

WEST WHITELAND TOWNSHIP
PENSION ADVISORY BOARD MINUTES
January 25, 2023

Members Present

Tom Belisari
Jeff Glisson
Denise Bailey
Jack Ellis
Chris Bamber
John Weller (Non-uniformed Representative)
Kurtis Rainey (Police Representative)

Township Staff Present

Caroline Partridge, Finance Director
Pam Gural-Bear, Interim Township Mgr.

Supervisors Present

Rajesh Kumbhardare

The meeting was called to order at 9:04 A.M. The meeting was a hybrid with participants attending both in person at the Township Building and on-line via Zoom.

1. Election of Chair and Vice-Chair

MOTION: To appoint Tom Belisari as Chairman.

ACTION: The motion was unanimously approved.
(Bamber/Bailey)

MOTION: To appoint Chris Bamber as Vice-Chairman.

ACTION: The motion was unanimously approved.
Belisari/Bailey)

2. Approval of Minutes – October 26, 2022

MOTION: To approve the October 26, 2022, Minutes.

ACTION: The motion was approved 4-0-1 (Bamber abstained)
(Bailey/Ellis)

3. Overview of 12/31/2021 actuarial valuation, a brief look at the expected results of the next valuation of 12/31/2022 (Conrad Siegel, John Vargo, FSA, EA, MAAA)

John Vargo, the Township's actuary from Conrad Siegel, was in virtual attendance and provided an overview of the most recent actuarial report as of 12/31/21. He began by reviewing the benefits of the plans and a glossary of terms used.

A 4-year smoothing method is currently used for determining the value of the pension funds. Smoothing takes out the volatility of the market and gives the plans a chance to recover from bad years. A percentage of both gains and losses is held back to "smooth out" ups and downs

over a 4-year period; holding back 75% of the loss from 2022, as well as holding back some of the gains from 2021.

Based on an annual investment return assumption of -18% for 2022, and assuming an upswing in the market with an assumption of 7.0% for subsequent years, the current Minimum Municipal Obligation (MMO) is \$676,000. With the estimated \$400,000 to be received from the State, the Township's obligation is \$276,000 (from the 1/1/21 actuarial report). The Township's contribution increases substantially in 2026-2027. Mr. Vargo recommended that the Township contribute more than the MMO to offset the large increases coming in future years. Mr. Vargo will return to the PAB April meeting to provide specifics on the 2022 year and report ending 12/31/22.

Compared to neighboring municipalities, the Township's pension plans are still very healthy relatively speaking. Mr. Vargo has funding numbers for Chester County municipalities and will forward to Staff.

4. OPEB and Pension Plans performance review (PFM - Bikram Chadra)

Mr. Belisari recommended that everyone view the Annual Capital Markets webinar that PFM presents regularly, noting that it was very informative. An invitation to view will be sent to all members.

Bikram Chadra provided an overview of plans and the overall poor market performance for 2022. He noted that the diversification strategy of Fixed Income and Equities broke down driven by the speed with which the Federal Reserve hiked interest rates. However, longer term Fixed Income is now earning again. He noted that the poor market does present opportunity for reinvesting - "buy low, sell high".

Mr. Chadra said there is an expectation that the rate hikes by the Federal Reserve are coming to an end, possibly in March. He said this is good news because it allows a degree of certainty in the market place. Talk of recession drove volatility last year, but there seems to be a growing consensus now that IF a recession happens, it will be a shallow one. Inflation will remain, but it is trending down from its high of 9.1%. Mr. Chadra explained that changes made by Federal Reserve can take 6 – 18 months to work through the system. We haven't seen the full effect yet of what the Fed has done, so taking a pause is responsible.

Mr. Glisson felt there was still a very strong possibility for a recession. Mr. Chadra said there are many parts to the economy, and some operate slower than others. Some views are that manufacturing, housing, and technology may already be in a recession. Mr. Chadra said there are lots of opinions but emphasized that any possible recession will be the result of policy and not structure as with past recessions. He added that the war in the Ukraine continues to insert volatility around the energy markets.

Mr. Chadra said some good news is that China has eased up on its Zero Covid policy, and while this has created supply chain issues, which in turn affects inflation, it's a positive in that it continues to normalize the global economy from a trade standpoint.

Concerns for this year include Central Bank policy, economic activity, and socio-political risk; similar to last year with the exception of Covid.

Mr. Belisari asked about the effect on the U.S. dollar. Mr. Chadra explained that as interest rates rise, the dollar is strengthened. The dollar reached a 4th quarter plateau then went down slowly. Because interest rates overseas are picking up, the demand for the dollar is less.

Mr. Weller asked if Russia's efforts to weaponize energy will result in more investment in alternate energy (ESG). Mr. Chadra said energy transition is gaining momentum globally, and he believes this is long term. His opinion is that we can't get away from traditional energy sources but will strive for cleaner sources (solar, wind) and provide more balance. He added that the ESG investment strategy needs to be philosophically supported because there will always be ups and downs, noting that ESG did not do well in the markets last year.

When asked about the debt ceiling, Mr. Chadra said he believes it will be raised, but also acknowledged that the continuing debt will hamper growth in the future.

Mr. Chadra then gave an overview of the performance of the Police Plan, noting similar results in the Non-Uniformed Plan. There were some positive results at the end of last year with a 6.67% return for the 4th quarter; -17.79% for the year 2022, with benchmark of -15.77%. Since the plan's inception, it has a 1.48% return vs. a benchmark of 1.39%. The good news is that year 2021 saw 13+% over a benchmark of 10+% which helped to buffer some of the 2022 losses.

Jensen Quality Growth remains in the portfolio as a down-side risk mitigator and it added value in 2022. Mr. Chadra explained that earnings stability will drive future growth. Historically when markets are in a period of "risk on" Jensen Quality generally underperforms, but with what PFM anticipates this year, Jensen will outperform. Active managers are paying more mind to Quality because they don't think the markets will be as risk on moving forward as they were over the last decade.

International Equity saw a 16.8% return for the 4th quarter outperforming the benchmark of 14.28%, however it was down 21.11% for year 2022 vs. the benchmark of -16.00%. J.O. Hambro experienced 5 of 6 worse months last year, and this allocation has been trimmed in half. Harding Loevener outperformed in the 4th quarter but has a quality bias so was hit hard in 2022.

Fixed Income was up 2.25% for the 4th quarter, but down 12.9% for the year 2022.

Markets bounced back at the start of this year with the portfolio up 4%. As of January 20, 2023, the portfolio is up \$1 million since the end of last year. As the Federal Reserve's rate hikes become more balanced, the Yield Curve and Fixed Income are stabilizing, and Cash has been redeployed back to 1%. Currently Domestic Equity makes up 37.8% of the portfolio; International Equity 21.0%; and Fixed Income 34.3%.

The OPEB Trust has outperformed the benchmarks since its inception, with the last 5 years showing strong equity market returns.

5. New Business from PAB Members

Mr. Weller provided a development update for PAB members. He advised that Westrum has withdrawn its application for a continuing care facility citing financing costs, however, another

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entity has expressed interest in taking over the project. The developer of the residential plan approved in conjunction with the proposed Wawa at Ship & Lincoln Highway has indicated there may be a pause in constructing the single-family homes. Mr. Weller said while interest rates appear to be slowing some of the construction within the Township, it is still the place where people want to be, with occupancy rates of rentals being above 90%.

Adjournment

The meeting adjourned at 10:42 a.m.

Respectfully Submitted,

Caroline Partridge

Caroline Partridge,
Finance Director/Recording Secretary