Lower Saucon Township
Pension Advisory Committee Meeting
Meeting Minutes March 9, 2022

Roll Call: Present –Jeff Herb and John Jolls, Morgan Stanley, Joe Scott, PSAB, Jonathan Moll, Brian Courtney, Molly Bender, Officer Jared Gunshore, Jason Banonis, Council liaison, Cathy Gorman Director of Finance

Meeting opening 11:02 VIA Zoom

1) Morgan Stanley – Jeff Herb presented the March 2022 PSAB MRT report. Looking at broad asset classes ended the year at record highs for the US Market. We hit 70 record highs over 2021. The S&P 500 ended at 28.7% for the year no matter what asset class you looked at; from an equity stand point you saw very strong returns. The theme last year was domestic stocks. S&P out performed international stocks. Large cap stocks outperformed small cap stocks. Small stocks, Russell 2000 up 14.82%. Value and growth were a push; value slightly outperforming growth last year.. We continue to see strong economic activity although the economy seems to have peaked. We see signs that the US economy is slowing. We have been in an environment with strong corporate earnings. Companies have exceeded expectations in the fourth quarter. We are seeing signs that corporate earnings have peaked and beginning to slow. The Federal Reserve has been very accommodating with the interest rates and quantitative easing. That will change. No matter where you looked in the equity market; very strong returns. Fixed Income and Bonds were challenging. Interest rates rise, bond prices decline in value. We started in 2020 with a 10-year treasury at .93 and we ended at 1.5 – 2 percent. Fixed income was a challenge. The overall BC bond aggregate was down 1.5%, Intermediate bonds down 1.44% and short bonds down 55 basis points. Cash and money market funds basically 0% returns. The markets are adjusting to the announcement of the Federal Reserve raising interest rates and eliminating quantitative easing. Back in March of 2020, in the midst of the pandemic, the Federal Reserve introduced quantitative easing to provide stability and help stimulate growth. They were purchasing 80 billion a month in treasuries and 40 billion a month of mortgage backed securities. They were pumping into the fixed income market 120 billion dollars a month in liquidity. They announced in December that they were reducing purchases and eliminating purchases by March. They also announced that they will be raising interest rates. The markets have been adjusting to the elimination of quantitative easing and tightening financial conditions.

   In 2021 all sectors saw very strong returns; energy, financial services, technology, RETs dominated. Particularly energy up 55%. We are seeing a rebound in energy in 2022. These are broad dominate sectors from last year.

   The market bottomed in March of 2020; we have seen a significant rally in US Equities since that time. The market is up 113% at the end of the year. These returns are not sustainable. We will be in a much more challenging; lower return environment going forward. We ended the year at 21 times earnings for the US market. Typically, stocks trade at 15 to 16 times earnings. So, stocks are not at record highs; they are not inexpensive. The pull back because valuations have come down, but the stock prices are still high. Significant increase in inflation no matter where you look. Energy has been a primary driver of inflation. Seeing signs that inflation has peaked but energy and fuel prices are definitely going to be an issue. This is having a significant impact on the consumer. They are in better shape than a few years ago, however we see a decline in consumer confidence. Inflation is having a negative impact on consumer confidence. This will impact demand. On page nine the conditions of buying large household durable items have dropped off a cliff. They are at the lowest levels since before the 1980's. Significant increase in price is the reason. The consumer is pulling back. This will impact the growth of the US economy. With near record high levels for gas prices it will take a bite from the consumer like an added tax the consumer pays which impacts demand as well. On page 10, Feds are almost guaranteed to raise interest rates in March. The question is what is the speed and amount of the increases. We are looking at a minimum of 6 increases this year. What is happening in Russia, has potentially changed that number. At a minimum we are looking at 1% by year end, probably closed to 1.5%. We are looking at 4 maybe 6 rate increases this year. Maybe up to 9. We are looking at the speed, time and amount that they will raise rates. We though 50 basis points in March, but maybe 25 dues to what is happening in Russia and Ukraine. This is going to be dependent on the unemployment which continues to decline, GDP and inflation going forward.

As of Monday, there is no where to hide. All broad asset classes are down. The market S&P is down 8.94%, Intermediate Government bonds down 1.92%, Russell 2000 down 4.6%. As we sit here today, we are down about 9%. Value stocks out performing growth and domestic outperforming international. Emerging market has been one of the better classes. For setting expectations, this is going to be a more challenging environment.

