

PENSION ADVISORY COMMISSION
MEETING MINUTES
August 8, 2023

The following voting members were in attendance: Tiffany Strine, Adam Williams and Jacqueline Powell. Also in attendance: Finance Director Richard Juday and U.S. Bank representative Alexander Goldsmith.

I. Call to Order

Richard called the meeting to order at 5:30 PM.

II. Approval of Minutes for August 9, 2022 Meeting

Adam made the motion to approve minutes from the August 9, 2022 meeting, which was seconded by Tiffany. Committee approved the August 9, 2022 meeting minutes.

III. Investment Performance Review

Alexander Goldsmith gave the Investment Performance Review. He started on Tab I, Page 1.3. The performance review covers the first half of 2023 and year-to-date as well as recent events. The recap started with the following key points.

- Quarter to date S&P 8.7%, year to date S&P 16.88%.
- Last year, U.S. stocks were down 18-22%.
- Real hurt came from the Fixed Income Market – bonds were down 13%.
- When interest rates go up, bond prices fall. This affected last year.
- In a blended portfolio, bonds tend to provide the stabilizing factor.
- Toward the end of last year, around November and December, things stabilized. Equity Markets recovered and inflation slowed.
- In March, inflation dipped down to 3%, which is half of 2022. Feds have set a goal of 2-2.5%.
- Last year, the debate was if all the rate hikes would push us into a recession.
- Inflation has fallen, corporate earnings are strong, job and wage growth has slowed but not in recession territory and consumers' confidence is rising.
- GDP for the 2nd quarter has 2.4 or 2.7% growth. Markets are up 20% year-to-date basis and today 18% year-to-date in U.S., slower overseas. International Markets have weaker consumers, increased geopolitical tensions and greater headwinds from central banks.
- On page 1.1, the outlook is for the rate hikes to slow.
- Strong growth in U.S. Valuation is still a good discount, like the end of 2021.
- Opportunities in both Fixed and Equity.
- Biggest risk is political (debt ceiling crisis).
- Most bank investments are 50% mortgages. No government bailout, but potential rate hikes. Moody said some regional and national banks may be downgraded. Banks are responding by self-regulating and pulling back from lending.

- Intermediate to long-term (a year and a half) expect stocks to do better. Risk on but not jumping back in yet.
- Neutral with the exception of credit sensitive. High yield, investment grade corporate bonds have better yield than government bonds.

A. Financial Markets & Investment Strategy Review

Alternative-Real Estate and Commodities

- When interest rates rise, it brings a headwind to the Real Estate market.
- For Commodities, prices and raw materials continue to fall and shipping and labor issues continue to improve.

Fixed Income

- Bonds did well and CD yields are at 5% or higher. The belief is that this will even out and rates will come down mid next year.
- Continue to favor growth in Equities such as AI.
- The number of people, multiplied by the amount of work a single person can do, gives GDP. However, the population in the developed world is stagnating.
- Bonds are down ½% today. They did come back from where they were the end of June.

B. Plan Performance Review – Police

Police Pension Fund (Page 2.1)

- Through June 30, 2023, \$19,248,898 one quarter return.
- Year-to-date 8.04 excess of actuarial rate net of fees just behind the benchmark. Got a little performance back this quarter.
- July through June up 8.6%. The bottom of the market was September of 2022. Relative to the benchmark, last year was not the best. Strong return in the last twelve months.

Asset Allocation & Performance

Domestic Equity

- Jensen is a high quality manager and does very well long-term. They are lagging first two quarters this year, which is explainable. However, if it persists, PFM will have to reevaluate.

International

- Pretty good for most of the actives. Last year was tough for J O Hambro, but they are making a comeback.

Fixed Income

- Pretty good active performance.
- Baird, DoubleLine and Prudential outperforming.
- Investment grade corporates such as iShares year-to-date is up, negative for the quarter but ahead of Barclays Aggregate.
- High-Yields is one of two sectors that was positive for the quarter.
- Excess cash was used to add BBH at the beginning of the year. They actively select short-term bonds.

Asset Allocation Summary (Page 2.6)

- Cash and the Portfolio are closer to benchmark.
- Entered Commodities and Real Estate in April/May 2021 but now completely out. Put into Domestic Equity instead.
- U.S. has outperformed International in Small Cap the first half of the year. Taken out in May (see Alert Tab 5) and redirected to Large Cap.
- For now, ok with letting the market run.

Dollars for the Police Plan (Page 2.5)

- \$18.89 million, net outflow of \$250,000, 3% return with a gain of 614.
- \$18.29, 1 million up from start of year with net 500,000 outflow, which is pretty good.
- \$600,000 full year outflow. Total plan return almost 17%.
- A 50% drop in market value requires 100% gain to get back.

Committee Comments/Questions:

Jacqueline asked what is included in net flow. All benefit payments out with employee/officer contributions going in and out on a regular basis.

Municipal and state contributions are the big offset and they come in September. Adam Williams asked the contributions amount. Richard's reply was a couple hundred thousand. Maybe \$600,000 divided between the two plans.

Richard gave the funded percentage from the January 1, 2023 Actuary Report.

- In 2021, the Police Plan was overfunded at 113.1%. In 2023, it was 98.6%.
- State aid is sufficient to cover the Borough's obligation so far.
- In 2021, the Non-Uniform Plan was overfunded at 107%. In 2023, it was 94.3%.

C. Plan Performance Review – Nonuniformed

Nonuniformed Pension Fund (Page 3.5)

- Everything is invested the same for the Nonuniformed Plan. Therefore, returns are the same and the same actions are taken.
- This quarter 13.5 to 13.8. Net outflows 137 for the quarter, 265 for the half-year and the full year a little less. 13.0 to 13.8 gains.

Committee Comments/Questions:

Jacqueline questioned if there would be a circumstance that would change the allocation between the plans. Alexander Goldsmith said that would not be PFM's call. Since the Plans' goals are similar, the allocation is the same.

IV. Public Comment Period

There was no public comment.

V. Adjournment

There being no further business or public comment, Richard made the motion to adjourn the meeting, which was seconded by Adam. The meeting adjourned at 6:09 PM.

The next Pension Advisory Commission Meeting is scheduled for February 6, 2024 at 5:30 PM.