

**SPRINGETTSBURY TOWNSHIP
FIRE/POLICE PENSION BOARD JOINT MEETING**

**AUGUST 23, 2012
APPROVED**

The Fire and Police Pension Boards of Springettsbury Township held a meeting on Thursday, August 23, 2012 at 5:30 p.m. at the township offices located at 1501 Mt. Zion Road, York, PA.

MEMBERS IN

ATTENDANCE: Bill Schenck, Chairman
Don Bishop, Vice Chairman
Mike Bowman
George Dvoryak
Julie Landis

ALSO IN

ATTENDANCE: John Holman, Township Manager
Scott Altland, Police Department Representative
Rene Laychur, F.N.B. Management
Karen Kenderdine, F.N.B. Management
Elizabeth Peris, Fulton Financial
Annette Hose, Fulton Financial

A. Call to Order

SCHENCK Chairman Schenck called the meeting to order at 5:30 p.m. He stated that a Quorum was present with one police department representative.

B. Action on Minutes

1. Fire/Police Pension Board Meeting of May 24, 2012

MR. DVORYAK MOVED TO APPROVE THE MINUTES. MOTION UNANIMOUSLY CARRIED.

C. Public Comment

There was no public comment.

D. Correspondence and Other Communications

1. Police Pension Reports:

- a. Acknowledge Receipt of Payroll Pension Contribution Reconciliation Report for Police Pension Fund for Second Quarter 2012.
- b. Acknowledge Receipt of Fulton Financial Trust Report for May 2012.
- c. Acknowledge Receipt of Fulton Financial Trust Report for June 2012.
- d. Acknowledge Receipt of Fulton Financial Trust Report for July 2012.
- e. Acknowledge Receipt of F.N.B. Wealth Management Report for May 2012.
- f. Acknowledge Receipt of F.N.B. Wealth Management Report for June 2012.
- g. Acknowledge Receipt of F.N.B. Wealth Management Report for July 2012.

2. Fire Pension Reports:

- a. Acknowledge Receipt of Payroll Pension Contribution Reconciliation Report for Fire Pension Fund for Second Quarter 2012.
- b. Acknowledge Receipt of Fulton Financial Trust Report for May 2012.
- c. Acknowledge Receipt of Fulton Financial Trust Report for June 2012.
- d. Acknowledge Receipt of Fulton Financial Trust Report for July 2012.
- e. Acknowledge Receipt of F.N.B. Wealth Management Report for May 2012.
- f. Acknowledge Receipt of F.N.B. Wealth Management Report for June 2012.
- g. Acknowledge Receipt of F.N.B. Wealth Management Report for July 2012.

MR. DVORYAK MOVED TO ACKNOWLEDGE RECEIPT OF ALL ITEMS IN SECTION B. MOTION UNANIMOUSLY CARRIED.

E. Reports from Financial Advisors

1. Fulton Financial: Police & Fire Fund

- a. Investment Presentation for: Springettsbury Township Police.

HOSE Annette Hose, Fulton Financial, presented the accounting report for Police Pension reconciliation for the quarter. The Market Value as of April 1, 2012 amounted to \$5,681,236.42. The Contributions from the officers was \$28,693.42 for the quarter. Investment Income received plus accruals totaled \$22,123.48. Total loss for the quarter, unrealized loss of \$133,765.25 with the realized gain resulted in a net loss of \$130,599.28. Disbursement for the Quarter for pension payments of \$150,461.12 for the quarter. Health Insurance payments were \$6,115.33. Expenses for the quarter for the Trustee Management Fee were \$9,901.43. Actuarial fee paid to Conrad Siegel's office was \$1,930.00 which took the portfolio as of June 30, 2012 to \$5,433,046.16 for the quarter.

