

Roll Call: Present – Thomas Schatzman, Morgan Stanley, Chris Capp, PSAB, Molly Bender, Jonathan Mull, Officer Jared Gunshore, Leslie Huhn, Township Manager, Cathy Gorman, Director of Finance Committee Members 11:07

Absent: Jason Banonis, Vice President of Council and Brian Courtney

- 1) New Members - Cathy introduced Officer Jared Gunshore he will be replacing Sgt. Leidy for the representation of the Police Plan. And, as Leslie had mentioned before the start of the meeting, Jason Banonis has been appointed as our Council Liaison.
- 2) PSAB Update – Chris Capp the MRT –We maintained our continuity of operations. No litigation or regulatory violations to speak of. Our trustees met three times in the past year. We had double digit gains in 2020. We are up to 360 million in assets right now. We don't know what 2021 presents but we did deliver a good rate of return to our members. We are over 240 members right now across the Commonwealth. We continue to cater to that niche of 500,000 to 10 million in assets. Our partners are intact, there are no contractual disputes. By a municipal standpoint we are meeting most of the municipalities' assumption rates. There was some uncertainty in the 1st quarter. Sometimes it is not how you start the year but how you finish. There has been no turnover in our trustees. We are scheduled to meet in June. We did update our investment policy statement back in October, very mild changes. . The founding principles behind this trust; the objective was to pass on the fiduciary responsibility and to do our due diligence during the course of the enter year. A lot of governing bodies are not as active as you are; Lower Saucon since the start of our relationship, you do it the right way. You take good minutes I noticed over the years, you meet as a group, and your uniformed and non-uniformed employees as part of the committee. . Our audit is underway right now with Brown Schultz Sheridan and Fritz. We have had clean audits for years. Our audits are circulated out to each municipality that is part of the trust. We have a new Auditor General we will be starting to work with as they go out in the field and they do audit a number of accounts. We have no violations in many years. We stay in compliance with state aid allocations, the style of investing, the asset allocation formulas; this whole business is really built on disclosure. T J Anderson and Associates continues to do a lot of the administration, Tom and Jeff Herb continue to be a part of our team and they have a whole band of people behind them. The economists they hire, they provide a lot of financial insight and before we make a move we want to make sure we do our due diligence. . He said, Cathy and you know from when we started with Lower Saucon we always complimented you on your inclusion of members from the uniform and non-uniform plans and I will tell you in some cases it is just the appointed officials and maybe a Council member in the room. You are doing it right and I applaud you for that. Cathy said thank you and that representatives from PSAB have said that we were one of the most open committees.
- 3) Morgan Stanley – Tom Schatzman - One of the biggest questions we get is the economy is not great, unemployment is high, why is the stock market so happy? Right now it sees good things six months from now due to vaccinations and reopening. But as you will see in this chart it shows the amount of fiscal spending, this 1.9 trillion dollars that was just passed. It is part of a larger, almost 7 trillion dollars, COVID package, to put that into perspective; that is about 26% of our economy. The last time we spent along those lines was during World War II. So right now we are spending a little more than we did during World War II. That kind of liquidity and that kind of spending, is good for earnings. This is what a lot of clients are saying, this is truly is the helicopter money, the \$1400 checks, the \$600 checks, State and Local governments should get a nice amount of money in this. The other question we get is that this has to be inflationary. We are pushing back on that, we are saying a little bit which is terrible for bonds. We spent less in the 1970's but we had runaway

