

**CUMBERLAND PENSION BOARD  
EDWARD J. HAYDEN PUBLIC LIBRARY  
The Hayden Center Meeting Room #4  
1464 Diamond Hill Road  
Cumberland, RI 02864  
Wednesday, April 29, 2009**

**Present were:**

**Bob Walsh, Ray Casey, John Buckley, Sovereign Bank  
Representative Jeff McDonald**

- 1. Call to Order at 9:10 a.m.**
- 2. The minutes of January 29, 2009 were unanimously approved pending several minor wording changes.**
- 3. Investment Report by Sovereign Bank for quarter ending March 31, 2009. The Board expressed disappointment in the fact that the investment report was received yesterday by two members and not at all by one member. The reason the meeting was put off by two weeks was to be sure the reports would be received. Mr. McDonald reviewed sections of the Cumberland Pension Board Quarterly Report. He pointed out that the performance for the quarter resulted in a decrease of 6.1% in the portfolio as compared to the benchmark performance that suffered a decrease of 5.8%. The equities' portfolio**

declined by 11.1% versus the benchmark performance decline of 10.8%. He pointed out that equities represented 47.9% of the portfolio, well below the maximum under the Board's guideline of 60%. He intends to selectively increase the equity holdings to 52-53% by investing approximately \$150,000 of \$300,000 from an upcoming bond maturity. Jeff mentioned Healthcare and Technology as two areas that Sovereign felt were attractive buys at this time. The remaining cash flow from the maturity will be invested in fixed income instruments.

The fixed income portion of the portfolio, approximating 45% of the total, declined ½ of 1 percent during the second quarter while the benchmark held even-neither increasing nor decreasing. Jeff suggested that the current fixed income benchmark was not a good basis for comparison and provided rationale for his comment. After some discussion it was suggested by the board that he recommend another benchmark that he believes is better suited to the fixed income investments that Sovereign is making for the Pension Plan and the reasons for the recommendation. Jeff suggested that the Bank was using a fixed income strategy that included limited fixed income trading while others used a more active trading strategy and asked if we preferred the more active trading strategy. Mr. Buckley said that the investment approach used is one that Sovereign should be selecting based on their far greater knowledge of the most effective trading approaches. The board simply would like to know the strategy employed and how it compared to the better results

generated by the benchmark. There was further discussion concerning the degree of risk that the Board was willing to accept in the fixed income portfolio. The portfolio currently has \$370,000 of Federal Nat'l Mtg Assn bonds that mature in 2013, 2020 and 2023. There was some discussion relative to the safety of those instruments after the US Government withdraws its guarantee of FNMA bonds at the end of 2010. Jeff said that the Government will still be perceived as offering an implicit guarantee and he's not concerned about their safety.

At the July 2008 meeting, Jeff and Greg Leo of Sovereign mentioned that the bank intended to employ a manager who specialized in buying mutual funds. A Board member inquired as to the current status. Jeff said that the manager was not hired due to the current market situation, but perhaps that decision would be re considered.

Jeff calculated that the current portfolio was generating a little over \$200,000 in annual cash flow from interest and dividends, an amount that is well below the annual cash flow requirements of the Pension Fund. Cash flow from member contributions as well as Town contributions is significant but Jeff intends to hold more assets than usual in money market investments for the present as a margin of safety.

**4. Other Business.** The Board discussed the importance of periodically reviewing the returns of pension funds in other Rhode

**Island cities and towns to insure that our performance is equal to or better than the others. A review is especially important at this time because the funds of some of the towns were being managed more aggressively (higher percentage of equities) than both the Board and Sovereign felt would meet the long-term objectives of the Cumberland Pension Fund. The more aggressively managed funds tended to carry greater risk and could show higher returns when the stock market was increasing but more likely would experience greater losses during stock market declines. It was agreed that Bob Walsh would ask Tom Bruce to obtain performance information from five or more of nearby towns.**

**Bob Walsh agreed to speak to Tom Bruce about setting up a meeting between the Town's Finance Committee and Sovereign in order to allow the Finance Committee exposure to the Sovereign managers responsible for managing the Pension Board Funds.**

**5. Adjournment: 11:20 a.m.**