Minutes of Employee Money Purchase Pension Plan (401a) and Deferred Compensation Plan (457b) Committee – Regular Meeting – April 21, 2016 @ 7:00 p.m.

Attendees: Lucy Gonzalez, Jim Kelly, Tom Kowalski, John Malley, Jeffrey McDonnell, Greg Reiff, Jeff Sarnocinski, Tom Schatzman, Ann Shade, Bruce Shoupe, Meg Swiggard, Ami Tarburton

Call to order: 7:11 p.m. start of meeting

Review of Meeting Minutes

Minutes from the January 21, 2016 meeting were approved with a motion by Tom Kowalski and seconded by Jim Kelly.

Before the start of the Investment Portfolio Report by Tom Schatzman, Ami Tarburton, Finance Director-Treasurer was introduced to the group as the recently appointed co-administrator and co-chairperson of the pension fund committee. Ami started with Montgomery Township on March 7, 2016

Investment Portfolio Report

Prior to the portfolio report, Tom Schatzman commented on a Montgomery Township employee meeting that was conducted on February 11, 2016. In addition to a general overview that was given, Tom also met one-on-one with 11 participants.

Market Analysis – *S&P Earnings* - p. 2 of the mutual fund analysis portfolio, dated March 31, 2016. Earnings are not great; we're not negative but went from 12% to 6% to now 4% earnings growth. This is a building block of 6% rate of return; it needs a readjustment.

S&P 500 intra-year declines vs. calendar year returns - p. 4, gives an idea of why there is so much anxiety as there are a lot of things going on economically. Market was down 12% and finished down 1. It gives a sort of sideways look and Tom said that sideways makes us nervous.

Real GOP - p. 5 – consumer spending is back to almost 70%; government spending is at 17%. No real signs of recession.

Home prices - p. 6 – we don't get a recession when homes are in a recovery. Home prices look fine.

Civilian unemployment rate - p. 7 – wages are not great but they have grown 2.3%; a little ahead of inflation.

MSCI EAFE Price Index - p. 10 – would like to get through the summer. There is a vote coming up regarding the euro; but Europe hasn't even broke even yet.

Real effective exchange rates - p. 12 – one of the reasons we're not moving is that we are not thrilled with the European currency right now. We are a little concerned. We've raised interest rates to 2.5% and Europe is at a negative – Japan, Sweden. Not great for your currency.

Key Controversies of 2016: will oil prices lead to recession? p. 17 – Typically low oil is good but we think that oil prices will find a bottom in this low range, 35-45. The real idea behind recession is that if the oil companies go bust/under, what does that do to our economy?

The Energy Crisis Is Nothing Like the Housing Crisis - p. 18 – the amount of debt in energy compared to the amount of debt that was in the mortgage market is nothing. It would hurt growth but it won't put us in a recession. It will put Texas, South Dakota and certain parts of fracking areas in Pennsylvania in a recession.

Shifting Supply Dynamics: US Production Grew 80%; OPEC has increased production over the last year - p. 20 – bottom line – US produces 4 million barrels of oil a day. It's slowing down so we are producing a little less. OPEC is not the issue, it's us. People say that they don't want anything to do with oil or energy stocks. However, oil stocks have not done as horribly as people thought they would do.

Election Year Returns have averaged 7% with gains concentrated in the summer - p. 22 – the summer months have historically been better in an election year.

The Market has Sometimes Preferred Divided Party Control - p. 23 – the market prefers one party running congress and one party controlling the House. More grid-lock would be preferred in the market.

The Average Investor Underperforms - p. 24 – more clients do this; (doctors, dentists) they tend to be moving around a lot. You (i.e., employees) and teachers groups do not; you commonly stay where you are and don't change. 9.9% rate of return in stocks.

Target Date funds – they do all of the heavy lifting for you; Tom said that this was his ad for target date funds; as an investor you should keep in mind that you have the investor over here and you want to be balanced. If this is their only pool of money, they really should get into the target date funds.

Mutual Fund Analysis, tab 2

Zephyr Style Advisor - p. 1 – good numbers; all ahead of the market, net of fees. Very pleased with the value here and it is pretty typical of those funds.

p. 4 – Growth Funds – American Funds Growth Fund – 2.63% momentum investing, Facebook, Amazon, Netfilx, Google, are all big momentum stocks; if you owned them this year, you didn't do well. John Mally asked is these are factor-based/quantitative funds? Mr. Schatzman said that none of these are black-box; they are all stock pickers. We have value managers who are buying Google, but it's not cheap.

p. 6 – Small Cap – not a great quarter; for instance New Perspective had a tough year. Not much money in these funds but it is important to still file them. Long term numbers are good.

p. 8 – Fund of America, Capital Inc, American Balanced - when participants don't know what to do with their money, this is where they invest. The long term numbers are pretty good; tough to out-perform when your money is in fixed income.

p. 10 – Bonds – surprise! Interest rates fell which made bond interest rates higher.

p. 12 – International – where a lot of the carnage was. There is no emerging markets in this fund; we don't like to use them. People own them and sell them at the wrong time. What not to put in the funds: tech funds, gold funds, etc.

p. 14 – Target Date Funds – American Funds Target Date Funds performance has really been exceptional. They either out-perform or are right in line.

p. 15 - Target Date Funds (continued) – really good return. Very unusual to have so many funds out-beat.

Our fees are very low as compared to your peer group. Why American Funds? The two biggest retirement providers are Fidelity and American Funds and Vanguard is number three. They are retirement investors with low fees and experienced management team.

Meg Swiggard asked if bonds were good right now. Tom said that bonds are not good right now. They are if you want a place to hide.

Ms. Swiggard also asked about Target Date Funds and what happens if someone hasn't withdrawn their '15 funds; Mr. Schatzman said that the fund will assume you have already retired. What happens is when they hit 70 ½, they have to take their minimum distribution and they'll have to roll it over to a bank or another investor; you can keep your fund, you can just move it. Unfortunately, I can't tell them what to do. If they take it out cash, it's a big mistake.

Ann Shade asked for a review of the advisory/fiduciary terms and the law right now. Mr. Schatzman stated that Morgan Stanley is a fiduciary; all recommendations are under fiduciary rule: "this fund is right for you". Others are IRA advisors, where in old days, they could say "I think this fund is suitable for this person" and the fund goes bad. The investor has no recourse to sue. This impacts more people who are selling insurance because insurance doesn't have any place in the investment world. They are earning 9% commission. You can still sell insurance but they need to disclose their commission. Morgan Stanley is all fiduciary based; we don't have any contracts that aren't.

Mr. Schatzman asked if there were any questions, there being none, the meeting was adjourned.

Meeting adjourned at 7:45 p.m. - motion by John Malley and seconded by Tom Kowalski