Doylestown Township Pension Advisory Committee
Minutes for November 9, 2020

In attendance: Ed Denton, Chairman; Members: Robert Salanik, Joe Delikat, Tom Burke, Colleen Mullin Bill Mokriski and Sinclair Salisbury

Board of Supervisors Liaison: Jen Herring

Staff Liaisons: Finance Director Ken Wallace and Township Manager Stephanie J. Mason

Guest: Supervisor Nancy Santacecilia, Dir. of Parks and Recreation Karen Sweeney

WELCOME

Mr. Denton welcomed everyone to the meeting

Minutes Approval – October 19, 2020

The meeting minutes were reviewed. On motion of Mr. Salanik, seconded by Mr. Burke. Motion carried unanimously with Ms. Mullin abstained.

OLD BUSINESS:

2021 Budget Update:

Ms. Mason reported that the Board of Supervisors is incorporating the PAC's request regarding the reduction in interest rate of return as well as additional contributions to the defined benefit pension plans into the 2021 budget as well as the forecast through 2025.

Drafting of the New Investment Policy:

Mr. Burke shared the updated working document as of November 9th for the Investment Policy Statement. He indicated that the red highlighting and the magenta highlighting are areas that the Committee needs to review. (See attached)

Mr. Salisbury inquired as to the policy and asked if it is between the Township and an advisor or what role the PAC should play in the actual investment policy statement.

There was discussion amongst the PAC members indicating that approval would definitely come from the Board of Supervisors but input from the Township's Solicitor regarding the legality of the document would need further review.

Mr. Burke indicated that he was not an attorney and therefore he would rely on the Township's Solicitor in the future to edit any necessary language in said document. But he does believe that there needs to be a clear role for the PAC to play in helping and advising the Board of Supervisors.

In additions, the Township should have a contract with any future advisor and whether or not that language should be part of this or perhaps another document was also discussed.

Mr. Delikat commented that the Board of Supervisors ultimately makes the decision. However the PAC can make strong recommendations and suggestions in their role as unpaid volunteers. He indicated that Mr. Burke did a tremendous job on the IPS.

Mr. Denton indicated that he believes that Mr. Burke did a fantastic job and agrees with Mr. Delikat that the Board of Supervisors is ultimately responsible.

Ms. Herring commented that the Township Board should take ownership of the IPS.

Ms. Mullin read that the Board not the PAC has the primary role.

Mr. Delikat again indicated that the document must pass legal review and wordsmithing can occur at that time.

Discussions regarding the Investment objectives through the Discount Rate:
On page 2 of the document (see attached) needs to be confirmed. It was agreed that Mr. Wallace would review and send the appropriate implementation dates of when the discount rate is approved vs. when it becomes implemented.

Mr. Denton indicated that he believes that the document should live beyond the current advisors and consultants but be updated and reissued as needed.

Ms. Herring indicated the initial IPS was written by the current advisor and this document is different because it is being written by the PAC.

Mr. Burke indicated that on page 7 there is a series of miscellaneous and other items for consideration that are addressed that maybe helpful. He has seen them in other documents and perhaps these need to be clarified as well especially on the issue of terminating the advisor.

Ms. Herring inquired whether it limits termination for cause.

Mr. Delikat agreed that the IPS should be generic and that it should address the issues Ms. Herring raised.

Ms. Mullin indicated that the proposed IPS has the advisor signing the document. She indicated that in her field most times the advisors do not sign such agreements.

Again, it was discussed that the Solicitor will review and comment on the appropriate signatures for such a document.

Mr. Mokriski asked when the Solicitor would review the document. Would it wait until the Committee had completed its review and the Board of Supervisors has seen it?

Mr. Delikat commented that since 2017 things have been slow for the task force for the effort that's been expended and hopes that things will happen quicker in the future.

Mr. Denton indicated that he hopes in the 1st quarter to be able to present to the Supervisors and Solicitor for the document to be adopted by the Board.

Mr. Mokriski indicated that he knows it takes a long time for such things but appreciates the great work of Mr. Burke.

Mr. Burke indicated that there is Reference/Policy Benchmarking on page 3. It lays out a tool for it to be created. It will provide the asset allocation that the Committee has been talking about.

There was also a question of relevance of cash as a sub-allocation. And a question on real estate as part of benchmarking as well as the ETFs and domestic and international investments.

Mr. Burke indicated that page 4 addresses the portfolios.

Ms. Mullin indicated that she doesn't want to restrict an advisor through the IPS. She believes it needs to be flexible.

Mr. Delikat's opinion is to look at the active vs. passive aspects along with the net total and the fee.

