

WEST WHITELAND TOWNSHIP
PENSION ADVISORY BOARD MINUTES
April 28, 2021

Members Present

Tom Belisari
Denise Bailey
Jack Ellis
Chris Bamber
Kurtis Rainey (Police Representative)
Marie Guarnere (Non-uniform Representative)

Township Staff Present

Mimi Gleason, Township Manager
Pam Gural-Bear, Asst. Twp. Manager
Beth Jones, Finance Director

Supervisors Present

Joshua Anderson

The meeting was called to order at 9:03 A.M. The meeting was conducted via Zoom due to the COVID-19 pandemic.

Resident Jeff Glisson is interested in serving on the Pension Advisory Board and was in virtual attendance as a guest.

1. Approval of Minutes – January 27, 2021

MOTION: To approve the January 27, 2021 Minutes, as presented.

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

2. OPEB and Pension Plans performance review (PFM, Bikram Chadra)

Bikram Chadra, Director of PFM, provided a review of the market and the performance of the pension plans for the first quarter ending March 31, 2021. The market continued to see momentum with Domestic Equity up about 6% in the first quarter. Year-to-date Domestic is up about 12% due largely to continued accommodative policies from both the Federal Reserve and the current Administration. While the International market performed weaker than Domestic (YTD up about 7.5%) this is not a surprise given the progress of vaccine distribution overseas.

Alternatives now include two actively managed REIT strategies that have performed well. Fixed Income is down about 3.5% as expected.

Current market themes include vaccine distribution which is critical to getting back to normal. Consumer confidence is returning along with employment and manufacturing.

Mr. Ellis asked about the danger of the economy overheating. Mr. Chadra said he was not too concerned given that the various activities (employment, travel, etc.) are not yet back to pre-COVID numbers.

Responding to Mr. Belisari's question as to why the Federal Reserve does not allow more natural movement, Mr. Chadra said while some areas of the market are over-valued, overall the markets are fairly valued given that earnings are still low.

Mr. Chadra then provided background information on vaccine numbers, GDP estimates, unemployment, and legislation enacted to combat the pandemic. He said that if reality proves to be better than expectations, the Federal Reserve may become more restrictive, but will have to see how expectations play out. While retail and manufacturing numbers are increasing, the leisure/hospitality industry is still lagging behind.

Pension Plans - Performance:

Mr. Chadra then reviewed the Police Plan showing 2.2% vs. 1.81% benchmark for the quarter and 13.42% since inception (August 2020) vs. 13.02% benchmark. There were no changes to the Domestic Equity lineup since the last PAB meeting. Jensen Quality Growth Fund and Touchstone Mid Cap Fund underperformed over the quarter given their high-quality bias. This bias typically performs well during times of market distress but can underperform during broad market rallies. These strategies make up a relatively small allocation but are important to have for downside protection.

International Equity trailed the benchmark due to the active managers in the portfolio.

Two dedicated real estate strategies were added to the portfolio in April. They provide an income component and are temporary while Fixed Income is down.

The Police plan has a current balance of \$21,561,225.

The Non-uniformed plan and OPEB Trust showed similar returns with a current balance of \$10,249,239, 3.5% YTD return for Non-uniformed and an OPEB balance of \$3,722,334. REITs were also added to both plans.

3. Environmental, Social, and Governance (ESG) Investing (PFM, Bikram Chadra)

Mr. Chadra provided a comparison of the current portfolio lineup to a proposed ESG investing lineup, noting that the key questions to consider are: Are the portfolios still well diversified, and are associated fees still reasonable. He further explained that Socially Responsible Investing (SRI) is exclusionary, while ESG takes a more positive approach asking what a company's impact is on the environment; is it thinking about a sustainable future; ESG looks at the entire picture of a company. Mr. Chadra said PFM uses sustainable scores provided by Sustainalytics, a Morningstar Company, to evaluate strategies for inclusion in the portfolios. The goal is to have a portfolio that is diversified, with reasonable costs, and has a better score than the market benchmark.

Mr. Chadra then reviewed proposed changes to the sector allocations showing less allocation to Energy and more to Health Care, but the changes were not significant. He added that for the ESG strategy, not only is the overall domestic equity allocation better from an environmental, social, and governance perspective, but the composition of the holdings within the portfolio are of higher ESG quality than the benchmark for the current portfolio.

A fee comparison showed fees for Domestic Equity higher for the ESG composite, but International Equity showed lower fees resulting in a net increase of 10 basis points, which is relatively low, but still higher than what the Township is currently paying.

Responding to Mr. Belisari's question, Mr. Chadra said international markets were ahead of the United States with regard to ESG investing.

Mr. Bamber expressed support for moving forward with ESG investing noting that while fees may be higher, the philosophy behind ESG investing is a part of the overall performance.

Mr. Rainey said the POA is interested in ESG investing so long as performance is not impacted. Ms. Guarnere expressed the same feeling for the non-uniformed employees. Ms. Jones said a performance comparison can be provided at future meetings so that employees can see the differential and the impact on performance. It was estimated that the additional cost of 10 basis points would translate to approximately \$35,000 on the \$35 million invested in the pension plans.

MOTION: To direct PFM to move forward with ESG investing for all Township pension plans and the OPEB Trust.

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

4. Pension Valuations from actuary, as of year-end 2020.

Noting that the funded ratio for all of the Township's pension plans is currently over 100%, Mr. Bamber asked about lowering the discount rate which is currently 7%. Ms. Jones said lowering the discount rate to 6% would create a liability, but she will ask the actuary how low the discount rate can go and still have fully-funded plans. She will also ask what the Minimum Municipal Obligation (MMO) would be for the various scenarios.

Adjournment

The meeting adjourned at 10:37 a.m.

Respectfully Submitted,



Beth Jones,
Recording Secretary