

**ABINGTON TOWNSHIP  
PENSION COMMITTEE MEETING**

**February 16, 2016**

**CALL TO ORDER:** 6:02 p.m.

**PRESENT:**

Committee Members: Commissioners Bowman, Kline,  
Hecker (6:15 p.m.)

Employee Representatives: Tim Clark, Tim Zurybida,

Police Representative: Officer Posey (6:07 p.m.)

Finance Director: Kevin Barron

Township Manager: Michael LeFevre

Commissioner: Ben Sanchez

Others: Janet Werner, Relationship Manager, Wells Fargo  
Marc D. Ammaturo, Managing Director with PFM Group

Minutes of November 17, 2015:

Commissioner Bowman made a MOTION, seconded by Tim Zurybida to approve the minutes of the November 17, 2015.

MOTION was ADOPTED 4-0.

Quarterly Investment Review – Fourth Quarter 2016:

Marc Ammaturo, Managing Director, PFM Asset Management LLC, commented that last December 2015, he sent out an asset allocation analysis and a portfolio planning survey and responses received were aggregated and documented into one document in which a copy was provided to the committee.

The Township's Police and Non-Uniformed Pension Funds are invested 60% equity 40% fixed income and asset allocation.

Fourth Quarter Investment Review as of December 31, 2015 for the Police Pension Plan ended the year at \$53,643,965, which was a solid return up 3.48 in the fourth quarter, but for the year, it was -0.88. Reason for underperforming the benchmark was that some managers had emerging markets exposure and last year was not the year to be invested in emerging markets.

The theme of prior lineup of managers had a lot of index funds and fees were .56% that equated to approximately \$600,000. There is a new lineup of managers and fees are 20%, which equates to approximately \$200,000.

Fourth Quarter Investment Review as of December 31, 2015 for the Non-Uniformed Pension Plan ended the year at \$50,258,579 with performance at -0.92.

The new three major themes for the plans are domestic equity: heavy index and large cap overweight. International equity: heavy index with a developed market focus. Fixed Income: active because our mindset is that the long term rate will slowly rise.

Cash flows at the beginning of the fourth quarter were \$47,822,152 with positive cash flow at \$756,043 and return on investment was up \$1,680,384.

Police and Non-Uniformed Plans investments relative to targets were underweight in domestic equity by 2%; international equity slightly overweight by 21.2% v. 19.0% and fixed income slightly underweight at -2.7%, so not too far off long-term targets.

Asset Allocation Modeling for Abington Township's Police & Non-Uniformed Pension Funds:

PFM began investing assets as of December 4, 2015 that were based on current investment policy statement, and he suggested the committee adopt PFM's investment policy going forward. However, the committee needs to agree on asset allocation, targets, ranges, etc.

PFM sets up strategic long-term targets that are documented in the Plan with a range around them; however, that does not mean that is what the portfolio will look like as PFM has the discretion as to whether or not to bring it to zero within certain ranges.

The next five years will be challenging due to the bond market as we are expecting 1%, so that is why we are layering in active managers. We had a meeting to consider entering back into high yield, which is an example of how we will layer in incremental return. Long term interest rates will head north and bond prices will struggle and bonds are 35% of the Plan's portfolio.

Manager LeFevre clarified that it is a conservative investment allocation, but an overly optimistic rate of return going forward, so we need to adjust our expectations or investment policy.

Mr. Ammaturo replied our client base has been slowly decreasing their actuarial assumption.

Manager LeFevre added that we would like to back off the 7.5% rate of return as we come closer to be fully funded, and ideally get to 7% or less.

Mr. Ammaturo replied we need the actuary to model it with calculations to determine what it will mean in terms of contributions. The trend of our client base has been to slowly decrease it over time.

Manager LeFevre said we will consult with the actuary to price it out both ways to get an idea what the impact will be.

Commissioner Kline asked what is the funding level at this point?

Manager LeFevre replied non-uniformed pension plan is in the range of 92% and the police pension plan in the range of 86%-87%.

Mr. Ammaturo continued that return projections based on intermediate-term capital market assumptions over 10-year of the 65/35 portfolio as compared to the 60/40 portfolio are all greater, and a plan with slightly more equity does better. So PFM recommends the 65/35 portfolio.