Mr. Salanik indicated that he agrees with Ms. Mullin and that policy should be flexible.

Mr. Burke indicated that flexibility and discussion on active management and reassessing the portfolios are important.

Mr. Denton indicated that the Committee should continue to have dialog, make the necessary changes and the document should be fully explained and vetted.

Mr. Delikat indicated that he believes it's time to move on with the IPS, give the document one more review and recommend and vote on it at the next PAC meeting and move it on to the Board of Supervisors.

Mr. Burke discussed re-balancing and the variance of 2%.

Mr. Delikat said you could change it to 3%. Mr. Salanik agreed 2-3%. Ms. Mullin indicated that you could go almost as high as 5%.

Consensus was that Mr. Burke would insert 5%.

Mr. Burke indicated that he would clean up the document for the next meeting.

Mr. Delikat asked Ms. Herring and Ms. Santacecilia what their opinion was. Mr. Herring indicated that she believes the PAC is doing a good job and the document should be generic. Ms. Santacecilia appreciated the institutional knowledge and the willingness of the members to meet with the Board of Supervisors to explain the topic.

Adjustments to Standard Pension Reports from Brede:
Teleconference is slated for Monday at 3PM with Mr. Denton, Mr. Delikat, Mr. Burke and DK Brede.

NEW BUSINESS
Review 3Q20 Pension Monitoring Report:
Mr. Denton indicated that the returns were very low at -8.3% for Uniformed and -9.4% for Non-Uniformed plans. He was concerned because his personal account at Vanguard and Fidelity had positive returns. The observation is of underperformance.

Mr. Delikat indicated that regardless of personal returns DK Brede is a professional and believes it should be equal or better than anyone's personal returns. He strongly believes an RFP for getting quotes in 2021 has to be PAC's objective.

Mr. Burke indicated that he is a proponent for a Reference/Policy Benchmark and investments should be mostly in equities.

The Committee reviewed the report from September 30, 2020, 3rd quarter performance.

Mr. Burke indicated that he had to dig deep to pull out the information. He also shared via email his thoughts and summary of the advisors 3rd quarter year to date 2020 report (see attachment). His concerns are always what's helping and contributing and what is hurting in terms of investment returns. He feels the current plan is substantially underperforming.

Mr. Salanik's concerns are the bad returns and how expensive the services are.

Ms. Mullin agrees with Mr. Burke on the need to know the contribution and detractions from the investments and the time period is important. She thinks it's important to go back to the advisor one more time to obtain the appropriate information for the report.

Mr. Delikat indicated that once the IPS is in place everything else is superfluous. He indicated that the market was up 1,200 points today. He also indicated that the PAC needs a new IPS and an enhanced report.

Mr. Burke indicated that year to date equity and fixed income information is important.

Ms. Mullin indicated that on page 24 of the Brede report addresses what contributed and detracted.

It was agreed that talking to DK Brede on Monday would be beneficial for the PAC.

Mr. Denton suggested that discussion on creating an RFP could begin at the December PAC meeting. Mr. Burke commented that RFP's can time a long time.

Being no further business the meeting adjourned at 6:03 p.m. on motion of Mr. Delikat, seconded by Ms. Mullin. Motion carried unanimously.

Respectfully submitted,

Stephanie J. Mason
Township Manager/Secretary

Stephanie Mason

From: Thomas Burke <burkethomase@gmail.com>
Sent: Thursday, November 5, 2020 12:45 PM
To: Ed Denton; Joseph Delikat; Robert Salanik; Colleen Mullim; Ken Wallace; Sinclair Salisbury; Jen Herring; Stephanie Mason; Bill Mokriski
Cc: Thomas Burke
Subject: Brief Review of Advisors 3Q YTD 2020 Report

All,

The below is my summary review of the Advisors 3Q / YTD 2020 Report forwarded by Ken earlier this week. While the "flow" of the data and discussion should follow a 3Q/YTD (thru September 30)/trailing one year (thru September 30) format, the report is opaque and cumbersome to follow. It took me more than 30 minutes to hunt for relevant data amidst the details.

1) Report makes no mention of performance until data appears on p.11 (Uniformed Plan) and p.15 (Non-Uniformed Plan). YTD TWR of -0.83% and -0.94%, respectively, are noted with no benchmark performance. Page 23 mentions the "Blended Benchmark" YTD performance of -0.42%. Thus, underperformance of 41bps and 52bps is implied. This compares with the PAC Reference/Policy Benchmark YTD performance of +3.3% which implies underperformance of 413bps and 424bps, respectively—a substantial shortfall.

