

Cheltenham Township, believing that public input is appropriate on any items coming before the Commissioners, will recognize any citizen wishing to address a specific item prior to the vote on that issue. In order to be recognized, please raise your hand.

PENSION BOARD

Morton J. Simon, Jr. – Chairman
Kathy A. Hampton – Vice Chairman
Art Haywood – Member
Charles McKeown – Member
J. Andrew Sharkey – Member
Michael J. Swavola – Member
Harvey Portner – Ex-Officio Member


Friday, November 4, 2011

8:00 a.m.

Township Building

AGENDA

1. Quarterly report by the pension investment consultants on the status of the Township's four (4) pension plans.
2. Discussion of a fee increase for investment consulting services by the PFM Group (see attached).
3. Old Business.
4. New Business.
5. Adjournment.



David G. Kraynik
Township Manager



The PFM Group

Public Financial Management, Inc.
PFM Asset Management LLC
PFM Advisors

Two Logan Square
Suite 1600
18th & Arch Streets
Philadelphia, PA
19103-2770

215 567-6100
215 567-4180 fax
www.pfm.com

August 8, 2011

Memorandum

To: Cheltenham Township Board of Commissioners
From: Tom Conroy, PFM Advisors
Re: Fee Increase for Investment Consulting Services

RECEIVED

AUG 09 2011

CHELTENHAM TOWNSHIP

As a result of discussions that John Spagnola and I have had with Dave Kraynik, we are writing this memorandum to propose that PFM Advisors' annual flat fee for investment consulting services to the Township be increased from \$25,000 to \$40,000. Our current fee has remained unchanged since mid-2005, which coincided with your decision to allocate a significant portion of the Township's pension assets to CS McKee. However, during that period, the combined market value of the Township's four pension plans have increased by 29% as the combined market value was \$33.5 million as of June 30, 2005 and \$43.1 million as of June 30, 2011. In addition, since inception, our role has been more involved than originally intended. Moreover, during the last few years as outlined below, we have systematically accelerated our efforts for the Township.

Since our role changed in 2005, PFM Advisors has served as an independent third party to assist the Commissioners in fiduciary duties for the Township pension plans on several important fronts. Our investment consulting services have included the following:

- Provided a comprehensive quarterly report on total fund and individual manager investment performance as compared to performance benchmarks as well as compliance with the investment policy statement.
- Continued to monitor and evaluate the contract with the Hartford Insurance Company and its credit rating.
- Assisted in the rebalancing of the portfolio between Hartford, CS McKee and other investments.
- Attended each quarterly Finance Committee Meetings as an active participant.
- Recommended investment managers and asset classes outside of CS McKee's purview for investment consideration when appropriate.

In addition to the above investment consulting services, we have been appropriately active in recommending and implementing the following activities outside of CS McKee's purview:

- 2007 -- Prepared an asset allocation analysis that resulted in an increased target allocation to REIT's.
- 2007 -- Revised the Investment Policy Statements for all four plans, including new target allocations for REIT's.



- 2008 – Recommended reduced tactical allocations to equities in anticipation of significant negative corrections in global equity markets.
- 2009 – Recommended full rebalancing toward target equity allocations in anticipation of the strong snapback in global equity markets.
- 2009 – Prepared a search to replace T Rowe Price REIT resulting in the selection of Cohen & Steers.
- 2010 – Prepared an asset allocation analysis that resulted in new target allocations to Commodities and changes in other asset classes.
- 2010 – Prepared addendums to the Investment Policy Statements for all four plans, approving the commodity investments and changes in other asset classes.
- 2011 – Recommended expanding the allocation to International Equity to include emerging markets.
- 2011 - Prepared a search for emerging market equities resulting in the selection of the Oppenheimer Emerging Markets Fund.

Our activities outlined above have resulted in increased diversification for the Township's pension plans, which are expected to increase performance and reduce risks. The plans are less reliant on the concentrated efforts and security selections of CS McKee. For example, as of December 31, 2005, CS McKee controlled 84.2% of the Cheltenham Police Pension Plan. As of June 30, 2011, this concentration was reduced to 78.0%. In addition, the McKee allocation is about 70% for the Salaried and Hourly Plans. Lastly, the allocations to Commodities for all plans are expected to increase later in 2011 further reducing the reliance on CS McKee.

We hope that you will consider this proposal and look forward to discussing it further with you. Thank you for your consideration of this matter.

