Pension Committee Meeting February 20, 2025

The stated meeting of the Pension Committee of the Board of Commissioners of the Township of Abington was held on Thursday, February 20, 2025 via webinar and the Township Administration Building, Abington, PA, with Commissioner Spiegelman presiding.

CALL TO ORDER: 6:08 p.m.

PRESENT: Committee Members: Commissioner Spiegelman, Commissioner Winegrad, Commissioner Vahey

Employee Representatives: Tim Clark, William Weir, Tim A. Clark
Police Officer Representative: Officer Posey
Finance Director: Jeannette Hermann
Manager of Financial Services: Monica Embery

Others: Donald Grant, PFM
Janet Werner, Vice President, Wells Fargo Institutional Retirement and Trust

CONSIDER APPROVAL OF MINUTES

Commissioner Spiegelman made a MOTION, seconded by Commissioner Winegrad to approve Pension Committee Meeting minutes from November 21, 2024.

MOTION was ADOPTED 7-0.

UNFINISHED BUSINESS: None.

NEW BUSINESS:

Fourth Quarter 2024 Pension Investment Performance Review:

Mr. Grant reported that the Russell 3000 returned 2.63% for the quarter, 23.81% YTD with the Magnificent Seven driving performance that began to broaden by the end of last year.

Internationally, the MSCI AC World ex-USA was down -7.60% for the quarter, up only 5.53% YTD. During the 4th Quarter, a new President was elected and some of the tactics from the new administration are the utilization of tariffs against everything non-U.S. causing a potential increase in inflation, so with the inflationary scare, it will move interest rates up, hurting bonds and real estate.

Alternatives - the MSCI U.S. REIT Index was down -6.39% for the quarter, 7.49% YTD. Real Estate is an interest rate sensitive sector like bonds, so as interest rates went up, real estate went down.

Fixed Income – Bloomberg U.S. Aggregate was down -3.06% for the quarter, 1.25% YTD.

The current administration is using tariffs as a negotiation tactic to bring partnered countries to the table to discuss trade, etc.

Inflation ticked up to about 3.1% and services continued to expand while manufacturing contracts and apartment housing rents increased.

The S&P 500 performance was mixed across the sectors. The worst performing sectors were Materials, Healthcare, and Real Estate, and the best were Consumer Discretionary, Communication Services and Financials.

At the end of the quarter, the forward 12-month price-to-earnings ratios for the S&P 500 were 21.4%, which is above the five-year average of 19.7%. By comparison, the Russell 2000 – small cap stocks had a forward price-to-earnings ratios of 18.1% above its five-year average of 17.8%.

The U.S. Treasury Yield Curve has been inverted for some time; however, we are beginning to see some normalization. The Fed has already cut interest rates by 75 basis points, and since then, it has been steady as inflation remains sticky, however, we are seeing an increase in interest rates at the longer end of the curve and that is more controlled by market participation.

While inflation has fallen since its peak in 2022, it is beginning to increase, and monetary policy went from slightly positive to neutral. While the Fed and other central banks continue to ease, uncertainty around inflation and growth remains.

Valuations have changed from neutral to slightly negative as we are seeing concentration in higher valuations in large caps. International equities look attractive but economic and geopolitical uncertainty are leading to increased volatility.

Geopolitical risks continue to remain elevated due to the broadening of middle east conflict, trade and tariff tensions between U.S. and China, renegotiation of trade deals with Canada and Mexico along with political uncertainty in Europe.

Commissioner Spiegelman questioned whether there could be any additional volatility in the second half of the quarter due to the DeepSeek effect.

Mr. Grant replied the underlining technology that DeepSeek uses comes from the Magnificent Seven. It is the Chinese method of reverse engineering from a technology perspective, aggregating the data and coming up with sharper answers than traditional ChatGPT.

When the data and information is out there, countries such as China can tweak the technology and sell it for cheaper, but for the remainder of the first half of the year, we should not see any major shocks to AI as we understand more. So, now that China is utilizing our underlining technology, we are keeping a close eye on it.

Commissioner Spiegelman asked about volatility versus reality due to extreme rhetoric.

Mr. Grant replied participants in the market will actively trade whenever any news comes out, and the new administration talks about tariffs, so if they occur, it will be a challenge overseas to sell international equities, which is what the traders did towards the end of last year, and they didn't do very well. This rhetoric in volatility creates opportunities for long-term investors to secure securities at a better price than what they were trading for in the past. Pension plans and long-term assets have the benefit of planning 30 plus years down the road, so the short-term noise is just noise.

Abington Township Police Pension Plan:

Abington Township Police Pension Plan Asset Allocation & Performance as of December 31, 2024 totaled $84,847,954, returning -1.33% for the quarter, 11.09% YTD. The Pension Committee reviewed the cash flows.

Investment manager Vaughn Nelson Select has been dragging for the past three years, and we are keeping a close eye on their performance.

Commissioner Winegrad said since the plan is not hitting the benchmarks will any changes be made?

Mr. Grant replied there has been internal discussions on performance, and we are moving quickly on it.

Abington Township Non-Uniformed Pension Plan:

Abington Township Police Pension Plan Asset Allocation & Performance as of December 31, 2024 totaled $67,810,960, returning -1.33% for the quarter, 11.17% YTD. The Pension Committee reviewed the cash flows.

<u>Fourth Quarter 2024 OPEB Trust Investment Performance Review:</u>

The market value of the OPEB Trust as of December 31, 2024 totaled $24,920,493 returning -1.41% for the quarter, 11.06% YTD. The Pension Committee reviewed account reconciliation.

PUBLIC COMMENT: None.

ADJOURNMENT: 6:59 p.m.

Respectfully submitted,

Liz Vile, Recording Secretary