2) No specific mention of 3Q performance anywhere until p.26/27 where underperformance of 41bps and 40bps are indicated. However, the BM performance cited here (+5.89%, +5.87%) varies from the QTD "Blended Benchmark" figure of +4.74% cited on p.23 (?). 3Q PAC Reference/Policy Benchmark performance was +5.5%. Thus, 3Q results look mostly "in line" with benchmarks.

3) Trailing 1 yr. performance (thru September 30) indicated on p. 26/27 of +5.44% and +5.45%, respectively, lagged the indicated benchmark by 282bps and 278bps. The PAC Reference/Policy Benchmark was +9.2% indicating underperformance of 376bps and 375bps—a substantial shortfall. Without going back to review the 4Q 2019 performance, the above implies that the performance in this period was severely challenged. We (I) do know that the 1Q 2020 period was also a difficult period as well.

In all cases (above) there is no explanation/discussion/narrative related to performance attribution (i.e., what helped/hurt performance). At this time, I have not "dug through the details" for further insights. Needless to say, we need improved clarity in the Advisor reporting. We are in the process of working toward this, with hopeful success.

Best,

Tom Burke

Investment Policy Statement

Doylestown Township
Uniformed/Non-uniformed Pension Plans

Working Document Proposed as of November 9, 2020

I. Introduction

The goal of this Investment Policy Statement ("IPS") is to establish a clear understanding between Doylestown Township, Pension Advisory Board ("Investor") and the external independent investment Advisor, currently D.K. Brede Investment Management Co., Inc. ("Advisor") with respect to the Doylestown Township Uniformed and Non-Uniformed Pension Plans investment objectives and policies (collectively for this purpose considered the "Plans" or "portfolios"). This IPS is not a contract or agreement but rather an expression of interests related to the intended investment policies of the Plans assets.

The Pension Advisory Committee ("PAC"), formed in March 2018 under the approval of the Investor and effective in its role as of June 2018, acts as advocate for the Investor. The PAC interacts, monitors and consults with the Advisor on all matters related to the Plans investment portfolios.

II. Purpose

This IPS will serve to:

- Establish reasonable expectations, objectives, and guidelines for the investment of the Plan's Portfolio assets.
- Set forth an investment structure detailing appropriate asset classes, expected allocations and appropriate ranges of exposure for the Portfolios.
- Encourage effective communication between the Advisor, the PAC and the Investor.
- Create the framework for a well-diversified investable asset allocation that achieves acceptable long-term returns at a level of risk suitable to the Investor.

This IPS has been developed from an evaluation of many key factors which impact the Investor's specific situation and investment objectives. It is intended to be a summary of an investment philosophy that provides guidance for both the Investor and Advisor. It is expected that the Advisor will act in a fiduciary capacity with regards to all portfolio decisions implemented.

Implicit in this expectation, the Investor duly delegates investment management responsibility to the Advisor with respect to decisions impacting the portfolios.

This IPS should be considered a "working/living document" that will be reviewed annually and updated as the Investor and the PAC see fit for purpose.

III. Investment Objectives

The investment objectives of the Investor have been established in conjunction with a comprehensive review of the current and projected financial requirements of the Plans. The investment objectives are as follows:

- To attempt to achieve a fully funded status with regard to the accumulated benefits obligation of the Plans.
- To maximize the Plans returns within reasonable and prudent levels of risk in order to minimize municipal and employee contributions over time.
- To maintain flexibility in determining the future level of such contributions.
- To have the ability to pay all benefit and expense obligations of the Plans when due.

The investment specific objectives for the aggregate investments under this IPS shall be to achieve an average annual rate of return in line with the Plans actuarial assumptions (the "discount rate"). The Investor under the advice of the PAC and current Advisor has adopted a discount rate migration path leading to a reduced discount rate assumption as follows:

January 1, 2020	current assumption:	7.75%
January 1, 2022		7.25%
January 1, 2024		6.75%
January 1, 2026		6.25%
January 1, 2028		6.00%

This migration path was agreed upon in 2020 with the goal of reaching the 6.0% discount rate assumption over time. This reduced rate was reviewed and considered a more realistic assumption, given expected market rates of return, at this time. This objective is based on a long-term investment horizon and it is understood that interim fluctuations should be viewed with appropriate perspective. The desired investment objective is to maximize long-term portfolio total returns through a combination of capital appreciation and income balanced against sound and prudent investment practices.

The Investor and the PAC understands that no guarantees are either made or implied that portfolio returns will meet the Plan's investment-specific objectives.

