Reform Pension Board

Reform Pension Board
Participant Video Conference Call
April 28, 2016
Questions & Answers

Introduction to Q&A by David Baskin, Chair of the Investment Committee

What participants in a pension plan want is no great mystery. Before retirement they want their contributions to grow steadily so that when they retire, the amount accumulated is enough to sustain them at a dignified level for the rest of their life. After retirement, they want to be confident that the cash flow from their savings will be steady, that their principal will be secure, and that the funds will last as long as they do. It sounds pretty simple, but as with so many things, description is easier than execution.

Some of you may know my father, Rabbi Bernie Baskin, now 96, a past-president of NAORRR and one of the oldest living participants in the plan. He has been retired for twenty-five years. When participants think of the plan, and what they want from it, his timeline is a good one to keep in mind.

Over the more than twenty years that I have been managing money, a lot of things have changed. Consider the companies that led the American market in 2015. Facebook, Amazon, Netflix and Google. Together these four giant technology firms accounted for 107% of all the gains in the S&P 500. The other 496 companies, together, lost money for investors. None of these companies manufacture a product. The business sector that Facebook and Google are in did not even exist twenty years ago.

Machinery that was once made in Michigan, Ohio or Illinois is now made in Germany, Switzerland or Japan. Clothes that used to come from North Carolina or Georgia now come from Indonesia or Bangladesh, and the computers, cell phones and iPads we use every day are assembled in China with parts made around the world.

I bring this up because it is impossible to invest wisely without understanding the economic realities that confront the investment manager. Wishing things were different does not make them so. Here are the realities that challenge investors today.

- The developed economies are facing strong demographic headwinds. Populations are aging, most prominently in Japan, Italy and France, but also in North America. Aging populations buy fewer homes, fewer cars, and have lower incomes. In short, old economies grow slowly, if at all. World economic growth is happening in younger, more vibrant economies, which are labelled in the investment world as Emerging Markets. While the U.S. and Canada are expected to struggle to grow at 2% this year, these countries are predicted to grow at between 4% and 8%, say three times faster.

- The growth of globalization has seen manufacturing and assembly move to less developed countries where wages are lower. The loss of high quality, high wage manufacturing jobs in the U.S., so decried in the current election campaign, is real; but they are not coming back, even if there is a wall between the U.S. and Mexico.

- Corporations, faced with slowly growing or even stagnant markets, are not reinvesting their profits. Instead, they are hoarding cash, sometimes overseas where tax rates are lower, or paying it out to shareholders in the form of share buybacks and higher dividends. The persistent lack of new investment by business in the developed economies of North America and Europe is one of the main factors behind the slow recovery from the deep recession of 2007-2009.

- Finally, investors are confronted by interest rates at the lowest we have seen in the past seventy years, and there is no sign that they will increase. We are faced with a crisis for savers, in which ten-year U.S. government bonds pay less than 2% per year and bank CDs pay essentially zero. The safe 5% return on bonds and deposits, easily available to all savers for most of our adult lives, has disappeared, and no one knows when, or if, it will come back.

So what is the investor to do? To us at the RPB, it seems clear that the old ideas will no longer produce the desired results. The simplistic model of 60% in U.S. stocks, say the S&P 500 or even a broader index like the Russell 3000, and 40% in bonds, seems unlikely to fulfill the goals of our participants over the long term.

Let me pause for a minute to consider what we mean by “long term” and why it is important. We are now all accustomed to living in the “all news all the time world.” Quite naturally, when we think about our investment results for the coming quarter, we think about the next ninety days. But really, when we think about the coming quarter, we should be thinking about the next twenty-five years, the coming quarter century. Those of you on this call who are 70 years old may well live that long, or your spouse might. Certainly those of you under 60 must plan to be retired that long, and must invest your savings with this timeframe in mind.

Here then, in a nutshell, is the thinking behind the goal-based investment program that the RPB rolled out in 2013.

- International diversification is essential, and in particular, exposure to faster growing, more dynamic economies will produce better returns. Corporate profits tend to grow with economies, and share prices follow corporate profits. Investing in companies where growth is higher will, over time, produce better returns than investing in companies where growth is sluggish. This is why the RPB has allocated a significant portion of its assets to managers that invest outside the U.S. This clearly does not happen every year. Emerging markets led the world indices in nine of the past twenty-three years, with huge returns in 2003 through 2007, but trailed in 2014 and 2015. Note that the S&P 500 led the market in only one year of the past twenty-three.

Reform Pension Board

Reform Pension Board
Participant Video Conference Call
April 28, 2016
Questions & Answers

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Q1 2016
	EM 74.8%	EAFE 8.1%	Large Value 38.4%	Large Growth 23.1%	Large Value 35.2%	Large Growth 38.7%	EM 66.4%	Small Value 22.8%	Small Value 14.0%	Core Bonds 10.3%	EM 55.8%	EM 25.6%	EM 34.1%	EM 32.2%	EM 39.4%	Int. Treas. 11.4%	EM 78.5%	Small Growth 29.1%	Core Bonds 7.8%	EM 18.2%	Small Growth 43.3%	S&P 500 13.7%	Large Growth 5.7%	EM 5.7%
Best Performing	EAFE 32.9%	Large Growth 2.7%	S&P 500 37.6%	S&P 500 23.0%	S&P 500 33.4%	S&P 500 28.6%	Small Growth 43.1%	Core Bonds 11.6%	Core Bonds 8.4%	Int. Treas. 9.6%	Small Growth 48.5%	Small Value 22.3%	EAFE 14.0%	EAFE 26.9%	Large Growth 11.8%	Core Bonds 5.2%	HY Bonds 58.2%	Small Cap 26.9%	Int. Treas. 6.6%	Small Value 18.1%	Small Cap 38.8%	Large Value 13.5%	S&P 500 1.4%	HY Bonds 3.4%
	Small Value 23.8%	S&P 500 1.3%	Large Growth 37.2%	Large Value 21.6%	Small Value 31.8%	EAFE 20.3%	Large Growth 33.2%	Int. Treas. 10.3%	Int. Treas. 8.2%	HY Bonds -1.4%	Small Cap 47.3%	EAFE 20.7%	Large Value 7.1%	Small Value 23.5%	EAFE 11.6%	HY Bonds -26.2%	Large Growth 37.2%	Small Value 24.5%	HY Bonds 5.0%	Large Value 17.5%	Small Value 34.5%	Large Growth 13.1%	Int. Treas. 1.2%	Core Bonds 3.0%
	Small Cap 18.9%	HY Bonds -1.0%	Small Growth 31.0%	Small Value 21.4%	Large Growth 30.5%	Large Value 15.6%	EAFE 27.3%	Large Value 7.0%	HY Bonds 5.3%	EM -6.0%	Small Value 46.0%	Small Cap 18.3%	Large Growth 5.3%	Large Value 22.2%	Int. Treas. 8.8%	Small Value -28.9%	Small Growth 34.5%	EM 18.9%	Large Growth 2.6%	EAFE 17.3%	Large Growth 33.5%	Core Bonds 6.0%	Core Bonds 0.6%	Int. Treas. 2.4%
	Large Value 18.1%	Small Value -1.5%	Small Cap 28.4%	Small Cap 16.5%	Small Cap 22.4%	Core Bonds 8.7%	Small Cap 21.3%	Small Cap -3.0%	Small Cap 2.5%	Small Value -11.4%	EAFE 39.2%	Large Value 16.5%	S&P 500 4.9%	Small Cap 18.4%	Small Growth 7.1%	Small Cap -33.8%	EAFE 31.9%	Large Growth 16.7%	S&P 500 2.1%	Small Cap 16.3%	Large Value 32.5%	Small Growth 5.6%	EAFE -0.8%	Small Value 1.7%
	HY Bonds 17.1%	Small Cap -1.8%	Small Value 25.8%	HY Bonds 11.4%	Small Growth 12.9%	Int. Treas. 8.6%	S&P 500 21.0%	HY Bonds -5.9%	EM -2.4%	Large Value -15.5%	Large Value 30.0%	Small Growth 14.3%	Small Value 4.7%	S&P 500 15.8%	Core Bonds 7.0%	Large Value -36.9%	Small Cap 27.2%	Large Value 15.5%	Large Value 0.4%	S&P 500 16.0%	S&P 500 32.4%	Small Cap 4.9%	Small Growth -1.4%	Large Value 1.6%
	Small Growth 13.4%	Int. Treas. -1.8%	HY Bonds 19.2%	Small Growth 11.3%	HY Bonds 12.7%	HY Bonds 1.9%	Large Value 7.4%	S&P 500 -9.1%	Large Value -5.6%	EAFE -15.7%	Large Growth 29.8%	HY Bonds 11.1%	Small Cap 4.6%	Small Growth 13.4%	S&P 500 5.5%	S&P 500 -37.0%	S&P 500 26.5%	HY Bonds 15.1%	Small Growth -2.9%	HY Bonds 15.8%	EAFE 22.8%	Small Value 4.2%	Large Value -3.8%	S&P 500 1.3%
Worst Performing	S&P 500 10.1%	Large Value -2.0%	Core Bonds 18.5%	EAFE 6.4%	Core Bonds 9.7%	Small Growth 1.2%	HY Bonds 2.4%	EAFE -14.0%	Small Growth -9.2%	Small Cap -20.5%	HY Bonds 29.0%	S&P 500 10.9%	Small Growth 4.1%	HY Bonds 11.9%	HY Bonds 1.9%	Large Growth -38.4%	Small Value 20.6%	S&P 500 15.1%	Small Cap -4.2%	Large Growth 15.3%	HY Bonds 7.4%	Int. Treas. 2.6%	Small Cap -4.4%	Large Growth 0.7%
	Core Bonds 9.8%	Small Growth -2.4%	Int. Treas. 14.4%	EM 6.0%	Int. Treas. 7.7%	Small Cap -2.5%	Int. Treas. 0.4%	Large Growth -22.4%	S&P 500 -11.9%	S&P 500 -22.1%	S&P 500 28.7%	Large Growth 6.3%	HY Bonds 2.7%	Large Growth 9.1%	Large Value -0.2%	Small Growth -38.5%	Large Value 19.7%	EAFE 7.8%	Small Value -5.5%	Small Growth 14.6%	Int. Treas. -1.3%	HY Bonds 2.5%	HY Bonds -4.5%	Small Cap -1.5%
	Int. Treas. 8.2%	Core Bonds -2.9%	EAFE 11.6%	Int. Treas. 4.0%	EAFE 2.1%	Small Value -6.5%	Core Bonds -0.8%	Small Growth -22.4%	Large Growth -20.4%	Large Growth -27.9%	Core Bonds 4.1%	Core Bonds 4.3%	Core Bonds 2.4%	Core Bonds 4.3%	Small Cap -1.6%	EAFE -43.4%	Core Bonds 5.9%	Core Bonds 6.5%	EAFE -12.1%	Core Bonds 4.2%	Core Bonds -2.0%	EM -2.2%	Small Value -7.5%	EAFE -3.0%
	Large Growth 2.9%	EM -7.3%	EM -5.2%	Core Bonds 3.6%	EM -11.6%	EM -25.3%	Small Value -1.5%	EM -30.6%	EAFE -21.2%	Small Growth -30.3%	Int. Treas. 2.1%	Int. Treas. 2.0%	Int. Treas. 1.6%	Int. Treas. 3.5%	Small Value -9.8%	EM -53.3%	Int. Treas. -1.4%	Int. Treas. 5.3%	EM -18.4%	Int. Treas. 1.7%	EM -2.6%	EAFE -4.9%	EM -14.9%	Small Growth -4.7%

- With interest rates at record lows, a large allocation to passive interest bearing instruments such as government bonds will lock in and ensure very low returns. It is essential to add new asset categories and broader choices to the fixed income platform to produce real returns. This is why the RPB has added products such as Unconstrained Bonds and Master Limited Partnerships to its fixed income platform.

- Our focus must be on long periods. History shows us that no one can forecast what asset category or what market will do well in any one year (see the above chart known as "the quilt chart"). Rather, we must look at returns over periods of five, ten and twenty years to see how we are doing.

The revisions made to the RPB plan in 2013 were designed to make our investments goal driven, rather than asset driven. Instead of offering our participants stocks and bonds in some proportion, we began to offer growth and low risk, again, in a proportion selected by each participant. Has the plan worked out as desired? As the old saying goes, man plans and God laughs. The market has thrown some curves at us, and in particular, some of the newly added asset classes have performed poorly over this short

period. Does that invalidate our reasoning and our process? I would say it is far too early to say that. We believe that the reasoning behind the plan is rigorous and sound, that the execution has been well thought out and managed, and that over time, we should meet our goals.

Participant Questions and Answers

Q: Under the old investment plan, we could put as much as 80% into equities and 0% into bonds if we so chose. That served our family extremely well for years. Now the most aggressive fund choice has only 60% in equities and requires that we have 40% in bonds. We do not want to have any bonds in our portfolio at all, as we believe that rates are so low, that when they do go up the value of that 40% of our portfolio will plummet. We don't want to take that risk. Won't you please offer the option to have a higher percentage of equities and no bonds?

A: Under the new plan, participants can allocate their accounts across each of the four funds we offer in any percent they choose (A chart of the RPB's four funds broken down by how each is invested can be accessed here: Investment Managers by Asset Class.) There are no restrictions, other than those who are under age 60 may not invest more than 80% of their account in the Capital Preservation Fund. Allocation changes can be made monthly by logging onto their InfoExpress account, accessible from the RPB website.

Having said that, because of the makeup of the four funds, you are currently not able to be solely in equities or bonds. The investment structure put in place over three years ago was designed to help our participants focus on their objectives, not what particular assets they are invested in. So for earlier stage savers or those seeking the potential for greater returns, we created the Capital Appreciation Fund. This fund is primarily invested in global equities at almost 80% of the fund. But it is also invested in higher volatility income-producing assets like high yield bonds, convertible bonds, MLPs and REITs. These types of assets provide for additional diversification over just holding equities, and also slightly dampen the volatility of an all-equity portfolio.

On the lower end of the volatility scale, we offer the Income Focused Fund. This fund is comprised mostly of bonds, at 83% of the fund. But it also invests in dividend-paying equities, as well as MLPs and commodities. These non-traditional investments in a fixed income portfolio also provide for additional diversification over a strictly bond-only type fund.

We also offer the Appreciation and Income Fund, which is 60% of the Capital Appreciation Fund and 40% of the Income Focused Fund as a simple choice for those looking for a balanced option. And finally the Capital Preservation Fund, the least volatile choice for those who are most concerned about a permanent loss of capital.

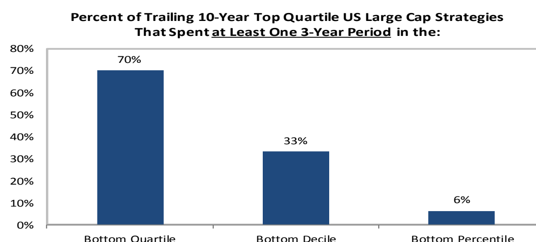
Those seeking growth, who might have chosen 100% equities under the old system, should now be choosing 100% Capital Appreciation. The upside is similar, but with greater diversification and better downside protection.

Q: Why were the returns in 2014 and 2015 so disappointing? The S&P 500 grew by 13.7% in 2014 and by 1.4% in 2015, but the return on the Capital Appreciation fund was negative. What gives?

A: There are four main reasons. The first is the strength of the U.S. dollar over the time period. As this currency went up, the value of investments held in other currencies such as Euro, Yen or British Pound went down. The reasons for the strength in the U.S. dollar are complex and far beyond the scope of this conversation, but we are now seeing a reversal, and other currencies are gaining ground. This is one reason why, in the first quarter of 2016, Emerging Markets had a return of 5.7%, leading all asset categories. In 2015, Emerging Markets was the worst category with a return of -14.9%.

The second reason behind the poor returns in 2014 and 2015 was the continuing collapse of interest rates. For the first time ever, we saw government bonds trade at negative interest rates; by the end of 2015 there were, worldwide, over $7 trillion of government bonds yielding less than zero. This development is absolutely unprecedented and thus unanticipated. Not surprisingly, bonds returned less than 1% in 2015, and, caught in a flight to safety, high yield bonds returned -4.5%. I am happy to say, however, that this trend has started to reverse. High yield bonds returned positive 3.4% in the first quarter of 2016.

The third reason is that investment styles go in and out of fashion. Our managers have a bias towards value investing (Value investors actively seeks the stocks of companies that they believe the market has undervalued.), and this style has underperformed in the last few years. However, it is important to understand that even great managers always have periods in which they trail the market. Take a look at this graph:



If you look at U.S. managers in the 25% of all managers over ten years, a good long period, 70% of them spent at least one three-year period in the bottom rank, and fully one third of them ranked in the bottom 10% of all managers for at least three years. Looking at managers and returns for any short time period is a mug's game. Ten years is a reasonable minimum. That being so, I would note that value is making a comeback as seen in our recent results.

Reform Pension Board
Participant Video Conference Call
April 28, 2016
Questions & Answers

Finally, the tremendous drop in price in oil and other commodities since 2014 affected all funds except the Capital Preservation Fund. The addition of Master Limited Partnerships and Commodities to the portfolio was intended to add exposure to real assets in a time of low interest rates both as a diversifier and yield enhancer. The very weak prices have worked against this strategy in the short term, but in the long term, we believe they are a worthwhile addition.

Q: Why do we have active managers? Many studies have shown that investing in a low cost index by way of an Exchange Trade Fund or low cost mutual fund gives higher returns than almost all managers. Why shouldn't we just go passive?

A: Over the past ten years, we can demonstrate that our current managers have added at approximately $53.3 million of value for our participants, net of fees. Below is a chart of all our current managers and the amount they've earned (or lost) for us, net of fees, compared with their respective benchmarks since we've owned each of them.

Net of Fee RPB Current Manager Value Add
(Through March 31, 2016)

Manager	Asset Class	Benchmark	Inception Date	Since Inception Cumulative Value Add ($000's) (1)	Annualized Manager Since Inception Return	Annualized Benchmark Since Inception Return	Annualized Performance Versus Benchmark
Active Equity Managers							
Eagle	US Large Cap Value	Russell 1000 Value	Aug-08	$ 26,287	11.13%	7.63%	3.50%
Northern Trust	US Multi-cap Dividend Focus	Russell 3000	Aug-12	$ (6,690)	12.14%	13.83%	-1.69%
Brown	US Large Cap Growth	Russell 1000 Growth	Apr-12	$ (7,461)	9.49%	12.72%	-3.23%
Pinnacle	US SMID Cap Core	Russell 2500	Dec-11	$ 1,017	13.68%	12.82%	0.86%
Artisan	Int'l Developed Large Cap Value	MSCI EAFE Value (net)	Feb-11	$ 13,808	7.76%	0.80%	6.96%
Gryphon	Int'l Developed Large Cap Growth	MSCI EAFE Growth (net)	Jun-12	$ (4,128)	7.86%	9.50%	-1.64%
Highclere	Int'l Developed Small Cap Core	S&P EPAC $2 Billion - $10 Billion USD	Dec-11	$ 2,649	8.03%	7.38%	0.65%
Walter Scott	Global Developed Equity	MSCI World	Sep-05	$ 6,191	6.76%	5.22%	1.54%
Brandes	Emerging Market Equity	MSCI Emerging Markets	Apr-06	$ 9,923	5.22%	3.02%	2.20%
		Subtotal Active Equity Managers		**$ 41,597**			
Active Fixed Income Managers							
IR&M Core Bond	Core Fixed Income	Barclays Aggregate	Sep-10	$ 4,190	3.93%	3.23%	0.70%
Colchester	Int'l Sovereign Bond	Citigroup World Government Bond	Jul-09	$ 6,044	3.95%	2.33%	1.62%
Loomis Sayles	Int'l Credit Bond	Barclays Global Aggregate	Jul-09	$ 5,156	3.59%	3.13%	0.46%
Shenkman High Yield	US High Yield Bond	BofA Merrill Lynch US High Yield, BB-B Rated	Sep-03	$ (4,740)	6.21%	7.11%	-0.90%
Shenkman Convertible	Convertible Bonds	BofA ML All Convertibles ex Mandatory	Feb-13	$ (4,157)	3.81%	7.15%	-3.34%
		Subtotal Active Fixed Income Managers		**$ 6,492**			
Active Other Asset Managers							
Harvest	MLP	Alerian MLP	Oct-13	$ 3,406	-8.76%	-12.66%	3.90%
Gresham	Commodities	Bloomberg Commodity Total Return	Jul-13	$ 1,762	-15.14%	-15.25%	0.11%
		Subtotal Active Other Managers		**$ 5,168**			
		TOTAL ALL ACTIVE MANAGERS		**$ 53,257**			
Passive Managers(2)							
Vanguard	US Large Cap Core	S&P 500	May-99	$ 5,082	4.58%	4.56%	0.02%
Vanguard	REITs	MSCI REIT	Apr-12	$ (1,904)	11.48%	11.56%	-0.08%
IR&M TIPS(3)	US TIPS	Barclays Treasury Inflation Notes 1-10 Yr	Feb-13	$ 37	-0.52%	-0.52%	0.00%
Other(4)							
BlackRock	Unconstrained Bonds	Libor + 300 bps	Apr-14	$ (1,887)	0.66%	3.22%	-2.56%
Goldman Sachs	Stable Value	Ryan 3 Year GIC Master	Jul-05	$ (5,445)	2.52%	2.80%	-0.28%

(1) After investment management fees
(2) Passive investments may not be equal to their respective benchmarks due to fees, tracking error or timing
(3) Mostly passive investments
(4) These are managers for which an investible benchmark does not exist and are therefore excluded from the analysis. The benchmarks presented and included in RPB's overall investment performance figures are one of many statistics used to judge performance of these two managers

This is not a small sum, and an approach not to be jettisoned due to short-term concerns.

Now here is some additional background on this question. One of the great debates in economics centers on the Efficient Market Hypothesis, or EMH. The theory says that in a modern economy, with fast dissemination of news, everybody has access to the same information at the same time, and therefore, all stocks and all markets will behave efficiently, that is, correctly priced at all times. If this is true, it is futile and expensive to try and beat the market. Indeed, there is abundant empirical evidence to suggest that most managers don't beat their benchmarks. So why are we beating our heads against the wall of both theory and evidence?

Two reasons. Most of these studies have considered retail funds. Institutional funds and institutional managers (which the RPB invests with) are generally not available to the public and are much less studied. The lack of daily pricing for institutional funds, another subject we will discuss in a few minutes, makes comparison to the market indices difficult, so researchers leave these products alone. We have found and can demonstrate that active investment has added value over time, both due to good asset allocation and due to good manager selection. I should note that our actual costs of active management are about half of that of the average active retail fund, and not significantly higher than that seen in most passive mutual funds.

The second reason is that among believers in the Efficient Market Hypothesis, even its most ardent supporters concede that while all markets are efficient, some are more efficient than others. The U.S. equity market, the largest in the world, probably is the most efficient, and we have used a passive index for part of our allocation to this market. Other markets are smaller, less widely followed and generally considered to be less efficient. The opportunity for an active manager to add value is more evident. For this reason we use a mix of active and passive investments. A subject that the Investment Committee is considering is whether to change the mix towards a more passive approach.

Q: Another question. Okay, the RPB may believe that active investing works, but I don't. Why not give me the choice of selecting passive funds for my account? Or at least other choices?

A: This is a really excellent question. Our Board Chair, Len Teitelbaum, has directed the Investment Committee to study this and determine how we can responsibly offer more choice for those participants who want it. This topic is on the agenda for the May 11th Investment Committee meeting. It is important to note that this goes to the very heart of what the RPB has been, and is, over its history. This would be a significant change for us, but one that we are taking seriously.

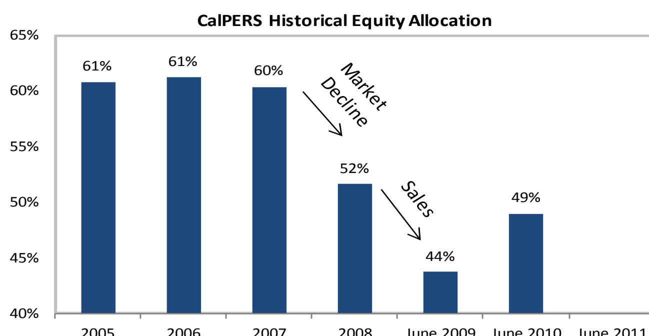
In the world of Defined Contribution pension plans, which is what the RPB is, the plan sponsors can choose to be very hands off, or to one extent or another, direct the participants to what it believes are sound, appropriate choices. The RPB has always chosen the latter path. Rabbis, Jewish educators and other participants in our plan are busy people. Many are not highly educated in economics, finance or investing, and many are much happier to leave the driving to others. I say many, but of course, not all.

Reform Pension Board

Reform Pension Board
Participant Video Conference Call
April 28, 2016
Questions & Answers

There are in our view two good reasons to adopt a directed approach. The more important is behavioral. Study after study has shown that actual investors in mutual funds and exchange traded funds have returns that are much lower than the funds themselves. In 2015, the passive S&P 500 index fund returned about 13.5%, but actual investors in these products had a return on average of only about 5.5%. How is that possible? Quite simply, investors consistently buy high and sell low. When the market is doing poorly, investors sell their equity funds and seek refuge in something considered to be safer. When markets improve, they are hesitant to switch back into equities, waiting for confirmation that the water is safe again. As a result, they are late to the party, coming back in after much of the gains have been realized.

Take a look at the behavior of one of the largest and most sophisticated investors in the world, the California Pensions Retirement System. During the crisis of 2008/09, in the face of very scary market declines, CalPERS sold off equities, clearly at or near the bottom of the market, locking in its losses.



Obviously this illustrates that institutional managers are human too, and subject to the same fears and impulses as individuals. However, in most cases we try to choose managers that are constrained by their mandates, and do not attempt to time the market. If the mandate is to hold stocks, they hold stocks, and don't jump in and out. They are much less subject to the failed market timing that characterizes individuals. This alone makes their returns much better. And we as a Board are very conscious of the impossibility of market timing and try our hardest to avoid falling into this trap.

The second reason has to do with asset allocation. Modern Portfolio Theory, demonstrated in 1952 by Nobel Prize winner Harry Markowitz, relies on investors allocating assets to a variety of different investments. It is the very basis of what all professional financial consultants, such as Summit, recommend. Most individual investors, if offered a menu of passive investments, will not optimize their asset allocation, even if they choose to try. They most likely will under-diversify, leading to lumpy returns, undue risk and likely lower returns over time. If the RPB chose a hands-off, non-directed style, this would, of course, not be an issue. But that is not what we have historically chosen to do.

While we think that the use of highly sophisticated professionals gives our participants better returns over time than they might achieve by themselves, as we've said we are open to other models and will be specifically discussing how to offer more choice at our upcoming Investment Committee meeting on May 11.

Q: Why can't I see how my RPB account is doing each day? Everyone else seems to be doing it this way, including my other investment account providers. I'd like this for my RPB account too.