PERIS Elizabeth Peris, Fulton Financial presented an economic review, expectations, holdings and exceptions to the Investment Policy Statement. A synopsis of her economic report follows:

- Growth in the economy continues to be in a very slow pace, and is expected to continue.
- Federal Reserve indicated they are prepared to do anything necessary to maintain and stimulate the economy. Low interest rates will be extended out further.
- Uncertainty remains concerning the fiscal cliff, changes in the Federal government entitlement programs and the upcoming election.
- Unemployment in the U.S. continues to rise to above 8%; under employment is up to 15%.
- Housing market has stabilized and may not continue to be a drain on the economy.

- Deflation remains tame but gas prices continue to affect the consumer.
- European issues continue in a political standoff between different countries.
- China experiencing a slow economic growth.

Ms. Peris continued her report concerning the strategy of the portfolio. She noted that U. S. corporations have strong balance sheets with cash on their books. However, earnings rates are slow. While they have met their earnings expectations their revenue expectations had decelerated. The U. S. remains to be the “cleanest dirty shirt.” Strategically they have overrated the domestic allocation versus the international allocation. They moved the large cap value position to a neutral position. Micro-cap is underweighted at this time, as well as the developed international. Ms. Peris noted that it is important to assure a diversified portfolio is maintained.

Ms. Peris reported that the Market Value had appreciated at the end of July to \$5,448,000. Allocation of the account less than 1% in cash, Fixed Income is 51.3% and Equities is at 47.8%, which is slightly above policy. She reviewed the list of assets, all of which documentation had been provided in the written report. The performance for the period revealed Fixed Income returned 1.12%, Barclays Aggregate at 2% and Intermediate Government at 1.49%. Year to date figures were up 2.92% versus the Barclays at 2.37%; Barclays Intermediate Government at 2.1%. Equity side was down 5.03% over three months. S&P is -2-3/4% and EAFE Index -7.13%. MSCI AC World Index was -5.56%, which outperformed the indices. Year to date return was up 7.06% versus the S&P at 9.49%; EAFE is at 2.95%. She noted that the manager selection of international managers had done a very good job and had outperformed their indices. Total portfolio for the three months was -1.9%; benchmark is -.27%.

Ms. Peris reported on the performance for individual managers. She pointed out that the Cambiar Opportunity Fund had continued to underperform and had been sold. She noted that the account since inception had returned 5.08%; benchmark returned 4.81%.

Ms. Peris reported on the policy exceptions, which included the Cambiar previously mentioned. Edgewood and River Park had been elevated to a top 10 holding; however, when combined they are both large cap growth managers and are slightly above the 35%. Other exceptions relate to manager items and tenure. Additionally the Fixed Income Manager, Federated, has about 7% of the portfolio. They are BBB and BBB+ securities.

2. F.N.B.: Police Fund

a. Investment Presentation for: Springettsbury Township Police

LAYCHUR Rene Laychur of F.N.B. introduced Karen Kenderdine, Relationship Manager with F.N.B. who was present with her. Ms. Laychur provided her overview on

the economic picture, which overall echoed Ms. Peris' account. A few added points she mentioned:

- Over the summer the market showed June and July as positive months, and the S&P 500 was up just about 11% at the end of July.
- European Central Bank announced a resolution to the problems with Germany and France involved.
- Historic low rates on 10-year Treasuries.
- Better results in retail sales; back to school season and Christmas season expected better.
- Employment number slightly better with creation of 172,000 jobs.
- Participation rate in the economy is near 30-year low, around 7%.
- High focus on the election and the fiscal cliff.
- Household creation could create up to 2 million construction jobs.

Ms. Laychur pointed out in Section 1, Investment Strategy and Philosophy, and the weekly Market Overview. She noted that the report was prepared weekly on Monday and offered to provide it to any board members who would be interested.

KENDERDINE Ms. Kenderdine provided the accounting for the portfolio. She reported the Beginning Market Value Plus Accrued Income on the account as of January 1, 2012 was \$5,310,715.12. There were no Receipts or Miscellaneous Income. Total Disbursement amounted to \$13,539.45. There was Earned Income of \$62,060.12. Actual Realized Gains from Sales of Securities was \$25,919.42 and Unrealized Appreciation of Assets of \$176,917.14 resulting in the Market Value of the account as of June 30, 2012 \$5,562,072.35.

