

UPPER MERION TOWNSHIP  
PENSION ADVISORY BOARD/HEALTH & WELFARE BOARD OF TRUSTEES  
OCTOBER 22, 2008

The Pension Advisory Board/Health & Welfare Board of Trustees, met for their Quarterly Meeting on Wednesday, October 22, 2008, in the Township Building. The meeting was called to order at 7:03 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: Barbara Frailey, Supervisor and Trustee, Ronald G. Wagenmann, Township Manager & Trustee; Fred Santoro, Staff Liaison; Chief Ronald M. Fonock, Chief of Police/Trustee; Daniel F. Dent, Fund Manager. Absent from the meeting was: Eric C. Medrow, Civilian Member; Robert W. McKernan, Non-Uniformed Representative, Andrew Andreyko, Police Representative.

MEETING MINUTES

Since a quorum was not present, the January 16, 2008 Reorganization Meeting Minutes were tabled until the next quarterly meeting.

PRESENTATION BY DANIEL F. DENT

Mr. Daniel Dent stated that he is frequently asked what is being done and what adjustments are being made to deal with these markets. He indicated that while there are very severe and unprecedented problems facing the markets and the economy, he believes that the Treasury Department and the Federal Reserve are both making the correct moves in the proper direction in coordination on a global basis with other countries throughout the world. In his opinion, the policies and changes that they are making will take time to play out. Mr. Dent believes they are making the correct moves and with increased liquidity and injection of capital into banks the markets will be stabilized in time.

Mr. Dent discussed hedge funds and that what we have seen most recently which, in his opinion, will continue for awhile is the liquidation of hedge funds that had highly leveraged positions. He explained that because their investors are asking for their money back, those hedge funds are being forced to sell their positions to meet those demands. The same thing is happening in the less leveraged sense in the mutual fund industry which is a multi-trillion dollar industry. Many shareholders are very worried right now and are redeeming

shares and that is forcing mutual fund managers to sell investments. In order to generate cash to meet redemptions, investments are being sold, even those that they may feel good about. Mr. Dent noted that it will take awhile for that to work its way through the system, but we are going through that now and that is why you see some very sharp declines and the current volatility.

A question was asked about the money supply and the mass infusion of money by the government and asked if it could be quantified percentage-wise and another question was asked about the impact of the sell off in the hedge funds and whether it is small percentages compared with the trillions. Mr. Dent responded it is the growth rate of the money supply. He explained that the money supply does not increase itself at 15 percent, but the growth rate is increased from the base at 15 percent or so. With regard to the hedge fund question, he could not answer that because no one really knows what is in these hedge funds. They are not regulated and they do not report to the SEC and on top of that they borrow heavily to establish their positions. For a given hedge fund, it might be a \$4 or 5 billion fund, but it is possible that fund could have \$8 or 9 billion of investments borrowing the \$4 billion to make up the difference. They are not required to report and no one really knows the amount of positions that the hedge funds have and that is frightening to a lot of people because it is a big unknown.

Mr. Dent stated that he continues to have discussions with the managements of companies that the Township is invested in. Because of the way the markets were acting and earnings were about to be reported, he noted that he called the ten largest holdings to see how their operations were and the responses from these companies were basically that if they did not see the newspapers, they would not realize that anything was going wrong as their businesses were operating quite well. Although there was a little softness here and there, they were seeing good results. Mr. Dent indicated that he is tracking the quarterly earnings reports as they come in, and they have all been very strong. One that was a bit light, but not bad was Intel.

Mr. Dent stated that his company will continue to seek out what they like to think of as best in class companies which means that they are run by managements with a record of good execution and delivering strong operating results where they have a high level of confidence in those managements from getting to know them for a period of time and a comfort level with their honesty and integrity where those companies have very sound business models and where those business models for their particular businesses are in growth industries. Of heightened importance recently is the earnings power and the free cash flow that these companies are generating. Mr. Dent explained that the reason for that is in this environment with these capital markets, the companies that have the strong earnings and are able to finance their own growth are not

dependent upon the capital markets so they can continue to grow. They generate the cash, and they sustain their operations. The companies that have been troubled recently are the ones that are dependent upon the capital markets. He gave the example of the recent problem that California had. California was depending upon the credit markets to fund their operations and that is why they had to go to the federal government to try to get an emergency loan. The same scenario exists for companies. If they are dependent upon credit markets which are frozen up, then they have a problem because they cannot access that capital as easily. Consequently, the companies that are generating free cash flow and strong earnings are not subject to the problem of the capital markets.

