

**ABINGTON TOWNSHIP
PENSION COMMITTEE MEETING**

May 26, 2015

CALL TO ORDER: 6:00 p.m.

PRESENT:

Committee Members:	<u>Present:</u> Commissioners Hecker, Kline <u>Excused:</u> Commissioner Myers
Employee Representatives:	Tim Clark, Tim Zurybida,
Police Representative:	Officer Posey
Finance Director:	Kevin Barron
Assistant Finance Director	Jeannette Hermann
Township Manager	Michael LeFevre

OTHERS: Diane Smola, Sr. Investment Consultant, Hewitt EnnisKnupp, Inc., an Aon Company
Greg Fox, Investment Consultant, Hewitt EnnisKnupp, Inc., an Aon Company

Minutes of February 17, 2015:

Commissioner Hecker made a MOTION, seconded by Commissioner Kline to approve the minutes of the February 17, 2015 Pension Committee meeting.

MOTION was ADOPTED 5-0.

Quarterly Investment Review – First Quarter 2015:

Ms. Smola reported that returns for First Quarter 2015; Global Equity Market Return was up 2.58%. The Russell 3000 that measures the U.S. Equity Markets was up 1.8%, but the Non-U.S. Markets had strength in the first quarter and MSCI EAFE returned 4.9%. U.S. employment numbers were strong in the first quarter and comparing the U.S. Market Equity Returns to the S&P 500, which measures large cap, returns were slightly under at 0.95%, and the returns in the first quarter in the small cap area as measured by the Russell 2000 was over 4.3%. A lot of it had to do with the rise and strengthening of the U.S. Dollar

Non-U.S. markets had a decrease in geopolitical risk during the first quarter. The best performing sectors were healthcare and consumer discretionary, which was up over 7.8% and 4.7%, respectively. The worst were utilities and energy down 4.6% and 2.2%, respectively. Growth outpaced value during the quarter and small caps over large caps.

For Fixed Income Markets; the Barclays Aggregate was up 1.6% domestically and the strongest area of the market was the lower quality investment grade and corporate and high yield returned over 2.5%. The long end continued to provide the best returns because there was a flattening of the yield curve during the first quarter.

Non-Uniformed Plan Summary:

Asset Allocation for Non-Uniformed Employee Pension Plan assets increased from approximately \$51.1 million to about \$52.1 million during the quarter. This was driven by investment gains substantial enough to offset negative cash flows.

The Plan's asset allocation as of March 31, 2015 was within their target guidelines as defined by the investment policy statement.

Total Plan Performance for the Non-Uniformed Employee Pension Plan returned 2.84% in the first quarter of 2015, outperforming its Policy Index by 59 basis points and ranking in the top 12% of the corporate \$20-250 million plan universe. Active management out-performance was the main driver of relative results during the quarter. All funds except for Dodge & Cox Income Fund outperformed their respective benchmarks during the first quarter. For the ten-year period ending March 31, 2015, the Total Plan underperformed its Policy Index by 43 basis points and ranked in the bottom half of its peers.

Police Plan Summary:

Asset Allocated for Police Pension Plan assets increased from about \$56.3 million to approximately \$57.1 million during the quarter. This was driven by investment gains substantial enough to offset negative cash flows.

The Plan's asset allocation as of March 31, 2015 was within their target guidelines as defined by the investment policy statement.

Total Plan Performance for the Police Pension Plan returned 2.84% in the first quarter of 2015 outperforming its Policy Index by 59 basis points and ranking in the top 12% of the corporate \$20-\$250 million plan universe. Active management out-performance was the main driver of relative results during the quarter. All funds except Dodge & Cox Income Fund outperformed their respective benchmarks during the first quarter. For the ten-year period ending March 31, 2015, the Total Plan outperformed its Policy Index by six basis points and ranged in the top quartile of its peers.

The watch list review showed that overall manager research rating for each investment option was a buy rating. There are a few funds based on watch list criteria that triggered a "yellow" status, which is a tool for us to look at it in more detail, and "yellow" was the status for PRIMECAP Odyssey Stock and BlackRock Global Allocation Funds.

Investment performance for the quarter showed that the Non-Uniformed and Police Pension Plans performed in the top 12 percent of their plan sponsor peer group, which was in the \$20-\$250 million dollar range.