LAYCHUR Ms. Laychur provided an overview of the Asset Allocations in the portfolio. Cash was light at 1%; Fixed Income, 42.47%, slightly under target, and Equities are at 56.74%. Combined International and Domestic they are at the top of the range, 10% over the range of plus or minus 10 for U. S. Equities, slightly under in Domestic. Ms. Laychur provided an overview of the documented report provided to the board. She noted several exceptions as follows:

- Individual stocks – Must own at least 60; they have 76 individual stocks. Policy dictates individual stocks should be 30% of total mutual fund stocks and individual stocks. They are at 30.9%. They will continue to work toward achieving the dictates of the policy.
- Selection criteria, three, five and 10-year Morningstar rank in category – Dodge and Cox stock fund is 36%. They have been paring that back.
- Small cap funds amount to 12 of the 17 holdings over an average of 3, 5, 10 years of 20 or less, so top 20%. They are monitoring them and working their way out of Dodge and Cox and seeking replacement for the small cap funds.

Ms. Laychur reviewed the portfolio's performance. She noted:

- First six months of the year cash was zero.
- Fixed Income underperformed: 2% versus index of 2.1%
- Equities underperformed slightly: 7.5% versus blended equity index.

- Total account was up 4.9% year to date versus benchmark of 5.2%.
- Equity outperformed the benchmark 2%.
- Three year performance as of June 30, 2012 was right on the benchmark
- Five, 10 years and since inception up 5.5% versus benchmark of 5.8%.

All reports are found in the documentation provided to the board.

b. Investment Presentation for: Springettsbury Township Fire

HOSE Annette Hose, Fulton Financial, presented the accounting for the Fire Pension portfolio. At the beginning of the quarter, April 1, 2012 the Market Value was \$3,430,929.25. Contributions from the firefighters were \$11,328.69 for the quarter. Total Investment Income \$14,219.97 with the Realized Gains and the Unrealized loss the total loss for the quarter was \$64,221.75. Distributions of \$37,103.07 were made during the quarter for pension payments. The Trustee Fee for the quarter was \$6,784.15, which resulted in the Market Value of the portfolio as of June 30, 2012 to \$3,348,368.94.

PERIS Fulton Financial had provided the report for the firemen to the board. She indicated the balance as of 7/31 was \$3,376,000 which showed appreciation. She reported that the Asset Allocation policy is slightly different and higher weighted towards Fixed Income. The portfolio is slightly elevated with Fixed Income just under 57% of the 55% target. Cash position is smaller. Equities position is slightly under weighted at 39.3% versus the policy of 40%. Holdings mirror the police pension plan. Fixed Income is slightly lower at 3.57% versus the Barclays Aggregate at 4.7% and Barclays Intermediate Government at 3.92%. AA rated portfolio is a very good quality of investments. She reiterated that the Cambiar had been taken out of the portfolio. Asset class weightings are similar to the police fund. Large cap equities are at 59%; mid-cap at 17%, close to 18%. No micro-cap is held. International is roughly 10% of the portfolio.

Ms. Peris reported that the performance was very close to the police fund. Fixed Income was 1.11%; Equities -5.04%; S&P at -2.75%, EAFE at -7.13% and the portfolio's performance for the quarter was -1.43%. The Springettsbury Fire benchmark is 0.09%. Fixed Income had been elevated to 55%. Longer term from inception of the account the portfolio is at 4.63% and the Springettsbury benchmark is 4.76%. Risk and return characteristics show the return is slightly below, and the standard deviations are slightly higher.

