Minutes of the Region 9 Quarterly Pension Committee Meeting
January 31, 2011

Attendees: Leon Karvelis (chair), Thomas Logie, David Boczar, Peggy Sullivan, Michael Welz (of The USI Consulting Group)

1. Call to order at 5:33pm in the Career Center reading room at Joel Barlow High School.

2. Motion to approve the minutes of the Oct. 25, 2010 meeting made by Mr. Boczar, seconded by Mr. Logie, approved unanimously.

3. Mr. Welz reviewed the domestic economic outlook as summarized in the end of 2010 report presented to the committee.

   -The current estimate of 2010 full year real GDP growth in the U.S. is 2.9%.

   -The USI forecast for 2011 sees real growth of about 3%. (a range of 3-3.6%)

   -Deleveraging and fiscal tightening at the state and local level are likely to slow the pace of recovery.

   -Unemployment, ending 2010 at 9.4% is likely to take 3-4 years to fall back to a more normal level (which some believe may be around 6%)

   -Underemployment remains significant as there are over eight million Americans working part-time who wish to work full-time (hence the total unemployment, underemployment rate is about 17-18% creating a drag on consumer spending and on federal, state, and local tax revenues)

   -There are estimates that 5-6 million net new jobs must be created to absorb new entrants to the workforce (due to population growth, the coming of age of a new young generation, and immigrants). Hence, the economic challenge is to create jobs for the 11 million full-time jobs lost from 2008-2009, and another 5-6 million jobs for new workers.

   -The outlook for the housing market looks grim to USI due to the large overhang of shadow inventory (houses in mortgage default that have yet to be placed up for sale through foreclosure). Mr. Logie noted that this supply problem may abate somewhat in the second half, and that this may allow an upside surprise in new home construction later this year into 2012.

   -Corporate profits rose in 2010, initially driven by cost cutting, but buoyed in late 2010 by a modest upturn in top line sales revenue.

   -USI assumes that a re-emergence of inflationary pressure, now seen in food and commodities and causing concern in many developing countries, will lag behind in the U.S. As a result, inflation is unlikely to become a domestic concern in 2011.

   -As the domestic economy slowly recovers the Federal Reserve will shift in stages from a loose monetary policy to tightening. The first step will be to end bond purchases (the effort to add liquidity often referred to as quantitative easing), followed later by a slow drain of liquidity (raising the target overnight interest rate by requiring core banks in the Fed network to buy bonds back from the Fed)

   -Mr. Welz repeated his earlier concern that at some point (perhaps 2012 and beyond) interest rates will rise, creating headwinds for the fixed income market. The committee is aware of this looming threat and will closely monitor the situation each quarter to determine when (and to what degree) shifts in asset allocation will be prudent.

   -Mr. Welz highlighted (from page 14 of the 2010 overview) the rotation of capital over the past three years from equity funds and money market funds into taxable bond funds. (Note that from 2007 through 2010 an estimated $315 billion was withdrawn from domestic equity funds. From 2009 through 2010, over $1 trillion was withdrawn from money market funds, with over half of this money rotating into taxable bond funds.)

Mr. Welz noted that a recent poll commissioned by Barron's found that a majority of retail investors do not know that bonds lose value when interest rates rise. When this possibility become reality at some point over the next 24-36 months, it is likely that there will be a vigorous rotation out of taxable bond funds into other sectors – most likely back money market funds and domestic and global equity funds.

Mr. Welz recommended that committee members (or members of the community) might wish to read a report published by the Bank of America entitled "The Longest Picture" which four cycles of falling interest rates (in the U.S.) over the past hundred years, with each 25-30 cycle of falling rates followed by a 15-20 year cycle of rising interest rates.

The risk that the cycle may turn, slowly but inexorably into the headwinds of rising interest rates has been an ongoing topic of concern for the committee for the past year

and

the committee will remain on watch for any evidence that such a cyclical shift may threaten the portfolio.

4. Mr. Welz reviewed the pension fund's current assets and fourth quarter performance. As of the end of 2010, the fund had total assets of $2.897 million. (Rising from $2.767 million at the end of the third quarter and $2.218 million from mid-2010. Note that the sharp gain from the end of June 2010 to the end of September 2010 was driven by a combination of the annual net deposit of taxpayer monies to the fund (as recommended by the actuary) and appreciation of the fund's assets). Mr. Karvelis noted that as of the end of December the fund was valued at 105% of the recommended level to meet its obligations to pension fund participants. [While no specific data was presented at the meeting, it was noted that there had been additional appreciation of asset value year-to-date through the month of January 2011.]

5. Mr. Welz reviewed the funds that were still on watch, most notably the Davis NY Venture fund, the DFA funds (with a personal visit by its management planned for the April 25th meeting), the Columbia Mid Cap fund, Invesco Van Kampen Small Cap fund, and the Oppenheimer Senior Floating Rate fund. The committee will discuss at the April 25th meeting how to proceed with each of these funds.

6. The committee discussed changing the target allocation of fund assets. Since the fund is currently close to 61% equity v. 39% fixed income and the committee is concerned about the medium and longer term impact of rising interest rates on many fixed income funds, the past conservation target of 55% equities v. 45% fixed income was no longer deemed appropriate. The committee voted unanimously to change the target to 60/40 for the near-term and to remain open to how best to allocate fund assets in the future as the domestic and global economy recovers.

7. Mr. Welz noted that if Region 9 was to shift from its current defined benefit pension plan to a defined contribution plan that the USI Group would not be well suited to assist in such a

transition. Mr. Welz provided some information to Peggy Sullivan and was to follow up with addition company names and examples of recent transitions. Further details or contact information may be provided to Mrs. Sullivan and/or Mr. Karvelis prior to the next meeting.

8. Motion to adjourn was made by Mr. Boczar, seconded by Mr. Karvelis, approved unanimously at 6:44pm

Submitted by:

Thomas Logie
Region 9
substitute committee secretary
number is subject to updates over the next