TOWN OF SUFFIELD

MEETING MINUTES
RETIREMENT COMMISIION
SPECIAL MEETING
AUGUST 30, 2022
HELD VIA ZOOM TELECONFERENCE

Committee members present: Acting Chairman and First Selectman Colin Moll, Kacy Colston (5:46 p.m. departure), Chris Childs, David Mercik and Ryan Burrell

Committee members absent: Glenn Gazdik and Dan Sheriden

Other present: Finance Director Eric Remington and Michael Lepore (5:46 p.m. departure) and Claire McDonald (5:46 p.m. departure) of GYL Financial Synergies

Colin Moll called the meeting to order at 5:03 P.M.

<u>Public Input</u>

- None

<u>Review of Bond Portfolio duration with GYL</u>

- Michael Lepore presented a report and memo put together in conjunction with David Nirtaut, bond manager Mesirow, as follow-up to previous discussion regarding increasing the bond portfolio should yields continue to rise. Earlier in the Spring, the Commission discussed using a trigger in the 3.5 – 4% range as an impetus to raise the duration of the bond portfolio. That was very briefly hit for a matter of a couple of days and then yields came back down. In addition, knowing that there will continue to be volatility in the bond market, there was then discussion about providing some discretion to the investment manager to lengthen the duration if certain metrics are reached.
- Mr. Lepore outlined three hurdle rates. Tier one if the 10yr treasury reached 3.25% (at about 3.1% today), the 30yr treasury at 3.5%; tier two with a little bit higher rates if the 10yr reached 3.5%, the 30yr at 3.75%; and tier three if the 10yr reached 4% and the 30yr at 4.25%. The idea being that how high rates go will influence how aggressive we are about extending the duration of the portfolio. If the tier one hurdle rates are reached, the duration extension could be up to two years, tier two would be a four-year extension and tier three would be a six-year extension. Doing this could more closely align the duration of the bond portfolio more closely with that of the liabilities and pension plan and would lock in higher rates.
- This plan also includes that any duration extension greater than six years, would need to be discussed and agreed upon between Mesirow, GYL and Commission. The idea is to give the portfolio manager discretion to adjust the duration if certain hurdle rates are reached, but not to give them carte blanche. They would do this either with treasuries or high-quality corporates, the same sort of investment grade corporate bonds that are currently in the portfolio.
- The existing benchmark is the intermediate US government credit. The potential benchmark if one of those triggers are hit, would be to use a similar benchmark but to exclude the 1-3yr treasury. GYL's

opinion is that this would be a prudent move and it makes sense to grant the portfolio manager the discretion to maneuver the portfolio in this rapidly moving market.

- Mr. Lepore confirmed the benchmark used for the current duration and that if the duration were to lengthen it would better match the assets and immunize more years of future payments. Locking in higher yields would mean more years of near-term liabilities covered with the bond portfolio which in theory reduces some of the funding risk.
- Mr. Lepore explained how locking in longer duration and taking duration risk is a benefit. The counterweight to that is that the cost of funding future liabilities would come down. The longer the duration, the longer it would take to recover the investment, however the flip side is that because the pension has a very long-life span, the underlying liabilities would shift and as bonds mature, that would be able to be reinvest at higher rates. While it may increase the shorter-term price volatility, it will also increase the longer-term return expectation.
- Mr. Lepore stated that if rates begin to hit these levels, it may make sense to discuss bringing equity allocations back down a bit and move that income back into the fixed income side. They would have to balance that with the funded ratio of the plan and consider analysis.
- Eric Remington agrees that it makes sense as rates move to change the duration of the portfolio and take a advantage of the higher rates.
- **Commissioner Childs motioned and Commissioner Mercik seconded to adopt the proposal as presented. Vote: 5-0 in favor. Motion passed unanimously.**

<u>Review options for Foreign Large Value Funds presented by GYL</u>

- Claire McDonald presented information about the Foreign Large Value search. When doing this, they look at all the available funds, investment style, consistency of returns and risk/return metrics and filter it down. Additionally with this search they made sure the funds they considering are available on the Empower platform.
- The search came down to a selection of Dodge & Cox, Federated Hermes International, Logan International and Vanguard. Looking at all the fund characteristics as well as the returns, they recommend the Federated Hermes International. When compared to Oppenheimer International and MFS International, this fund fills in holes the others two managers are not investing in and has an objective to produce a consistently steady yield and look for long-term appreciation. This portfolio has a yield tilt they are looking for with yield currently just over 5%.
- Looking at the country allocation, this fund is notably different. It has one third of the portfolio invested in energy, financial and utility sectors in Canada. When looking at the turbulence in the markets currently, they feel the sector allocations here are much more stable and that this would be a nice compliment to two other managers currently in place. Looking at putting just over two thirds with Oppenheimer and MFS and about 25% of the allocation into the Federated Hermes, they feel this will help reduce volatility while still capturing a good amount of positive return. They are looking at this as being a great compliment until we move past war, inflation and covid and may look for a more mainstream manager. Mr. Lepore added that they like the fact that they are over-weight to Canadian equities.
- Ms. McDonald explained that another benefit is that the fee is notably cheaper than others they were looking at. The fee will be around 46 basis points. By adding in the Federated, the over-all fee is lowered.
- Commissioner Mercik asked about the fund allocations. Ms. McDonald confirmed the allocations are 21% finance, 18% communication, 15% energy, 12% utilities, 17% staples, 9% health care, and 4% material. There are no allocations to real estate or the discretionary sectors.
- Commissioner Childs commented that the numbers are pretty good going back beyond the 1yr., allocations include energy and commodity, and it melds beautifully with other two funds.

- Mr. Lepore explained that administratively, doing this would mean moving the assets to another custodian. They would recommend Fidelity, who are already used for other investments. The all-in fee would be 39% for the Federated portfolio and then for the platform, it starts off with 8 basis points for the first half million and then 7 basis points for the next half a million and then moves to 6.5 basis points with a total of about 46-47 basis points; notably cheaper than the other two funds they were looking at.
- Mr. Remington agrees it's a good fit with the given the dividend aspect of it, the Canadian exposure, and the lower fees.
- **Commissioner Childs motioned and Commissioner Mercik seconded to move into the fund with allocations as recommended by GYL. Vote: 5-0 in favor. Motion passed unanimously.**

Discuss terminated non-vested account balances

- Mr. Remington explained that as he has been diving into the pension, he has identified several participants who are not vested, have not earned annuities, but still have employee contributions in the plan and continue to accrue interest every year. It is a housekeeping matter, and his plan is to go through it, reunite people with their money and remove participants from the plan. Initially he has identified 27 participants who have less than five years, with an average balance of $4200 for each participant. He is also working on tracking down some people who it appears have earned annuities but are not drawing on that. He wants to establish retirement dates so they know moving forward when people will hit retirement age.

Adjournment

- **Commissioner Childs motioned and Commissioner Mercik seconded to adjourn at 5:53 P.M. Vote: 4-0 in favor. Motion passed unanimously.**

Respectfully submitted,
Laura L Fournier
Recording Secretary