ABINGTON TOWNSHIP
PENSION COMMITTEE MEETING
via webinar

February 17, 2022

CALL TO ORDER: 6:02 p.m.

PRESENT:

<u>Committee Members:</u> Commissioners Winegrad, Vahey, Carswell

Employee Representatives:	William Weir, Tim Clark
Finance Director:	Jeannette Hermann
Manager of Financial Services:	Monica Embery

<u>Others:</u> Marc D. Ammaturo, Managing Director, PFM
Janet Werner, Relationship Manager - Wachovia, a Wells Fargo Company

CONSIDER APPROVAL OF MINUTES:

Commissioner Winegrad made a MOTION, seconded by Commissioner Vahey to approve the minutes of the Pension Committee Meeting of November 18, 2021.

MOTION was ADOPTED 5-0.

PRESENTATIONS: None.

REPORTS: None.

UNFINISHED BUSINESS: None.

NEW BUSINESS:

<u>Election of Officers:</u>

Commissioner Winegrad opened nominations for Chair of the Pension Committee.

Commissioner Vahey made a MOTION, seconded by Mr. Clark to nominate Commissioner Jessica Carswell as Chairwoman of the Pension Committee.

Commissioner Winegrad asked for any other nominations. There were none.

Commissioner Winegrad asked for any public comment.

Lora Lehmann, resident, asked that selection of candidates for various volunteer Boards be done before the public.

By a unanimous vote of 5-0, Commissioner Jessica Carswell was appointed Chairwoman of the Pension Committee on this 17th day of February 2022.

Chairwoman Commissioner Carswell opened nominations for Vice Chair of the Pension Committee.

Commissioner Vahey made a MOTION, seconded by Mr. Clark to nominate Commissioner Stuart Winegrad as Vice Chairman of the Pension Committee.

Chairwoman Commissioner Carswell asked for any other nominations. There were none.

Chairwoman Commissioner Carswell asked for any public comment.

Lora Lehmann, resident, asked for the committee members to be listed on the agenda.

By a unanimous vote of 5-0, Commissioner Stuart Winegrad was appointed Vice Chairman of the Pension Committee on this 17th day of February 2022.

Fourth Quarter 2021 Pension Investment Performance Review:

Mr. Ammaturo introduced his colleague Mr. Donald Grant, Senior Managing Consultant with PFM, to the committee.

Also, he noted that an asset allocation analysis was provided to the committee as there was interest in learning more about alternative investments, so he brought a model of a portfolio and what expected returns and risk would look like if alternatives were added, and then at the next meeting, he will present potential ideas for investments.

Markets were strong in 2021 with the Russell 3000 up 9.28% in the 4th quarter and up 25.6% last year. International equity - MSCI AC World ex USA was up 1.82% for the quarter and up 7.82% YTD.

To-date, the market is off due to uncertainty about how active the Fed will be in increasing short-term interest rates as well as the geopolitical nature and the conflict between Russia and Ukraine, which has led to heightened volatility in 2022.

Fixed Income – Bloomberg Barclays U.S. Aggregate, the bond market, was flat during the 4th quarter and -1.55% for calendar year 2021 due to long-term rates increasing and that trend has continued into 2022 noting the plan is underexposed to bonds and overexposed to equities, which helped on a relative basis in 2021.
Inflation hit at 7.5% in January 2022 the highest rating since 1982 in which the Fed and PFM are closely monitoring but should calm down and get closer to trend. Another key element the Fed watches is unemployment, which is trending in the right direction as well as the growth in U.S. economy.

The market did well in 2021 due to the Fed keeping rates low and all the stimulus that was injected into the system, and the U.S. economy grew nicely last year leading to strong corporate profitability leading to strong stock price performance. The Fed will be increasing interest rates and we are watching that closely.

Commissioner Winegrad asked historically when inflation hits the country, what happens to the stock market?

Mr. Ammaturo replied when inflation ticks up that means the economy is in a good position and corporate profitability is what drives stock prices.

Abington Township Police Pension Plan:

Abington Township Police Pension Plan Asset Allocation and Performance as of December 31, 2021 was $85,610,312, return for the quarter 4.82%, 14.34% YTD, relative strong returns for the portfolio overall.

Aristotle Atlantic Core Equity is the new manager in the domestic equity fund that will add value to your equity sleeve within the portfolio. Ninety One International Dynamic Equity is the new manager in the international equity fund that favors firms with sustainable growth, return on capital and strong business growth drivers. Last month, within the Fixed Income, SPDR Senior Loan ETF was added after this report was created and this fund helps reduce overall duration within the portfolio.

