



TOWN OF SUFFIELD

**MEETING MINUTES
RETIREMENT COMMISSION
SPECIAL MEETING
DECEMBER 2, 2021 5:30 P.M.
HELD VIA ZOOM TELECONFERENCE**

Committee members present: Eric Remington, David Mercik, Jack Henrie, Ryan Burrell, Chris Childs, Glenn Gazdik, Dan Sheriden and Colin Moll

Others present: Human Resources Director, Karin Ziemba, Jim Kilbane and Ryan Johnson of Mesirow and Michael Lepore and Claire McDonald of GYL Financial Synergies

Chairman Remington called the meeting to order at 5:33 P.M.

Public Input

- None

Discussion information presented by Mesirow with GYL Financial Synergies

- Jim Kilbane, Lead Relationship Manager, and Ryan Johnson, Fixed Income Portfolio Manager, presented information about potential ways to include some high-quality structured product to try to capture some higher yields in the fixed income market. Jim Kilbane explained that modifying investment guidelines and objectives slightly to allow for different types of securities could potentially result in new ideas that might impact the portfolio. They reviewed the last quarter end report and discussed the impact on the consideration for modifying the objectives.
- Ryan Johnson explained that although short-term high-quality structured products weren't included in this presentation, the possibilities of adding high-yield securities were highlighted in the package sent previously. He explained that corporate credit is much more liquid, they are able to capitalize on the higher yield and it typically has extra spread with shorter duration and is less interest rate sensitive. If 10% allocation was added to higher yield, about 20 basis points could be picked up in the spread, with an average quality drop to A or A+. He explained some clients allow them to go below investment grade and they are already playing in higher quality, high-yield space, so it would be fairly easy to add that to their roster for trading. He believes it makes sense from a yield perspective, but it depends on risk tolerance. Ryan further explained that they believe that defaults are in a cyclical low and don't anticipate those rising any time soon, so it's a decent time for investing in the high-yield space. Their expertise really stops below AAA, which won't add a ton of yield and adds a lot of illiquidity.
- Jim Kilbane explained that they do have a high-yield Collective Investment Trust (CIT) team in California that invests in bank loans, which is still under the Mesirow umbrella. Given where rates and inflation are heading, it may be worth the group considering non-investment grade loans as a way of diversifying. It's a very liquid price-conscious alternative and bank loans are high-yield but are a much higher quality. It has a floating rate element and might be worth considering.
- Commissioner Childs asked for more information about the CIT structure. Ryan Johnson explained that they are constantly monitoring the higher yield space looking for rising stars, companies that may upgrade to investment grades. They also are watching the downgraded BB or fallen angels (those downgraded below investment grade, below BBB). Jim Kilbane then explained that they offer a high-yield

bond fund, but they have not yet offered a high-yield loan fund. They offered the CIT, which requires a 30 day notice to get dollars out. They currently have north of \$100 million in that CIT bank loan structure. Default rates are much lower than corporate bonds and the bank loan debt is even better relative to default. It's a kinder gentler high-yield. They feel that in addition to their suggestion to potentially lower the investment grade credit on the bonds in the portfolio, they could add 20-30 basis points from either high-yield bonds or floating rate bank loans.

- Commissioner Gazdick expressed that high-yield may not work since the committee is targeting a certain return on the portfolio and can't afford to lose principal and that equities in general might make more sense. Currently fixed income isn't providing too much protection and perhaps, from a general risk perspective, it's not worth the extra 30 basis points to get high-quality.
- Ryan Johnson explained that Mesirow does manage assets with longer term duration. A limiting factor of how quickly they could act on any of these would be how quickly the committee could convene to make decisions.
- Commissioner Gazdick asked that Mesirow in the next 6 months or so to walk through that type of mandate, how they think about it and approach it. How could the committee have the ability to allow GYL and Mesirow the ability to move quickly if opportunity arose. Michael Lepore explained that committees do give different levels of discretions and it would mean loosening reigns and allowing some latitude for making adjustments. They would need to all really understand the committee's objectives and risk tolerance.
- Commissioner Childs agreed that it makes sense to give some flexibility with some guard rails. Currently there is a mismatched short-duration portfolio in a long-duration liability.
- Ryan Johnson gave a brief overview of their outlook on inflation. They think that while inflation is high, it is temporary, driven heavily by demand and is starting to improve. Continued inflation is driven by strong demand from US economy and so they are comfortable with inflation having the potential to remain high. They think high growth in the US economy will be met with a little inflation, which hopefully brings on productivity and helps the employment market.
- Commissioner Gazdick volunteered to work with GYL to look at the current guidelines and come up with a recommendation for the committee to consider at the next regular meeting.
- Commissioner Childs asked Mesirow to supply a fact sheet on CIT bank loans.
- Commissioner Gazdick asked for others on the committee to share their opinions. He believes the committee should know every month where their funded at and that they should know if they get close to neutral and have a plan for what do. Michael Lepore will inquire with Hooker and Holcomb about a possible monthly or quarterly report and how much that would cost.

Investment Policy Action

- None

Adjournment

- Commissioner Childs motioned to adjourn the meeting at 6:29 P.M. All in favor. Motion passed unanimously

Respectfully submitted,
Laura L Fournier
Recording Secretary