

PENSION ADVISORY BOARD/HEALTH & WELFARE BOARD OF TRUSTEES  
NOVEMBER 14, 2018

The Pension Advisory Board/Health & Welfare Board of Trustees, met for their Quarterly Meeting on Wednesday, November 14, 2018, 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 Greg Waks, Trustee and Board Liaison; Sally Slook, Acting Township Manager; Roseann McGrath, Chairperson; Joan Jenaway, Tom Nolan, Director of Public Safety; Sgt. Andy Fidler, Police Representative; Bill Daywalt, Non-Uniformed Representative; Nick Hiriak, Finance Director; Sibyl Bryant, HR Director; and DF DENT Representatives Mike Morrill and Daniel Dent.

MEETING MINUTES:

Motion made and seconded, all voting "Aye" to approve the September 12, 2018 Meeting Minutes as submitted. Motion unanimously approved.

PRESENTATION BY DANIEL F. DENT, DF DENT & COMPANY, INC. RE:  
POLICE PENSION PLAN AND FUND

Mr. Daniel Dent, Chairman, D. F. Dent, discussed the performance of the Upper Merion Township Police Pension Plan as of 10/31/18. Highlights as follows:

**Policy Guidelines (as of 10/31/18) – page 3**

Mr. Dent stated due to the current state of the treasury market, we are keeping the maturities very short awaiting future interest rate increases. It was noted that the Federal Reserve has already had three increases in interest rate this year, seven increases since they departed from the zero interest rate policy and it is expected that they do another 25 basis point increase December 2018. The markets are anticipating that there might be three or maybe four interest rate increases in 2019. Combining all of these increases would amount to 10 or 11 interest rate increases from the low point. It was noted that the reserve funds with the Fixed Income on a combined basis amount to 36% or so.

**Performance as of 10/31/18 (net of fees) – page 4**

Mr. Dent called attention to the Equities which are up 8.89% and the S&P 500 are up 3.01% noting numbers are up almost 6% more than the S&P 500 on a Year to Date basis. It was noted that Equities are 12% as opposed to 7.3%. Mr. Dent stated Barclays Government Credit Index is negative in returns of 2.70% for

this year and 2.31% for last year. Due to these negative numbers it was noted that this is the time where a defensive policy is really beneficial. Mr. Dent emphasized staying with this policy into next year until we want to start extending. This would be once we see the third or the fourth increase in interest rates because then, presumably, we would be getting much higher rates.

#### **Change in Market Value – page 5**

On October 31, 2017 the Market Value was \$50.4 million and is currently \$53.3 million. Referring to the expense column for Additions/Withdrawals, Mr. Dent noted is primarily distributions to beneficiaries. Mr. Dent pointed out the numbers for the three panels follow consistently. The three-year total is just about three times what it was in the last year and the five-year is reasonably close to five times what it was in the last year.

#### **Capital Flows – page 6**

Mr. Dent stated the cumulative withdrawal from 1994 to 2018 (a period of 24 years) amounts to \$27.2 million and the value is \$53.3 million.

#### **Contribution to Return (03/31/18 to 10/31/18) – page 7**

Mr. Morrill noted the five names that have helped the portfolio the most in equities start with Visa Inc. and the five names that hurt the portfolio the most start with SEI Investments Company. Mr. Morrill pointed out that the technology and healthcare stocks are the two areas that have driven the strong performance in 2017 and again this year. Mr. Morrill noted that in regards to the five lowest performing, there is no company that that give serious concern.

#### **Equity Sector Weights vs. S&P 500 Index – page 8**

Mr. Morrill pointed out the Communications Services sector is a new sector in the S&P. This is due to S&P getting rid of Telecom Services which was a dying sector and adding technology to get depth into the sector. It was also noted that we don't own anything in the names of Consumer Staples and Utilities as there aren't many growing companies in those two areas.

