

**ABINGTON TOWNSHIP
PENSION COMMITTEE MEETING**

February 21, 2017

CALL TO ORDER: 6:03 p.m.

PRESENT:

Committee Members: Commissioners Bowman, Kline

Excused: Commissioner Hecker

Employee Representatives: Tim Clark, Tim Zurybida, Dave Corrigan

Police Representative: Officer Posey

Finance Director: Kevin Barron

Assistant Finance Director: Jeannette Herman

Commissioner: Ben Sanchez

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

Minutes of November 15, 2016:

Commissioner Bowman made a MOTION, seconded by Commissioner Kline to approve the minutes of the November 15, 2016 Pension Committee Meeting.

MOTION was ADOPTED 6-0.

Quarterly Investment Review – Fourth Quarter 2016:

Mr. Ammaturo reported that it was a solid year for domestic stock market as Russell 3000 was strong in the quarter up 4% and 12.74% in 2016. International markets were strong, but not as strong as domestic. MSCI AC World ex USA, which is all countries outside the U.S., was up 4.50% in 2016, so equities across the globe were positive.

The plan has exposure to publicly traded real estate in which we are in the process of getting out of real estate as it sold off in the 4th quarter down 2.89% in a rising rate environment. Fixed income – Barclays Aggregate had a negative return of -2.98% for the quarter, but positive for the year at 2.65%.

The plan has exposure to high yield and Barclays U.S. Corp. High Yield was up 17.13% for the year.

U. S. 10-Year Treasury in the 4th quarter began the year at 1.5% ending the year at almost 2.5%.

Most sectors across the board were positive with Energy up 27.36% and Healthcare was the worst sector last year, down -2.69%.

Asset Allocation and Performance for Abington Township Police Plan as of December 31, 2016: Total market value was \$54,865,982 with a positive return for the quarter of 0.34% and positive return for the year of 6.86%. Most assets are indexed in domestic equity and Vanguard Total Stock Market Index was up 4.12% and Vanguard Small Cap Index was up 6.10%.

International Equity – Vanguard Total International Stock Index was up for the year 4.67%. Vanguard International Value has three sub-advisors to that fund and was up 4.46% for the year. J.O. Hambro was up 5.20% for the year and Oppenheimer was flat, but it has the lowest amount of assets and zero percent to energy sector, which was a headwind to their relative performance.

Commissioner Kline questioned whether there is a concern about J.O. Hambro's performance.

Mr. Ammaturo replied it is a volatile portfolio because it is concentrated and does not invest in many stocks so as a result, volatility is higher than the plan's average manager.

Publicly traded real estate stocks will continue to face headwinds in 2017 especially if long-term rates continue to rise.

Fixed Income – we hire active managers that are underweight in treasuries, overweight in credit and overweight in high yield and did well in 2016.

The plan was cash flow positive \$297,069 for the fourth quarter in which the Township contributed more to the pension plan than paid out to retirees.

Return on investments was positive \$184,417 for the fourth quarter. YTD the Township paid out \$2,325,039 more than it contributed, which was offset by \$3,547,057 in investment earnings last year, so the plan did grow from \$53,643,965 to \$54,865,982.

An alert will be sent from PFM to the Township in regards to the trade, which will be to get out of real estate and move most of those dollars to international equity. Portfolio will remain overweight in domestic equity, in line for international equity and underweight in fixed income.

Asset Allocation & Performance for Abington Township Non-Uniformed Pension Plan as of December 31, 2016: Total market value was \$52,128,663 with a positive return for the quarter of 0.36% and up 6.89% for 2016. Slightly cash flow positive in the fourth quarter, but cash flow negative of \$1,506,526 in terms of paying more to retirees than contributing, which was offset by investment earnings of \$3,376,610. This plan grew last year from \$50,258,579 to \$52,128,663.

PFM's Capital Market Assumptions:

Referring to 2017 Capital Market Assumptions showing asset classes potentially invested in, expected return and expected risk. 1.5% is what is expected from core bonds for the next five years and intermediate investment grade expected return is 1.9% and high yield expected return is 4.8%, which are subsets of the bond market.

We try to get incremental return in the bond market and these are PFM's expected returns over the next five years. Equity-across the globe, we are expecting between 6% and 7% in stocks with U.S. Equity being the highest. Portfolio is overweight in domestic equity and at target in international equity.

Asset allocation summary shows Abington 65/35 portfolio; PFM 70/30 model and PFM 75/25 model. Expected return for five years is 5.7% and long term assumption over 30 years is 7.4%. 65/35 is the Township's target, but today, it is 68% equity and 32% fixed income because it is more bullish in stocks relative to bonds.

70/30 model and 75/25 model has more equity and expected return moves from 5.7% to 6.0% to 6.2% over the short term, and over the long term, move from 7.4% to 7.5% and 7.6%.

Officer Posey asked if the Township was to change to the 75/25 model would that be too far from target.

Mr. Ammaturo replied most of our clients do not go much higher than that, and all portfolios will have the same themes.

Return projections based on intermediate-term capital market assumptions for the next five years range from: Abington 65/35 would be 5.72%; PFM 70/30 model would be 5.97% and PFM 75/35 would be 6.21%.

Commissioner Bowman questioned whether there is a recommendation to move the Township's model based on projections.

Mr. Ammaturo replied this is the asset side and not the liability side. The plan was cash flow negative last year paying out more than contributing, so that is a trend not working in the plan's favor. If that is a trend expected to continue, he could envision a need to increase equity exposure, but he does not have that data at this time.

Commissioner Kline said the broader question is whether to change the expected return on investment from 7.5% to something more realistic and how would the Township adjust the budget to handle it.

Mr. Barron replied that would be \$1 million more put into each plan.

Commissioner Kline said at the next Pension meeting, we need to discuss further lowering rate of return from 7.5% incrementally and what the effect would be.

Officer Posey said it makes sense to lower the expectation.

Commissioner Kline said history has shown that the plan will not meet 7.5% expected return on a regular basis, so we should look at how lowering it affects the budget. We need to see the entire picture before making any decisions.

Mr. Barron replied he will ask the actuary to do that study and send it out to committee members.

ADJOURNMENT: 6:49 p.m.

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