lows for the indices, there were only about 40% of the stocks hitting new lows that were hitting the lows in the fall. Stated in other words when there was less testing there was less panic selling and far fewer new lows being created.

Mr. Medrow asked if this was for each index or just Standard Poors 500. Mr. Dent responded that this was the New York Stock Exchange and the S&P 500 new lows.

Mr. Medrow asked about the Nasdaq. Mr. Dent responded that Nasdaq would be even lower because the Nasdaq has a lot more really low priced stocks. He pointed out that as long as we stay with really good best of class companies, they are going to work their way through it and do well.

In closing, Mr. Dent stated that he would send the information sheet on net of fees and also the change in market value that shows the actual dollar for 2008.

Mr. Medrow asked if the Pension Board would receive net of fees from now on, and Mr. Dent responded in the affirmative.

OLD BUSINESS:

There was no old business addressed during the meeting.

NEW BUSINESS:

Mr. Wagenmann stated that there is a township employee who has an autistic son with a super sensitivity and pain issue so severe that he cannot even shave. AmeriHealth is denying his claim for laser hair removal and the matter is being presented to the Pension Advisory/Health and Welfare Board for consideration.

Mr. Santoro pointed out that typically this is a cosmetic procedure, but in this case it is a medical procedure.

Mr. Medrow stated that in his discussion with Mr. Santoro, assurances were provided that this would not become an ongoing liability issue for someone desiring a cosmetic procedure. Mr. Medrow reported that in this case, Mr. Santoro stated that written statements have been provided by the attending physician and the attending psychologist that it is a necessary medical procedure in this patient’s best interest. Mr. Wagenmann stated that this person is physically suffering pain.

Mr. Medrow asked about the self insurance. Mr. Wagenmann stated that the township is self insured, but there is a third party administrator who applies what would be normal, regular, and customary. He pointed out that in this particular case, if everyone is in agreement, the Pension Advisory/Health and Welfare Board has the ability as a committee to make a decision to override the denial. Mr. Wagenmann added that any future requests for this particular procedure would have to provide definite evidence that it is a medical procedure, not a cosmetic procedure.

Mr. Medrow asked if a decision could be made tonight. Mr. Santoro responded that a vote cannot be taken without a quorum. Since time is of the essence in providing a decision, Mr. Medrow asked for a telephone survey of the members regarding the medical exception. Mr. Wagenmann responded that a survey will be conducted and if everyone is in agreement, the decision would be ratified at the next meeting.

Mr. Santoro stated that the plan of action is to survey members and assuming that we have a majority ‘yeas”, he will tell the employee to proceed and the Board will ratify at the next meeting.

A brief discussion was held regarding 401 loans and the need to discuss the pension consequences with the employee.

Mr. Medrow asked what the township contributes to the 401(k). Mr. Wagenmann responded that the township contributes 6%. With regard to loans, there are limitations, in that they cannot borrow any more than 50% of their vested balance. Mr. Santoro added “or a maximum of $50,000.” Mr. Wagenmann stated that it is limited to no more than one loan and it has to be paid back in five years.

ADJOURNMENT:

With no further business to come before the Board, the meeting was adjourned at 8:32 p.m.

Alfred E. Santoro, III
Board Liaison

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Minutes Approved:
Minutes Entered: