TOWN OF SUFFIELD

MEETING MINUTES
RETIREMENT COMMISSION
REGULAR MEETING
MAY 12, 2022 5 P.M.
HELD HYBRID IN-PERSON AND VIA ZOOM TELECONFERENCE

Committee members present: Colin Moll (5:29 p.m. arrival), Kacy Colston, Chris Childs (5:44 p.m. arrival), David Mercik and Glenn Gazdik

Committee members absent: Ryan Burrell and Dan Sheriden

Others present in person or via Zoom: Finance Director Eric Remington and Michael Lepore and Claire McDonald of GYL Financial Synergies

Eric Remington called the meeting to order at 5:03 P.M.

<u>Election of a new Commission Chairman</u>

- Eric Remington announced that he has taken on a role with the town as Director of Finance and has resigned as a member of the Retirement Commission. There was no motion to nominate a new Chairman. There was no objection to him leading the meeting.

<u>Review investments with GYL</u>

- Michael Lepore began with a brief review of the capital markets, which have been very challenged since the beginning of the year and continue to be so. Three things have occurred so far this year that have sent the markets reeling: the Russian invasion of Ukraine, the resurgence of Covid in China feeding into significant supply chain issues, and inflation that remains stubbornly high. The market has continued to struggle so far this week.
- Potential bright spots are that the price-to-earnings ratio for the S&P 500 as a group is almost to the number where it was in April 2020, but earnings are significantly higher than they were then. In addition, the price-to-earnings in the broad market is lower than it has been in quite some time. We also haven't been seeing earnings revisions downwards. The market right now is in an interesting position, data dependent but possibly nearing the end of selling. There is potential, however, for another downdraft (perhaps about 20% down from here).
- It will be very interesting to see what happens over the next couple of months. The best advice right now is to stay true to the goals and objectives of the pension plan. This is why there are equities (to appreciate over time) and fixed income (to meet short term obligations) in the portfolio. They will watch the situation closely. It's tough to predict

where the market will go over the next 6-9 months. As bonds come up, there can be talk about lengthening durations, although it's probably a little early to consider now.

- Commissioner Gazdik agreed it isn't the time, even though rates have come up fast. He would, however, want to meet intra-quarter if there is a move up in rates. Mr. Lepore agreed this can be monitored and a quick move could be made. Commissioner Mercik also agreed.
- Eric Remington introduced Commissioner Kacy Colston as the town's new Treasurer. She takes the place of Jack Henrie as a member of the Commission.
- Claire McDonald reviewed portfolio performance. The results going back to inception, with eight years of history, have a return of 7.5% compared to the policy benchmark return of 6.6%. There has been some good out-performance for that time frame. The beta was about .97, about 3% less risk. Looking at the upside and downside deviation, on the upside we were 6.1 vs 6.2, capturing most of that upside potential. However, the downside gap was much wider at 8.11 vs 8.47. Alpha was .08, a reasonable number. The return was ahead of expectations in volumes added.
- In terms of cash flows, we started back in April of 2014 with $26.4 million. The focus is on net cash flow, of which $3.7 million has been withdrawn from the pension fund since inception. Assets have grown to $19.4 million, closing the first quarter at $42.1 million.
- Looking at individual investments – we were previously at 65% in equities and moved up to 70% last year. We are indexing 15 % over the equity allocation in over-all assets.
- There have been extreme swings in market going back to 2020 when markets were dominated by large cap growth companies. The technology sector dominated. We increased allocations then to large cap growth and pulled back to more neutral position when value stocks started to come into play. Value has dominated since the end of last year. Energy was dominant in the first quarter.
- Looking at returns, it was a tough quarter and we under-performed. We are down 5.6% compared to the 4.1% benchmark. Under-performance carried through and impacted the 1yr return of 3.9% vs 4.4%. We are still ahead on the 3yr return at 10.5% vs 9% and the 5 yr return at just over 9% vs 7.9%. Looking at the high yield Conning portfolio added a year ago, we have outperformed, but not this quarter. We are still getting nearly double the yield than we would in the S&P 500.
- Large CAP growth manager T. Rowe Price showed a 1% shortfall in 2020 and an under-performance of about 7% in 2021. Some of the under-performance in this high-quality portfolio was caused by not having large weightings in big technology names like Amazon, Apple and Microsoft. This pulled the portfolio down. The change last year to go to a non-diversified calling, now gives more freedom to move to a greater weight in those positions.
- GYL still feels, given the extreme volatility in the market, that it's a well-run portfolio with the same people in place, same portfolio, same procedures. They are recommending holding the course.
- Moving into the small CAP field, JP Morgan looks to not go with the herd, they do intensive research and like the undiscovered. They had a strong quarter, up 3.5% with out-performance continued over the longer time frame. International came out strong, so their under-performance in the 1yr comes exclusively from the under-performance in 1st quarter. They are very over-weight in technology which is one of the reasons they took a big hit in the 1st quarter. Energy companies caused a good portion of return shortfall.

