

**SPRINGETTSBURY TOWNSHIP
POLICE PENSION BOARD**

**AUGUST 27, 2020
APPROVED**

The Springettsbury Township Board of Supervisors held a Police Pension Board Meeting on Thursday, August 27, 2020 at 6:00 p.m. via Zoom technology.

MEMBERS IN

ATTENDANCE: Mark Swomley, Chairman
George Dvoryak, Vice Chairman
Charles Wurster, Assistant Secretary/Treasurer
Don Bishop
Robert Cox
John Lawton, Police Department
Christopher Ford, Police Department

ALSO IN

ATTENDANCE: Dori Bowders, Interim Township Manager
Teresa Hummel, Director of Finance
Mark Renzini, F.N.B. Wealth Management
Adam Runk, F.N.B. Wealth Management
Jean Abreght, Stenographer

1. CALL TO ORDER

SWOMLEY Chairman Swomley called the Police Pension Board meeting to order at 6 p.m. He determined that a Quorum was present.

2. ACTION ON MINUTES

A. Police Pension Board Meeting Minutes – May 28,2020

MR. DVORYAK MOVED TO APPROVE THE MINUTES OF THE MAY 28, 2020 POLICE PENSION BOARD MEETING. MR. WURSTER WAS SECOND. MOTION UNANIMOUSLY CARRIED.

3. PUBLIC COMMENT

There were no public comments.

4. CORRESPONDENCE AND OTHER COMMUNICATIONS

A. Police Pension Reports

- (1) Acknowledge Receipt of Second Quarter Payroll Pension Contribution Reconciliation Report
- (2) Acknowledge Receipt of May, 2020 F.N.B. Management Report
- (3) Acknowledge Receipt of June, 2020 F.N.B. Management Report
- (4) Acknowledge Receipt of July, 2020 F.N.B. Management Report

MR. DVORYAK MOVED TO ACKNOWLEDGE RECEIPT OF THE FOUR ITEMS 1 THROUGH 4 LISTED ON THE AGENDA. MR. WURSTER WAS SECOND. MOTION UNANIMOUSLY CARRIED.

5. REPORTS FROM FINANCIAL ADVISORS

A. F.N.B.. Wealth Management

RENZINI Mr. Renzini presented the Net Asset Summary beginning with a balance of \$18,962,268.93. Contributions amounted to \$98,396.62. Distributions were \$693,443.83. Interest and dividends generated were \$218,219.95. Realized Gains were \$370,161.75 and Market Appreciation. The increase in the value of the portfolio holdings during this year was \$604,494.42, and the Balance in the portfolio as of August 25, 2020 was \$19,560,115.34.

Economy

RUNK Adam Runk stated that there had been an unexpected recovery as to how rapidly it occurred in the midst of one of the deepest recessions since the Great Depression in terms of depth. The Federal Reserve had put some Quantitative Easing in place, which provided for a shorter recession. Additionally, the federal government's fiscal stimulus helped to offset what could have been a very devastating recession. Economic recovery over the next two years will not be immediate; however, recovery economically will be surprising including the election and the third quarter earnings season. America has not been heavily manufacturing dependent as Europe. Additionally, the composition of its economy and technology continues to expand raising valuations of companies relative to earnings. The top five companies that compose 25% of the general S&P 500 are Apple, Amazon, Google, NetFlix and Microsoft. Mr. Runk looks toward more normal earnings in 2022 and valuing the market based on those earnings.

SWOMLEY Chairman Swomley commented that the top five companies have an acronym of MAGA.

RUNK Mr. Runk noted with regard to the election, there are very plausible different scenarios with a tight race. He added it was difficult to predict, but F.N.B. has different plans prepared depending upon whether Trump wins, Republic Senate continues, whether Trump wins but the Senate swings Democrat, whether Biden wins but the Senate remains Republican or the Senate goes Democrat. One situation where GDP contracts are effective depends on government spending. Biden expressed interest in raising corporate taxes, which will have a negative impact on the stock market. Democrats are in favor of providing a public option, if not nationalizing healthcare insurance, affecting insurers. Under a Biden regime, F.N.B. has formed a game plan as the election unfolds.

RENZINI Mr. Renzini echoed Adam Runk's comments and stated again that they have a plan depending on who wins the election. He asked Mr. Runk to move to the Performance.

Performance

RUNK Mr. Runk noted the year-to-date returns, which had been very good. The Portfolio is up 4.22%, 2.2% Net Of Fees over the benchmark for that period. A

lot of that has come from the growth overweight made before the beginning of the year. Despite the pullback and recovery, it has continued to outpace the market. The top five companies previously named, the overweights in the Portfolio, are what has driven those results, as well as the large underweights, international and the focus on large U.S. stocks. Additionally, a sector overweight in technology has benefited the Portfolio. In the last month 3.3% has been added versus the benchmark of 2.6%.

RENZINI Mr. Renzini stated that there would be a time when it makes sense to take down at least part of the overweight. He noted in their philosophy they are not trying to tighten the market but review what is happening. They want to be roughly right versus exactly wrong.

RUNK Mr. Runk commented on the Bond portion which is up 6.44% on a year-to-date basis versus the GC Intermediate Benchmark of 6.06%. The stock portion is up 2.46%. The Common stocks are up 9.44%. The funds, which are Mid Cap, Small Cap, and International have done markedly worse at -.89% resulting in the overall 2.46% allocation. He noted that based on the current Investment Policy Statement, they are at the maximum permitted under the policy. It is the large U.S. Common stocks that have been a benefit, such as the overweights in Amazon and Netflix, up 45% year-to-date when the market is flat.

DVORYAK Mr. Dvoryak posed several questions. He asked whether the portfolio is a 50/50 mix Equity and Fixed Income, and whether the Investment Policy Statement lists those targets at 50/50. He asked what the actuarial assumption return is built into the Pension Plan for the Minimum Municipal Obligation. He asked whether with the 50/50 mix any projections were done in terms of the expected Rate of Return over the next 10-20 years.

RUNK Mr. Runk responded that generally with a 50/50 mix, considering the current interest rates and assuming a slight recovery over the next five years, the Bond portion would be at a 2% to 4% return; currently at 2%. The Equity portion of the return would be closer with the valuations to a 7% to 8% return. A 50/50 mix would be close to a 4.5% to a 6% range of estimated returns for a 50/50 portfolio.

DVORYAK Mr. Dvoryak asked what the actuarial assumption is since it is probably greater than the 4.5% to 6% range.

SWOMLEY Chairman Swomley commented he thought it was in the range of 7% to 7.5%.

RUNK Mr. Runk commented that would be the case for a lot of pensions, which means that the rate will have to come down because of interest rates coming down. He added it will be something for focus.

DVORYAK Mr. Dvoryak questioned as to why not look to increase the allocation to equities, if it is likely the Portfolio will fall short given the current allocation.

RUNK Mr. Runk responded that they would be in favor of increasing the Equity portion possibly to a 6%. He added that some of their portfolios are more into 50/40; 65/35 mix. On the Bond side the returns are not great mainly because, even though the Bond returns had been great recently, that won't continue mainly because interest rates don't have much further to go low.

WURSTER Mr. Wurster commented that they could go negative.

RUNK Mr. Runk agreed that it was a definite possibility. The Federal Reserve had not expressed any interest in their commentary about getting to negative rates so the Portfolio should be fine; however, it is well within the realm of reality in terms of Quantitative Easing with very little concern currently about inflation.

RENZINI Mr. Renzini noted that there are real yields as well. A 10-year Treasury today will result in 0.9%. If there is a 2% inflation that's a negative real yield. A nominal is positive; the real yield is negative.

WURSTER Mr. Wurster asked what Mr. Runk's outlook on inflation would be in the next 12 to 18 months.

RUNK Mr. Runk responded that inflation would range between 0% to 1%.

RENZINI Mr. Renzini added that it is nowhere near the 2% Federal target. The Feds are not terribly concerned about that, and they will let the economy run.

RUNK Mr. Runk noted on the targets for the Portfolio in terms of Stock/Bond/Cash, they have a 5% Cash target of 47.5%; Bond target-combining the two since they are similar in risk category, there is roughly a 52.5% Bond/Money Market target with a 47.5% Domestic Equity/International Equity target. The target for Domestic Equities is 33.5% and the target for International Equities is 14% with a variance of +10% allowed, plus or minus for each category,

B. Suggestions for Update to Investment Policy

RENZINI Mr. Renzini introduced the discussion on the Investment Policy Statement changes. He reported that they had worked with Don Bishop and his committee on some proposed changes and several tweaks. In addition, they had passed along the proposed recommendations with the Actuary to be sure they would accept them. The response was that they thought the actions were appropriate. The assignment/result was as follows:
Address dividend yields: Current policy says the dividend yield of the equity holdings must be equal to the current yield of the S&P 500.

- ✓ Restrictive and prevents from taking over weights in the Portfolio;
Remove this restriction.

Commodities – Not expecting to make a lot of Commodity investments; however, Gold has performed extremely well in other portfolios; unable to do that for this portfolio.

- ✓ Recommending the purchase of Gold.

5% to 35% holding restriction; follow S& P; weighting is higher in the S&P than current policy would allow.

- ✓ Recommended to become more in line with the S&P; lift some holding restrictions.

Portfolio of individual stocks must contain at least 60 different issues. Currently the individual stock strategy only has 47 forcing the addition of another 13 to make up the difference.

- ✓ Recommended to see the 60 reduced to 45.

Mutual Funds with 3, 5, and 10-year performance and average Morning Star Ratings.

- ✓ Recommend removal of the restriction in total or change some of the longer term performance measures, especially the 10-year;

Credit Quality Restriction

- ✓ Recommend removal of the Credit Quality Restriction and allow a small percentage of high yield mutual Bond funds to enhance the Fixed Income Return.

RENZINI Mr. Renzini noted that there could be more discussion; however, the committee and the Actuary were comfortable with the recommendations. He recommended that the board adopt the changes to the Investment Policy Statement.