#### **Purchases and Sales (03/31/18 to 10/31/18) – page 9**

Mr. Morrill noted three new purchases in the portfolio which are Black Knight Inc., a software company for mortgage origination, Danaher Corp., a well-known industrial company, and SBA Communications Corp CI A., a telecom tower company. Mr. Morrill stated there were a few new names and noted the four names sold were Celgene Corp., Discover Financial Services, Exponent Inc., and Wageworks Inc. It was also emphasized how interesting of a company Exponent Inc. is, as it serves as a consulting company. It was noted that the six companies trimmed were Ansys Inc., Fiserv Inc., Red Hat Inc., Roper Technologies Inc., SEI Investments Co, and Visa Inc.

## **Market Capitalization as of 10/31/2018 – page 10**

Mr. Morrill pointed out that given the fact that we have been in a 10-year bull market, a lot of the names that are in the large cap used to be in the mid-cap and mid-cap names used to be in small-cap. It was noted that Brooks Automation, Inc. is a newer name in the portfolio in the small-cap area. Mr. Morrill also mentioned that when mega-caps do really well we tend to underperform in the short-term.

## **Staged Reallocation from Equities to Fixed Income (06/30/17 to 10/31/2018) – page 11**

Mr. Morrill expressed the importance of the two tables presented as it shows what is being done in managing the account. Essentially, it shows that since 6/30/17 money has been taken out of the Equities and building up the Reserve Funds. It was noted that the building in Reserve Funds has gone from 1.14% in 6/30/17 to 9.44% as of 10/31/18. Mr. Morrill also noted that the Fixed Income is down a little bit but that is because some of those maturities have rolled off but maturities have been shortened. The Equities have been reduced from 69% down to 63%. The first table shows the percentages shifts and the second table shows the same information in terms of the actual dollar movements. Mr. Morrill also stated that although the Total Stock Sales for 6/30/17 to 10/31/18 was \$5,199,610, the stocks have gone up from \$32 million to \$34 million due to the good market.

## **Fixed Income Profile – page 12**

Mr. Dent provided an overview of the Fixed Income portion of the portfolio. It was noted the average maturity has gone from A to A+. With regard to the Sector Allocation, Mr. Dent pointed out that the Treasuries have increased from 18% to 35% and have cut back on Corporates.

## **Bond Maturity Schedule – page 13**

Mr. Dent reviewed the bond maturity schedule. It was noted we have a shorter one year maturity and the rest of the portfolio is reasonably similar.

## **Market Outlook – S&P 500 Calendar Year Bottom-Up EPS Actuals & Estimates – page 15**

Mr. Dent emphasized that in calendar year 2017 earnings were 133 and in calendar year 2018 earnings were 161. Thus showing a 21% increase in S&P 500 earnings this year. A major factor is the reduction in tax breaks which is not expected to occur again next year. This shows a deceleration in the rate of growth and this is one factor that makes us cautious on the market.

## **Market Outlook – S&P 500 Forward 12-Month PE Ratio: 10 Years -page 16**

Mr. Dent reviewed the Market Outlook chart which is in line with the 5-year average of the S&P. In terms of valuation against earnings we are pretty much average.

**Interest Rate Shifts – page 17**

Mr. Dent noted the short-term interest rates have really spiked up and long-term interest rates have not gone up much at all. It was also noted that it has been a very dramatic shift between yields being higher on stocks than yields now being higher on bonds. This is another factor behind we can see moving some of the Equity money over into the Fixed Income Area.

**Portfolio Appraisal (as of 03/31/18) – page 18**

Mr. Dent stated what helps in managing portfolios is emphasizing positions in your portfolio that are showing significant capital appreciation as opposed to putting millions of dollars in one particular stock.

NEW BUSINESS

**REDUCTION OF ACTUAL RATE OF RETURN OF 8% TO 7.85%**

Mr. Waks noted that at the last meeting the Board of Supervisors decided to reduce the Actual Rate of Return of 8% to 7.85% based on a suggestion.

OLD BUSINESS

ADJOURNMENT

There being no further business before the Pension Advisory Board, it was moved and seconded to adjourn the meeting. None opposed. Motion was unanimously approved.



ROSEANN MCGRATH  
CHAIRMAN

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Minutes Approved:  
Minutes Entered: