WEST WHITELAND TOWNSHIP
PENSION ADVISORY BOARD MINUTES
January 23, 2019

Members Present
Chris Bamber
Tom Belisari
Laird Duncan
Chris Pettia
Denise Bailey
Kurtis Rainey/ Jon Stewart

Township Staff Present
Mimi Gleason, Township Manager
Pam Gural-Bear, Asst. Twp. Manager
Amy Heinrich, Finance Director
Caroline Partridge, Accounting Manager
Jenn Keller, Executive Assistant

Supervisors Present
Beth Jones

The meeting was called to order at 9:00 A.M.

A. Approval of Minutes

MOTION: To approve the October 17, 2018 Minutes, with one change to correct Mr. Belisaris's comment on a move to Growth & Income funds
Mr. Belisari suggested looking at international funds that pay dividends, rather than just growth. He said International Growth & Income may be a better substitute.

ACTION: Passed 6-0 (Bamber/Belisari)

B. OPEB Trust & Market Commentary – Bikram Chadha, PFM

Bikram Chadha, of PFM Management, introduced Don Grant who has been involved with our account on reporting but will take a larger roll going forward. Mr Chadha provided market commentary for all of 2018 and an Investment Performance Review for the OPEB Trust as of December 31, 2018.

He noted that 2018 started with some and ended with a lot volatility. There were positive returns in the middle of the year on the heals of continued strong fundamentals and strong corporate earnings. GDP growth came in strong as well. The tail end of the year was a flurry of uncertaintly driven by headlines around US/China trade, Brexit, issues related to Italy and the Federal Reserve with some hawkish comments from Jerome Powell. Volatility ensued. Domestic equities were the best performing despite being negative (-4.5% for year). International, both developed & merginging market -13% and -14.5%, respectively. There are geopolitical issues overseas plus domestic interest rate increases have a negative impact on emerging market countries.

Fixed Income started the year in red territory as rates increased but did flatten out and closed the year flat. Nothing gained, nothing lost. Investment-grade credit and HY bonds have added a lot of value to the markets and the portfolio. That said, some of the riskier bonds did sell off at the end of the year. Commodities were very negative across the year.

2019 has started with some pretty good momentum. As of Friday, the S&P 500 was up just over 6.5%. Small cap is outperforming large cap. International countries up 5% or so.
Looking ahead, slower growth is expected across the world. Slower growth does not mean a recession. Numbers are around 20-30% chance of a recession – not 0% but not in the majority. IMF has revised down their global growth expectations from 3.8% to 3.5%. PFM wants to remind investors that we are coming off of 8-9 years since last receission– we are late in this business cycle. There are heightened economic and political risks. (Such as) Brexit ref March 29th. Italy has budget issues with deficit over EU requirement. Trade talks with China. Japan has slow momentum.

Central Bank perspective: Fed was in the rhythm and was raising rates and Mr. Powell said he would continiue to do that. Now, markets are pricing in 1-2 rate hikes. In 2019 Some say no hikes and even some say a reduction in rates. PFM is thinking 1 rate hike is expected in 2019. European Central Banks might raise rates this year. If Central Banks are too aggressive it could cause issues, but too slow can cause over-heating. It's a balancing act.

Fundamentals overall remain strong despite some cracks. PFM hasn't made a lot of changes in the Portfolio. Mr. Duncan noted that the US situation wasn't mentioned in the political risks. A discussion of the government shut-down ensued noting the high impact on the economy. For each week, we are losing $1.5 billion in revenue to our economy. We are in excess of 30 days in shut-down, which is surprising. Estimates say GDP has been shaved by .6%. GDP already went from 3.4% to 2.9% and now could go to 2.3%. The impacts are far reaching – back pay, IPOs, debt offerrings, tax season, etc. Regarding trade conversations and the shut-down, PFM's view is that some progress will be made. When you look at trade negotiations, it's not just tariffs on goods, which can be turned on and off quickly. There are issues on intellectual property and technology.