BISHOP Mr. Bishop indicated that their recommendation was based on a meeting with Mr. Renzini and his team. They and heard their ideas, asked for them in writing and submitted the recommendations to the board.

WURSTER Mr. Wurster noted that he had some additional questions with regard to several of the items. He asked what the current dividend yield in the S&P 500 is currently.

RUNK Mr. Runk responded that currently the dividend yield is 1.24%.

WURSTER Mr. Wurster questioned whether the benchmark is low with the 1.24% dividend yield.

RUNK Mr. Runk agreed that investing into the S&P as a whole would be a neutral standpoint.

WURSTER Mr. Wurster considered the suggested Commodities and questioned why the focus on investing in Gold if there is not an inflation issue.

- RUNK** Mr Runk responded that Gold does well especially in a very low interest rate environment with an active Federal Reserve.
- WURSTER** Mr. Wurster clarified that there would be an exclusive limit to the change to Gold.
- RUNK** Mr. Runk responded that it would depend on the board’s direction; however, there would be no speculation on silver or copper. It would only include exposure to Gold. He added that it would not be long term but more tactical when appropriate and based upon the situation.
- WURSTER** Mr. Wurster questioned the item “no one holding can exceed 5% of the total...” He questioned whether it is a hardship due to the restrictions on Apple, Microsoft, etc.
- RUNK** Mr. Runk responded that it is a problem due to the 30% limit on the Equity portion in the individual stocks. Additionally, the restriction 30% of 5% is a small portion of the individual stocks.
- WURSTER** Mr. Wurster asked what the unintended consequence of the 60-issue reduction to 45 names would have on this change.
- RUNK** Mr. Runk responded that it would be necessary to remove stocks that had been added to meet the requirement. He added that it would be necessary to add over weights to the companies that could be moved from a 5% weight to a 6.5% weight.
- WURSTER** Mr. Wurster commented on the Investment Mix. He questioned why there would be a move to invest in what could be unprofitable, highly-leveraged companies with stock restrictions.
- RUNK** Mr. Runk responded that the debt to capital of the S&P 500 as a whole is at 78%. Their debt service cost relative to historic norms is a lot less. A scenario of a company with a series of projects for investment with a rate of return of 10% and the debt is only at 3%, by being more leveraged it is taking advantage of low interest rate to give investors a higher return.
- WURSTER** Mr. Wurster noted that he would defer to older members of the Board of Supervisors and the Pension Board as to why the policy does have the requirement of 60 individual issues. He added that he was inclined to agree with the financial advisors.
- DVORYAK** Mr. Dvoryak commented that there are certain municipal pension laws that prohibit investments in certain classes. He asked whether Gold would be an allowable investment for a municipal pension plan.

- RUNK** Mr. Runk responded that to the best of his knowledge, it is a permissible investment.
- RENZINI** Mr. Renzini verified that it is permissible. However, he did not know of any restriction. The investment F.N.B. uses is the Gold ETF.
- DVORYAK** Mr. Dvoryak recalled that in a previous pension meeting many years ago that the issue was raised of certain investments that could not be made by municipalities by state law. He asked whether the proposed changes were to enhance the overall performance of the portfolio. He asked what it would do to the risk profile.
- RUNK** Mr. Runk responded that there would be a slight increase in the risk, however, he did not think it would be much. The suggestion to increase the Equity portion from its current weighting to 60% would be a much bigger increase in the risk profile than allowing a potential 50%. The suggestion to increase the Equity portion from its 30% to current weighting of 60%, that would be a much bigger increase in the risk than to go from a 5% to 7% weight.
- WURSTER** Mr. Wurster questioned whether the proposed amendments to the Investment Policy are available in a red-lined version.
- RUNK** Mr. Runk responded that he did not provide that in anticipation of a discussion with the board. He noted he could provide that shortly.
- WURSTER** Mr. Wurster expressed his concern about what the true intent was with regard to investing in the highly-leveraged companies that may not have operating entities or earnings.
- SWOMLEY** Chairman Swomley noted that a lot of the limits were put into place in an entirely different market for entirely different reasons. He indicated he would like to have the re-lined copy back sooner than later in order to meet briefly in a month to review and ratify.
- RUNK/
RENZINI** Both agreed they could provide it.
- SWOMLEY** Chairman Swomley asked if that would satisfy Mr. Wurster's request.
- WURSTER** Mr. Wurster responded that it would be doable. It is the kind of product to be sure that the recommendations are understood. He added for clarification that he does support the Gold item, and he supports cutting back the positions. However, he would like more discussion.
- SWOMLEY** Chairman Swomley indicated he did not believe he needed more discussion but will need to see the red-lined version.

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RENZINI Mr. Renzini responded that they would make it a priority to provide it as quickly as possible.

6. OLD BUSINESS

There was no Old Business.

7. NEW BUSINESS

There was no New Business.

8. COMMITTEE MOTIONS

There were no Committee Motions

9. ADJOURNMENT

SWOMLEY Chairman Swomley adjourned the meeting at 6:56 p.m.

Respectfully submitted,

Charles Wurster
Secretary

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