TOWN OF SUFFIELD

MEETING MINUTES
RETIREMENT COMMISIION
REGULAR MEETING
FEBRUARY 9, 2022
HELD HYBRID IN-PERSON AND VIA ZOOM TELECONFERENCE

Committee member present: Acting Chairman and First Selectman Colin Moll, Kacy Colston, Chris Childs (5:03 p.m. arrival), David Mercik, Glenn Gazdik, Ryan Burrell, David Innes and Dan Sheridan.

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

Acting Chairman Moll called the meeting to order at 5:01 P.M. and introduced new member David Innes.

Approval of the Minutes from the November 10, 2022 Regular Meeting

- Postponed. Agenda was not properly posted 24 hours in advance, therefore no motions were made.

Public Input

- None

Election of a new Commission Chairman

- No volunteers to date.

Review investments with GYL

- Mr. Lepore introduced the year-end performance report. A bit of a reprieve in the 4th quarter didn't undo the damage done in the first three quarters of the year. They feel the economy is still reasonably strong and inflation looks to be starting to roll over but whether we go into recession or not is still an open question. China has re-opened; however, the short-term risk is that if they have a significant flair up in Covid, pressure could be put back on supply chains. Therefore, they are continuing efforts to diversify.
- The economic environment is decent. The biggest risk in their view is the labor market. If people continue to stay out of the labor market, that continues to force wages northward. Wages have been the most volatile at the lower end of the spectrum. They feel the move on the fixed income portfolio will bear fruit, as they don't anticipate rates to stay elevated indefinitely. They do anticipate likely volatility and the advice is to make definitive long-term moves and adjustments at the margins as appropriate.
- Commissioner Innes asked what effect they would expect a predicted slight recession to have on the interest rates. Mr. Lepore responded that depending on certain circumstances, whether we're in a shallow recession or a period of anemic growth, the playbook is similar. If the economy really rolls over, that will force the Feds' hand but right now it looks like they have started to mitigate some of the inflationary pressure without doing significant damage to the economy. There does not seem to be a huge rush to lower interest rates. One of the illustrations provided shows how the duration has been

extended. The duration on 12/31/21 was just over 4 years, and as of the close of January it's up to 8.3. Trigger points had been developed in conjunction with the fixed-income manager to extend duration out.

- Commission members discussed possible missed opportunities. Although the treasuries were extended, they still have, on average, 10-yr corporates. Given how high yields and spreads were, the thought was they would have progressed further. With rates down, they may need to revisit to talk about benchmarks and be more specific as rates head up. Mr. Lepore responded that GYL will follow-up but thinks that Mesirow anticipates ongoing continued volatility and doesn't want to rush into anything. Commissioner Gazdik reminded GYL that they haven't received monthly reports asked for. Mr. Lepore explained that David Nirtaut, Mesirow portfolio manager, did start providing the spreadsheet monthly beginning in January and he will make sure the Commission gets them monthly moving forward.
- Claire McDonald continued the review, explaining that going back to inception in April 2014, the annualized return is 5.5% with a market Beta of 1. Looking at the upside/downside, there is more protection on the downside. The Alpha .05 is a small but reasonable number with returns ahead and volume added. Cash flow back in April 2014 was $26.4 million and over that time since inception, net cash flow has been just over $3.6 million. Investments have taken the heavy load with just over $15 million from realized and unrealized gains, closing the year with just under $37.9 million.
- Looking at returns, technology has dominated the markets when they look at performance in the last several years with Covid. As the economies opened up and people were out and about, there was a rotation into more value-oriented economies. It's been an interesting time for active managers.
- Looking at the last few years, the main sector that has performed well recently is energy. For the last year, there is a 90% spread between the energy sector which is up about 65% and the communication, discretion and technology sectors which are down around 35 to 37%. Where the managers were invested, there was a huge impact on returns. It's going to be an interesting and challenging year.
- Over-all the last quarter was up 7.2%, trailing a bit on the policy benchmark, which was up just under 7.9%. For the year, with some underperformance in international holdings, we were down 15.4%.
- Up until this year of unusual underperformance, there was out-performance across all time periods. Since inception and across the 3yr and 5yr, we are ahead of the benchmark. Looking at the underlying portfolio, GYL spends a lot of time having conversations with all the underlying managers, building knowledge of portfolios and relationships. They have had strong communications with some managers quarterly so they can understand when there are periods of underperformance. They have found it's not beneficial to change managers during these periods. Markets rotate and managers go through bad periods, so they tend to stick with them unless there comes a point when there is due reason not to. They feel there is a decent line-up, with some changes that were made throughout the last year.
- Conning had a strong performance across the board, with one of the best returns for the last quarter, up nearly 15%. They are up nearly 2% since being brought on board February 2021.
- Vanguard is a little bit ahead for the Large CAP blend quality and a little bit behind for the Mid CAP value. The quality tilt added some value.
- T. Rowe Price, without top technology names and with the overweight in the communications sector and overweight to Apple, had a tough year. Having never seen such significant under-performance from T. Rowe Price, they are putting them on the watch list but feel it's not a good time to sell.
- Times square Mid CAP growth manager has out-performed across all time periods. The same for JP Morgan undiscovered manager. Focused on buying and selling before the herd, outperformance has been significant. Mr. Lepore pointed out that although it was a slow start, they are now in the top 15% across all time periods. They don't have an expectation that every manager will outperform every quarter, and this was a good example of being patient.

- Ms. McDonald continued, explaining that international MFS Intrinsic Value had similar issues as seen domestically. Having the growth tilt and being underweight in energy were reasons for underperformance. They are seeing a bit of settling down both domestically and internationally and they believe that they will return after this tough year in 2022.
- Federated, that was just brought on board, has a similar story. When the market took off nearly 20%, with the high-quality tilt they won't keep up the same.
- Oppenheimer International Growth fund outperformed until 2022 and again has a similar story. Although they had a better 4th quarter, their underweight in energy and higher allocation to technology pulled them back for the year.
- Fidelity Small CAP Manager had a strong portfolio, had a strong 4th quarter, and lost less than the index.
- Emerging Markets has also been a challenging area.
- Delaware kept up with the index in the 4th quarter. They were notably underweight in the beginning of the year but added to their energy position.
- Cohen and Steers is an interest rate sensitive part of the market. They were previously light in the office sector, overweight in storage and initially overweight in data centers, which added to their outperformance. The rise in interest rates and rotation in the market hit hard then and they didn't do well in the 4th quarter. They think it will turn around.
- Miller Howard was an area where patience paid off. They had some negative performance for a while but had significant returns well over the benchmark, well over 32% for the year.
- In fixed income, the MFS Emerging Market debt was taken out in the 3rd quarter and moved into Mesirow portfolio. With Black Rock, there were positive returns with out-performing across all time periods. Mesirow was slightly trailing the benchmark last quarter but outperformed in previous quarters.
- Mr. Lepore explained that although 2022 was a difficult year, they don't recommend any changes. Now is the time to have conviction in long term strategic allocation.

Old Business

- None

New Business

- Commissioner Innes asked about the portfolio and if there are hurdle rates and a plan to close the gap. Commission members discussed that the Board of Finance is funding the mandatory amount every year to help bring the rate of return down every year.
- There was discussion about having Mr. Nirtaut back to walk through again what he's doing and go over the milestones given as formal direction. Commissioner Innes asked what would happen if there were a shift in between quarterly meetings. Special meetings can be scheduled with 24 hours' notice if needed.
- Commission members discussed that GYL has done an incredible job in the last nine years. They are also involved in looking at the fund line up for the 457 investments, which can then be brought to this commission for review. Mr. Remington will reach out about possible oversight of BOE plans.

Adjournment

- **First Selectman Moll adjourned the meeting at 6:10 P.M.**

Respectfully submitted,

Laura L Fournier, Recording Secretary