TOWN OF SUFFIELD

MEETING MINUTES
RETIREMENT COMMISIION
REGULAR MEETING
AUGUST 11, 2022
HELD HYBRID IN-PERSON AND VIA ZOOM TELECONFERENCE

Committee member present: Acting Chairman and First Selectman Colin Moll, Kacy Colston, Chris Childs, David Mercik, Glenn Gazdik (6:17 p.m. departure), Ryan Burrell and Dan Sheriden

Other present: Finance Director Eric Remington, Human Resources Director Karin Ziemba, and Michael Lepore and Claire McDonald of GYL Financial Synergies

Eric Remington called the meeting to order at 5:01 P.M.

Approval of the Minutes from the May 12, 2022 Regular Meeting

- **Commissioner Childs motioned and Commissioner Gazdik seconded to approve the minutes. Vote: 6 in favor (Childs, Gazdik, Mercik, Moll, Colston, Sheridan) and 1 abstain (Burrell). Motion passed.**

Public Input

- None

Election of a new Commission Chairman

- Discussion that the Commission is still looking for a new Chairman, no volunteers to date. First Selectman Moll offered to act as chair until such a time as someone else volunteers. **Commissioner Gazdik motioned, and Commissioner Burrell seconded to table discussion. Vote: 7-0 in favor. Motion passed unanimously.**

Review investments with GYL

- Michael Lepore began with a brief market over-view, explaining the IDEA acronym being used this quarter. Inflation (consensus is that we are at or near peak inflation, consumer expectations have come way in, not anticipating a major recession), Deglobalization (there has been an uncoupling of global commerce, but they don't anticipate a deep recession), Economic activity (they are not calling whether there will be a recession or period of slow growth), and Action steps (they recommend maintaining long-term strategic asset allocations). They are recommending rebalancing, given the continued volatility, and are generally recommending tightening rebalancing corridors a bit, move back to policy.
- Claire McDonald reviewed performance. The results going back to inception, with 8 years of data, show the annualized return is 5.7%, ahead of the policy benchmark of 4.9%. The beta of about 1 shows the amount of risk taken in achieving our return is about 3% and the alpha is at .07, which seems like a small number, but is reasonable. The risk taken was ahead of expectation, so value was added.

- Claire McDonald further explained that back in April 2014, we started with $26.4 million dollars. Ignoring the contributions and withdrawals and focusing on the net cash flow of just over $4 million since inception, all the growth has come from the investments, from the realized and unrealized gains plus income and interest. That gain was just under $14.5 million. They closed the fiscal year with $36.9 million. An update as of yesterday however, the market value of the pension plan was $40,146,977 with a gain of just under $2 million and the FY '23 town contribution.

- Regarding the underlying performance, for the first 6 months there were negative returns pretty much everywhere. The energy sector is up 32% and the discretionary sectors are all down about 30%. It was a rough market with negative returns seen even across fixed-income markets. It's been a tough period and the pension plan has suffered accordingly, down 11.8 %, a little behind the policy benchmark of 11.6%. The under-performance does widen when we look at the year-to-date number down 16.8% versus 14.9%. Much of that really came from international investments, which longer term had great results, but there was still under-performance at the 1yr with a pull ahead at 3yr, 5yr and since inception.

- GYL is not recommending any changes to the investment line-up at this time. Although it's been a tough 6 months, the track record has done well longer term and they are confident losses will be made up. They feel we are through the worst of it now and will start seeing more positive returns. There has been a notable rotation in returns since end of June and they're seeing better numbers.

- Conning was added just over a year ago for stability and for having a higher yield. It had been put in as an income alternative when we took income from fixed income. They are currently just under a 3% yield. They were under-weight in energy, which hurt them in the 1st quarter, and they have added to that moving into the 2nd quarter when they were hurt by retail-oriented positions. Although it under-performed, the dividend yield index was very much ahead of the S&P 500.

- Another change made this year was adding that quality tilt. With the increased volatility in the markets, they are hoping that the higher quality taken from the index funds and put in Vanguard Just Invest pays off. There's very little data but just since the end of June, the Just Invest portfolio is up 11.7%.