A: We have heard you loud and clear, and are committed to finding out how we can provide you with daily account information, and to do so if we can. Changing from a plan that is valued monthly to one that is valued daily represents a fundamental shift for us, and so we want to be sure we are considering this carefully. In fact, we have already begun conversations with our outside vendors to understand the implications of this kind of change, as well as begun assessing which managers for which we'd need to find suitable replacements. This topic is on the short list of items we will be discussing at our upcoming Investment Committee meeting on May 11.

Q: Why does it take so long, sometimes 3 or 4 weeks after the end of the month to get my monthly report?

A: A few of the managers we invest with don't report their monthly results until the 8th or 10th business day after the close of the month. Once we've received all the managers' results, only then can our custodial bank and record keeper perform all their required steps to reconcile balances and update each participant's account, which takes a few extra business days to complete. Part of our analysis of being able to provide daily updates to participant accounts is to figure out how to change this timeline that currently takes weeks to one that takes just hours.

Q: I also have another investment account and receive a very transparent and clear statement. Why can't RPB issue more transparent reports or provide online access showing us personal monthly, quarterly and annual returns?

A: We will be able to provide access to enhanced functionality, including personal rates of return over various time periods once our record keeper, ABG, completes its systems integration with the company they merged with, Alerus, later this summer or early fall.

Q: And what about over the lifetime of the account? How are we supposed to determine what our returns have been?

A: We maintain everyone's account in a manner that accurately reflects all activity going back to the beginning of their time with the RPB. However, we will eventually only be able to provide personal lifetime-to-date returns only for those that first joined the plan beginning in 2005. For those that joined

the plan prior to 2005, we will be unable to do so because we just do not have the raw data that is required to calculate lifetime-to-date personal returns going further back.

Q: I would like to see how each fund is invested and the performance of each manager within the fund.

A: First, today we already provide details of how each fund is invested on our website. It can be accessed at: RPB-Investment-Managers-by-Asset-Class-Chart-March-2016.pdf. However, we are absolutely committed to being as transparent as possible, sharing as much as we can with everyone about the portfolio, including its investments, returns, and other relevant performance metrics. We are evaluating how we will accomplish this, including how this impacts the requirements for a new website, which is also in the works. We will need some time to work on this because it involves a lot of moving parts. We will let everyone know what to expect, and by when, as plans begin to fall more into place.

Q: Can you tell us all the yearly expenses associated with the RPB?

A: The annual fees associated with the RPB are broken down into a few categories, including investment management, administration, and custody, record keeping and investment consulting. They are expressed in basis points, where one basis point is one hundredth of one percent. This equates to an annual fee of one dollar for each $10,000 invested in the plan. What a participant is charged annually will ultimately depend on the total amount of money invested with the plan, as well as how that money is invested across the four funds (see below).

The investment management fee is the annual fee each manager charges us to invest with them. At the fund level, for the calendar year that ended in 2015, they are as follows:

Capital Appreciation Fund	68 basis points
Appreciation and Income Fund	57 basis points
Income Focused Fund	39 basis points
Capital Preservation Fund	38 basis points

The administration fee, which is 20 basis points annually, is the annual fee we charge to operate the RPB. This covers things you might not realize, such as the basic life insurance subsidy, the pension continuance insurance subsidy, and Ceridian financial counseling services, in addition to the things you would, including staff salaries, rent, office supplies, etc.

The third type are the custody, record keeping, and investment consulting fees, which are 6 basis points annually. These are the costs related to paying our outside vendors to keep track of all the money coming in and going out, and track each participant’s account in detail. It also covers the professional advice we receive from Summit Strategies, our outside investment consultant, on investment allocation, manager selection, analytics and reporting services.

The investment management fees are deducted directly from returns by each manager, while the other fees are charged by the RPB directly to your account.

Finally, you should know that we have benchmarked our administrative, custodial, record keeping and investment consulting fees and that they are very competitive for a plan like ours.

Q: How often are the portfolios rebalanced? If allocations are changed by a participant, how long does it take for this to go into effect in the new month?

A: Rebalancing happens in three ways. First is at the fund level. Each manager within each fund has a target allocation. Each month, after we receive a lot of information including the previous month's investment returns, the distributions made to, and contributions received from participants, as well as the allocation changes submitted by participants, we will execute trades to bring each manager back to their respective target.

The second and third are at the participant level. Participants are able to change their allocation across each of the four funds each month. That change takes effect the first of the following month.

The third type of rebalancing happens once per quarter only for those participants invested in more than one fund. If a participant's account goes out of balance across the funds invested in by more than 50 basis points because of investment gains or losses that occurred during the quarter, we automatically rebalance back to that participant's target allocation across funds.