Cashflows were reviewed with the Pension Committee.

Commissioner Winegrad said the statement dated January 31, 2022 indicated that the market was down, but commodities were not, so would it be too risky to increase allocations in commodities?

Mr. Ammaturo replied commodities are off to an exceptional year as the price of oil really moved up that will help the commodity fund in the plan, which is the PIMCO Commodity Index Total Return. Increase in allocation to 3-4% is possible, and we have an upcoming investment committee meeting and adding this asset class may be on the agenda.

Abington Township Non-Uniformed Pension Plan:

Abington Township Non-Uniformed Pension Plan Asset Allocation and Performance as of December 31, 2021 was $74,563,881, return for the quarter 4.85%, 14.40% YTD. Cashflows were reviewed with the Pension Committee.

Alerts were sent to the Pension Committee noting that in early February when the market was down, we took an opportunity to slightly add to equities and layered in equal weight S&P 500 ETF.

Fourth Quarter 2021 OPEB Trust Investment Performance Review:

Abington Township OPEB Trust Asset Allocation & Performance as of December 31, 2022 was $23,668,440, return for the quarter 4.83%, 14.28% YTD. Cashflows were reviewed with the Pension Committee.

Mr. Clark asked for an update on plan values to-date.

Mr. Grant replied that the Non-Uniformed Plan as of February 16, 2022 was $69,936,962 and the OPEB Trust was $22,385,774.

Asset Allocation and Liability Modeling:

Mr. Ammaturo said at the last meeting, there was interest in learning about alternative, illiquid investments and current asset allocation mix is 65% equity, 35% Fixed Income and no targets in alternative, illiquid investments, which is private real estate, infrastructure investments, private equity, and private debt. Chart showed layering in 5% and 10% targets to alternatives and what that would do to the portfolio; however, the challenge is that the actuarial assumption is 7.5% and that would be difficult to reach over the short-term. Intermediate term assumption for five years would be 5.2% expected return, and over the long-term, 6.8%.

The trend across Pennsylvania has been to take the 7.5% down to 7.25% or 7%; however, that is a budgetary discussion for the Township.

Also, average typical term for illiquid funds ranges from 8-10 years where it cannot be touched for that length of time, and although the return potential is higher, so are the management fees ranging from 0.7- 2.0% as well as performance fees of 15-20%, and if the manager generates a return, they will keep a portion of the gains.

Commissioner Carswell questioned whether any current investments are locked into that length of time.

Mr. Ammaturo replied no, they are 100% liquid and there is no lock-in.

Commissioner Carswell questioned how often the decision is made to change the actuarial assumption.

Mr. Ammaturo replied that is at the discretion of the Township; however, our average clientele revisits it approximately every five years or so.

Commissioner Winegrad added that lowering the actuarial assumption has been discussed previously because it is not doable in today's climate.

Commissioner Carswell agreed that it is clear we would need to put more assets into it.

Commissioner Winegrad questioned whether these types of investments are riskier than others.

Mr. Ammaturo replied these investments are manager and strategy specific, so there is a lot of variants. He brought this before the Pension Committee to digest the information and then consider moving forward with alternative investments, and if so, he will be prepared at the next meeting to discuss a specific strategy in these types of alternative investments. Another route would be to bring alternative investments ad hoc, so it does not need to be so explicit in terms of a strategic target. The three options are status quo, consider it occasionally or change the IPS (Investment Policy Statement) and add a strategic long-term target to the asset class.

Commissioner Vahey said he always want to see alternative investment proposals.

Commissioner Winegrad agreed with Commissioner Vahey as it is our obligation to review all alternatives to see what is available.

Commissioner Carswell concurred that it is important to see what options are available. She would like to learn more about why the Township aimed for the 7.5% actuarial assumption as well as consider putting more funds into it to meet the obligation.

PUBLIC COMMENT:

Lora Lehman, resident, asked for summary reports from all subcommittees such as this one to be provided during the Board of Commissioners meeting.

Commissioner Carswell thanked the committee members for entrusting her with this role as this is an important committee. Also, the agenda packet is posted on the Township's website; however, she understands about including this in some form at the Regular Board Meeting and she will discuss that further with the Pension Committee and Township staff.

ADJOURNMENT: 6:59 p.m.

Respectfully submitted,

Liz Vile, Minutes Secretary