Ms. Peris reported on the exceptions. The Edgewood and the River Park holdings are in excess of 35% of the fund. The Cambiar was sold. International bonds were just under 7% of the portfolio. BBB rated bonds comprise about 19% of the portfolio. In the year 2013 there are about 35% maturing in that year, most of which are U. S. Treasuries.

F. Old Business

- HOLMAN** Mr. Holman presented the list of those entities which had responded to the RFP Investment. All of the names were documented in the agenda. Mr. Holman provided a scenario of the potential process in the response to the RFP's. He noted that it had been a very successful RFP judging from the responses, and he had appreciated all the work that the Finance Department had done. Score sheets had been provided. He recommended to the board that they consider going outside to a separate party who specializes in the field for a review of the RFP's. He noted that they are at a Level I Distress Status with regard to pensions, and that would meet the state requirements. He added that Mr. Hadge knows a university professor who would be able to do such a review at no cost. Or the cost of an independent auditor or agency would be paid for by the pension fund. In addition, the full board could review and score them, bring them back in and combine all the scores.
- SCHENCK** Chairman Schenck commented that it was important to make sure of the requirements that must be met.
- DVORYAK** Mr. Dvoryak asked how the firms were selected that were sent the Request for Proposals.
- HOLMAN** Mr. Holman responded that an advertisement was sent to the firms with the requirements and expectations and what would be necessary in order for them to be selected.
- LANDIS** Ms. Landis asked how the weighting would be determined. She noted all of the weighting form seemed to equal 25%.
- HOLMAN** Mr. Holman responded that the weighting would be documented in the RFP and was derived from the state insurance models.
- LANDIS** Ms. Landis asked if all the different categories had different weight. She noted that they would need to compare apples to apples and each company might use different criteria. The weighting would play a significant factor in the cost and the performance of the portfolio in general.
- HOLMAN** Mr. Holman responded that the RFP specifically identified the investment criteria, the fund management plan and requirements currently in place.
- LANDIS** Ms. Landis asked whether they are looking for any trustee or fiduciary services.
- HOLMAN** Mr. Holman responded that they are looking for the full service from each of these companies. They will have to handle both investments as well as possibly handling the payments to pensioners. That will depend on whether one or two firms is selected.

LANDIS Ms. Landis noted that she did not see the actual RFP.

Consensus of the board members was that the actual RFP was not in the packet. Mr. Holman will email the RFP to all board members.

HOLMAN Mr. Holman asked the board how they would like to proceed with the review. The goal is to have them finished and ready for a decision by the November meeting in order to finalize everything by the end of the year.

DVORYAK Mr. Dvoryak noted that he was comfortable with reviewing all the proposals and narrowing it down based on his criteria, but his evaluation may be different than laws or regulations. He could narrow it down to a few finalists.

HOLMAN Mr. Holman responded that it was important to provide justifications on why specific firm/firms were selected. He noted the final portion would be face-to-face interviews with each firm. He would work with staff, Ms. Ratcliffe and Mr. Hadge to be sure each one met the basic requirements.

SCHENCK Chairman Schenck commented that it would take a lot of work to do the full review.

HADGE Mr. Hadge stated that this is a very formal and very serious substantive matter that the pension board is facing and that is he and the Manager discussed the request to consider an outside source to evaluate this for the pension board. Mr. Hadge added that he personally did not feel qualified to pass judgment on the proposals.

SCHENCK Chairman Schenck asked whether they believe that the scoring mechanism was quantifiable.

HOLMAN Mr. Holman responded that it was as objective as possible. Following a review of whether the firm has met the initial qualifications, then a review is made of their story sheets of how long their fund managers had been in place and their philosophy, history, ownership, organization, investment policy and services. Following that there would be a face-to-face meeting of at least the top three. He stated that if the board would take a first review and send emails back in about 30 days with any questions on scoring or clarification and copy everybody, everyone would be informed.

SCHENCK Chairman Schenck commented that it seemed like an enormous project and he would agree with hiring an outside consultant. It would be important to hire the right candidate.