Cc: David G. Kraynik

Portfolio Cash Flow and Performance Summary

Account Reconciliation			
	6/30/2005 Quarter	2005 YTD	3/30/1999 Inception
Beginning Value	\$18,635,659	\$19,382,733	\$0
Net Flows	(\$280,090)	(\$729,927)	\$15,141,705
Investment Gain/(Loss)	\$362,884	\$65,648	\$3,576,747
Ending Value	\$18,718,454	\$18,718,454	\$18,718,454

Permanence

$18,718,454 \times 0.10\% = 1,871,845$

Trailing Returns Through June 30, 2005

	Qtr	YTD	1 Yr	3 Yr	5 Yr	7 Yr
Account	2.04%	0.45%	8.66%	9.23%	3.79%	N/A
Policy	1.93%	0.47%	7.89%	9.31%	4.10%	N/A
Difference	0.11%	-0.02%	0.77%	-0.08%	-0.31%	N/A

Calendar Year Returns

	2004	2003	2002	2001	2000	1999	1998
Account	11.35%	20.58%	-7.32%	-2.68%	-0.99%	N/A	N/A
Policy	10.43%	20.68%	-5.84%	-2.10%	1.07%	N/A	N/A
Difference	0.92%	-0.10%	-1.48%	-0.58%	-2.06%	N/A	N/A

Portfolio Cash Flow and Performance Summary

Account Reconciliation		3/30/1999 Inception	Previous Fee
6/30/2005 Quarter		2005 YTD	
Beginning Value	\$7,940,346	\$8,134,520	
Net Flows	(\$97,582)	(\$206,171)	
Investment Gain/(Loss)	\$133,538	\$47,954	
Ending Value	\$7,976,302	\$7,976,302	
			$\times 0.20\% = \$15,952.60$

Trailing Returns Through June 30, 2005						
	Qtr	YTD	1 Yr	3 Yr	5 Yr	7 Yr
Account	1.75%	0.67%	8.00%	8.95%	4.12%	N/A
Policy	1.93%	0.88%	7.44%	8.83%	3.83%	N/A
Difference	-0.18%	-0.21%	0.56%	0.12%	0.29%	N/A

Calendar Year Returns						
	2004	2003	2002	2001	2000	1999
Account	10.87%	19.71%	-6.81%	-1.84%	0.90%	N/A
Policy	9.74%	19.36%	-5.84%	-2.10%	1.07%	N/A
Difference	1.13%	0.35%	-0.97%	0.26%	-0.17%	N/A

Portfolio Cash Flow and Performance Summary

Account Reconciliation		3/31/1999 Inception
6/30/2005 Quarter	2005 YTD	
Beginning Value	\$6,622,335	\$0
Net Flows	(\$106,159)	\$5,081,057
Investment Gain/(Loss)	\$122,145	\$1,557,262
Ending Value	\$6,638,320	\$6,638,320

Pension Fee

$913,276.64 \times 0.20\% = 182,655.33$

Trailing Returns Through June 30, 2005						
	Qtr	YTD	1 Yr	3 Yr	5 Yr	7 Yr
Account	1.91%	0.80%	8.09%	8.91%	3.86%	N/A
Policy	1.93%	0.88%	7.44%	8.83%	3.83%	N/A
Difference	-0.02%	-0.08%	0.65%	0.08%	0.03%	N/A

Calendar Year Returns						
	2004	2003	2002	2001	2000	1999
Account	10.82%	19.63%	-7.01%	-2.20%	0.07%	N/A
Policy	9.74%	19.36%	-5.84%	-2.10%	1.07%	N/A
Difference	1.08%	0.27%	-1.17%	-0.10%	-1.1%	N/A

Portfolio Cash Flow and Performance Summary

Account Reconciliation			
	6/30/2005 Quarter	2005 YTD	3/31/1999 Inception
Beginning Value	\$156,257	\$160,951	\$0
Net Flows	(\$2,971)	(\$6,006)	\$118,903
Investment Gain/(Loss)	\$2,660	\$1,002	\$37,042
Ending Value	\$155,947	\$155,947	\$155,947

Premium fee

X 0.20% = \$311.89

Trailing Returns Through June 30, 2005

	Qtr	YTD	1 Yr	3 Yr	5 Yr	7 Yr
Account	1.77%	0.72%	8.26%	9.14%	4.03%	N/A
Policy	1.93%	0.88%	7.44%	8.83%	3.83%	N/A
Difference	-0.16%	-0.16%	0.82%	0.31%	0.20%	N/A

Calendar Year Returns

	2004	2003	2002	2001	2000	1999	1998
Account	11.23%	20.07%	-7.13%	-2.60%	0.42%	N/A	N/A
Policy	9.74%	19.36%	-5.84%	-2.10%	1.07%	N/A	N/A
Difference	1.49%	0.71%	-1.29%	-0.50%	-0.65%	N/A	N/A