Lower Saucon Township
Pension Advisory Committee Meeting
Meeting Minutes March 9, 2016

**Roll Call: Present** –Cathy Gorman, Chris Leidy, Priscilla DeLeon, Lou Mahlman, Joe Scott, PSAB, Jeffrey Herb, Morgan Stanley, Mary Curtin, Leslie Huhn

Missing: Molly Bender

1. **Joe Scott, PSAB:** Joe Scott from PSAB has no update.

2. **Jeffrey Herb, Morgan Stanley:** Referring to the handout, in early September we went through a correction in the equity markets. As we sit today we just went through another correction. We have seen a rebound in March. Volatility has continued over the last 9 months. Starting in July of last year we saw a significant pick up in volatility which has continued. What impacted the markets last year has continued to impact the markets for 2016. China has continued to be the issue. The economy continues to slow. The impact of a slowing Chinese economy is a concern and how that impacts global growth has been a concern that the equity markets have been weighing on. Global growth fears whether global economy is moving in to a recession or whether the US has moved in to a recession. That is certainly has been a major concern from an equity market standpoint. The data that has been released has been positive from an economic standpoint. It continues to point to very slow growth. We see volatility in oil prices. The collapse of prices has been a concern from an economy and fixed income market. The fed raised interest rates for the first time in December in almost a decade. The uncertainty surrounding future rate hikes continues to weigh on the market. Corporate earnings for the 4th quarter have come in above or in line with expectations. The only place really positive place that had positive returns was the Russell 1000 growth. The overall stock market was up 1.41% last year. However, once you get passed that you have negative returns. Emerging markets was there worst place to be last year. They were down about 15%. The theme last year was that large cap companies outperform small cap companies. Growth companies outperform values companies. The expectations are that there will be 4 rate hikes this year. That is completely off the table. There may be only one or two rate hikes. The US bond market is measured by the BC Aggregate. It was only up 55 basis points last year. The intermediate bond market was up 1.07% last year. Cash, T-Bills, money market funds basically had 0% return. That will continue for the foreseeable future until the fed raises interest rates above at least 1%. Worst place to be is global bonds and jump bonds where we are not. They were significantly negative last year. From a sector stand point, the worst place to be last year is value oriented. From an economic sector stand point, anything economically sensitive that was the worst place to be. Energy was down 21% last year. Material companies were down 8.4% last year. The industrial economy was down 2.5%. Best place to be was anything consumer related up 10.1%. Health care was up 15.2% and technology was up 20.7%. The US stock market was up 1.4% last year. It is a very deceiving number because the US stock market last year was really driven by very few companies. The top 10 companies were up 3.45% the other 490 companies were down a little over 2% last year. There is a very narrow market. The S&P is down 1.73%. About a month and a half ago it was down about 8% so we have seen a significant rebound in the equity markets over the last month. This is due to the stabilization of oil and better positive economic news. It is the complete opposite of what happened last year. The best place to be on an economic basis now is energy and industrial. Energy is up 1.85% and industrial is up 1.19%. The worst place to be this year is consumer discretionary, health care, financials and information technology. What worked last year is not working this year on a YTD basis. This clarifies why you have to diversify. Priscilla said she has been following the Penn East Pipeline and asked when Joe says energy, is he is talking about the gas. Joe said it is a very broad sector. Priscilla said supposedly two years ago all the investors in the Pipeline were gung ho and they seem to be pulling back a bit. Joe said you see that across the board. Clearly gas and oil prices have put energy on hold until you see lower gas prices and stabilization. Banks are not as likely to loan money now because of the uncertainty in energy. The fear that has impacted the markets over the last year is the significant decline in oil prices. The fear that

the drop in oil prices meant there was a drop in the economy. This has not been the case. It is really supply driven. If you look at mid-2014 you start to see a disconnect between supply and demand. There was much greater supply than demand. It is not driven by lack of demand. It continues to rise. It is controlled by supply. The disconnect between supply and demand is hopefully going to be corrected 4th quarter or first half of next year. OPEC production has remained fairly constant over the last 6 or 7 years. US production is the issue. Our oil production is up over 80%. We are the culprit in the drop of the oil prices. Priscilla asked what will happen when they propose the pipelines. Joe said those will potentially be put on hold until you see reinvestment potentially. This is short term. Unemployment has continued to track downwards and there has been wage growth. Auto sales have almost hit record highs. They tend to be high end cars. Housing continues to be fairly strong. The service sector which is the primary driver of the US economy continues to be fairly strong. Oil prices dropping is a significant benefit from a consumer standpoint as well as a corporate America standpoint. Recognize that part of investing in equities is that there will be volatility involved with it when investing in equities. From peak-to-trough we saw a 12% correction last year. In 2013 we had 11% return and peak-to-trough the market was down 8%. To be an investor you have to put up with volatility. As of this year we are down peak-to-trough 8%. From an MRT standpoint, last year was a flat year for the market. The MRT was up 13 basis points which leaves the index at 5 basis points. The median balance plan was down -50 basis points last year. To be positive last year in this environment was well above the average balance fund in the United States. Since the last meeting there was only one major change that has been in the works for over a year. That was the addition of the addition of the ASB Allegiance Real Estate. The trust has 2 core real estate managers in place, AEW Core and ASB Allegiance Real Estate. The fixed account is up 1.42% being 100% fixed income. Total balance last year was $221,418,134 and fixed capital is $14,881,670. We are diversified by style. We ended the year at 14% small cap growth and 11% international which gives international exposure. That hurt last year but is helping this year. Emerging markets are a positive on a YTD basis this year. Fixed income is 33%, cash is 1%, large cap value is 13%, real estate is at 7% and mid/small cap growth is at 6%. MRT has assets in all areas of the asset markets. You always have assets in area that is doing well. We are also diversified by manager's standpoint. From a strategy standpoint there is one change that was implemented in October. We ended the year 58.8% in equity, slightly less than the target. 32.8% in fixed income which is slightly less than target. The change was in real estate. Originally the target was 5% and raised to 7%. Allocation of cash was 1.2%. Core real estate provides high income, stability of principle, potential hedge against inflation, and capital appreciation. The AEW Core property trust is one of the two investments. It currently has 64 different investments within the fund. There are 5 specific areas. They are office (34%), industrial (15%), retail (21%), multifamily (27%) and other (3%). The fund is diversified in core markets throughout the country. Trustees have spent a lot time on what has been taking place from an economic standpoint. They want to make sure they are all on the same page. Priscilla said she feels very comfortable and they have a big handle on all of it. Cathy said the revised investment policy statement that was signed in January focuses on the cash balance and restrictions. That was the only change.

3. **Financial Reports**: Cathy said we are caught up to date on all of the payments. Last year for the non-uniform plan including the MMO we put in $104,163.68. For the uniform plan including MMO we put in $322,259.35. Audits were done. Our auditors do not audit pension plans. We did notice some changes and our actuary caught the prior two. They were fixed. Chuck reviews our GL and makes sure funds are properly recorded.

4. **Pension Census Statements:** They were mailed out in January. Individuals who have benefits in our plan but are not eligible yet also received their statements. This allows them to know that they still have benefits in our pension plan when they become eligible. The return of pension contributions is an officer that had pension contributions in our plan. He hasn't withdrawn them yet. Cathy received notice from him that he wanted to withdraw his contributions. That total is $1100.26. He was a full time employee then became part time.

5. **<u>COLAS:</u>** Glenn Williams will not receive a COLA increase. Victor Koszi as of May 1st will receive a .60% which will bring him up to 12.4 of 30%. Through our audit we found that two of our officers received their COLA increase a month early. They received notice that the correction will be made in their next payment. PSAB has a firm that handles all of their accounting. Mary asked why someone would receive .6% increase and others would get more. Cathy said because the officers elected to have their COLA's set by date of retirement. COLAs are determined by the CPI index amount for the period in which they retired. Cathy has it on her calendar for when employees are due for increases.

6. **<u>Settlement findings:</u>** No Settlement findings received.

7. **<u>Minute Approval</u>:** December 2015 minutes were approved.

8. **<u>Meeting Schedule:</u>** Next meeting is scheduled for June 8 at 11:00 am

Meeting adjourned at 11:41 am.