- Fixed income manager Mesirow outperformed across the board. Mr. Lepore explained that although Mesirow was in the bottom of their peer group for the quarter, they are in the top 1% if we look back to inception. Asset allocation about a year ago by the committee, increased the equity exposure from 65% to 70% and reduced the fixed income exposure. The increase in the equity exposure came from the high-dividend Conning portfolio which returned 13%. GYL had issued an RFP to look at alternative fixed income managers earlier this year when Ryan Johnson left Mesirow, however they have since met with his replacement and are impressed. He has experience managing fixed income portfolios and has been successful in growing operations. One of founders is also still there. They recommend keeping them on a watch list and not changing the investment manager at this point.
- Commissioner Mercik asked GYL to address the graph showing the 30-32 years of data with the maximum draw down/low point in the market. Michael Lepore explained that for example, in 2020 in red shows the market was down 34% at its low point and in grey is how market finished the year. This shows that negative returns, even double digit, are not unusual. 32 of the past 42 years have turned out positive, the average drop during any one year has been 14%. The last time the market was down as much as it is this year was just in the 4th quarter of 2018. The chart is meant to give perspective and emphasis the point that now is not the time to make any significant changes.
- Changes they are recommending include a decrease in large cap equity re-allocated to small cap, decrease in emerging market equity re-allocated to international developed markets as well as real estate and oil and gas limited partnerships and the addition of a quality tilt to the domestic equities in the large cap space through the vanguard personalized investing program (commonly known as direct indexing).
- Mr. Lepore explained a chart illustrating an 'efficient frontier,' a portfolio where we maximize return and minimize risk. Although everyone wants all return and no risk a rational investor would never choose all risk and no return. He then explained the modeled alternative portfolios with the current target policy at 70/30. Despite recent challenges that proved to be useful, they recommend sticking with the 70/30 as described.
- The more significant change they are recommending is in passive investment in the S&P 500. They recommend migrating that towards a large cap S&P 500 based index with a quality bias (companies with stronger balance sheets, more consistent earnings, and better debt to equity ratios). Those tend to out-perform when there is pressure on the markets, a rising rate environment or choppy markets. This can be done through an exchange traded fund or through direct indexing through Van Guard. The advantage to doing it through direct indexing is being able to customize the portfolio and being able to make adjustments. From cost standpoint it's a little more expensive than a traditional index fund but less costly than an active fund. Cost would be about 17 basis points (which is significantly more expensive than a traditional fund at 3 basis points) but is a bit more involved, more complicated to run. They believe that is reasonable from a cost standpoint.
- Commissioner Mercik asked about the US small equity year-to-date. Claire McDonald answered that through the end of April, small cap values was down 7.8%.
- Commissioner Gazdik asked GYL their thoughts about holding off rebalancing during all of this volatility or moving forward. Mr. Lepore answered that he thinks it's Ok to move forward because the changes are really at the margins (not significant), the one place

where there is a change to strategy is a sleeve of the large cap and higher quality names tend to outperform historically.

- Mr. Remington asked for any information as where they are today vs the end of the 1st quarter in March. The rebalance spreadsheet shows the market value is $38.5 million from $42.1. Mr. Lepore explained the value is correct, but the cash flow data is not accurate mid-month because the Empower data isn't updated daily.
- Committee discussed GYL's recommendations.
- **Commissioner Childs motioned and Commissioner Gazdik seconded to substitute the S&P 500 index with Vanguard personalized investing (direct index with a quality tilt). Vote: 5-0 in favor. Motion passed unanimously.**
- Mr. Remington asked if there was anything else they need to do as far as rebalancing. Mr. Lepore will send the committee the rebalance paperwork (for the entire portfolio) in the next few days.

<u>Discuss timing of FY 22-23 pension contribution</u>

- Typically, the treasurer has waited to make sure tax receipts come in before making a pension contribution, leaving them very often at the August meeting without that contribution in the plan. Mr. Remington spoke with Treasurer Kacy Colston about doing it earlier, in July. That will put cash in the plan to pay benefits and would allow for a rebalancing discussion in August and for a better rate of return. No objection.

<u>Old business</u>

- Mr. Remington shared that Human Resources Director Karin Ziemba emailed him the proposal for record keeping, as presented previously by Hooker and Holcomb. He will forward the proposal to the committee members for review.
- Commissioner Mercik asked about the valuation from the presentation given by Hooker and Holcomb a while back. Mr. Remington will follow-up.
- Commissioner Mercik asked about resurrecting a previous discussion about doing an audit. Mr. Remington will follow-up with First Selectman Moll and provide information at the next meeting in August. Commissioner Childs clarified the expense would be borne by the plan and expressed the importance of assessing the ramifications of the many recent retirements. Commissioner Mercik reminded committee members that they had spoken previously with Hooker & Holcomb about doing an experience study in conjunction with the audit if not included in the audit. He also suggested doing a full audit since one has never been done to confirm investment balances on the asset side, look at a sample of benefit payments to make sure they are done right and look at the underlying data to ensure it is correct. Commissioner Gazdik recommended the committee move faster than waiting until next meeting.

<u>New Business</u>

- None

Approval of the minutes from the February 2, 2022 Regular Meeting

- **Commissioner Childs motioned and Commissioner Mercik seconded to approve the minutes. Vote: 4 in favor (Childs, Gazdik, Mercik and Moll) and 1 abstain (Colston). Motion passed.**

Public Input

- None

Adjournment

- **Commissioner Childs motioned and Commissioner Mercik seconded to adjourn at 6:14 P.M. Motion passed unanimously.**

Respectfully submitted,
Laura L Fournier
Recording Secretary