To summarize, PFMs outlook for 2019:
Expect slower growth. Central Banks will be watched. Political uncertainty will remain.
For equities in general, PFM is still anticipating positive returns but with more volatility, which is historically more "normal". PFM expects 6% for domestic and 6.3% for international.
For Fixed Income, PFM believes spreads will widen and income will become a larger portion of returns. 3% for core bonds. Cash 3.2%.

A question was asked of whether they are concerned about yield curve inversion of the 2-year and 5-year, when usually it's 2 year and 10 year that is looked at for inversion. PFM views this as a little more transitory in nature given it's 2 & 5.

Mr. Grant spoke to the OPEB performance. They view the underperformance vs. blended benchmark for Q4 as transitory. They had an over-weight in domestic equities and international equities and under-weight fixed income. We will still have over-weight to domestic equity, equal-weight to international and under-weight to fixed income. The domestic equity portfolio is passive managers currently that are performing fairly close to benchmarks. PFMs view about active vs. passive management is that in an efficient market, where cost matter, passive choices are better right now with asset allocation being more critical. The choice on active vs. passive is thoughtful and actively made and could change for domestic in the future.

Within international, we have one active manager, JO Hambro. We do expect more volatility there. For fixed income, we are under-weight investment grade corporate credit. Note that our fixed income portfolio is all actively-managed given the climate and policy issues. PFMs belief is that active management can make a big difference in this climate.

PFM hasn't made any changes to the line-up. The investment committee did explore a low-volatility strategy that would protect on down-side, but then you don't get upside. They are watching it but not pursuing that now. Mr. Chadha pointed out that market and fund updates are included in the packet.

Mr Chadha spoke about the new offering of multi-manager funds. They launched January 1, 2018. They have a PFM logo but are all sub-advised. PFM focuses on passive vs. active management and asset allocation. Ultimately, these were launched to get access to a wider array of investment managers and not just mutual funds. PFM had about $6B in eligible assets under management and now have $1.5B invested across all three multi-manager funds. They are giving all clients time as they are for us. Fact sheets were included in the packet. You cannot look at the return numbers of these funds yet. For first 6 months, they were just seed money. Mid-year they start really investing the funds. If you try to equate the performance of our trust as is vs. the multi-manager fund, it would be pretty similar. They are not forcing clients over quickly. In the long-run, they think it will out-perform. The fees are about 12 bps higher.

Ms. Gleason reminded the group that the OPEB valuation will be finished soon. We will also start to evaluate when to truly pay the benefits out of the trust. Ms. Heinrich noted that we are paying benefits out of a separate accounting fund and sending the remainder of our contribution to the Trust.

C. Report on Plans and Investment Activity

Ms. Heinrich reviewed the overall performance of the plans noting that the performance themes are the same as those discussed by PFM. The packet includes results as of year-end as well as a view of YTD 2019 performance, which shows some recovery. Mr. Bamber pointed out that the OPEB valuation will incorporate a smoothing effect due to the volatility you can see when looking at an isolated period.

Ms. Heinrich reviewed the current allocation vs. target and noted any rebalancing is voted on and not automatic to the target. Mr. Bamber noted that we are under-weight international and under-weight small cap, which are both pretty defensible. If we do re-balance, it would go into an international equity fund and he is not in favor of that. We do need to meet any cash needs but otherwise would consider leaving things as is. Ms. Heinrich also noted that we are over-weight fixed income. We do have a cash need in the Police Pension Fund but have enough cash in the Non-Uniform.

> MOTION: Meet the cash needs out of fixed income over-weight for the Police Pension fund. Don't rebalance anything else. (Bamber/Petti)
>
> ACTION: Passed 6-0

The group (not sure who introduced it - Belisari?) discussed the possibility of introducing a short-term bond fund given the environment. It will be researched and options circulated.

Ms. Gleason noted that Denise Bailey was officially appointed to the Pension Advisory Board by the Board of Supervisors.

The meeting adjourned around 10:40 a.m.

Respectfully Submitted,

Mimi Gleason
Acting Recording Secretary