The Dodge & Cox Income Fund was the only active manager to underperform its benchmark target during the quarter due to overweight exposure to corporate bonds and shorter than benchmark duration as longer maturities outperformed.

That was uncharacteristic of Dodge & Cox as they tend to not make strategic bets on interest rates and focus more on credit research, so it is something that we should monitor going forward. However, their longer term performance continues to be positive and there is high conviction in them.

PIMCO Total Return Fund outperformed during the quarter due to currency positioning specifically long U.S. Dollar positions as the Yen and Euro weakened; underweight to agency mortgage-backed securities, which underperformed Treasuries, and underweight to the front and long end of the yield curve as yields fell; and exposure to Treasury inflation-protected securities, which underperformed nominal governmental bonds.

BlackRock Global Allocation Fund outperformed during the quarter due to an overweight in Japan equities and exposure to options on broad-based European equity indexes; stock selection in information technology; underweight to fixed income; and stock selection in Canada, The United Kingdom, financials and materials.

PRIMECAP Odyssey Stock Fund outperformed during the quarter due to strong selection in industrials and consumer discretionary; overweight to the healthcare sector, which was among the top performing sectors for the quarter; weak selection in the energy sector; and overweight position in cash as stocks outperformed.

Vanguard Extended Market Index Fund successfully tracked its benchmark during the quarter.

Dodge & Cox International Stock Fund outperformed during the quarter due to overweight in the healthcare and information technology sectors; no exposure to Canada; weak stock selection in financials and consumer staples; and overweight in the United States.

Commissioner Kline clarified that during the first quarter both plans outperformed the indexes; what about the second quarter?

Mr. Fox replied PIMCO is underperforming quarter-to-date; Dodge & Cox is outperforming quarter-to-date and PRIMECAP is about even.

Ms. Smola added that large caps have the best returns quarter-to-date and small caps are trailing by a substantial margin. Most of the managers have been in the top third of their peer universe and they are all buy-rated, so we expect outperformance from them.

Commissioner Kline said there has been disappointing returns for a long time and he does not want to be too optimistic over one quarter.

Ms. Smola suggested staying in close communication with the Township in regards to the second quarter and make recommendation at that time.

Commissioner Kline questioned whether the watch list actually correlates with the analysts' decision as to rate the managers as a buy or not.

Mr. Fox replied a lot of the categories listed on the watch review list are what the analysts look at in making a determination on a buy rating. It is intended to be a graphical representation and also for the Township to decide whether there are investments that need to be monitored more closely or address and possibly take action on it.

Four of the categories on the watch list are related to performance whether they are against peer groups or benchmarks and research analysts look at performance when determining a buy rate.

Included in the quarterly investment review report is a list of investment manager evaluations that shows various categories that the researchers look at when they rate a strategy.

Ms. Smola said BlackRock has struggled in the longer term period and their performance during 2012 and 2013 had difficulty, which is why they appear on the watch list. But we feel strong going forward about their process.

Commissioner Kline questioned whether an analysis was done to find out how long it takes to recoup the value between the index and the actual security.

Mr. Fox replied we have done that for the total plan and we can do it for BlackRock specifically.

In regards to fee analysis; we compared fees for each investment in the plans to the respective medians of their peer group, and each of them is below what is a reasonable measurement of fees in those peer groups.

Ms. Smola said our expectations for capital market returns are coming down and it used to be we could forecast high single digit returns in both domestic and Non-U.S. equity markets, which are not what we envision in the future. It may be wise for the committee to look at the asset allocations, and perhaps have an asset liability study done to consider if this is the most appropriate asset allocation policy for the plan with its long-term return goals.

Commissioner Kline asked what other asset allocations have been beneficial to the overall plan?

Ms. Smola replied since this is not a large plan there would be a limited set of alternatives that would be available. There are products available that could be added although it would not be a large allocation, but may help boost overall returns in the plan.

Mr. Fox added that part of the process of doing an asset liability study would be to gather data from the actuary and look at the liability stream and determine whether the asset classes that we are already allocating properly best hedge the liability stream that exists.

Board Action Request – Resolution No. 15-021- Amending Police Pension Plan Document pertaining to disability benefits

Commissioner Hecker made a MOTION, seconded by Commissioner Kline to recommend to the full Board to adopt Resolution No. 15-021- amending Police Pension Plan Document pertaining to disability benefits.

MOTION was ADOPTED 5-0.

ADJOURNMENT: 6:35 p.m.

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