

**YORK AREA UNITED FIRE AND RESCUE COMMISSION
FIRE PENSION BOARD**

**AUGUST 18, 2015
APPROVED**

The York Area United Fire and Rescue Commission held a Pension Board Meeting on Tuesday, August 18, 2015 at 6:16 p.m. at the YAUFRR Headquarters, 50 Commons Drive, York, PA 17402.

MEMBERS IN

ATTENDANCE: Bill Schenck, Chairman
Austin Hunt, Vice Chairman
Eric Lehmayr
John Fullmer (arrived 6:45 p.m.)
Cara Beth Zortman (arrived 6:22 p.m.)
Rich Mellon (arrived 6:22 p.m.)

MEMBERS NOT

IN ATTENDANCE: Kathleen Phan
Mark Swomley

ALSO IN

ATTENDANCE: Steve Hovis, Solicitor
Robert McCoy, YAUFRR Chief
Sandy Ratcliffe, YAUFRR
Greg Maust, Spring Garden Township Manager
Dan Hoff, YAUFRR
Annette Hose, Fulton Financial Advisors
Elizabeth Peris, Fulton Financial Advisors
Jean Abrecht, Stenographer

1. CALL TO ORDER

SCHENCK Chairman Bill Schenck called the meeting to order at 6:15 p.m. He stated that a Quorum was not present, and no official action could take place until a Quorum could be certified.

2. ACTION ON MINUTES

A. Approval of Minutes: February 17, 2015 – Pension Board Meeting

Held for action.

3. PUBLIC COMMENT

There was no public comment.

4. CORRESPONDENCE AND OTHER COMMUNICATIONS

Held for action.

5. REPORTS FROM FINANCIAL ADVISORS

A. Fulton Financial – Investment Presentation

HOSE Annette Hose, Fulton Financial, presented the portfolio accounting. Market value of the pension fund was at \$4,329,458 as of the beginning of the 2nd quarter, April 1, 2015. Contributions from the firefighters \$11,675.53. Investment Income was \$27,151.96 for the quarter. Unrealized losses totaled \$57,238.60. Disbursements for the quarter were \$45,183.48 in pension payments. Expenses were \$13,659.36. Market value as of the end of the quarter was \$4,252,204.50. Ms. Hose noted that for the first time the disbursements had exceeded contributions.

HUNT Mr. Hunt questioned whether it was related to demographics.

HOSE Ms. Hose responded that it is a frozen plan. As firefighters begin to retire the disbursements will increase. There are no new contributions coming from new firefighters. At that point the Actuarial will calculate the expected distributions.

Stenographer Note: Ms. Zortman and Rich Mellon arrived at 6:22 p.m.

SCHENCK Chairman Schenck certified that a Quorum was present with Ms. Zortman and Mr. Mellon's arrival.

PERIS Elizabeth Peris, Fulton Financial, provided a report on the holdings, allocation, investment strategy, global economy. A summary of her report included the following:

- Market Value at the end of June was \$4.2 million. Expected return of the portfolio is 6% per year.
- Long term projections are approximately 9% for the stock market.
- Fixed Income, 10-year rose from 2% up to 2.2%; will not meet long-term expectations of 4%.

LEHMAYER Mr. Lehmaye questioned the specific steps they plan for future investments.

PERIS Ms. Peris responded that within the equity markets they will increase the international allocation to developed international. In addition, they will reduce the emerging market exposure and increase the domestic large-cap markets. She noted that the profit margins and revenue growth are declining resulting in placing more money into large-cap growth. Large cap value stocks have a high exposure to the energy sector, and with energy prices declining there will be a decrease in that exposure. It is expected that the Federal Reserve will increase interest rates later in the year.

LEHMAYER Mr. Lehmaye questioned whether the projections indicate that by reallocating to 10% will make up for the loss coming in at 3%.

PERIS Ms. Peris responded that those projections were not compiled; however, for future returns it is expected the European market to do better than the domestic market, and Fulton had increased that exposure. She added that domestically there are very good real estate numbers along with some portions of the manufacturing, automotive and labor market sectors. It is expected that the Equities will outperform the Fixed Income markets.

Ms. Peris reported that some significant changes had been made in the alternatives in the portfolio. The commodities had been sold and are no longer in the portfolio. They had trimmed the real estate and ASFE Limited Partnerships which are tied into the energy sector. Two new funds had been introduced: Diamond Fill, along with AQO a multi-mutual fund. Both had provided positive returns in the market.

LEHMAYER Mr. Lehmayer questioned what period of time was included in the Current Yield column.

PERIS Ms. Peris responded that it would be the estimated annual yield; for a one-year period.

LEHMAYER Mr. Lehmayer questioned what the rate of return had been since inception in 2010.

PERIS Ms. Peris responded that the inception would be since December, 2004, and the rate of return was 5.25%. That includes a benchmark which included several years where the allocation was 35% equity and 65% fixed income. It was until about March of 2011 where there was a 65% allocation; only the last four years the allocation is at 50%.

Ms. Peris reported returns for the quarter as follows: Fixed Income -.49%; Barclay's aggregate with a -1.68%. For the five-year period the return was just over 3.5% and the index was up 3.33%. Since inception Fixed Income is up 4.2% versus 4.5% with the Barclay's Aggregate close to 4% for the year.

HOVIS Solicitor Hovis commented that Eugene DePasquale, the Auditor General, had been reviewing municipal pension plans. He recently made recommendations as to where assumptions should be made with respect to earnings through pension plans. He stated that one of the downfalls is many times pension plans are assuming 8% which is unrealistic, and therefore, it creates the problem that many pension plans have. He was suggesting that the assumption should be as low as 5%. Solicitor Hovis questioned Ms. Peris' opinion as to where municipal pension plans should be, with respect to the Auditor General's comments.

PERIS Ms. Peris responded that most pension plans have a higher equity allocation than YAUFRR's. Reviewing the Equity position, the long-term expectation is about 9% return; maybe even 8%. The long-term expectation from Fixed Income is 3% or 4%. Depending on the asset mix, which is tied in with the actuarial report, is what is hoped to achieve. Simply put: half of 8% is 4%, plus half of Fixed would be 2 equals 6%.

HOSE Ms. Hose noted that the 6% projected is derived by the demographic of the participant. This will be the outflow of money for the next expected years, which states the importance to achieve a 6% rate of return for the portfolio. The investment policy is driven by what the actuarial report states.

HOVIS Solicitor Hovis noted that Mr. DePasquale's observation is that the assumption is what is needed, but the performance is not there to support it.

HOSE Ms. Hose noted that the IPS would have to be adjusted to increase the equity exposure to meet the assumption.

LEHMAYER Mr. Lehmaye commented that perhaps the board should review the assumptions on an annual basis and then use their projections and expertise to determine what the model should be to try to achieve the 6%.

HOSE Ms. Hose noted that was a challenge all pension funds are facing today. Markets have been in turmoil and that's the challenge that municipal pensions are facing. They are not able to meet that actuarial assumption because of it.

SCHENCK Chairman Schenck indicated that he would like to know what a 1% change or going from 6% to 5.5% in the assumption would mean in cash.

Stenographer's Note: Mr. Fullmer arrived at 6:45 p.m.

HOSE Ms. Hose responded that they had gone through that exercise a year and a half ago.

PERIS Ms. Peris noted that many municipalities face the same issue, along with the Commonwealth of Pennsylvania.

LEHMAYER Mr. Lehmaye commented that he wanted to be proactive with what can be done with YAUFRR's pension plan to protect it.

PERIS Ms. Peris continued with the report and stated that the Equities for the quarter are up .7%, which outperformed the MSCI AC World Index. Some of that was attributable to the manager selection. One was the internal Strategic Growth portfolio and the other was the Renaissance International. Ms. Peris noted that the alternatives did not contribute to performance since inception. The quarter to date is .74 basis points

relative to .62 basis points. The 3 year number resulted in a 6.93% return versus a 6% return; the 5-year number is 7.33% and since inception 5.33%.

LEHMAYER Mr. Lehmayer asked whether Fulton Financial Advisors rolls all of the accounts into one to determine what return has been generated. He wondered if the YAUFRR fund could be compared with other portfolios to say it is the same, doing better or less favorable.

PERIS Ms. Peris responded that an organization, CFA Institute, puts out standards for performance reporting. Part of that performance reporting includes building composites for putting like portfolios together. It is difficult to do due to the fluctuation and flexibility within each client's portfolio. She stated that they do review the returns of the portfolio and compare with others with the same asset classes. The statistics must be within a specific range, but if not, there is additional review.

LEHMAYER Mr. Lehmayer questioned whether Ms. Peris would characterize the YAUFRR portfolio as a very conservative holding or a moderately conservative portfolio.

PERIS Ms. Peris responded that most pension plans not in the municipal arena tend to have a higher equity allocation. The municipalities tend to have the lower equity allocation. For a municipal or public service pension plan it is average, moderately aggressive compared to most.

SCHENCK Chairman Schenck thanked Ms. Peris and Ms. Hose for their reports and for the work they had done, which the board appreciated. He asked for any further questions. There were none. He certified that a Quorum was present to transact any official YAUFRR business.

2. ACTION ON MINUTES

A. Approval of Minutes – February 17, 2015 – Pension Board Meeting

MELLON Mr. Mellon stated that his name was to be added to the attendees.

MR. HUNT MOVED TO APPROVE THE MINUTES OF THE FEBRUARY 17, 2015 PENSION BOARD MEETING AS AMENDED. MS. ZORTMAN WAS SECOND. MOTION UNANIMOUSLY CARRIED.

4. CORRESPONDENCE AND OTHER COMMUNICATIONS

- A. Acknowledge Previous Receipt of Fulton Financial Trust Report for January 1, 2015 – January 31, 2015
- B. Acknowledge Previous Receipt of Fulton Financial Trust Report for February 1, 2015 – February 28, 2015.

- C. Acknowledge Previous Receipt of Fulton Financial Trust Report for March 1, 2015 – March 31, 2015
- D. Acknowledge Previous Receipt of Fulton Financial Trust Quarterly Report for January 1, 2015 – March 31, 2015.
- E. Acknowledge Receipt of Fulton Financial Trust Report for April 1, 2015 – April 30, 2015.
- F. Acknowledge Receipt of Fulton Financial Trust Report for May 1, 2015 – May 31, 2015.
- G. Acknowledge Receipt of Fulton Financial Trust Report for June 1, 2015 – June 30, 2015.
- H. Acknowledge Receipt of Fulton Financial Trust Report for July 1, 2015 – July 31, 2015.
- I. Acknowledge Receipt of Fulton Financial Trust Quarterly Report for April 1, 2015 – June 30, 2015.

MR. HUNT MOVED TO ACKNOWLEDGE RECEIPT OF ITEMS A THROUGH I. MS. ZORTMAN WAS SECOND. MOTION UNANIMOUSLY CARRIED.

6. OLD BUSINESS

There was no Old Business for action.

7. NEW BUSINESS

- A. Acknowledge Previous Receipt of Conrad Siegel Actuaries YAUFR Union Defined Benefit Pension Plan Actuarial Valuation as of January 1, 2015

MR. HUNT MOVED TO ACKNOWLEDGE RECEIPT OF CONRAD SIEGEL ACTUARIES YAUFR UNION DEFINED BENEFIT PENSION PLAN, ACTUARIAL VALUATION AS OF JANUARY 1, 2015. MS. ZORTMAN WAS SECOND. MOTION UNANIMOUSLY CARRIED.

8. COMMITTEE MOTIONS

- A. Acknowledge Previous Payment to Conrad Siegel Actuaries from Firefighters Pension Fund in the amount of \$4,320.00 for services rendered from November 1, 2014 through April 12, 2015.

MS. ZORTMAN MOVED TO ACKNOWLEDGE PAYMENT TO CONRAD SIEGEL ACTUARIES IN THE AMOUNT OF \$4,320.00. MR. HUNT WAS SECOND. MOTION UNANIMOUSLY CARRIED.

HUNT Mr. Hunt noted that he had attended the same meeting that Solicitor Hovis had commented about regarding the Auditor General. He understood that there is a State Financial Advisor that runs pensions.

HOVIS Solicitor Hovis responded that he was correct. He believed that Harrisburg's was being administered by that group, and all of their pension plans are fully funded.

MCCOY Chief McCoy added that they were more than fully funded.

- HOVIS** Solicitor Hovis indicated that the observation was that the group was taking conservative assumptions but managing it well on behalf of the municipalities.
- HUNT** Mr. Hunt stated that Fulton drains \$6,500 each month in fees. One of the additional observations at the state level was the question that too much is being paid in administrative fees.
- MCCOY** Chief McCoy stated he thought the fee schedule was based on the funds; a sliding scale.
- SCHENCK** Chairman Schenck stated that it's a higher percentage, and as the fund grows the percentage drops.
- MELLON** Rich Mellon commented that he had noticed that costs associated with this along with some of the mutual funds that are being invested in, some of the management fees from them are above 1.5%. Not only is Fulton being paid when changes are made, they also are paid 1.5% when they sell or buy a mutual fund.
- HUNT** Mr. Hunt clarified that the \$13,000 for two months included the \$4,300 for the actuarial. They are charging roughly \$9,000 for three months.
- SCHENCK** Chairman Schenck commented that the fees also include handling the disbursements to the pensioners.
- LEHMAYER** Mr. Lehmayr noted that the performance really makes no difference. They are charged with managing this portfolio. The fees should not be paid if the target is 6% and everything is tailored to that 6% and it's not being met. They have the ability to come to the board and suggest some reallocation, and if something happened in the marketplace they should be calling to discuss that. He noted that some of the holdings had been quite good, but a review of the allocations to those holdings is minimal. He wondered whether there could be an allocation of a little more to the fund to make up for the losses being sustained.
- MELLON** Mr. Mellon asked whether it would be of benefit to make a motion to invest or investigate the financial options as far as managing the pension fund. He commented on the state financial oversight, and other management companies such as Vanguard.

Additional lengthy discussion took place, for which comments and questions are summarized:

- More pension plans in Pennsylvania; could be combined and managed with one manager managing a billion dollar fund.
- Is Fulton doing its fiduciary job advising the YAUFRR Pension Board?

- Does the board handcuff Fulton to get 6%?
- Need to review the Investment Policy Statement guidelines.
- Reporting showed being undervalued in Equities and too much in the Fixed.
- YAUFRR \$4.3 million fund should receive the right focus.
- Need for review with the Actuary concerning the expected growth return and MMO.
- Should YAUFRR be more aggressive? Each fund has its own risk tolerance.

SCHENCK Chairman Schenck asked whether the board wanted further information on the state plan.

MCCOY Chief McCoy stated he would definitely investigate it.

HOVIS Solicitor Hovis commented that there should be a printed presentation of Eugene DePasquale's statements.

LEHMAYER Mr. Lehmayr stated that it would be beneficial to review the Investment Policy Statement.

SCHENCK Chairman Schenck stated it would be good information because only Mr. Fullmer and Mr. Hunt were on the board during the last review. It will be good to see the current status.

9. ADJOURNMENT

SCHENCK Chairman Schenck adjourned the meeting at 7:10 p.m.

Respectfully submitted,

Signature on file at YAUFRR Headquarters

Robert McCoy
Secretary

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