

**ABINGTON TOWNSHIP  
PENSION COMMITTEE MEETING**

**February 19, 2019**

**CALL TO ORDER:** 6:02 p.m.

**PRESENT:**

Committee Members: Chairman Kline  
Excused: Luker-Vahey

Employee Representatives: Tim Clark, William Weir  
Police Representative: Officer Chris Posey  
Finance Director: Jeannette Hermann

Others: Marc D. Ammaturo, Managing Director, PFM  
Janet Werner, Relationship Manager, Wells Fargo  
Ron E. Dutton, Vice President Relationship Manager,  
Wells Fargo

**APPROVAL OF MINUTES:**

Commissioner Kline made a MOTION, seconded by Officer Posey to approve minutes of Pension Committee Meeting of November 20, 2018.

MOTION was ADOPTED 4-0.

**PRESENTATIONS:** None.

**UNFINISHED BUSINESS:** None.

**NEW BUSINESS:**

Quarterly Investment Review – Fourth Quarter ending December 31, 2018:

Mr. Ammaturo said stock market in the 4<sup>th</sup> Quarter took a downturn that continued through December 31<sup>st</sup>. Russell 3000 Index was -14.31% in the last three months of calendar year and -5.25% YTD, although long-term is still strong and markets bounced back beginning of 2019. Global economies are slowing and U.S. on a relative-basis is still on solid footing. Corporate earnings continue to be strong in the U.S., but there is trade tension with China resulting in headwinds for economies that rely on exports. The Fed increased interest rates four times in 2018 and expected to increase rates two times in 2019.

MSCI AC World ex-US was -11.44% for the quarter and -13.81% YTD. Bond market is slow and steady and Bloomberg Barclays U.S. Corp High Yield was -4.53% for the quarter and -2.08% YTD. U.S. economy went from 4.2% to 3.4% in terms of growth and in the 4<sup>th</sup> quarter it was 2.8% positive, but with slower growth. Energy sector was hit the hardest and Utilities did well on a relative basis. Portfolio is neutral weight international and overweight domestic equity, which hurt in the 4<sup>th</sup> Qtr, but helping in the 1<sup>st</sup> Qtr and bond market also helps long-term.

PFM sent an alert dated December 3, 2018 regarding slower pace of global growth and how PFM will maintain overweight to domestic equity. Also, an update was sent on multi-asset class portfolio dated January 7, 2019 reiterating status of the markets and maintaining current stance. Another document was sent regarding long and intermediate term of capital market assumptions over the next five years and over the next 30 years.

Commissioner Kline asked for the status of the plan's five-year return.

Mr. Ammaturo replied plan is up 7.5% just over six weeks of 2019, but down 9% in the 4<sup>th</sup> Qtr. Volatility in the market has been heightened; however, PFM still feels U.S. equity is a good place to be.

Commissioner Kline questioned whether PFM will be doing anything to flatten that line.

Mr. Ammaturo replied yes, within U.S. equity, we have discussed publicly traded real estate and mid-cap in terms of stocks most attractively valued and there will be a committee meeting held tomorrow to discuss any trades we want to make. For a 7.5% target for the plan, we don't want to reduce volatility because then we would be trimming expected return and making a non-realistic assumption.

Commissioner Kline said it is not realistic to think the plan will hit 7.5% target either.

Mr. Ammaturo replied he thinks it is reasonable over the long term.

Commissioner Kline said if there is concern going forward, how does PFM evaluate those aspects and what will be done to lessen the effects of invested pension plans?

Mr. Ammaturo replied we are the most bullish in the U.S., but the global view has a lot more uncertainty outside of our borders and that is why there is more exposure "here in our backyard." Private asset class did not get hit by the stock market as it is independently valued and some PA municipal clients as well as countrywide have 3% or 4% of private real estate as part of their plan, and if that is the type of asset class the Township would like to revisit, we can do that, but it was decided not to move forward.

Commissioner Kline said it was decided not to move forward due to difference of opinion as to whether a public pension fund could be invested due to potential conflict. So whoever is offering that investment needs to explain further how a public pension fund in the State of Pennsylvania can invest in private real estate?

Mr. Ammaturo replied we can revisit alternative investments if there is an “appetite for illiquidity to dampen volatility,” but it does not need to be private real estate. We can look at other asset classes, which are not cheap.

Commissioner Kline said given the climate in the market that is ahead of us, what are PFM’s thought process in trying to diminish that long term downside.

Mr. Ammaturo replied our chief strategist’s mindset is that for a pension plan with a 7% actuarial assumption long-term with an overweight to U.S. equity. Our investment committee has been considering that if this is a prolonged market downturn, how will we de-risk portfolios and that is an agenda item to be discussed. He will report back on options for Abington going forward.

Officer Posey said due to increase of volatility globally, would PFM suggest rebalancing such as more exposure in domestic equity and less internationally?

Mr. Ammaturo replied there is also volatility in U.S. stock market, but fundamentals here are stronger. If the plan is underweight international, and it is beginning to turn in 2019 up 6%-7%, then the plan will under-perform. We are conservative and our view of the markets is to be slightly underweight the bond market, slightly overweight in domestic equity and not out in international equity. The plan takes credit risk in the bond market and underweight in U.S. treasury bonds.

Mr. Clark suggested that if there is documentation to show that government agencies are investing in private real estate then he would like to revisit that, if it is doing so well.

Commissioner Kline asked Mr. Ammaturo to provide more information about that investment so he can share with Township Solicitor and then Pension Committee can revisit it.

Abington Township Police Pension Plan:

Abington Township Police Pension Plan Asset Allocation and Performance as of December 31, 2018 was \$56,796,565 down -9.12% for the quarter, -5.07% 2018. The plan is cash flow negative (1,577,904) YTD.

Abington Township Non-Uniformed Pension Plan:

Abington Township Non-Uniformed Pension Plan Asset Allocation & Performance as of December 31, 2018 was \$53,346,818 down -9.07% for the quarter, -5.03% 2018. The plan is cash flow negative (2,397,674) YTD.

**ADJOURNMENT:** 6:52 p.m.

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