inflation. Those two peaks you see, the one is the oil embargo and this is wage pressure. We do not have wage pressure this time around. It is hard to have inflation when a lot of people are unemployed and do not have the income they once had. If we were going to have inflation gold should be doing much better. The best hedge against inflation is stocks especially companies with pricing power. The portfolio owns Caterpillar, John Deere, General Motors, companies like that that are really exposed to the economy. We are getting 100% rates of return from these companies over the last six or seven months. Something that we think is true is that this is not a continuation of the eleven year bull market. This is truly a new bull market. We had an incredible fast and damaging bear market. Our philosophy on managing pension assets, yes we want to get a good rate of return, yes we would love to beat the market, but the most important thing to us is in terms of portfolio construction is that we never sell anything at a loss to meet spending. We have a liability payment to make. We did not sell anything at a loss to meet pension payments. High quality bonds worked last year. We did not touch any stocks to meet spending. If we sold at a loss, we would not be able to recoup that loss. This is preliminary but since the low the MRT is up 33%. The big number is your 12 month rate of return from the bottom, up about 86 million dollars from just holding steady which was the most important thing to do. On page 13, we are not surprised about the 10 year Treasury is rising. There is no way it should have been 1.1%. It should be closer to 2.5%. This is a very strong correlation between companies exposed to the economy and economic activity and 10 year rates. Now we are at 1.6%. We do not own a 10 year Treasury. If we owned it we would have made a lot of money over the past few years but now we would lose it all as rates go back up so that speaks to positioning.

Page 17 goes through year end. 11.2% rate of return. A little behind the balance benchmark. What we do not see on this chart is the risk profile of the MRT. It is less risky than the overall market. You saw in Q1 of last year we were down 13.5% but the market was down 14.8%. We are taking less risk because we know those payments have to be made. On page 18, for asset allocation the top end of stocks are at 65%, we are right around 65% and the reason is that we are not rebalancing right away, we have done about 8 million dollars in rebalancing over the past quarter taking profits in stocks and adding it to fixed income because we are policy driven. The MRT is up 3% on a year to date basis. We think stocks will out swap bonds this year. We could be wrong but it would be hard to be with so much fiscal spending, almost 0% interest rates and an enormous reopening of our economy. When the vaccination roll out is done, maybe in June, people are going to go back to doing things that they used to do. We think it will overshoot on the upside.

Chris added that this team continues to review the managers. They will make sure they are in compliance within their contract with each provider. Whether they outperform or underperform and why. They are on top of it. If there are changes in managements, some of these companies are in other parts of the country so they may be acquired by an outside company, the CEO or CIO may be retiring, we want to make sure there is a succession plan in place. It is an important task, a lot of due diligence to make sure we are in compliance. These are the things we do discuss with the Oversight Committee. We always try to hedge against a down market. We want to make sure this plan is intact when the new officer retires in 25 years, when the non uniform person retires. We reached the benchmark and we want to make sure we are within those and we never know what will happen with state aid. Tom added that over 5 years we are around 8% in returns since mid-March. That should help your MMO.

4) Administration of the Plan

Last year we made the change of Thomas Anderson and Associates do a lot of the administrative day to day paperwork as it is billed to our plan and we were still retaining Municipal Finance Partners as our actuary. In the last year or eight months there has been some disconnect between the two we are trying to resolve those issues here but we did request an RFP for actuarial work so we

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can look at this next year. This year Municipal Finance Partners is doing our actuary work and our Act 205 filing. I just wanted to bring to the Committee's attention that we are still looking at that.

5) Short Term Disability eligibility

We did have a question of regarding this from an officer. There was some question regarding our ordinance and the disability provision. Our solicitor is reviewing the ordinance. Leslie said a grievance filed regarding this matter we should table this discussion. Cathy said whatever the result is we will bring that back.

6) Financial Report

The Non uniform plan the Township put in \$150,047.92 and the Police plan \$510,399.25 and \$27,166.90 Non Uniformed and \$89,144.73 for the Uniformed. For Jared, I wanted to let you know that we pay back the administrative fees into the plan and we pay the MMO's on a monthly basis.

7) COLA's

Mr. Koszi is entitled to a 1.4% COLA increase and Mr. Williams is entitled to a 1.3% increase. The COLA increases are based on the quarter of the CPI index when they retire. Most municipalities set it at the beginning of the year; we base it on when the officer retires.

8) Settlement filing

We do not have any settlement filings but we did received a Right to Know which was responded to and historically I have advised the Committee when I receive them. FIN News requested electronic investment reports.

Approval of the December minutes was moved Molly, seconded by Leslie.

Meeting set for June 9th at 11:00

Close meeting 11:38 AM