

**ABINGTON TOWNSHIP
PENSION COMMITTEE MEETING**

February 20, 2018

CALL TO ORDER: 5:57 p.m.

PRESENT:

Committee Members: Chairman Kline-Vice Chairman Sanchez-

Excused: Luker

Employee Representatives: Tim Clark, Kurt Dorn

Police Representative: Officer Chris Posey

Finance Director: Kevin Barron

Township Manager: Richard J. Manfredi

Others: Janet Werner, Relationship Manager, Wells Fargo
Marc D. Ammaturo, Managing Director, PFM

APPROVAL OF MINUTES:

Commissioner Kline made a MOTION, seconded by Officer Posey to approve the minutes of the Pension Committee meeting of November 21, 2017.

MOTION was ADOPTED 5-0.

Quarterly Investment Review –Fourth Quarter 2017:

Mr. Ammaturo reported that beginning this month markets have been volatile. As of December 31, 2017; S&P 500 was up 6.64%; YTD 21.83%. MSCI AC World ex USA (Net) was up 5.00% YTD 27.19%. Fixed Income markets; Barclays Aggregate was 0.39% for the quarter; YTD 3.54%. Barclays US Corp High Yield was up 0.47% and YTD 7.50%.

An alert was sent to the Pension committee dated February 7, 2018 to not panic and that fundamentals are still strong with U.S. economy, and even with all of this volatility, the stock market is still positive on a year-to-date basis.

The Fed will increase short-term rates again in March; however, economic fundamentals are there to support a rising rate environment, which is why we are not trimming equity overweight position.

Valuations are being closely monitored as stocks domestically are overvalued relative to their five-year average. Prices and valuations are increasing, but are supported by higher earnings of companies within S&P 500 and the same with small cap stocks.

International stocks are slightly overvalued relative to their five-year average and domestic stocks have outperformed international significantly since 2009.

10-year Treasury bond is trading at 2.41% and has not moved since the end of fourth quarter or prior year 2016, but in 2018 it went up to 2.88%. Bonds are negative this year at 2% because 10-year bonds went from 2.41% to 2.88%.

Abington Township Police Pension Plan Asset Allocation & Performance as of December 31, 2017 market value was \$61,390,992; fourth quarter gain was 4.10% and in 2017 was 16.63%. Plan outperformed blended benchmark due to overweight equities relative to the bond market.

41% of equity assets are indexed and at a low cost at 21% for the year. There was one active manager in domestic equity that did not keep up with the market last year and that was T. Rowe Price Dividend Growth. It is there during volatile times to protect capital and they only have 3% of assets. Vanguard Total International Stock Index has almost 9% of assets and was up 27.55% and then there are three active international managers and two of the three outperformed last year. J.O Hambro International Select underperformed.

There were changes at the manager level that occurred in Fixed Income and they are DoubleLine Core Fixed Income I and Prudential Total Return both outperformed in the fourth quarter and Vanguard High Yield Corporate was up 7.13% last year. This plan was cash flow positive in the fourth quarter, but cash flow negative last year. Plan is overweight in domestic equity, overweight in international equity and underweight in the bond market.

Abington Township Non-Uniformed Pension Plan Asset Allocation & Performance as of December 31, 2017 market value was \$58,564,333 up 4.12% for the fourth quarter and 16.69% YTD and slightly outperformed blended benchmark. Plan was slightly cash flow negative in the fourth quarter and last year it was significantly cash flow negative. Plan has similar investment structure as the police plan.

Commissioner Kline questioned whether another correction is expected.

Mr. Ammaturo replied we are expecting approximately 6.5% return for the domestic stock market over the next five years, and although it is hard to predict corrections, we have the mindset that equity market is still the place to be and that is supported by overweight positioning.

Commissioner Kline asked when will investments of PFM's Multi-Manager Funds begin?

Mr. Ammaturo replied we have approximately \$700 million across our clientele who is ready to invest, and next week, we will move assets from current clientele's portfolios to the new structure.

Ms. Werner clarified that they are mutual funds and not collective funds. Is that correct?

Mr. Ammaturo replied they are PFM-branded mutual funds.

Manager Manfredi asked how will recent tax reform effect earnings?

Mr. Ammaturo replied it was already priced into the market and we will wait and see the effects.

Commissioner Kline said when investing in PFM funds will there still be tracking of how the plan's portfolio is doing within the current structure so as to compare current to new structure?

Mr. Ammaturo replied yes, we will continue to track 65-equity, 35-fixed income composite.

Commissioner Kline said he would like it to be tracked for remaining calendar year of 2018 as well as through 2019.

Mr. Ammaturo agreed.

PUBLIC COMMENT: None.

ADJOURNMENT: 6:32 p.m.

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