Corporate America is in good shape. Earnings are slowing. The invasion has put increased pressure of gas prices; impacting growth and the consumer. No one knows what will happen, no one knows the outcome. The amount of economic sanctions placed on Russia is unprecedented. If you go through the past last 40 years the average return per year is 13% and in any one year there has been a 10% correction, which we are in the middle of now. Above average returns you have to put up with volatility.

Last year a good year for MRT, up 14.48%; 48.38 in equity, 14.88 in international, 26.71 in fixed, 6.33 in RETs and 3.7 in cash. We aim to provide consistent returns, reduced volatility and down side protection.

We are diversified by style; referred to page 13. We reduced small cap growth as we were closing out the year last year, that was beneficial for our return as it was the worst performing class. Harvesting gains out of that area was beneficial this year. We have no Russia exposure within the portfolio. The objective of the core real estate allocation is to provide income, provide stability of principal, the valuations of the properties are done quarterly, the potential capital appreciation, growth of the properties over time as well as providing an inflation hedge. Real estate continues to be beneficial. They invest in retail properties like office. Retail like grocery anchor malls, multifamily apartments, industrial properties and self-storage. MRT ended at $384,887,003 which is a record high. All the managers are diversified by style and specific for the MRT. We are allocated between active and passive (index). There are no changes in managers. Only the additional of another core real estate manager. Under fixed income we are over weight in short term and intermediate for when rates rise.

Jonathan asked if we are doing anything other than staying in short term to hedge. Jeff said there are no active hedges in any way. We need the liquidity. We are looking at increasing core real estate 10% to hedge against fixed income.

Jonathan asked about Crypto. He is not a big fan but wanted to have the discussion as there are some institutions looking at 1 to 2% to a balance allocation. How do you look at that? Jeff said that is something that cannot be done with the MRT as everything needs to be daily valued. In an overall portfolio, it is not something they are in favor of in any way. Until the FCC comes out with specific guidelines and regulations in that market addressing the volatility and use, he does not think it is appropriate in the portfolio. Jonathan agrees, he was just curious as to their position.

The MRT has a comprehensive oversight process. Reviewed by the trustees annually and approved annually. The investment policy is their road map. There is always a relationship between assets and cash flows. They are reviewed and rebalanced monthly as needed. Managers are reviewed. If there is a due diligence issue; they have no problems with removing managers. Updates are provided to the trustees quarterly. There is an ongoing oversight process. Jonathan asked on the growth side there is such a pull back, is it a systematic process to rebalance? Jeff said that is right, it is not something that happens like a flick of a switch. They put their thought process in it looking at it as a valuation stand point. It may not be the appropriate time to pull back, they are willing to keep a tilt on the portfolio given where we are on an economic stand point. The key is that it is not automatic; there is a thought process that goes into rebalancing on a monthly or quarterly basis.

2) PSAB MRT – Joe has no updates. Happy they are being quiet at the Capital.

3) Act 205 - Cathy provided copies from our actuary and they have been submitted as well as the AG 385's which is used to calculate our state aid

4) Act 44 - Our website is updated with the consultants' current filings.

5) Financial Reports - Reports show 2021 the Township contributed $159,093.27 in the Non-Uniform plan and $535,756.88 in the Uniform plan. So far year to date in 2022 $34,223.89 has been deposited in the Non- Uniform plan and $82,799.55 in the Uniform plan. And we are continuing with the monthly payments for the MMO's

6) Notices Non-Uniform - Confirmed that notices of benefits retained for non-uniform employees no longer working for the Township have been mailed. Vested benefits are here and they need tell us if they move,

7) Police Plan - Two of our uniformed retirees have passed away. Ron Jones passed away on November 8, 2021 and his spouse shortly thereafter. We were also just notified that Gerry Young passed away on February 27, 2022. Our plan administrators have been notified.

8) COLAs- Glenn Williams is scheduled to get a 6.8% increase and at this point he is capped at the 30% and Mr. Koski is getting a 7.9% increase at the beginning of May and he is maxed out at the 30%.

9) Non-Uniform terminations – We are advising that Diane Palik retired on December 31st. We also have several terminations. Tracie Raven terminated quickly so her contributions were returned. Mrs. Huhn terminated as of February 25th. Her benefit calculations have been submitted and were sent to her for signature. Allie Leayman also left employment on February 16th. She is vested but not entitled to withdraw so we will be added to the vested non-uniform listing until she is eligible at 65.

10) Settlement filings – None.

We did not have a December meeting so the September meeting minutes are provided for review. We will have them posted on the website. The next meeting is scheduled for June 8th.

Meeting adjourned 11:39