Lower Saucon Township
Pension Advisory Committee Meeting
Meeting Minutes March 8, 2023

Roll Call: Present –John Herb, Morgan Stanley; Joe Scott, PSAB, Jared Gunshore; Jonathan Mull; Jason Banonis, President of Council; Cathy Gorman, Asst Mgr./Dir. of Finance

Meeting opening 11:03

Missing: Brian Courtney, Molly Bender, Mark Hudson

1) PSAB – Joe Scott – nothing to report

2) Morgan Stanley – John Herb - So, and some of the issues that will be faced then I'll go over performance for the portfolio and asset allocation. 2022 was the perfect storm for broad capital markets with both equity and fixed income markets suffering historical losses. In spite of an accute rebound of 7.55%, the S&P ended the year down negative 18.1%. This is the worst year for the S&P 500 since the great financial crises when it was down negative 38%. The themes for the year were value out performing growth with the Russell 1000 value coming in at negative 7.54 versus the Russell 1000 growth down negative 29.14. Large capital performing small capital with the Russell 2000 down negative 20.44. International markets are performing domestic markets with the EFA down negative 14.45%. Energy was the dominate sector for the second year in a row, up 65.7% for the year. The hardest hit sectors were consumer discretionary, technology, consumer services. The more growth-oriented sectors down negative 37%, negative 28.2% and negative 39.9%. While the more defensive sectors, healthcare, consumer staples and utilities held up better with down negative 2%, negative 0.6%, and Utilities up 1.6%. 2022 started rapid increase in interest rates. The 10-year started off at 1.5%, peaked at 4.25% in October and ended the year at 3.88%. Started going back, in recently it started going back up after some of the recent jobs data and economic data has led the fed to indicate that they're going to leave rates higher for longer. And as of yesterdays close, the 10 year was sitting at 3.96%. As you all know as rates go up, prices go down. And unfortunately, in the last year was the worst year in modern history for fixed income portfolios with the BC Aggregate down negative 13.01% and the BC Government intermediate credit down negative 8.23% and the Merrill Lynch Treasuries 1 to 3 down negative 3.65%. So, what's impacted the markets last year it was the perfect storm for negative returns from both equity and fixed income markets. It's very unusual for both equity and fixed income markets to be negative at the same time. The interest rate environment has continued to weigh on markets as the Fed has aggressively raised interest rates. Quantitative tightening has further tightened the economy and put more pressure on markets. Inflation hit a 40 year high this past summer, and while it has been going down, it still remains a significant issue for the economy and while the economy is slowing, but it's not yet in recession as indicated by the recent jobs data. The next potential shoe to drop is corporate earnings, as recent corporate earnings have become to disappoint and earnings estimates beginning to come down. I'll touch on a couple of these issues in a little bit more detail. The fed raised interest rates 7 times in 2022. 25-basis points in February. It originally was thought that it would only be another 25-basis point rise in March, and that they made pause in May. But the comments made by the chairmen of the Fed yesterday made us, led us to believe that probably raise interest rates as much as 50 faces points in March, and possible again in May another 25 – 50 basis points, bringing the terminal fed funds rate well above 5% when the hiking cycle is done. Overall inflation peaked in the summer and has continued to decline. Certain aspects of the inflation have proven stubborn namely shelter and service inflation. Corn inflation not including food and energy will be challenging and take time to reduce and this is going to cause an environment of slower economic growth and higher inflation for the foreseeable future. I just want to emphasize or illustrate the volatility that we encountered last year. So, what this chart is showing is, despite inter-year drops of 14%, annual returns were positive out of 32 out of the last 42 years but last year the largest drop was down 25% ended the year down negative 19%. Well below the typical