IV. Asset Allocation

The Investor, with input from the PAC and current Advisor, has determined that the below outlined broad asset class Asset Allocation is appropriate to best achieving the Plans long-term investment objectives:

		Range	Current Target	Benchmark
Equity	Domestic	40% - 55%	45%	
	International	10% - 25%	20%	
	Total	50% - 80%	65%	MSCI ACWI
Fixed Income	Total	30% - 45%	34%	Barclays US Aggregate
Cash*	Total	0 - 10%	1%	

* Included in Fixed Income asset class.

In 2020, the PAC introduced a Reference/Policy Benchmark to monitor the above targeted Asset Allocation (currently, 65% global equities/35% fixed income). The proxy investments in this benchmark are Exchange Traded Funds ("ETF's") representing underlying indices: the MSCI All-Country Weighted Index ETF (ACWI) and the Barclays US Aggregate ETF (AGG). The former is considered to be a well diversified representation of more than 2,200 large to mid-capitalization global equities from developed and emerging markets. The latter is considered to be a well diversified representation of more than 8,000 issued US Investment Grade bonds. Cash is considered a sub-allocation of the fixed income asset class.

Both ETF's are based upon well defined underlying indices that are readily and widely recognized among the investment community at large. The PAC has chosen to utilized ETF's to construct this Reference/Policy Benchmark as a tool due to the ease of access to performance data and the ability to determine broad trends in Asset Allocation performance over various time intervals. ETF's are utilized by the PAC, for this purpose, over indices due to data availability and licensing fees/agreements typically required by index providers. (Note: Indices are not directly investable for investment purposes.)

The objective of this high level benchmark is to provide a representative measure of the efficacy of the Asset Allocation decision (as outlined above). The PAC also intends to utilize this benchmark to monitor the discretionary investment decisions (sub-allocations implemented in equity and fixed income asset classes) of the Advisor.

In line with historic market return data, it is expected that the equity portion of the portfolios will generate the majority of the long-term return potential of the Plans investment objectives while the fixed income portion will generate more stable returns and provide potential downside protection in more volatile market periods.

V. The Portfolios

The Plans portfolios will employ a combination of passive and active strategies for both equity and fixed income investments. The portfolios may utilize a combination of passive, low cost (fees) ETF's and/or actively managed external funds, selected at the discretion of the Advisor. All assets held in the Portfolios are expected to be highly liquid and readily marketable. It is desirable that fees and costs associated with such investments be considered reasonable and competitive and that a "best value for the money" philosophy will be followed. A diversified approach to portfolio positioning will be encouraged with consideration to the underlying exposures represented by both the active and/or passive strategies employed.

The Advisor has discretion with regards to sub-allocation strategies implemented in the major asset classes (equities, fixed income). This may include, but is not limited to, investment style, market capitalization, factor considerations and geography for equities and specifically targeted/ opportunistic strategies for fixed income. The Advisor will be held directly accountable for all sub-allocation strategies employed.

Active external investment managers will be selected and monitored by the Advisor based on the following criteria:

- The investment manager should be a bank, insurance company, trust company or investment advisor.

- The investment manager is expected to have a clearly articulated and appropriate investment philosophy and process that is well documented and has been consistently followed over time.

- The investment manager must provide performance evaluation reports prepared by an objective third party that illustrate the risk/return profile of the manager relative to other managers of like investment style.

- The investment manager must disclose material changes related to firm, organization, key personnel and regulatory actions.

- The investment manager must provide quarterly, annual and historic performance data.

While each individual external investment manager is responsible for managing the assets of a particular asset class in accordance with the stated objectives, investment strategy and prospectus, the Advisor is responsible for monitoring the manager's performance and evaluating investment performance results against an appropriate strategy benchmark.

As a consequence of specific equity and fixed income investment decisions that may be implemented by the Advisor, it is expected that both a composite benchmark of the overall portfolio and a composite benchmark of the related performance of equity and fixed income investments will be calculated and provided by the Advisor for review by the PAC at regular performance intervals.

It is the intent of the PAC to review the performance of the portfolio investments (net of fees) and the efficacy of the investment strategies employed by the Advisor as measured against: 1) the previously outlined Reference/Policy Benchmark and 2) the sub-allocated equity and fixed income performance as compared to the composite benchmarks referred to above.

It is understood that from time-to-time, market conditions may cause the Portfolios investment in various asset classes to vary from the Current Target asset allocation. To remain consistent with the asset allocation guidelines established by this IPS, investments in the Portfolios should be reviewed by the Advisor on a periodic basis and rebalanced back to the normal weighting if the actual weighting varies by 2% or more from either the Current Target (Asset Allocation) or the desired sub-allocations as determined by the Advisor.