- Large-cap growth has been the toughest part of the market. T. Rowe Price tends to have a more aggressive portfolio with a heavier allocation to technology, which has been the worst part of the market. They have taken a drop. They are over-weight in the communications sector as well as technology. They are up about 10% since June, but they are under-performing across all time frames. GYL recommends staying the course. It would be difficult to do a large-cap growth search and pick through managers that are looking fabulous because they happened to do the right thing at the right time. The numbers are very misleading. The markets are turning around as we move away from that 2nd quarter, and they recommend patience.

- Vanguard is indexing on our mid-cap and Times Square is showing out-performance, but they got notably less than their underlying index did. There are very strong returns coming from the Undiscovered Managers. They are down 3% for the 1yr but the index was down over 16% so they held up very well.

- International Intrinsic Value, which is somewhat more growth-oriented, did much better in the last 9 months. Their performance through end of the year was well ahead of the index, so the under-performance has really been just this year. The same of Oppenheimer, they had a really great year at the end of 2021, and they were ahead across all the time frames. Year-to-date they are down 30% vs 18% so it makes them look worse than they are.

- Fidelity was brought on board to capture some in the smaller cap arena for the International Managers and they are out-performing across all the time frames.
- There is still much potential for a lot of growth in Emerging Markets. There is a lot of over-selling, and although they were hard hit in electronic positions, their holdings tend to be more oil and gas oriented which are still generating a lot of cash. If value turns around, we could see a big benefit, but it's a waiting game. There is inherent value there, but whether we will be able to realize it is the question.
- Cohen & Steers, where we have diversified partly to capture yield, is at 3.4% currently. They had a strong performance across the board with a little blip on the 1st quarter.
- We stuck through it with Miller Howard through negative periods and are now seeing the benefit of having them in the portfolio. They are up as of yesterday nearly 26% year-to-date. The energy sector has been one of those better sectors. Michael Lepore added that with the yield of 8.4%, they've had 11 distribution increases year-to-date in the portfolio. The underlying financials and stock research has been quite strong.
- In Emerging Markets, MFS is slightly down for the 2nd quarter but ahead of their goal for the longer time frames. Debt is down nearly 20%, which is not helping the bottom line but there is certainly a lot of benefit to be had with over 8% yield. The managers have done a very good job over the longer-term, and GYL feels there is still benefit. Hopefully we're at the bottom of this with the positive return of about 5% since the end of June.
- Moving into high-yield, Black Rock had slight under-performance on the 2nd quarter but out-performed across all the longer time frames. Mesirow, where over a quarter of our assets are, is ahead over the longer-term but the over-weight to corporate securities hurt them in the 2nd quarter.
- Michael Lepore shared that since the end of the quarter, including the contribution made, there were total inflows of $1,825,000, outflows of $513,000 and $1,950,000 in gains, bringing the value to $40,146,977 as of yesterday. He shared the rebalancing spreadsheet showing current allocations with the contribution, showing over-weight in cash by just over $1,250,000. Showing how this would be re-allocated, GYL recommends not just doing the buys, but the rebalance as well.
- Commissioner Childs asked and the committee discussed if it makes sense right now to dial back exposure, given the upheaval over-seas right now and wonders if we'd be better off being a little more domestic given that there's such a confluence of issues going on. Mr. Lepore answered that given the uncertain political geopolitics and depending on how cold a winter they have, can have significant impact. The feeling is that in the intermediate to long-term there's a lot of value there if you're willing to ride out the volatility. It depends on the risk tolerance of the board.
- Eric Remington shared that, given the fair number of retirements, monthly benefit payments are expected to increase significantly. He will provide projection for the balance for the year for consideration. Contributions will also be affected, but not as dramatically at maybe about 20%. He will also send latest full pension report to the committee, as requested by Commissioner Gazdik.
- GYL recommends keeping $200 thousand in cash and moving the rest to target. They will search and look at more value-oriented funds on the non-U.S. side for the next meeting. Michael Lepore will follow up with additional data by email for the committee to review and vote on.

