Lower Saucon Township
Pension Advisory Committee Meeting
Meeting Minutes September 14, 2022

Roll Call: Present –John Herb, Morgan Stanley; Joe Scott, PSAB, Molly Bender; Jared Gunshore; Jonathan Mull; Mark Hudson, Township Manager; Jason Banonis, President of Council; Cathy Gorman, Director of Finance

Meeting opening

Missing: Brian Courtney

1) Introduction of Mark Hudson, Township Manager and appointed him as CAO of the pension plans.

2) PSAB -Joe Scott - Nothing to report at this time.

3) Morgan Stanley - John Herb – A continued theme of nowhere to hide with continued volatility. Through June the S&P 500 was down 19.96% and the fixed income down -10.35%. Value stocks are outperforming growth stocks; large cap stocks outperforming small cap stocks, and domestic outperforming international. From a sector standpoint every section has experienced a negative return. The only sectors with a positive return have been energy. Through August that has continued to be the theme. The only other positive stock is utilities. The hardest hit sectors are the sectors with more growth-oriented ones; consumer discretionary, services and technology. We have seen a significant increase in interest rates. We started out the year with a 10-year interest rate at 1.15%; as of the end of June it was 3.04%; as of yesterday; 3.47%. As we all know as interest rates rise bond prices go down. The BCI as of June 30th was down -10.35%. This is the worst first half performance for fixed income markets in recorded history. You would have to go back to the 1840's to see fixed income markets perform this badly. For the overall portfolio; we see the problems with a traditional fixed income equity portfolio. It has been the worst performance for the equity market since 1970 and the worst ever in recorded history for fixed income markets. As of last Friday, the BCI was down -10.94% and as of yesterday down -12.1%. The S&P down -16.78% and as of yesterday down -16.57%. A number of concerns include inflation, rising interest rates, slowing economic growth, the Russian invasion of Ukraine; this is continuing to weigh on equity markets. Inflation as of June was at 9.1% which when down July to 8.5% and as of August 8.3%. It is higher than what the market was expecting which is why you saw the markets react the way they did. The rates are a year to year basis meaning it is looking at August 2022 compared to August 2021. The month to date inflation rate did go up. It just means the Feds are going have to be very aggressive with combating inflation. While there are certain aspects of inflation that are transitory, energy and some food; they are others that are not like shelter and wages. That is just going to require the feds to be aggressive to get inflation under control. In March the Feds increased interest rates by .25, in May .50, in June .75, in July another .75. Originally, we were expecting interest rates to be hiked by an additional 50 basis points in September but now it is looking more likely that they will increase it by another .75 basis points; potentially another 100 basis points. The Feds began reducing their balance sheets by 48 billion in June and now we are at 95 billion in September per month. That is further tightening financial conditions in the market. All of this is having an extreme negative impact on small business confidence, they are saying it is a horrible environment to be working in. Along with the small business confidence collapsing, we are showing a significant decrease in the confidence of the consumer. All of which is having a negative impact on housing. The 30-year mortgage rate now stands at around 6% which has a negative impact on home applications and new housing starts have also fallen. The positive effect on the economy of buying a new home is not there; the jobs in building the homes and the everything that goes into a new home. What

are our chances of a recession? As it stands now, we still hold that it is a 50/50 chance of a recession in 2023. The reason for that is that the leading economic index while declining, is not showing a significant sign of a recession. Corporate profits that while having peaked and are declining are still very good and the labor market is exceptionally strong. The next slides show the ups and downs which if you get anything off this slide is that if you want the great returns from an equity market you have to deal with the volatility such as what we are experiencing right now. This is the part of dealing with the equity markets is that you are going to have negative returns. Over the long term you are going to have positive returns that are going to benefit the trust. The Trust, as of 2/2 was down -14.07; versus a balanced median return of -16.10, so we are doing well there. As of yesterday, the fund was only down -13.97%. The Trust ended 22 with assets $333,000,000.00, and the trust remains well diversified from a style perspective and also active versus passive. Diversification is especially important when you are in markets such as this. You do not want to be concentrated in any one spot. This diversification has been exceptionally important to the resiliency of the portfolio. The allocation of real estate, which has been one of the bright spot for returns of the portfolio; we have been slowly increasing our allocations. We are at 9.6% as of June. And the last slide, as a reminder, let me reinforce the very comprehensive fiduciary oversight process we have in place. The investment policy is being continuously reviewed, as well as the asset allocations and investment strategies. We are constantly review managers due diligence and performance reviews.

4) 2023 Minimum Municipal Obligations - Mr. Werley as prepared them for us based on our last valuation. The police MMO is $426,673.00 and the Non-Uniform is $170,257.00. We will have Mark execute at the next Council meeting when Council approves. Doug Werley said they were slightly below than 2022, not significantly so. Despite the very challenging year, I do have a little bit of overall good news that the future is not as bleak as it would otherwise be. We do not have the official 2022-unit value yet, which will be released in about a week or two. It is supposed to be higher and may even be a record high from what it was the last couple of years. This should result in an increase in state aid. In looking forward, last year the plan earned about 13.5%. From an actuarial stand point, our rate of return is assumed at 6.5%. I give credit where credit is due, I have stated this before, by not having the lofty unrealistic interest rate assumptions it provides us a little room. We had a 13.5% return last year and we still have three months left in this year, however having a good 2021 year and our actuary using 6.5% and asset smoothing helps. The amount of market value is higher than the smooth value. Say the two years are less than the assumption, still our MMO's in 2024 and 2025, may be as bad as it otherwise would be. We are paying a little more now to help us with down markets. The smoothing will help in down markets and there is $48,000.00 in amortizable disappear. Don't assume that will be the case. In the next valuation he will determine a gain or loss and it will go from there, but the 1st amortization component will be removed as of the 2023 report. Our firm administers over 100 plans outside of PSAB, and this year PSAB has been very good in comparison to other entities. Through July 31st, from the latest statement that we have, we show a negative return of about 9 to 9.5% roughly and most plans through July outside of PSAB with similar asset allocations are down anywhere from 11 to 15%. The way the Trust is set up it really shines well in a down market and even last year, in an up market, 13 to 14% were very good returns for 2021 overall. Cathy advised that she will put these on the next Council agenda for approval.

5) Act 205 2022 Distress Determination Score – We received notification from the state that our distress score is 0. Which means that we are more than 90% funded in our pension plans. That information is on the Pennsylvania Auditor General's website if anyone wants to take a look at it.

6) Financial Reports – As of this date we deposited $137,114.66 in the Non-Uniform Plan and $333,696.93 in the Uniform Plan.

7) Cola Notices – Mr. Werley provided notice for several officers entitled to their COLA increases. Mr. Roxberry's increase will be 9.3% which will bring him to 23.09% and Mr. Lesser is also at 9.3% which brings him to 20.91%. Those are effective October 1st. Mr. Jacoby's increase is 9.4% which brings him to his 30% maximum amount. We will send notifications to those retirees.

8) Non-Uniform retirement – We received notice from Mr. Ken Keller of his intention to retire in January of 2023. He is not vested so he will be receiving his contributions back.

9) Settlement Filings – None to report

10) No issue with June minutes – post on website and the next meeting is scheduled for December 14th @ 11:00.

Meeting ended 11:29

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