VI. Risk Tolerance and Performance Expectations

The Investor recognizes that the objectives of the Plans cannot be achieved without incurring a certain amount of risk and performance volatility. It is expected that the Portfolios will be managed in a style manner that seeks to minimize principal fluctuations over the established time horizon and that is consistent with the IPS stated objectives. It is understood that guarantees cannot be assured concerning future performance and that over shorter term periods performance may vary from stated objectives. It is expected that the Advisor will balance risk tolerance, defined as the Plans funded status volatility, with the above stated return requirements.

It is the desire of the PAC to have regular performance reviews with the Advisor for the purpose of: 1) reviewing portfolio performance, 2) discussing performance attribution, 3) reviewing investment transactions/rebalancing procedures, and 4) understanding Advisor investment perspective, portfolio positioning and market outlook. Given the long-term perspective of the Investor, a detailed performance review (as outlined above) will be expected twice in a calendar year (March: to review prior year performance; August: to review mid-year performance). Additionally, the Advisor will provide an annual review (September) directly to the Investor. Interim quarterly periods may be addressed with an abbreviated summary of performance and brief commentary by the Advisor.

The Investor retains the right to terminate the Advisor due to either/any of the following circumstances: 1) a substantial deviation from the IPS, 2) persistent underperformance of investment portfolios relative to stated benchmarks (three year rolling performance review) or 3) material concerns of the Investor with regards to the Advisor ability to perform the expected responsibilities as outlined in this IPS.

VII. Prohibited Investments/Securities/Transactions

It is expected that the Advisor will invest in broad universe of publicly traded and listed ETF's in either/both the equity and fixed income asset classes. Actively managed external investment manager criteria has been referenced in Section V. It is understood that certain external managers may employ certain of the below listed prohibitions as integral to their respective investment strategies. The Advisor is responsible for monitoring the appropriateness of such practices among external fund managers.

Furthermore, the following investments/securities/transactions are prohibited from direct inclusion/use in the Portfolios:

- Individually listed securities (equities/fixed income)
- Non-public, unregistered illiquid investments (collectively considered the "alternative" asset class including private equity/debt and hedge funds)
- Commodities
- Real estate (exception: real estate investment trust equity-related ETF's)
- Derivatives including options and futures
- Short sales of any securities or ETF's
- Direct securites lending of the Plan assets (exception: ETF's and externally managed funds may engage in securities lending)
- Use of margin accounts or leverage
- ETF's that employ leverage as an integral part of the investment strategy
- Exchange traded notes ("ETN's")

VIII. Miscellaneous and Other Considerations

Custodial Arrangements

The Advisor should be associated with an established entity capable of providing adequate custodial/trust services related to the appropriate monitoring and record keeping of the Plans assets. This includes, but is not limited to, collected dividend/interest payments, receipt/delivery of all investment purchases/sales, administration of corporate actions and other relevant activity related to the Plans investments. Reports of such activity will be made available to the Investor on a monthly basis. Such an entity is expected to hold the Investors funds and securities in a separate account under the Investor's name.

Execution of Portfolio Security Trades

The Investor expects that the Advisor, in the normal course of managing the portfolios, will execute security/fund purchases and sales in a manner intended to receive the combination of best price and execution. Same applies as related to regular portfolio rebalancing procedures.

Voting Proxies

Voting of proxy ballots for all investments (ETF's/external funds) shall be assumed by the Investor. Transmission of such proxy documents shall be made by the custodian on a timely basis.

Specifically Authorized

"Subject only to the provisions of the governing instrument, if any, a fiduciary may accept, hold, invest in, and retain, any of the investments authorized by this chapter, and shall not be liable for loss on such investments so long as he exercises due care and prudence in the performance of his duties in regard to them. 'Legal investment' or 'authorized investment' or words of similar import used in a trust instrument shall be construed to mean any investment authorized by this chapter." (20 Pa.C.S. Ch. 73)

Prudent Man Rule

"Any investment shall be an authorized investment if purchased or retained in the exercise of that degree of judgment and care, under the circumstances then prevailing, which men of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income to be derived there from as well as the probable safety of their capital. The authorization to make and retain investments pursuant to this subsection shall be in addition to, and independent of, authorizations to make investments pursuant to other provisions of this chapter and requirements applicable under other provisions of this chapter shall not affect investments also authorized by this subsection." (20 Pa.C.S. Ch. 73)

IX. Authorization

The Investor certifies that this IPS was developed and constructed by the Investor and adopted as of (date). The below acknowledges acceptance of this IPS.

Investor: Doylestown Township, Pension Advisory Board

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Advisor: D.K. Brede Investment Management Co., Inc.

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