Commissioner Kline asked what type of securities will the equity portion be filled with?

Mr. Ammaturo replied we adopted current IPS, which is 60 equity, 40 fixed income and, if the plan goes to 65/35, there will be a slow increase.

Commissioner Kline expressed concern about being informed by PFM as soon as possible if there are issues with any of the managers.

Mr. Ammaturo replied we enact our decisions in a timely manner as we have three meetings a month and one formal meeting a month where minutes are taken where we implement changes to the portfolio in real time. We had a meeting this morning about high yield and the Township will get an alert later this month saying that we have introduced a 2% allocation to high yield that was sourced by certain managers.

At these meetings, he will reiterate what has been done in the last three months and what we are considering going forward.

Mr. Barron added that when he receives an alert he will forward it to members of the Pension Committee.

Mr. Ammaturo said if the committee is in agreement with the 65/35 portfolio, the next step would be to adopt an investment policy statement, and copies were provided to members of the committee.

Mr. Barron replied Township Solicitor will review it and then this committee will recommend approval to the full Board of Commissioners.

Commissioner Kline asked for the advantages of the 60/40 or 70/30 portfolios as opposed to the recommended 65/35 portfolio.

Mr. Ammaturo replied with a 70/30, there will be more volatility because there is more equity exposure and the ups and downs over the long-term will be more pronounced. 60/40 will be slightly less volatile over the long-term and will take the plan further away from its actuarial assumption in the short-term.

Commissioner Hecker commented that we would be less inclined to deal with that volatility if the intention is to reduce expected rate of return down to 7%.

Commissioner Kline made a MOTION, seconded by Commissioner Bowman to approve changing the asset allocation to 65/35 for both the Police and Non-Uniformed Pension Plans.

MOTION was ADOPTED 6-0.

Equus Capital Partners – Fund X:

Mr. Ammaturo said Equus Capital Partners – Fund X is a private real estate manager that is an illiquid investment with 5% of funds invested that cannot be accessed for seven years. He provided a copy of the intro to Equus Capital Partners to the committee for review.

Commissioner Kline questioned whether PFM was approached by Equus or was Equus approached by PFM.

Mr. Ammaturo replied PFM has been investing with them for five to seven years.

Mr. Clark asked for their projected rate of return.

Mr. Ammaturo replied low double digits.

Mr. Barron said for example; \$1 million from each plan would be invested for seven years that would possibly return 10%. Is that correct?

Mr. Ammaturo replied yes. This is an illiquid private investment and their fees are not similar to index funds. Their management fees are 150 basis points and there are also performance fees. So if the plan hits 12% and they have a rate hurdle of 8%, anything over that 8%, they keep 20% of the profit. If they hit 10%, they will keep 20% of the incremental 2% on an annual basis, whatever that equates to in dollars. They buy multi-family and office properties.

Commissioner Kline questioned whether they are developing or buying existing performing properties.

Mr. Ammaturo replied they are a value added real estate manager and buy buildings that need improvement and turn them around.

Mr. Clark asked is 5% the standard investment?

Mr. Ammaturo replied there is no minimum, but that is PFM's recommended allocation.

Commissioner Kline asked for their total asset value and where is there geographical market?

Mr. Ammaturo replied \$400-\$500 million and their geographic market is across the country, but they focus on the northeast. Equus has nine other funds and this is their 10<sup>th</sup> fund fundraising for private real estate across the country. They already bought five properties with Fund 10, and when they sell properties, they begin paying back their investors.

Targeted fund size is \$300 million (\$400 million cap); preferred return is 8% and return objectives are 12-14% net returns.

Timing is the end of March when they do a final close and do not raise anymore capital for Fund 10.

Officer Posey asked about the downside of investing besides not being able to access funds for seven years.

Mr. Ammaturo replied the downside would be long-term rates spiking up.

Commissioner Kline expressed concern about interest rates rising and the real estate market slowing down.

Consensus by committee was to take some time to make a decision within a defined period of time and report back with a proposed course of action.

Resolution No. 16-011:

Mr. Barron noted proposed Resolution No. 16-011 amends municipal employees' pension plan participant contributions to increase by 5% commencing on January 1, 2016 will be recommended to the full Board for approval.

**ADJOURNMENT:** 7:08 p.m.

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