PENSION BOARD FOR THE BOROUGH OF DUNMORE

HELD:

Tuesday, October 11th, 2022

TIME:

6:00 P.M.

LOCATION:

DUNMORE COMMUNITY CENTER
1414 Monroe Avenue
Dunmore, Pennsylvania

P E N S I O N  B O A R D S  M E M B E R S:

VINCE AMICO, President

MAX CONWAY, MAYOR, Vice President

JOHN MALECKI

WILLIAM BONAVOGLIA

LAWRENCE DURKIN, ESQ., SOLICITOR

MARIA McCOOL, RPR
OFFICIAL COURT REPORTER

ATTY. DURKIN: So we could start the meeting with the roll call. Do you just want to go around the table, Ralph?

MR. COLO: Ralph Colo.

MR. AMICO: Vince Amico.

MR. WOLFF: Greg Wolff.

MR. BONAVOGLIA: Bill Bonavoglia.

MR. MALECKI: John Malecki.

ATTY. DURKIN: And Larry Durkin. Initially we have minutes to approve. Our last full meeting was on March 15th, 2022. We have the transcript from that meeting. We didn't have a quorum for our July meeting. But we did receive a presentation from Ralph on where the investments were at that time.

We also just went ahead and had him present that. But there were no votes on anything. So I have the minutes from March and the work session in July for the Board's approval. Do we have a motion to approve?

MR. BONAVOGLIA: I'll make a motion.

MR. WOLFF: Second it.

ATTY. DURKIN: Any questions? All in favor?

ALL MEMBERS: Aye.

ATTY. DURKIN: Okay. I'm not aware of any Old Business. Does anybody have any Old Business? Okay. In terms of New Business, I'm going to start with, Ralph, if you want to give us an idea where the -- give your summary of the investment.

MR. COLO: Sure. I thought for Greg's benefit to talk a little bit about where we ended 2021 and talk about the investment policy statement and then also talk about where we were up until last week with the investments.

At the end of 2021 the plan had a positive return -- net return of 9 and a half percent. At that meeting one of the things that I did talk about was inflation being a problem in 2022. Oil, gas, and metals was my thought that those would increase at that point. I did think that there was going to be a down side to the market. Growth will deteriorate and not a great environment for stocks.

MAYOR CONWAY: Sorry I'm late.

MR. COLO: Unfortunately, that did turn out to be true. So in 2022 we could fast forward to really where we are now. Through the end of last week the plan is down a negative 14.84 percent. That's where we are as of last week.

This really has been one of the worst years since the early 70s for the stock and the bond markets. Typically when we have an equity market that's down, the bond market would be up or vice versa. We have not seen that this year. We have seen all different areas of the market down.

It doesn't matter if it's real estate, commodities, currency, fixed income, equities, they are all on the downside. So we are down a negative 14.84 percent. I bring up that number because the equity markets right now are down about 25 percent.

The growth index is down about 35 percent. And when we looked at fixed income, you know, that is down in the 15 percent neighborhood. By no means is, you know, a negative is never great. But I think when we look at, you know, a 60/40 blend being down 25 percent right now and your portfolio being down 14.84 percent, we are holding up really, really well in a negative market. And, you know, I think, you know, when markets are going up it's very, very easy for a lot of advisers to manage money. When markets are down, I think it becomes more difficult.

So a couple things that we have done differently in 2022 as the year progressed -- and I'll reference back to the page that I kind of pointed out. Max, I'll show you this because this is from the end of last year. We finished the year with a 10 and a half percent allocation to cash.

If we look where we're at now we're at 15 percent allocation to cash. At that point we had a 54.6 percent exposure to equities. We're down to 50 percent exposure to equities. And I bring that up because we spoke a little bit earlier about the investment policy statement and this really is the road map or should be the guide for how the investments for the Borough of Dunmore are managed.

As you could see for cash, the guideline is 0 to 15 percent. We're really at the max where we can be for cash in the portfolio. Equities is a 20 to 70 percent range. The target is 60. Again we are at 50. So I think when we look at the numbers, the returns for the Borough of Dunmore compared to where the markets are in general, we're probably about 10 percent better believe it or not than where the markets are.

I also wanted to talk a little bit about the investments inside of the plan. So there is really three types of investments that can be inside of the plan. There could be mutual funds. There could be separately managed accounts. And there could be things called exchange traded funds or ETFs they may be referred to.

We talked about this a little bit the last time. In the State of Pennsylvania as far as even your investment policy and even the RFP that went out recently, 50 percent of the assets need to be with separately managed accounts. And here's the reason why. You know, if the State of Pennsylvania forbids plans from investing let's say in a Russian oil company, individual managers can do that.

Exchange traded funds or mutual

funds typically cannot do that. So that's why with your plan why it's not all in ETFs or all in mutual funds. That's why they're separately managed accounts. And more than 50 percent are in there because of the restrictions that the state does put on plans as far as what could be invested and what cannot be invested.

So Morgan Stanley, you know, we have a compliance area that scrubs through all of the investments. And if there's something that should not be in the plan, they get kicked out. Snyder Electric is an example of a name -- an individual company name that's been booted out.

It's a company that does a lot business in the middle east. The State of Pennsylvania did not want that security in the plans. That was removed from all the managers that had it. We can't do that with exchange traded funds or with mutual funds. Separately managed accounts can do that.

So I just want to kind of go over the three different type of investments that are in your plan or that could be in your plan. And one of the other changes that we made in 2022 compared to the end of last year is we had a lot of bond funds.

So these were mutual funds that own bonds. What we did is we moved out of some of bond funds and have now bond managers, so bonds with actual due dates associated with them. And in my opinion that saved the Borough a substantial amount volatility because when these mutual funds have liquidations and when they have to sell, they have to sell what's ever in them.

Separately managed accounts, you guys actually own the bonds and those portfolios. So it's a dig difference. I bring it up because I think that in down markets, it's an ability that we have at Morgan Stanley that not a lot of other advisers can do and how we scrub accounts.

So I just wanted to bring that up to you. By no means is being, you know, down a pleasurable thing. And really this is the first year since I have been managing the money that we've seen a down year. And I think, you know, down 14.84 percent although that is not great, if you look unfortunately at your 401ks or other investments, you know, you may see that that number is not bad compared to, you know, what the markets are doing in general.

So I know I touched on a bunch of different topics there. But I thought it was important, Greg, to give -- and Max a little bit of background where we were, where we are and just some of the changes that we did make during the course of the year so far.

That being said, you know, for the rest of the year, you know, our thoughts on where the markets are going, you know, unfortunately, you know, Jamie Dimon from JP Morgan came out yesterday and thought that the markets, you know, have another 20 percent on the downside.

You know, it's our thought that he might be correct in that assessment that there could be another 20 percent that this market does see on the downside. And I bring that up because, you know, these are long-term investments, right, this is not our individual 401k, right?

This is the pension plan for the Borough. And I think that to manage it prudently, to follow the investment policy statement is really, really important because what we don't want to do is make short-term decisions that can be detrimental to the plan because again, I could be wrong and these markets could go back up and what we wouldn't want to be doing at that point is be sitting on a lot of cash and not have our dollars invested.

I think they're invested prudently for the Borough at this point. There is nothing that I would change as far as the allocation goes. And, you know, I think it's going to be -- I think by the second -- excuse me, by the end of the first quarter of 2023 when we're looking at these numbers, you know, my hope would be that we're seeing better type of returns.

MAYOR CONWAY: So do we want to be lower with cash because if we're at 15 percent right now?

MR. COLO: So at 15 percent, Max, I think that that's an appropriate level. Our equity exposure is at 50. And, you know, you bring up a good point that, you know, if we do see another drop here in the markets which could happen very, very quickly, you know, if that's the case, you know, staying inside of our investment policy it may be an opportune time to get some of that cash to work.

And that very well could be between now and the end of the year. If that is the case, what I will is get a, you know, message out to Greg and maybe we could have a quick call and maybe discuss that, you know, at that point.

You know, these markets are moving so quickly and it's something that could happen very, very rapidly. And if it got to that point where we did see a seismic event in the markets. That may be an opportunity to get some more of that cash to work.

ATTY. DURKIN: So, Vince and Max, like one area, like, just to be aware of, the short-term changes in the value of the fund don't have an impact on the Borough's cash contributions to the plan. They're set based on valuations that are done every two years.

However, the next valuation is done as of 1/1/23. And that will set the Borough's MMO for 2024 and 2025. So if these -- where the Borough could start to see it will not be next year but the following year and the year after because the plan presumably if you get the status quo or, you know, of if the worse case happens is going have a lower funded status than it did previously.

MR. COLO: Larry, to that point on 1/1/21, Bill asked a question before about just the funding levels of the plan. On 1/1/21 Police was at 84 percent. Fire was 93 percent. And nonuniform was at 100 percent. Keep in mind going back probably five years before that, all the plans were well below 50 percent from a funding standpoint.

MR. WOLFF: Can you give them again?

MR. COLO: Sure. Police was 84 percent. Fire was 93 percent. And nonuniform was 100 percent.

ATTY. DURKIN: So those numbers don't change on a month to month or even on a yearly basis. But they do change with the valuation that occurs every two years. And that valuation will be done, you know, you won't get it until the fall of next year. But it will be based on what happens, you know, on

1/1/23.

So 12/31 there is a big spike and everything goes up, it will be good for the Borough for the next two years. If not, it could have an impact on the budget, you know, for '24 and '25 because how exactly -- you know, that's beyond what I could say but, like, it won't be positive that part of it.

MR. COLO: Keep in mind, you know, 2021 was a positive year, you know, at 9 and a half percent. This year if, Larry, to your point I don't know -- the actuary would kind of calculate exactly if the liability has gone up. Presumably it would if those numbers are negative for those two years.

ATTY. DURKIN: Yeah, I don't have enough knowledge to say how much, but it will have some level of impact. Depending on -- that date's important, you know, more so than like, you know, as to Ralph said this is long-term view of things but the snapshot matters every two years for budgeting purposes.

MAYOR CONWAY: There's not anything we could do about it.

ATTY. DURKIN: No, because it's

governed by Act 205. And that's statewide. There's no flexibility on that.

MR. COLO: That's where, you know, a market that's 60/40 blend that's down 24 percent, us being down 14 and change, you know, that extra 10 percent clearly matters for the next two years as far as what the Borough's municipal obligation would be.

So, you know, sticking inside the investment policy statement and trying to make changes that, you know, we thought were appropriate, you know, hopefully will have a positive impact for the Borough. Any other questions?

ATTY. DURKIN: Next item, so one other business piece of New Business that we have, I think everybody knows Greg has left the Fire Department and accepted the position of Borough Manager. So one of the spinoffs from that is he's not participating as a firefighter in the firefighter's plan.

He switched over to the nonuniform plan and contribute, you know, as per their guidelines -- just basically start over. But Greg is also -- has a fully vested benefit in the firefighter's plan. I spoke with Greg and Vince and Bob Ufberg, the Borough's labor counsel about it. And to avoid any confusion down the road, my recommendation was that, you know, I think it would be appropriate for Greg since he is fully vested to ask the Board to approve his pension conditioned on him reaching the age of 53.

So his firefighters -- to receive a pension from the Borough you have to be 53 with 25. How old are you, Greg?

MR. WOLFF: Forty-nine.

ATTY. DURKIN: So Greg has the years but not the age. So and, you know, leaving the pension that you have been contributed to for a long time is, you know, a little unsettling. So I think that, you know, it's appropriate for Greg to ask that the Board approve his pension now but not effective until he hits 53.

And then the further caveat with that is you can't, you know, double dip. So if Greg happened to be the Borough Manager at the time he hits age 53, his firefighter pension would not kick in. It would be suspended until he's no longer employed by the Borough.

And then it would be -- but I think this gives Greg a level of assurance is appropriate. So Greg submitted a letter requesting the Board approve his pension conditioned on him hitting age 53. You know, I'd recommend to the Board that it is appropriate and you consider it -- consider making a motion to approve it.

MR. MALECKI: I'll make a motion.

MR. BONAVOGLIA: I'll second.

ATTY. DURKIN: Any question on that? All in favor.

ALL MEMBERS: Aye.

MR. WOLFF: Abstain.

ATTY. DURKIN: Right. Okay. So then this isn't necessarily an agenda item, but Greg is now on the Board as the Borough Manager. That's a position by ordinance as Vince and Max's are also by ordinance. We have two vacancies remaining. One is from nonuniform. If we get someone from nonuniform that's willing to do it, that would be good.

And there is an open seat from the public, which I don't think we've ever had filled. So the membership of the Board where it stands right now is at five. And you could reorganize now or at the next meeting or you could wait to see if someone from nonuniform gets on.

MR. AMICO: We could try to get someone from nonuniform.

ATTY. DURKIN: So other than those things -- I'm sorry?

MR. AMICO: We could ask Mark if he would be interested -- Burton.

ATTY. DURKIN: Yeah. Other than those things, I don't have anything else. Anybody else have anything? No public comment. Motion to adjourn?

MR. AMICO: I'll make that motion.

MR. WOLFF: Second.

ATTY. DURKIN: All in favor.

C E R T I F I C A T E

I hereby certify that the proceedings and evidence are contained fully and accurately in the notes taken by me of the above-cause and that this copy is a correct transcript of the same to the best of my ability.

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Maria McCool, RPR
Official Court Reporter

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