Mr. Dent stated that once credit loosens up and banks are willing to start lending again, they are not going to be lending to the companies that have a lot of problems. They are going to be lending to the companies that have good financial metrics and characteristics. In his opinion, Mr. Dent believes that the companies the Township is investing in are going to come out of the current turmoil even stronger with more possibility and more opportunities to either expand where competitors have gone by the wayside or to acquire other companies at these fire sale prices. He explained other advantages and offered the scenario that if a company were to buy in its stock, it is essentially shrinking the share count. If you sit there and do nothing as a shareholder and the company buys in 10 percent of its outstanding stock, by doing nothing, you now have a 10 percent larger equity position in that company. So going forward, your percentage equity has increased and as we return, you will get to a more normal environment. Mr. Dent noted that this is not going to happen overnight.

Mr. Dent went over the specifics in the report, and noted that equities were down in October. He noted that in October because of indiscriminate selling through liquidation programs by hedge funds and mutual funds, performance has not been good in the first three weeks of October because of that.

Mr. Dent stated that he is tracking performance of companies in the Township's portfolio before earnings season which started about a week ago and after earnings season. He explained the purpose of doing so and, in his opinion, he believes that he will find that the companies the Township is invested in delivered good earnings and that their relative performance is going to be far superior once the earnings season starts until the end of earnings season – from mid October to mid November.

With regard to Financial Services, Mr. Dent noted that he has sought to avoid banks and that has been very helpful in the last year or so. He pointed out the companies that service financial institutions and that they are not subject to the leverage and the toxic asset problems that the banks have.

Mr. Dent stated that the strategy in the last few years has been to have a heavy position in energy and avoid the financials. He explained that in the third quarter it worked against us avoiding that because that was where the best performance was. At the same time, it was in the third quarter that energy prices started coming down and the price of oil was cut in half. He stated that these stocks have done well for many years and, in his opinion, going forward they are going to do well, too.

Mr. Dent went over the details on page 2 of the report that shows what the actual dollar lows have been for different time periods over the last 10 years.

With regard to purchases and sales on page 3, Mr. Dent offered comments on some of these transactions and noted very heavy weighting in governments because of the turmoil in the markets. The governments in the Township portfolio represent 15 percent of the total assets and have performed very well. Mr. Dent stated that bond prices have gone up and with that the effective interest on them is going down and they are yielding very low returns at the present time. He noted that the corporate bonds are yielding much higher returns and we will stay with quality in the corporates because we are getting much higher returns. Mr. Dent indicated that the spread between government yields and corporate yields is as high as he can remember. In his opinion, the governments are overvalued and the corporates as undervalued. Mr. Dent explained that they are undervalued because investors are terrified of anything other than super safe, full faith and credit of U.S. treasury government bonds and this is the opportunity to get good returns on corporates.

Mr. Dent discussed the sale of some of the zero coupon treasuries and consumer oriented or consumer dependent companies since consumer spending is going to be under pressure for quite awhile. Purchases of the technology and industrial companies that we have been purchasing, in Mr. Dent's opinion, is probably the most attractive sector going forward and that is where increases in the weighting within the portfolio will occur.

Mr. Dent discussed the bond portfolio on pages 5 and 6 and commented that he is very pleased with the moves in the bond markets strategically where we made it defensive and increased the income.

A question was asked if Sunpower is a solar company, and Mr. Dent responded in the affirmative. He added that we have been looking at alternative energy for about three years now and this is the first investment in alternative energy and of the six or seven legitimate companies, Sunpower is one of the largest and is earning good money right now.

Mr. Wagenmann stated in the government business, we are seeing more solar power vendors.

A discussion ensued regarding B stocks.

Mr. Wagenmann commented about approaching the state in regard to changing the amortization schedule on pensions, and a discussion ensued regarding possible strategies.

Mrs. Frailey asked when the market may turn around, and Mr. Dent responded that we are now paying for the excesses of the last 15 years and, in his opinion, this will be a slow recovery within the economy. He added, however, that there will be a lot of opportunities in the companies that do well and generate the earnings, and the cash will flow back once it all stabilizes.

A question was asked about international exposure. Mr. Dent responded that international investment until the beginning of this calendar year outperformed the U.S. domestic markets and one of the reasons for that in addition to those emerging markets growing faster was the weakness in the dollar. He stated that is now reversed and those emerging markets have really weakened and that recent history has been that it has been a terrible area to be in. To address the question more directly about the future, Mr. Dent noted that the markets outside the U.S. will grow faster than the United States. He offered the conclusion that we would invest in companies that are U.S. companies that have strong operations overseas and participate in that way. The reason for that is the communication and accounting standards are much better.

A question was asked about the Vanguard Index. While Mr. Dent did not have a favorable opinion of one that has gone down 50 percent, he did express positive comments regarding Brazil because in spite of the recent correction in commodities, Brazil currently is filling that need of being the world's breadbasket.

#### OLD BUSINESS

#### NEW BUSINESS

ADJOURNMENT

With no further business to come before the Board, the meeting was adjourned at 7:35 p.m.

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Alfred E. Santoro, III  
Board Liaison

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Minutes Approved:  
Minutes Entered: