Lower Saucon Township
Pension Advisory Committee Meeting
Meeting Minutes March 11, 2020

Roll Call: Present – Jeff Herb, Morgan Stanley, Joe Scott, PSAB, Sgt. Chris Leidy, Molly Bender, Brian Courtney, Jonathan Mull, Priscilla deLeon, Council Liaison , Leslie Huhn, Township Manager, Cathy Gorman, Director of Finance 11:06

Cathy introduced Mr. Mull as the new member of the committee and thanked him for volunteering. Between Mr. Courtney and Mr. Mull we have a well-rounded group.

1) PSAB, Joe Scott – Joe said there is nothing new, everything is status quo right now. There has been some ripples and wrinkles with Congress trying to get together a new and improved House bill together. Changing things in a dramatic way for pensions but it is not really healthy and our friends at the FOP said no; it is not going to fly. It is really restrictive and they are trying to tie your assumption rates to PMRS which is at 5 ¼ % right now. Most people are trying to get their assumption rates down. But to try to get plans to lower their assumption rates from 7 to 5 ¼ or 6 ¼ in the next 10 years is just not possible. With that nothing else withstanding, it does not look like that has legs so we are ok. I don't think anything is going to happen other than what is going on now. As for what is going on right now, he really does not know.

2) Morgan Stanley, Jeff Herb - He is touch on what happened in 2019 and what has taken place over the last two weeks. Three weeks ago I would have been a popular person at these meeting, from a market standpoint. Unpopular in the last two weeks. On page 1, as everyone is well aware in 2019 was an exceptional year for the US Capital Market. Coming off 4th quarter 2018, you saw a significant pull back in the US Equities market. We saw record highs throughout 2019 and into 2020. Primary driver in the return last year was the Federal Reserve reducing rates in July, September and October. In October they paused, and the expectation was that they would not reduce interest rates throughout 2020. Economic data was good throughout the year but slowing. Corporate earnings were good but slowing as well. During the 4th quarter we saw the signage of the phase 1 of the China trade deal which was certainly was a benefit to the equity market; beneficial to an international standpoint; relieving some of the uncertainty. But in truth it was not a long term deal. The real bright spot from a market standpoint has been the consumer. The consumer represents about 2/3 of the economy. Consumer continues to be very very strong. We are basically at full employment. Consumer confidence at the end of the year was very high. Housing is very strong as well. Certainly with the reduction of interest rates last year housing remains strong. Last year the S&P 500 was up 31.49%. The theme last year as it has for the last several years is growth out performing value. Large Cap growth stock up 36% last year. Value stock, Russel 1000, stocks; more economically sensitive stocks, energy and financial services, up 26%. A very strong year for international, underperforming US stocks, up 22% which was the growing trend. A very strong market last year.

   On the page with the fixed income market or bonds, US fixed income markets were strong, as interest rates decline throughout the year bond prices rise in value. Saw very strong returns last year. VC aggregate Barclay's Capital aggregate on the far right, was up 8.72% last year, intermediate bonds up 6.8%, short term bonds up 3.55% , and cash, money markets, CD's, treasury bills up 2 ¼ last year. These have dropped dramatically and we finally have seen a return to cash investments the last two years now. And now with the Feds reducing interest rates and the expectation is that they are going to continue to reduce, we are going to be back before you know it to a zero return for cash investments. If you look at the return for the fixed income markets, example BC aggregate, 8.72% last year. The majority of the return last year was capital appreciation. As interest rates declined, bonds prices increased in value. The average yield coupon was roughly 3 – 3 1/2 %. The majority of the return we saw last year was due to the falling interest rates. To see these types of returns in the future, from where we are now, we would only see this if the rates were negative in the US. We are not going to see returns like this in the near future for the fixed income market.

From a sector standpoint, in 2019 last year was a very broad based rally. He last several years from an equity standpoint, the market has been driven by one to two sectors. In 2018 it was healthcare and in 2019 technology, last year, other than energy which was up 11%, all economic sectors in the US stock market has significant returns. Financial, 32%; Industrial 29%; Technology 50%; Utility stocks up 26%, as interest rates decline investors flock to utilities for high dividend income. No matter where you were other than the energy and the collapse of the foreign oil prices, you saw very strong returns. Priscilla said so energy would include the pipelines? Jeff said yes, prodominenlty oil. Priscilla said well I am against the Penn East pipeline so I am glad to see that. Jeff said yes they would be in the energy industry. The theme has been over the last several years, growth outperforming value. Growth operated companies outperforming overly sensitive stocks. One of the concerns we had is that growth oriented companies have become very expensive. The average large cap growth the average price vs. earnings is 17 times earnings. At the end of the year it was 25 times earnings. If you look at large cap, mid cap and small cap, growth is very expensive. If we harvest gains out of growth, throughout the year last year, we would have taken advantage of value which has been significantly undervalued. Over the last three weeks it has been even less. Since the performance low in 2009, the majority of the return we have seen has been growth oriented investments. Growth has become very very expensive.

This dominance that we have seen in growth versus value is starting to look like the 1990's. In the late 90's with the .com bust, we saw significant outperformance of growth versus value. Back then value was dead and no one would invest in value, only growth and then look what happened in 1999 – 2000. Certainly the similarities that took place in the late 1990's with the .com companies and now with the technology companies such as Apple, Facebook, Google; it is very similar to then.

The indexes are being very concentrated. A few number companies are driving the market similar to 1999. 16% of the stock market is driven by 5 companies; Apple, Berkshire Hathaway, Microsoft, Amazon and Facebook. The growth companies dominating the market.

We are diversified in a national and international standpoint. We have been in an eleven year cycle starting in 2007-2008, where US stocks have significantly outperformed international stocks. As we sit today, we are at the cheapest level on a valuation standpoint between US and International. A lot of reasons for that, Brexit, and a lot of uncertainties, but from a valuation standpoint, we are at the cheapest level since the 1970's. Now when this changes it remains to be seen, these cycles tend to last 10 years or more. We are definitely at the tail end. If we are sitting here 5 to 10 years from now, it is highly unlikely the US is going to be the best asset class purely from a valuation standpoint.

Referring to a document passed out, this is where we are as of March 2nd and more up to date data of where are as of yesterday. Markets peaked as February 19th. We were at a record high as we moved to the 21st we saw a significant pull back from the US equities markets. Starting on the 21st within a week, markets had declined 10%, the quickest 10% decline we have ever seen in the US stock market. We were down on Monday, we will see. We are down 20% from peak to trough, basically is a significant correction to the US equities market. We had a little rally yesterday but as we sit today, the S&P, US stock market was down 10.74%, growth is still out performing value, international is down 16%, emerging markets holding up well.

3)

4) Settlement Filings – There are none.

5) Approval of September 11, 2019 minutes. If you have had an opportunity to review she will post on the website.

6) Next meeting March 11th at 11:00 AM. If there are anyone who has any suggestions of changes of date, time or how often. The consensus was to keep the all the same.

Adjournment – 11:30 AM