Q: In retirement, what is the most common asset allocation for retirees that participate in the plan?

A: I know this may come across as a non-answer, but there is no one "most common" asset allocation for retirees. Only each person knows what other non-RPB resources they have and also what their appetite for volatility is for the RPB assets, and therefore, there really is no one standard way to allocate. What I can say factually is that approximately 13% of retiree money is invested in the Capital Appreciation Fund, 54% is in the Appreciation & Income Fund, 21% is in the Income Focused Fund, and 12% is in the Capital Preservation Fund.

Q: I find RPB InfoExpress to be cumbersome and not user-friendly. Information is very limited. Is another platform being considered?

A: We are going to be working with Alerus, the company that took over ABG, once their systems are integrated later this summer or fall to see how we can make the platform more user-friendly and intuitive, including providing additional reports, breakdowns and analyses tailored to you.

Reform Pension Board
Participant Video Conference Call
April 28, 2016
Questions & Answers

Q: Will RPB follow the same slightly confusing system re "Parsonage," in which we declare up to 100% then change it as we figure out the actual numbers?

A: Our goal is to protect you, and we are in the process of reviewing the procedures for retirees to declare parsonage and will share with everyone the changes once they are finalized.

Q: Is there some way to shorten the time from making a withdrawal request to having a check sent out?

A: We process distributions once per month and are in the process of establishing firm deadlines to ensure all checks are processed accurately and timely. As we work out these administrative matters, we will let you know.

Q: Can we have the ability to make tax sheltered contributions to our own retirement plan?

A: Any person has the ability to establish an Individual Retirement Account (IRA) and make contributions to it on a tax sheltered basis, subject to IRS limits. Your participation in the RPB does not limit your ability to do this. Please note that the IRS establishes separate limits for IRAs and qualified retirement plans like 403(b)s, which is what the RPB is.

Q: For those of us who do not feel comfortable putting all of our pension money in "one basket" (even a diversified one): Is it possible to take some of our pension money out of the RPB fund prior to retirement? Is there a penalty for doing so? Is it possible to roll over the funds from the RPB into another retirement plan?

A: The rules regarding distributions are provided by a combination of IRS regulations and the RPB plan, and are different depending upon your age and work status. While all the details regarding distributions can be found on our website at: http://rpb.org/programs-services/pension/403b-2/, below are the basics behind how work status and age affect distributions:

For those under 55, you may withdraw all or a portion of your account after a one-year waiting period in which you no longer work for an eligible employer as defined in the RPB plan document. For most people, this is a URJ congregation. Penalties might apply if you take a direct distribution where we cut you a check that is deposited into your bank account. A rollover to another qualified retirement plan like an IRA will not incur a penalty.

If you are between the ages of 55 and 59 ½, you can take all or a portion of your account with no waiting period once you no longer work for an eligible employer. However, if you claim early retirement you might be able to take a direct distribution without penalty. Again, rollovers to another qualified retirement plan will not incur a penalty.

And once you reach 59 ½, there are neither employment nor waiting period restrictions. This means that you can take a direct distribution, roll over some or all of your account to another qualified retirement plan while you are still working or even purchase an annuity. And no matter what, no penalties will be incurred.

Lastly, for those with money in the Rabbi Trust deferred compensation plan, you should know that these funds cannot be rolled over or taken out early under any circumstances, as dictated by IRS regulations. These funds can only be distributed to you directly when you retire and turn at least 65. Please contact the RPB office for additional details.

Q: I have seen my assets continue to dwindle as I come nearer and nearer to retirement. Why does the RPB not offer fixed annuities and other such investment options? Why only stocks and bonds?

A: The RPB already offers the Capital Preservation Fund for participants of any age and work status that are less prone taking the inherent risks associated with investing in stocks and bonds. (Note stocks and bonds are the predominant type of assets included in all of the current fund offerings *except* for the Capital Preservation Fund). This fund is structured to preserve the principal balance of its assets. The fund has a relatively low rate of return and corresponding level of risk. It is appropriate for participants who are seeking to only maintain their principal balance and may have a shorter time horizon.

In addition, those participants who have reached the age of 59 ½ regardless of work status are eligible to use RPB assets to purchase an institutionally priced annuity from MetLife through the RPB, or from any other provider they choose (see question above for additional distribution rules).

We strongly encourage you speak with an investment advisor before purchasing an annuity to be sure it is appropriate for your circumstances. And you can contact the RPB office to request additional information on MetLife's program.

Q: How has the new Socially Responsible Investing/Jewish Values Investing policy been and/or is being implemented?

A: There is too much to discuss and is too important to address in a Q&A format such as this. We plan to focus a future participant conference call on this subject.