- **Commissioner Gazdik motioned, and Commissioner Childs seconded to authorize that 20% of Mesirow Intermediate Government credit be re-allocated to a longer duration benchmark, subject to a favorable majority vote, if the ten-year treasury gets above 3.5% and no concerns have been received about a longer duration benchmark. Vote: 7-0 in favor. Motion passed unanimously.**
- There was further discussion about whether the committee should take any action on the over-all allocation, given the over-weight in international growth. GYL will do a search and bring some options for the next meeting. GYL is recommending not rebalancing any of the non-U.S equity or bonds and then reconvening to discuss how to re-adjust.
- **Commissioner Childs motioned and Commissioner Gazdik seconded to rebalance according to the presentation except for the changes to the Invesco Oppenheimer International, the MFS International and the Fidelity Advisor International. Vote: 7-0 in favor. Motion passed unanimously.**
- **Commissioner Childs motioned and Commissioner Gazdik seconded to adjust the Agenda to discuss item #7 next. Vote: 7:0 in favor. Motion passed unanimously.**

<u>Discuss Commission review of Town deferred compensation plan</u>

- Eric Remington provided background about the town's 457 defined contribution plan. There are two different levels of participation. For those that are members of the pension plan, there are certain match levels and then for those that are not in the pension plan, there's a different level of match. For two groups (Police and Fire) there are vesting requirements. He and Karin Ziemba are administrators of the plan. The investments have not been looked at in a while, it's an old plan, and representatives from Empower haven't paid attention plan members for quite a while.
- The committee discussed that the plan really needs some level of over site and some review of the assets. There really hasn't been a group that to provide that and perhaps this is the group to provide that guidance. There is $10.5 million in assets in the plan. GYL looked at it and agrees that the fees seem high for the investments, and that there is some opportunity to enhance the fund, shrink the choices and lower the fees for participants. They are looking for approval to pursue a review of the funds and come up with some different options.
- Commissioner Childs asked if this commission should expand their role and take on that oversite or if there should be an investment committee rather than a retirement commission. GYL is also presenting this to the Board of Finance.
- Karin Ziemba shared that Empower comes out once a year for a wellness fair, but participation and employee interest are low. They also have a representative available to call for advice any time. Contributions are mandatory for new hires.
- Eric Remington and Karin Ziemba as administrators of the plan, will review the plan and bring recommendations back to the group. If engaged to do the work, GYL would develop a policy statement, do quarterly monitoring and quarterly performance reporting. They don't do employee education. The record keeper would do the education.

Discuss Hooker and Holcombe proposal for administrative services

- Eric Remington reminded the commission that Hooker & Holcombe submitted a proposal a while ago and a decision was never really made. He and Karin Ziemba looked at it and feel that while it would be nice to have, it's on the expensive side. Right now, the calculations are done in-house and then Hooker and Holcombe review. Even though it would streamline the process, they feel it's a lot of money for what would be provided.
- The committee discussed the process, which requires a fair level of effort and can have potential liability issues. Eric Remington has been doing the calculations in-house when someone retires and then it goes to Hooker and Holcombe for a check. He would rather spend the money on a full audit that they feel needs to be done. Every file needs to be gone through to fix data integrity issues.

Discuss potential audit of plan and/or plan data

- Eric Remington explained that an audit of the underlying data would be more valuable than a traditional audit of the plan, where you vouch the assets and go through the data to make sure the calculations are done in accordance with the plan document, etc. He believes the risk is in the underlying participant data rather than the assets, which are already reviewed as a part of the annual review of financial statements.
- Commissioner Mercik agrees that the concern is that calculations, process, or data may be wrong and that this step needs to occur before possible administrative services described previously.
- Eric Remington agrees that Commissioner Burrell's concerns about asset interpretation and earned interest would also have to be part of the review. He will review, consider hiring an independent contractor or an audit firm, and possibly propose an RFP. He is also aware of the need to document and make an employee aware and give options when situations occur (like being out on worker's compensation) rather than when it comes time for them to retire, so they're not trying to go back and fix problems.

Adjournment

- **Commissioner Childs motioned and Commissioner Mercik seconded to adjourn at 6:40 P.M. Vote: 6:0 in favor. Motion passed unanimously.**

Respectfully submitted,
Laura L Fournier
Recording Secretary