

PENSION ADVISORY BOARD/HEALTH & WELFARE BOARD OF TRUSTEES
OCTOBER 24, 2012
QUARTERLY MEETING

The Pension Advisory Board/Health & Welfare Board of Trustees, met for their Quarterly Meeting on Wednesday, October 24, 2012, in the Township Building. The meeting was called to order at 5:31 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; David Kraynik, Township Manager Designee; Fred Santoro, Staff Liaison; Tom Nolan, Chief of Police/Trustee; Vince Mallon, Civilian Member, and Sgt. Andy Andreyko, Police Representative. Eric Medrow, Chairman, and Sudha Suryadevera, Non-Uniformed Representative were absent.

MEETING MINUTES:

It was moved by Sgt. Andreyko, seconded by Mr. Mallon, all voting "Aye" to approve the April 25, 2012 Meeting Minutes as submitted. None opposed. Motion unanimously passed.

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

Mr. Daniel Dent, Investment Manager, provided an overview of the history of the Police Pension Plan during the tenure of DF Dent and Company, started with a total market value of \$14.4 million as of December 31, 1994. Over the entire 18-year period there has been \$17.4 million in cumulative withdrawals, primarily distributions to beneficiaries of the plan. As of September 30, 2012, the market value is at \$38 million -- more than 2 ½ times its original starting market value.

Mr. Dent reviewed the overall Police Pension Plan and highlights are as follows:

- Fixed Income represents 34% of the total portfolio
- Largest holding and best performer in Equities remains Fastenal - it has been trimmed back this year and is still over 7% of the overall portfolio which represents 10% of the equities
- Performance in past calendar year of equities was good relative to the market. It was about 4.8% better than the market and that performance continued in the first quarter of this year.
- Equities underperforming the benchmark slightly by 2% in the last two quarters. The reason was the benchmark which is the S&P

500's largest stock - Apple. Four percent (4%) of the performance of the S&P this year is attributable to Apple. Portfolio did not have Apple investment because there was good exposure through the technological advances in cell phones with Qualcomm, Inc.

- One year ago portfolio was \$33.2 million and current market value is \$38 million.
- Over past year the best contributor has been Fastenal and second is Visa. The total contribution for the entire portfolio of equities is 28.97%. The ten highest contributed 18% of that 28% and the weaker performers as a group had a -0.43.
- There are ten S&P sectors. The first is Consumer Discretionary and plan is underweighted in that sector and has an average weight of 4.17 whereas the benchmark has 10.90 weighting.
- Plan is over weighted in industrials, information technology, financials and health care and underweighted in consumer discretionary, energy, materials, consumer staples, telecommunication services and utilities.
- Ansys, Inc. has been strong performer and will grow for many years to come.
- Significant improvements in development of oil and natural gas. Projections are the United States will be energy independent by 2020. This will have impact on growth of other industries. Concho Resources is a domestic company and one of the equity purchases.
- Range Resources is same strategy as Concho Resources. Not investing in big companies like Exxon, Shell, BP, multi-national companies, but rather targeting companies that are small to mid-size that are going to be beneficiaries of what is going on in this country with energy.
- Concur Technologies provides software as service to corporations for travel and expense management. It is an early stage business company that should do well.
- O'Reilly Automotive is one of the three major auto parts suppliers.
- SEI Investments a new financial services company.
- Price Smart is the originator of the big box retailer. They have 26 stores in Caribbean and South America. Small initial purchase since it is a foreign company and may be volatile.
- Sales include Ultra Petroleum, Techne Corp., Sodastream International, Idexx Laboratories
- Average maturity in fixed income portfolio has held steady below the benchmark which is intentional strategy to stay short because of low interest rates.
- Fixed Income at 37% of Total Assets. Discussions in past had 55% ceiling in equities and recent discussions were to allow equities to increase within reason. With the good market we have seen an increase in equities within the portfolio. DF Dent will work at bringing equities percentage down to keep ratio in balance. It is Mr. Dent's understanding not to have a hard ceiling.

Mr. Wagenmann commented DF Dent was given 10% leeway to 65% in equities.

Mr. Dent commented on the economic outlook and said he believes the markets in 2013 will do reasonably well despite economic worries. He views this as a positive since "irrational exuberance" is bad. Current worry is about China where the economy is slowing down from 10% to 7% growth. However, China has extensive resources to control their economy, no sovereign debt, and \$3 trillion in foreign reserves. Their economy was getting overheated at about 11% so they started "applying the brakes", the opposite from the US stimulation.

Mr. Dent believes the "fiscal cliff" is going to be like Y2K. There will probably be some slowdown from fiscal cliff, most likely increase in taxes, but he does not believe it will be as draconian as people think.

Changes in markets occur when there is a change in perception. He predicted that six months from now the issues currently worrying people will not weigh as heavy on the market and that will be good for equity markets. Almost everyone thinks interest rates will stay low and will remain as long as unemployment and the economy is weak and growing only 2%. The Fed will wait for some strength before raising rates. When interest rates go up it is considered competition for the bond and stock market. In this case, if interest rates go up it will be because the economy is strengthening. For equity investment you want an economy that is growing. The prognosis for 2013 is it will be okay as well as the valuation. It is not real cheap or overvalued. Corporate earnings while slowing down are still strong and company balance sheets are much stronger and they have cash.

Mr. Santoro asked about the outlook for the metals markets, such as gold and silver. Mr. Dent responded the metals markets and basic materials are dependent on the economy of China. Commodities have been weak because of a slowdown in China. He said you will continue to see some weakness there in basic materials and in precious gold and silver metals. Silver has done well because of the industrial uses and gold has been flat recently. Gold will be dependent upon inflation going forward. Mr. Dent believes gold would do better in three years when the economy is stronger and we have some inflation coming from monetary policy, but not in the next year or so. If you are adventuresome the country growing rapidly because of gold and silver is Mongolia. Mongolia is big exporter of gold and silver and the exports of gold and silver relative to population is huge.

Mr. Santoro said the Chinese government has recently allowed their citizens to own bullion, and there is a good market for them buying American silver which is pushing the price in this country. Pundits have indicated the ratio between the price of gold and silver should be 16 to 1. If that were true, either gold is very overvalued right now or silver is extremely undervalued right now.

Mr. Dent said he does not think that gold will do anything meaningful until there is inflation resulting from monetary accommodation. Easy monetary policy is pretty much a global thing. Even Mediterranean countries are in trouble now. Greece is in a whole other category and will have to basically bale out of the EU, but Portugal, Spain and Italy, interest rates range from 5-7% for sovereign debt that really is very weak in terms of existing debt outstanding.

OLD BUSINESS

None.

NEW BUSINESS:

None.

ADJOURNMENT

With no further business to come before the Board, it was moved by Sgt. Andreyko, seconded by Mr. Mallon, all voting "Aye" to adjourn. None opposed. Motion unanimously approved and the meeting was adjourned at 6:26 p.m.

Alfred E. Santoro, III
Board Liaison

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Minutes Approved:
Minutes Entered: