Lower Saucon Township
Pension Advisory Committee Meeting
Meeting Minutes March 13, 2024

<u>Roll Call</u>: Present –Jeff Herb and John Jolls, Morgan Stanley; Joe Scott, PSAB, Jared Gunshore, Uniform Plan; Molly Bender; Larry Opthof; Priscilla deLeon, President of Council; Cathy Gorman, Asst Mgr./Dir. of Finance

Meeting opening 11:03

Missing: Shorav Kaushik

Cathy introduced the new members

1) PSAB – Joe Scott – Nothing to report. Nice to see new faces.

2) Morgan Stanley – Jeff Herb – We will go market update where we closed out 2023 and the first two months of 2024 and review the asset allocation of the trust. After continued volatility in much of 2023, in the equity and fixed income markets, we experienced a very strong rally in the fourth quarter. S&P 500 was up 11.69% for the fourth quarter. We ended the year with the S&P 500up 26.29%. What drove the equity and fixed markets in November and December was the Fed pivoted from an interest rate standpoint. Inflation continues to soften and markets are pricing in a soft landing. We are not moving into a recessionary type environment. The themes last year are the same as what we discussed at our prior meeting; large cap growth companies are out performing value-oriented companies. The Russell 1000 growth index up 42.68% last year versus more value-oriented companies with the Russell 1000 value up 11.46%. Large Cap companies outperforming small cap companies. Small companies up 16.93% last year and domestic stocks outperforming international. MSCI EAFE up 18.24%. Market has been a really narrow market meaning a small amount of companies have created the significant amount of the return for the US stock market, in particular the Russell 1000 Index. Driven by what is termed the magnificent seven, Apple, Microsoft, Nivida, Tesla, Facebook, Google and Amazon. For the fourth quarter every sector participated in the rally except for energy. Energy process, gas, oil, fell during the fourth quarter. For 2023 it was all about growth. Consumer discretionary, technology and communication services stock up 42%, 58%, 56% last year. Once you get out of those three economic sectors, we saw negative returns in utilities and energy, and moderate returns throughout the remaining sectors. This trend has continued into 2024. The S&P 500 from a price standpoint was up 24.2%, the seven companies were up 76% last year. Those companies driving significant performance in the US market & S&P 500. From an earnings standpoint, the S&P earnings declined last year, down 2% however those seven companies were up 72% last year. Significant price appreciation and earnings growth in 2023. The market is very narrow. A small number of companies represent a significant portion of the market. The US Stock market is a cap weighted index. Meaning the larger the company the larger proportion amount both positive and negative of the return. The top 10 companies in the S&P 500 are 32% of the overall US market which is the highest we have seen in over thirty years. As for the interest, focusing on the 10-year treasury, we experienced significant volatility in the interest rates, however we ended the year where we started. We started the year at 3.9% 10-year treasury and we ended the year at 3.9%. In mid-April we got as low as 3.3%. At the end of March, we had three bank failures. The most since the financial crisis in 2008. There were fears for regional banks and recessionary concerns, but we went as high as 5% in October. That was the highest since 2007. Since October interest rates have been declining out of comments made by the Fed. Bond or fixed market returns, the overall bond market was up 5.53%. Money Markets and CDs were up 5.26%, intermediate bonds were up 5.24% and short-term treasury bonds were up 4.25%. Last year was very unusually. No matter where the maturity terms were, the returns were very similar which is very unusual. Whether you were in cash or intermediate bond, or longer rated bonds they had similar returns. Very unusual for not getting

more compensated for risking a longer investment. From a Macro standpoint, the same themes are what we have discussed at previous meetings, driven by inflation, interest rates and the US economy is slowing but it appears, definitely in the market, that we are pricing in a soft landing for the US economy. Inflation data continues to soften. The Fed states that the inflation data continues to be encouraging but they need to see more. We came in at the end of January at 3.1%, core inflation was at 3.9%, yesterday inflation data came in slightly above expectations at 3.2%. Moving in the right direction but the Fed's target is 2%, We are going to see volatility in inflation data but the trend is moderation for inflation. We are moving in the right direction for that target of 2%. The Fed has pivoted. They raised interest rates 10 times; the most aggressive interest increase cycle since the 1980's. In November, they expectation is that they are not going to increase interest rates but they will start decreasing. They may start decreasing interest rates in June, definitely in the second half of the year. We are expecting three to four interest rate cuts in 2024, in the second half. It will be dependent on where we are at with the inflation. The FOMC (Federal Open Market Committee) expectation for rates is 4.48%. A year from now they are 3.6% two years from now. This will depend on inflation. As of the end of February, US Market up 7.11%. We are at the 8% range with record highs in the US stock market. Themes remain the same Growth versus Value; Large Cap outperforming Small Cap companies, Domestic outperforming International. Fixed income was down at the end of February 1.6%, intermediate bonds down .79%, Cash or Money Market funds up .90%. This is moderated. Bond market has adjusted due to the Feds decision not to reduce interest rates as quickly. For the MRT we had a good year in 2023 we are up 14.68%. We are up 4.7% YTD as of yesterday. 4th quarter last year up 8.17%. Total assets of the MRT are 339,529,451.00 in assets. Asset allocation as of 12/31/2023 was 28.54% in fixed income, 16.74% in equity, 13.5% Large Core, 13.24% Large Value, 12.45% Large Growth, 7.34% in Core real estate and .69% in residually cash. We are well diversified. We have been reducing exposure to Large Cap Growth. Just given where valuations are, those of the seven companies are priced to perfection. We have been harvesting those gains. We are overweight short term fixed income, 16.2% of the 28-29% in fixed income. We are not paid for maturity risk. We are not getting the price volatility. No changes in managers. Continue to be invested in active and passive managers. We do not expect any changes.

3) AG -385 – With the help of Mr. Friedlander we have completed the AG 385 filing required by March.

4) Financial reports – We have been paying in the monthly administrative fees and monthly payments of the MMO. $54,762.09 in the Non-Uniform Plan and $84,456.87 in the Uniform plan.

5) Terminations – Our Township Manager Mr. Mark Hudson has resigned effective the end of March. This will be his last meeting. He is not vested so he will get his contributions back. Our actuary has that information.

6) COLAs – Colas for this period, we have one for former officer Keith Bredbenner. His percentage increase is 3.1% based on the Cost of Living Index. We will send this over to our plan administrator to increase his monthly pension payment.

7) No settlements

8) Meeting Minutes for June 14 and September 13 of last year. We can update those to the website. Next meeting June 12th at 11:00

11:20 Meeting adjourned.