ABINGTON TOWNSHIP
PENSION COMMITTEE MEETING

November 15, 2016

CALL TO ORDER: 6:02 p.m.

PRESENT:

Committee Members:	Commissioners Bowman, Kline
Excused:	Commissioner Hecker
Employee Representatives:	Tim Clark, Tim Zurybida
Police Representative:	Officer Posey
Finance Director:	Kevin Barron
Township Manager	Michael LeFevre
Commissioner:	Ben Sanchez
Others:	Janet Werner, Relationship Manager, Wells Fargo Marc D. Ammaturo, Managing Director with PFM Group

Minutes of August 16, 2016 Meeting:

Commissioner Bowman made a MOTION, seconded by Tim Zurybida to approve the minutes of the August 16, 2016 Pension Committee Meeting.

MOTION was ADOPTED 5-0.

Quarterly Investment Review- Third Quarter 2016:

Mr. Ammaturo reported that the third quarter was rather strong noting the Russell 3000 was up 4.4% ending September 30th. Stock market year-to-date was up 8.18%. Russell 2000 small cap stocks were up 13% in 2016 relative to the overall market. International equity had stronger returns and MSCI EAFE – developed markets overseas were up 6.4% in the quarter bringing the year-to-date to a positive 2%. MSCI EM was up 9% for the quarter and up 16% for the year. International markets outperformed domestic markets in the third quarter.

Publicly-traded real estate had a strong year at 11.75% and sold off in the third quarter and selling off significantly in the fourth quarter due to 10-year Treasury long-term rates rising, which is a headwind to interest-sensitive stocks such as real estate. Fixed income barely moved in the quarter as the Barclays Aggregate was positive 0.46%, and for the year, long-duration bonds were up almost 6%.

The portfolio has exposure to Barclays US Corp High Yield - debt issued by lower credit-quality companies that was up 5% in the quarter and up 15% for the year.

Since the end of the third quarter, there has been a reversal in bonds. The overall bond market is off about 2-2% due to 10-year interest rate.

Asset Allocation and Performance for Abington Township Police Pension Plan as of September 30, 2016 was $54,384,497 up 2.64% for the quarter and 6.50% for the year. The plan is underweight in international equity, which did not help relative performance.

Commissioner Kline asked what is the target performance goal for the year?

Manager LeFevre replied 7.50%.

Commissioner Kline questioned whether 7.50% is anticipated for the year.

Mr. Ammaturo replied the fourth quarter has been challenging with international stocks selling off significantly, and as of now, it is closer to 5.00% for the year. The portfolio will continue to do well if US Equity continues to outperform International Equity and that has been happening except in the third quarter.

Commissioner Kline questioned whether too many assumptions are being made as the plan should be in a more stable position.

Mr. Ammaturo replied in order to make actuarial assumptions there needs to be a level of volatility. It can be a less volatile portfolio, but the return expectation would need to be lowered. In order to get to 7.50% over the long term, we cannot avoid volatility. It is how we manage risk in the portfolio to give Abington the best chance at reaching that figure. That is an aggressive figure and most of our clients have lowered it, and even at a lower level, there will be volatility.

Commissioner Kline asked what is a suitable lower level?

Mr. Ammaturo replied that would be due to the cash flow situation.

Commissioner Kline said putting aside cash flow, in trying to reach a return on investment, what is a more suitable level?

Mr. Ammaturo replied our five-year projection is 65% equity 35% fixed income – 5.8%.

Manager LeFevre noted that the next pension evaluation will be 1/1/17 and we could possibly reduce the assumption from 7.50% to 7.25%, but that will have a direct impact on the budget.

Mr. Ammaturo said going forward, we are expecting a little below 6.0% for the next five years due to long term treasuries going up. We need to manage it and we are seeing it in the fourth quarter. We are projecting 1.50% positive return for bonds for the next five years annualized. 35% of the plan is in the bond market, so a significant double digit return on the equity side would be needed to get close to the actuarial assumption and that is the challenge, and so many of our clients have been reducing their actuarial assumption.

Mr. Clark questioned who decides to reduce it from 7.50% to 7.25%.

Mr. Barron replied if the Pension Committee makes that recommendation, we would need to do an actuarial study to see what the costs would be and that is part of the MMO (Minimum Municipal Obligation). If it is lowered, then more money would need to be put into the plan and that would affect the budget.

Manager LeFevre added that our administrative consultant suggested for budgetary purposes not to change it, but consider putting additional money in the plan if those resources were available.

Mr. Clark suggested instead of 65% equity, 35% fixed income, change it to 70-30 to be more aggressive in the markets.

Mr. Ammaturo replied that is what most of our clients have done. We can do an analysis, but that will increase volatility.

Mr. Clark asked Mr. Ammaturo to explore three scenarios - 65/35, 70/30, and 75/25 for comparison purposes.

Commissioner Kline said the solution that needs to be reviewed would be to reasonably reduce our expectations on return of investment of the funds.

Mr. Ammaturo continued that the target is 65% equity, 35% fixed income, and as of September 30th, it is 66% equity, 34% fixed income slightly overweight in equities relative to bonds.

Asset Allocation and Performance for Abington Township Non-Uniformed Pension Plan as of September 30th was $51,773,660. Investment earnings were greater than negative cash flow for the first nine months and that is why the plan grew from approximately $50.2 million to $51.7 million. The plan was overweight in domestic equity, under weight in international equity and under weight in the bond market. This plan is also approximately 66% equity, 34% fixed income.

Going forward, he will put together an asset allocation analysis that will show scenarios at 65/35, 70/30, and 75/25 for comparison purposes on return expectations for the next five years and for the next 30-years plus.

PFM continues to make progress on product development in which we are in the process of partnering with State Street Bank to aggregate our assets across our clientele to enable PFM to have purchasing power to go to the managers and get access and to get better fees because we will have negotiating power. It will be called, "PFM 40 Act Mutual Fund" that will launch on July 1, 2017.

Mr. Clark asked how much more negotiation power will PFM have?

Mr. Ammaturo replied PFM will have more purchasing power as our clientele increases and it will also provide more leverage in terms of fees with underlying managers.

<u>Board Action Request – Resolution No. 16-033 –Amending Police Pension Document Pertaining to Member Contributions for 2017:</u>

Commissioner Bowman made a MOTION, seconded by Officer Posey to set Police Pension contribution rate for 2017 at five percent (5%) of compensation.

Mr. Barron noted this is an annual resolution based on Act 600.

MOTION was ADOPTED 5-0.

ADJOURNMENT: 6:47 p.m.

sev