

**ABINGTON TOWNSHIP
PENSION COMMITTEE MEETING**

May 17, 2016

CALL TO ORDER: 6:00 p.m.

PRESENT:

Committee Members: Commissioners Bowman, Kline,
Hecker (6:10 p.m.)

Employee Representatives: Tim Clark, Tim Zurybida,
Police Representative: Officer Posey
Assistant Finance Director: Jeannette Hermann
Commissioner: Ben Sanchez

Others: Janet Werner, Relationship Manager, Wells Fargo
Marc D. Ammaturo, Managing Director with PFM Group
Margaret Belmondo, Senior Management Consultant with
PFM Group

Minutes of February 16, 2016:

Commissioner Bowman made a MOTION, seconded by Tim Zurybida to approve the minutes of the February 16, 2016 Pension Committee Meeting.

MOTION was ADOPTED 4-0.

Custodian and Trustee Details:

Janet Werner, Relationship Manager, Wells Fargo, said she has worked on this account for the past 18 years, and she prepared an Annual Executive Summary for Abington Township's Non-Uniformed Employees' Pension Plan as well as for the Police Pension Plan.

Executive Summary for both plans included information on key statistics and success metrics as of May 1, 2016; products and services; key accomplishments/events/planning; and the role of the Wells Fargo Service Team as trustee/custodian for the Township.

Commissioner Bowman asked about the fees for Wells Fargo's services.

Ms. Werner replied currently fees for trustee services are \$68,000; however, fees will be decreased effective June 1, 2016 to \$52,000. If we were to serve as custodian only, fees would be \$20,000 less.

Commissioner Bowman asked how are the fees established?

Ms. Werner replied we charge on a basis point based on the market value and account per charge fee; a trading fee and a retirement payment fee.

Commissioner Bowman asked what services would be removed if Wells Fargo lost their trustee responsibilities?

Ms. Werner replied the processing for trustee and custodian is very similar operationally. There are procedures that are different as a trustee. For example, when we pay vendors we ask for copies of the invoices to make sure they are reasonable expenses because as fiduciary we are held to a higher standard of conduct and that is why we charge more for that liability.

Commissioner Bowman clarified that if Wells Fargo is custodian they would still be a fiduciary. Is that correct?

Ms. Werner replied yes, but at a lower standard of care.

Commissioner Bowman said the grid shows the role as trustee/custodian, so it is difficult to delineate between the two.

Ms. Werner replied she will provide a copy of the difference at a future date.

Commissioner Kline clarified that fees would decrease from \$52,000 to \$32,000 if the trustee status was no longer held by Wells Fargo. Is that correct?

Ms. Werner replied that is correct.

Commissioner Kline asked what would be removed for that decrease in fee?

Ms. Werner replied a few operational procedures and Wells Fargo's liability would be reduced.

Commissioner Bowman suggested the committee explore downgrading after establishing what the details would be.

Quarterly Investment Review – First Quarter 2016:

Ms. Belmondo said the market index performance as of March 31, 2016 has been a turmoil environment due to commodity prices driven by oil fluctuations; the Federal Reserve raising interest rates; and the concern about China decelerating, which is the second largest economy in the world and could have an impact globally.

S&P 500 ended at 1.35% for the quarter showing volatility in the market, although today, we received good economic news that inflation has increased as CPI (Consumer Price Index) went up 4.0%, which is the highest it has been in three years.

The MSCI EAFE index for developed markets was down -3.01% for the quarter; MSCI EM was up 5.71% for the quarter driven by Brazil, in which there may be an impeachment of their President. There is some exposure to emerging markets, but it is done in a more risk-controlled way. REIT Market was 6.00% for the quarter with some exposure in that area. Fixed Income – Barclays Aggregate did well for the quarter at 3.03%.

Mr. Ammaturo reported that the asset allocation and performance for the police pension plan as of March 31, 2016 market value was \$53,495,483, a positive return for the quarter at 1.38%.

Themes within the portfolio are Domestic Equity and Vanguard Dividend Growth that outperformed by 2.82% and added value. International Equity - Vanguard Developed Markets Index was 10.72%.

J.O. Hambro International Select and Oppenheimer International Small-Mid Company are smaller allocations and primarily developed market investments, but they have the ability to invest in emerging markets. Also, in April following this quarter, another international manager was added - Vanguard International Value in which the Township should have received an alert from PFM. It is actively managed and has the ability to invest in emerging markets.

Vanguard REIT Index and MSCI US REIT Index are new as their inception date was 4/1/16, so we cannot look at performance.

At the last meeting, we discussed private real estate - Equus Capital Partners – Fund X and Township Solicitor advised the Township not to move forward with it at this time.

The Fixed Income has been active as Metropolitan West Total Return was up 2.43% and Baird Core Plus was up 3.06%. Vanguard High Yield Corporate was up 2.32% and Wells Fargo Short Term High Yield Bond was up 1.39% and those managers were just hired on 4/1/16. Vanguard Inflation Protected Securities was up 4.56%.

Total Fund for Police Pension Plan began the year at \$53,643,965 with cash flow negative at (\$860,817) and return on investment was \$712,336 and market value as of March 31, 2016 was \$53,495,483.

Asset allocation and performance for Non-Uniformed Pension Plan as of March 31, 2016 total fund was \$50,410,669, a positive return for the quarter at 1.38%.

Total Fund for Non-Uniformed Pension Plan began the year at \$50,258,579 with cash flow negative at (\$525,861) and return on investment was \$677,952 and market value as of March 31, 2016 was \$50,410,669.

Two portfolio updates were provided to the Finance Committee dated March 9, 2016 and April 29, 2016.

As of now, the plans have exposure to institutional mutual funds and PFM is currently considering developing a commingled product, so it would be a domestic equity solution; international equity solution and fixed income solution at a low cost. We are still doing due diligence with potential providers that we can partner with for the purpose of averaging our asset base and providing purchasing power.

If this moves forward, we will have access to all managers that do not have mutual funds and be able to leverage the dollars so as to drive down fees.

Commissioner Kline questioned whether there would be enough data on the new managers to provide the ability to understand performance on returns such as their history or track record.

Mr. Ammaturo replied we will do the proper due diligence required as well as meet with the new managers and investigate their track record prior to moving forward.

Commissioner Kline asked does the Township have any say in making that change or is it part of PFM's investment policy?

Mr. Ammaturo replied it may be that the Township would need to file an addendum to the policy, but he will look into it.

Commissioner Hecker asked for a prediction on how many additional changes PFM will make to the funds over the course of this year?

Mr. Ammaturo replied we have been fairly active over the first three months of this year; however, he does not expect two trades a quarter, but maybe a few trades over the course of the year.

Commissioner Sanchez questioned whether any data is provided on where the funds would be if the investment was not made on a specific date.

Mr. Ammaturo replied our investment committee tracks it and we hold formal meetings where minutes are taken monthly. During that meeting, we discuss how every single trade is working out relative to where the money was. We do not put that information in clients' reports, but we do evaluate it internally. If the committee is interested, we will put together an analysis showing how those trades are doing.

ADJOURNMENT: 6:55 p.m.

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