

NORTHAMPTON COUNTY RETIREMENT BOARD MINUTES

January 27, 2022

4:00 p.m.

1. **Call to Order:** Mr. Lamont McClure called the meeting to order at 4:00 p.m.
2. **Call of the Roll:** The following appointees to the Retirement Board were present: Mr. Lamont McClure, County Executive; Ms. Lori Vargo Heffner, Council President; Mr. Kerry Myers, Council Vice President; Mr. Ronald Heckman, Council Member; Mr. Thomas Guth, active employee Member of Northampton County Retirement system; Mr. Gerald Seyfried, Retiree Member; and Mr. Stephen Barron, Director of Fiscal Affairs.

Others Present – Mr. John Spagnola, PFM; Mr. Bryce Meyers, Fiscal Affairs; Ms. Mary Lou Kaboly, Board Secretary; Ms. Danielle Mutarelli, Human Resources; Ms. Stephanie Hann, Human Resources.

3. **Courtesy of the Floor** – None.
4. **Oath of Office** – Ms. Rebecca Sandt, Notary Public and Executive Secretary for the County Executive, administered the Oath of Office by asking Mr. Myers to raise his right hand and swear to affirm as follows:

“I, Kerry L. Myers do solemnly swear that
I will support, obey, and defend the Constitution of the United States,
The Constitution and laws of this Commonwealth,
And the ordinances of the County of Northampton;
That I will discharge the duties of my office with fidelity;
That I will not knowingly violate or permit to be violated
Any of the provisions of the County’s Pension laws;
That I will not knowingly receive, directly or indirectly;
Any money or other valuable things for the performance or non-performance
Of any active duty pertaining to my office
Other than the compensation allowed by law.”

5. **Approval of the October 28, 2021 Retirement Board minutes.** Mr. Barron made a Motion to approve the minutes of the October 28, 2021 board meeting by acclamation. The vote to approve was unanimous.
6. **Performance Updates – PFM, John Spagnola.** Mr. Spagnola gave the presentation of the fund’s performance in the 4th quarter of 2021.

Pension Fund Market Value as of December 31, 2021 = \$546,040,948

As of December 31, 2021:

Q4 gain:	5.30 percent
Gain since inception:	11.40 percent (inception date is 9/1/2017)
YTD gain:	14.46 percent
1-year gain:	14.46 percent
3-year gain:	16.67 percent
5-year gain:	12.05 percent

Mr. Spagnola stated that the economy is growing and the forecast for the year is strong, but growth is decelerating at about 4.5 percent. Inflation is at 7 percent, the highest it has been since the 80’s, which is

affecting hiring and purchasing goods. Consumer spending is good. The unemployment rate dropped from 4.2 percent to 3.6 percent. The energy, real estate, and financial sectors that were underperforming last year are now the best sectors, and PE ratios returned to their normal market values. Interest rates are still historically low but are normalizing.

Mr. Spagnola stated that the Federal Reserve indicated that there will be four to five rate hikes in 2022 starting in March. Mr. Heckman asked whether PFM anticipates a major impact or issue with the housing market due to the rate increases and Mr. Spagnola replied that they do not because the housing market is strong and there is not profligate lending like there was in 2007.

Mr. Barron asked whether our current investments for all three funds that are overweight in domestic equities and underweight in fixed income will change given these economic indicators and the anticipated rate increases. Mr. Spagnola indicated that PFM already modified the funds' allocations to remain defensive with the market correction and current volatility. Some underperforming U.S. equity allocations were moved to international equities, which have higher growth prospects. Additionally, PFM moved money from equity allocations to floating rate bonds, which are based on the LIBOR and get a positive return regardless of market volatility.

Ms. Vargo Heffner asked which non-U.S. equities PFM is tracking. Mr. Spagnola replied that PFM is investing in developed markets like the Eurozone, Canada, Japan, and Australia, and staying away from emerging markets like China, India, and Brazil, which have more risk. Mr. Myers asked whether North Africa is an area of interest, and Mr. Spagnola responded that its market is too small to be of interest.

Ms. Vargo Heffner asked for an overview of the new funds in the portfolio. Mr. Spagnola replied that PFM continues to invest in preferred securities, which pay a higher dividend. PFM added the PIMCO commodity fund, which invests in oil, energy, metals, and agricultural trades that will do well during inflation. They are also trading in an equal-weighted S&P 500 index, in which all 500 companies are 0.2 percent of the index and not as reliant on mega-cap companies like Amazon, Apple, and Google which normally command a large portion of the index.

Ms. Vargo Heffner noted that some international equity funds are underperforming, and asked how long PFM allows them to act as managers when this is the case. Mr. Spagnola replied that they allow managers a three-year period to prove their investment thesis is correct, based on the market cycle. If a manager deviates from their promised investment approach or decides to retire, PFM acts sooner.

7. Pension Updates – Ms. Mutarelli

Ms. Mutarelli prepared a summary sheet showing the individuals who retired during the fourth quarter and the amount of their pension benefits. Each member present received the summary sheet.

Approval of 4th quarter Pensions: Mr. Seyfried made a Motion to approve the list of retirees submitted by Ms. Mutarelli. Mr. Heckman seconded the Motion. The vote to approve was unanimous.

8. Open Discussion – COLA Proposal

Mr. McClure opened the discussion with a recommendation that the board make a motion to provide the 4.6 percent maximum COLA adjustment for the year and increase each eligible retiree's monthly pension accordingly, effective January 2022. He stated that it is his view that the half a billion dollars in the fund is not sacred, and its success is meant to benefit retirees, who chose to work in government service at a lower income than they may have received in the private sector at that time, many of whom are living on fixed incomes. Mr. Heckman and Ms. Vargo Heffner echoed Mr. McClure's support of the COLA. Mr. Barron stated that he believes the fund can easily afford the COLA, and explained that even if the board provides the maximum COLA, those retirees who live on fixed incomes will have to cut their annual household budget by about 3.2 percent with the forecasted rate of inflation.

Mr. Seyfried made a Motion to grant the 4.6 percent maximum COLA adjustment and Mr. Barron seconded the Motion. The board voted and the vote passed 7 to 0. Retirees will see a retroactive COLA in their March payment.

9. **Schedule Meetings for 2022** – The Board selected dates for upcoming meetings at 4 p.m. on April 28, July 28, and October 27. Ms. Vargo Heffner made a Motion to approve the dates and Mr. Myers seconded the Motion. The vote to approve was unanimous.
10. **Adjournment** – Ms. Vargo Heffner made a Motion to adjourn the meeting. The Retirement Board meeting adjourned at 4:47 p.m.