

Roll Call: Present –Tom Schatzman, Morgan Stanley, Joe Scott, PSAB, Chuck Friedlander, Municipal Finance Partners, Chris Leidy, Molly Bender, Priscilla deLeon, Council Liaison (via Phone), Leslie Huhn, Township Manager, Cathy Gorman, Director of Finance 11:06

Absent: Mary Curtin

Cathy announced that Brian Courtney is here as a citizen and has not officially been appointed by Council. Brian is interested in taking Lou Mahlman's position.

1) Thomas Schatzman – Morgan Stanley

On December 24th everyone was pretty sure we were going into a recession. It wasn't a recession; we were headed for a slowdown. At the end of 2018 nothing made money. There was not one asset class that exceeded inflation. US government bonds were the only thing that did not lose money. Everything is sensitive to interest rates right now. The Fed was making a policy mistake. We were not in a recession. The Fed in raising rates took the liquidity out of the market. Our challenge this year is that people are too optimistic about earnings. We made some moves in the portfolio that have not made returns but added stabilization and safety because we think in the second or third quarter of this year we are going to have another test of that low in December. If it was a correction you typically retest. The market will retest and so we positioned ourselves defensively.

International markets are a mess. We are not going to add anything until we figure out what will happen with Brexit. We just won't invest in that even though the prices are low.

When we get light cycle, you see industrials outperforming. Big ticket items tend to move at the end of a cycle and we have not seen it yet. If it reverses, we don't see a 20%-30% decline in this environment. No one can predict a recession. But if you look at leading indicators, they seem to be leveling out. Growth is slowing down. Trade is not only about tariffs it is about how to get products in the UK. The customs agents, the system is not set up to get anything in to or out of the UK. If you are out of the EU, the system is not set up. But it is not a recession.

Year to date we are up 7%, strong rebound. Last year was a miss 1.6% versus 3.4%. Of the 276 million dollars, large value stock is at 38.7 million or 14% of the fund and large growth at 25 million dollars and we are at our minimum allocation. There are two reasons why we are doing this. Large growth is only being driven by four companies, Amazon, Netflix, Google and Facebook. The price earnings multiples are 200 to 250 % above earnings. The rest of the market is trading at 15%-16% above earnings. It is never a good idea to add to those stocks at 200 to 250 % over earnings. We took about 18 million off the table and rebalanced it throughout the portfolio including adding fixed income. The history of the MRT has been defensive positioning. That is why we have done well in bad markets. We are getting more quality companies in large value than in large growth which includes Tesla which is practically worthless but trades as about \$250 and they don't make any money.

No manager changes. No issues with any of the line managers. Next defensive move is that we are going to add to real estate. We do get dividend yield at 4.1% when the rest of the portfolio is at 2% on the stock side, it is an inflation hedge. No managers have been performing badly.

Joe asked how we performed last year and Tom said about 3.5%.

- 2) Act 205 Review – An actuarial review of the plans is required every other year. The valuation is the basis that determines the Township’s contribution or the minimum municipal obligation. Every September based on the most recent valuation, the Township submits a budget for approval for the governing body. We are going to review both the Police and Non-Uniform plans but keep in mind the Police plan is two to three times larger. If you look at the history 2018 was significantly more as we changed our assumptions. We lowered the interest rate from 7 to 6.5%. This is a long term assumption. He looks at the plan, the benefits of the plan and makes actuarial assumptions. As we do these every other year, we get to reset based on changes. We got a little more conservative with the assumptions back in 2017 which affected the 2018 and 2019 MMOs. The increases projected for 2020, 2021, 2022, and 2023 are basically the increases in payroll. These increases are based on actuarial losses. The three sources of funding are contributions from employees, state aid and municipal contributions. Cathy confirmed that the state aid is distributed by unit value. The Township has to pick up the difference if the MMO increases and the state aid is the same. The Non Uniform plan was well funded that there was no amortization payments for a few years until we changed the assumptions. You will see in 2020, 2021 and 2022 the contributions for the Non Uniform plan are going down while the Police are going up. We had some actuarial gains on the Non Uniform side that offsets the Police. The total Township contribution is going to stay fairly the same. If State Aid is the same and member contributions are the same the Township will contribute less to this plan as we had actuarial gains. Actuarially we take the gains and losses each year and smooth them over a five year period of time because the market is volatile. For the Police plan we were over 90% funded, then dropped to 86.7% when we changed mostly due to assumptions and dropped a little more due to the actuarial losses. The Non Uniform Plan was just about completely funded, then dropped to 75% and now is 85.7%. What hurt the police helped the non-uniform. At the end of 2018, we smoothed up, valuation was more than the market. In 2017 the market return was 13.03% and 2018 was -4.79%. If you look at the actuarial returns the last couple of years it was below 7%. We had a couple of years that had been less than the actuarial assumption. Joe interjected that the conservancy of our investments has helped as he knows that there are plans that have lost close to 5-7% the last year.

The Police plan has approximately 7.1 million in assets and 8.4 million in liabilities and we had a very small experience gain of about \$84,000.00 due to officers eligible to retire that didn’t. Salary projections were a little less than assumed and there were fewer terminations and death benefits. The loss on the assets comes to about \$300,000.00 less. The Non Uniform plan has about 2.5 million in assets with 2.9 million in liabilities, we lost about \$103,000.00 in assets, but we gained almost 210,000 as we had 4 employees terminate or passed away in 2017-2018. We have gains from those. This plan will have a contribution gain as a result. The Police MMO would go up about 45,000 and the Non Uniform will save the same amount.

Discussion continued regarding the use of mortality tables. As technology improves we live longer. This assumption should be reviewed periodically as the others. We changed our mortality table to the 2014 table in 2017. New table Pub-2010 Table may be an option to consider in the next couple of years. It includes uniformed, non-uniformed and teacher employment mortality.

Chuck will have the reports done in the next couple of months. Cathy said she will work on the 2020 MMO once that report is done and present at the next meeting so we have a baseline of what Council will be looking at in September.

- 3) Financial Reports - Presented was 2018 Uniformed Plan total \$53,101.88 and Non-Uniform \$20,233.93 and for 2019 the Uniformed plan total is \$9,144.61 and the Non-Uniform plan total reimbursed is \$3,500.88.

4) COLAS

V. Koszi is entitled to a 1.8 % and he is at his 19.25% of the 30% maximum as of May 1st. He will be paid \$3,067.43 per month.

Chuck had mentioned it would be easier to have the cost of living changed to January 1st. They can do an adjustment for each member to get them to the January 1st date. Cathy said this was discussed previously and we will need our uniformed representation to relay the information to the officers.

5) Settlements - None

6) Minutes –

Committee approved the December minutes for posting on website.

Next meeting June 12th at 11:00 AM

Adjournment – 11:42 AM