average market experience for equities. Turning to the next page, I'll just further illustrate this, this chart shows the number of days where markets were down more than 1%. Last year was the third highest since 1993 with 65 days where the SNP 500 was down more than 1%. Turning to the next page, page 10. Unfortunately, this unprecedent volatility was not limited to just equity markets, fixed income, had historical volatility. This chart is just showing that despite intra year drops of 3.3%, annual returns are typically positive for fixed income markets 42 out of the last 47 years. Last year, they were down as much as negative 17% and ended the year down negative 13%. Creating as I said earlier the perfect storm for both equity and fixed markets and creating a very challenging year for your typical 60-40 portfolio. I'll just bring you up to speed with where we are. This is where we were as of last Fridays close. After significant rally that began in October of last year, we began to see a slight pull back but are still up for the year. With the S&P 500 up 5.68% as of Friday, it was up as much of 4.15% as of yesterday's close, and the MSCI EAFE up 5.77% here today.

The portfolio was down negative 13.13%. Held up well given the volatility of the market as I just highlighted. With the median return for the balance portfolio was down significantly more; negative 15.51%. As of Monday, the portfolio was up 4.56% year to date. So, the portfolio is performing well, given the volatility that we are encountering in the markets. We ended Q4 with assets of 334,769,000. We remained very well diversified from both the style and inactive verse passive allocation with 13.4% in large cap core, 14.42% in large cap value, 10.96% in growth, 2.89% in small value, 3.05% in mid-small core, and 0.58% in mid-small growth, 14.76% in international, 28.2% in fixed, 9.15% in real estate, 2.61% in cash. That real estate allocation was a very important factor in the portfolio's performance last year. It was the source of positive returns last year. The real estate portfolio was up approximately 8% last year, so that allocation helped tremendously in helping the portfolio withstand the volatility of the markets. I just want to as a reminder, there's a comprehensive review process that we go through to ensure the integrity of the portfolio and this highlights that. That concludes my remarks, and I will be happy to take any questions at this time.

3) AG 385 Filing- The next item on the agenda is the AG 385 Filings. I just want the committee to know that we filed them on time, um Mr. Werley and I worked together to get the filing done, so we should be in compliance there.

4) Financial Reports – Financial reports to date, we have deposited $48,966.37 into the non-uniform plan, and $123,572.44 to the uniform plan. That is relative from the last reporting from December of 2022 to February of 2023. But once again we're reimbursing the plan all the administrative fees and we're paying our MMO on a monthly basis.

5) Notices to vested Non-Uniform prior employees - We are required to notify any prior employee who is vested but did not or was not able to take their benefit with them when they left. We advised them that they still have a benefit in place here. I have to do that notice every year; we have a few employees so they were all notified.

6) PA State Audit Notice - Number 6, for the pension State audit, we haven't been audited in a while and we received notification last week that they will be starting a 4-year audit from 2018-2022. I'm in the process of gathering all that information for them. I will update everyone in June, I'm sure she'll be done by then, and I'll let you know the results. Joe said please let me know if there is anything I can send to you regarding that as well. Cathy said thank you. I think that Doug had already sent Janett the financial statements that she needed, the transactions. So, he was on top of that right away. Joe said Okay, okay, thanks.

7) COLAs- Colas, we do not have any, most of our officers are at the 30% max. We only have a few officers that are not prior officers that are not there yet and that should be coming towards the fall.

8) Personnel – As for personnel, Mr. Keller did retire at the end of January. We hired 2 new public works people and they will be added to the rosters. And for the police plan, we have received notification that officer Bredbenner is retiring effective March 16th, so, we have those announcements in the minutes

9) Settlement Filings We do not have any settlement fillings.

10) Approval of Minutes Attached are the minutes from last meeting if everyone is in agreement, I can post them on the website. And that would set our next agenda for June 14. Not much going on with the plan so far today, but we do have our act 205 this year, so, that information, June and September's meetings will be more financially based as how to plans worked over the last 2 years. And if that's it, very quick meeting, and if there's nothing else, we can adjourn.

11) Adjournment

11:33 ended.

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