Roll Call: Present –Jeff Herb and John Jolls, Morgan Stanley; Joe Scott, PSAB, Chuck Friedlander, Municipal Finance Partners, Inc.; Office Jared Gunshore; Molly Bender; Cathy Gorman, Asst Mgr./Dir. of Finance; Mark Hudson, Township Manager, Mr. Mull arrived late

Not Present – Mr. Scott, Mr. Banonis, Mr. Courtney,
Meeting opening 11:05

PSAB MRT Cathy said that Mr. Scott indicated that there were no legislative actions or updates so there was nothing to discuss for him. He wished for that to be related as he had a prior commitment.

Morgan Stanley – Jeff Herb – Referring to page 2, not a lot has changed since the last meeting. I will just give you an update from the end of the quarter and bring you up to date figures year to date. We will touch on asset allocation, investment strategy, and performance for the MRT. We continue to experience a rebound in the equity and fixed income markets. The theme has been growth companies out performing value. The S&P 500, which is a proxy for the US stock market through the end of June is up 16.89%. Large company, growth stock up 29% on a YTD basis. Value oriented companies up 5.12%; the Russell 1000 value. Large Cap stocks outperforming small cap stocks. So, the Russell 2000 which is proxy for US small cap companies is up a little over 8.09%. And domestic continues to outperform international with EAFE Index over international, up 11.67% YTD. The Russell 1000 growth up 29%, the majority of the return has been driven by what is called the magnificent seven. Apple, Microsoft, Nvidia, Tesla, Facebook, Amazon, Google really driving the majority of the return for that index on a YTD basis. As for sectors what has driven the market is growth sectors such as consumer stocks, technology, communication services up 33%, 43%. 36%. Once you get away from those sectors the other are slightly positive or slightly negative for the majority of sectors other than industrials. More defensive parts of the market, healthcare, consumer staple companies, utilities; again, slightly negative, slightly positive. The more dramatic change has been energy companies. In 2021-2022, energy was the dominant economic sector. It has been negative, down 5% with oil prices falling for the first half of the year. That has reversed in the third quarter as we have seen a rise in energy prices and we are close to the high of the oil price as we sit today. On page 4, just reinforcing how narrow the equity markets have been for the first six months of the year. The S&P 500, the US stock market, was up 17% on a YTD basis. The top five companies in the US market; Apple, Microsoft, Amazon, Nvidia, and Google at the beginning of this year were almost up 47%, so if you exclude those companies, the US stock market would only be up 9.9%. The overall market driven by a very narrow group of companies through the first six months of the year. That has reversed somewhat since the beginning of the third quarter. We are starting to see broader participation. Large number of companies are participating this this rally. On page 5, as for the interest rates, we stared the year with the US treasury 10-year bond at 3.9% and ended the quarter at 3.8%. There has not been much movement throughout the year, but in early April we were down 3.3% as we sit here today, we are trading at about 4.3%. In the beginning of the year interest rates continued to fall, due to the fact that investors felt the economy was moving into a recessionary environment. Since that time, we continue to see positive economic data for the US economy, interest rates have continued to rise, into the third quarter, as we are at about 4.3% for a 10-year treasury. We continue to be in an inverted yield curve. Short-term interest rates, are much higher than intermediate or long-term rates. That has always been a precursor to a recession. We never had a recession without having an inverted yield curve. We have experience inverted yield curves without going into a recession. The curve has predicted the last nine recessions. On page 6, the bond market through the end of the quarter, up 2.09%, intermediate bonds up 1.45%, short term treasuries up 98 basis points. The best place to be in well over a decade has been short-term money markets, T-bills etc. Aggressive interest rates have resulted in the best short-term investments in well over a decade. The broad economic themes that we have discussed over the last several quarters, continue to remain the same and I do not anticipate this changing any time soon. Yes, the economy is definitely slowing, but it has been all about interest rates and inflation. As a reminder inflation peaked last June, well over 9%, now we are at a 3% level. Inflation just came out today we are up to 3.7%. We saw a rise in inflation after a decline in the last two months due to a spike in the energy market, oil prices that we experienced in April. The Fed target is 2% inflation. Core inflation, which is wage inflation, shelter inflation, and service inflation continue to remain very fixed, this means it will be very challenging for the Fed to get that Core inflation down to that 2% target. Bottom line is that we are going to be in a higher inflationary market, higher interest rate environment for the foreseeable future. Inflation also remains very sticky due to unemployment. Unemployment was down to almost 3.5% and increased to 3.8%, with that said we are at decade lows. Unemployment will continue to weigh on inflation. The good news is that when we do enter into a recessionary environment, it should be fairly mild given savings and unemployment. A reminder the Federal Reserve has increased interest rates 10 times. This has been the most aggressive rate increase cycle that we have experienced since the 1980's. They paused in June, raising 25 basis points in July, our expectations are that they are going to raise another 25 basis points in September which we think is off the table, if they do raise again, it will be .25 basis points in November. That remains to be seen. On page 9, this is a recession determinant, this is put out by the NBER or the National Bureau of Economic Research, they are the government agency that determines when we are in a recession. Green is good and Red is bad (reference to report provided). It shows the economy slowing but we are not imminently moving into a recession. We expect a recession for the second half of 2024. We are not expecting it imminently so this is why you see an increase in interest rates. Typically, by the time the NBER announces a recession, we have been out of the recession. It is a lagging indicator. Nothing is indicating that we are entering into a recessionary environment. Page 11, markets remain resilient. S&P 500 and the US stock market is up 17.43%. Overall Bond market is up 59 basis points, intermediate bonds up 1.28%. Market remains very resilient. On page 12, the MRT is having a very good year this year. Fund is up 8.86% as of this report, the preliminary number as of today we are up 10.39%. We ended the quarter at 63.3% in equity, 26.3% fixed income, 7.8% in core real estate and 2.6% in cash. The MRT investment objective is to strive for consistent returns and provide down side protection from challenging environments, reduce volitility over time. As a reminder, we are diversified in the 63.3% equity is diversified by style. Investing in large core, value, growth, mid-size cap value, core, growth and international. Asset managers and targets are within policy, no changes since last meeting. Large Cap growth is being passively managed. We utilize active managers and passive managers, passive being index oriented which is very low cost and predictable returns. No change in asset allocation from last time. Wedge short term fixed income that allocation is 15% of the 26%; we tend to be overweight on short term fixed income. If you remember the yield curve, we will get the highest yield in short term fixed income, not paying to take duration risk or maturity risk in this environment. We will continue to be overweight here until the Feds reduce interest rates which probably will not take place in another nine months to a year. Core real estate, 7.78% was the best asset class last year. Difficult this year as price adjust to the rise in interest rates over the last several months. Core real estate is overweight in multi-family or apartments, industrial, and underweight in retail and office. No changes since our last meeting.