LANDIS Ms. Landis commented that she would have no problem sitting down and reviewing the RFP's, scoring them and submitting emails, questions etc. She

thought it could be done in 45 days. She just wanted to be sure she had a copy of the policy and the actual RFP.

G. New Business

LANDIS Ms. Landis questioned a matter relating to YAUFRR and the change for the fire pension plan. She asked for the status.

HOLMAN Mr. Holman stated that he had attended the YAUFRR meeting on August 21st where YAUFRR adopted resolutions appointing their administrative board and setting up their rules, regulations, policies and procedures for administering the pension fund. He requested the board authorization to transfer all of the administrative duties regarding the fire pension fund to YAUFRR to close out that pension fund from Springettsbury Township. Chief McCoy is the Chief Administrative Officer for YAUFRR and is present this date. A final financial statement will be developed with both entities using the same auditor. During the next regular board meeting the Solicitor would then prepare the township ordinance doing away with the section dealing with the fire pension fund, and an advertisement would be authorized so by October that portion would be completed. Solicitors Rausch and Hovis worked on the Resolutions. Mr. Holman requested a motion to authorize the transfer to have it on record. This would be the final meeting of the fire pension fund for Springettsbury Township.

MR. BISHOP MOVED TO AUTHORIZE THE FIRE PENSION BOARD TO CLOSE OUT ITS ACTIVITY WITH RESPECT TO THE FIRE PENSION AND TRANSFER ALL ADMINISTRATIVE RESPONSIBILITIES AND COMPLETION OF THE FINAL FINANCIAL AUDIT STATEMENT FOR THAT FUND TO YAUFRR TO DETERMINE IT SHOULD BE THE RESPONSIBLE AGENCY. MOTION UNANIMOUSLY CARRIED.

SCHENCK Chairman Schenck noted that he thought the board should enlist help to weed through the RFP's.

BOWMAN Mr. Bowman agreed.

BISHOP Mr. Bishop commented that there would be absolutely nothing to keep each one of the board members from a review as well. Having another set of professional eyes would be advantageous.

SCHENCK Chairman Schenck agreed and noted that ultimately it would be a board decision.

HOLMAN Mr. Holman stated that final interviews could be held before the next pension board meeting. He noted he would be investigating the matter with PSATS and ICMA as well as getting advice from the auditor. He would like to get someone on board within a few days.

DVORYAK Mr. Dvoryak indicated he might be able to provide a few names of local people who might be willing to look at the project as long as they're not affiliated with any of the firms here.

HOLMAN Mr. Holman responded that one of the items in the RFP was that they had to provide lists of any individuals who might be associated with their firms or if they knew of any officials in Springettsbury Township. There are some very strict conflict of interest rules and the state takes this very seriously.

DVORYAK Mr. Dvoryak suggested that an agenda item for the next regular quarterly meeting would be the results of the pension funds. Listening to the financial advisors they suggest that the future expectations that are in the actuarial numbers are probably too high. He suggested that it might a good time for this board to start to assess what that might be financially to dial down the expectations in our actuarial studies, quantify what that would mean and develop a strategy to deal with that so that when it comes time to pay all these pension obligations five, 10, 20 years from now, to make sure there is a plan in place to do that. He suggested that a discussion be held during the next meeting as to whether the board should go about doing that and if so, what steps would be needed to begin the process.

SCHENCK Chairman Schenck suggested that it would be fairly easy for Conrad Seigel to do that work.

HOLMAN Mr. Holman responded that he had them perform that activity several times and would move forward again.

SCHENCK Chairman Schenck noted that if they could have that prepared and ready for discussion during the next meeting as to what some different scenarios might be and pulling down that expected rate of return. He noted that Mr. Dvoryak was right and there was no simple solution.

H. Committee Motions:

There were none for action.

I. Adjournment

SCHENCK Chairman Schenck adjourned the meeting at 6:45 p.m.

Respectfully submitted,

John Holman
Secretary