Actuarial Evaluation Updates – Cathy said Mr. Friedlander he is here to discuss. They have been completed and submitted to the State. The MMO's are based on that valuation. Mr. Friedlander stated that we discussed these reports at the previous meeting and these reports are a follow up and provide a basis for the Act 205 filing. These forms were filed well before the March 31st 2024 deadline. The graphed report is out there and confirmed finalized. Cathy said she did not send out to the unions yet as she did not get the final from him. Chuck stated he would send them out this week.

2024 Minimum Municipal Obligation – Cathy said that Chuck had provided the documents based on the estimated payroll for the year. The Non-Uniform plan is $217,688.00. For the Police Plan it is based on what Mr. Friedlander reviewed at the last meeting, is $282,056.00 that is $144,617.00 less than this year. Overall, the Township will be paying over $100,000.00 towards the pension plans.

Financial Reports – Cathy said for the Non-Uniform plan Township paid $162,581.59 for MMO payments and administration fees and for the Uniform plan the Township paid $415,846.44 to date. With the October payment we will make any necessary adjustments with PSAB to record the State Aid portion.

COLAS – We received two for G. Lesser and D. Roxberry. Mr. Lesser and Mr. D. Roxberry's COLAs will increase by 3.5%. Notice will be provided to the administrator to make those increases by their effective date.

Meeting Minutes – June's minutes are in review and will be ready for the next meeting.

Molly noticed that the MMO does not reflect their contributions. Cathy said she will make that adjustment before bringing to Council. Cathy said Chuck and her will look at it before it goes to Council. (new amount $200,642.00)

Jared asked what is the current status of the evaluation for the pension. Where do we stand. Chuck asked if he was coming to the 2:00 meeting? Jared said yes. Chuck said it is in the presentation of the last meeting. Jared said he was not available for the one meeting. Cathy can send it. Jared asked if he could bring it to the 2:00 meeting. Chuck said as for his question regarding the funding percent, the draft was done and the final is being sent. Jared asked if anyone got the actuarial report. Cathy said no, the final is being mailed. Chuck said the increased from 92.6% to 106.6% as of 1/1/2023. Molly asked about the Non-Uniform and Chuck said we are not at over 100%, 88.7% to 94.1%, we are still well funded but not at the 100% yet. Not a lot of plans are. Cathy said just a brief reminder that when we changed our assumptions several years ago to something reasonable, we were at 5% compensation and 7.5% investment return, we dropped those to match what was really going on and both plans required a significant increase in funding taking the plans to almost fully funded back down into the mid 80s percent funded and it took several years to get us back to this point. It was a lot of investment from staff and the Township to get us here. We want to get to the normal costs and have the amortization payments adjusted off so eventually we get to the point where contributions are not needed. Chuck said that we need to recognize 80% of the 2022 loss has to be recognized in the next two valuations. So we need better than 6.5% investment returns, we need gains to offset those. Cathy said so far it has been good. Next year, maybe not. Chuck said that is the value of having these teams and meetings. Discussing it and knowing where we are going.

Meeting adjourned 11:41