South Central Connecticut Regional Water Authority
Pension & Benefit Committee

July 16, 2020
Meeting Transcription

A regular meeting of the South Central Connecticut Regional Water Authority ("RWA") Pension & Benefit Committee took place on Thursday, July 16, 2020, via remote access. Chair Sack presided.

Present: Committee – Messrs. Sack and Messrs. Borowy, Cermola, Curseaden, and DiSalvo
Management – Mss. Discepolo, Kowalski, Nesteriak, Reckdenwald and Messrs. Bingaman, Norris and Singh
RPB – Messrs. Mongillo and Ricozzi
Morgan Stanley – Messrs. Kantapin, Kelliher and McLaughlin
Staff – Mrs. Slubowski

[PENSION & BENEFIT COMMITTEE BEGINS AT 12:31 P.M.]

Tony:

All yours Suzanne.

Suzanne:

Thank you, Tony. I'll entertain a motion to approve the minutes.

David:

So moved second.

Suzanne:

Thank you. All those in favor.

Group:

Aye.

Suzanne:

Thank you. All right. Investment quarterly performance review with Steve and special guests. Appreciate you being here today with us. And we're very interested in learning about how things are going and where you think things are going because the market looks very excited. But I can't imagine that there's a lot to be excited about given what the economy is shaping up to do for the future. But we're very, very interested in hearing what your perspective is.

Steve:

Certainly, I would agree with everything you just said. The market is very excited at the moment and we'll talk about why, or at least our viewpoint as to why. Please as always keep it interactive. I'm joined here today by Joe McLaughlin, who you all know, and also by Alan Kantapin, who I don't believe you've met in person, but Alan is our CFA analyst in the group, our most senior CFA. And he works on your accounts behind the scene on your strategy and right down to trading. So we thought it might make sense to introduce Alan here today.

Suzanne:

Hi Alan and welcome.

Alan:

Hello. Nice to meet everyone.

Steve:

So let's start. So it looks like you're driving. If I'm looking up, occasionally I have the presentation on a bigger screen right above here, so I'm not looking away, but we're going to do our usual market commentary. As Suzanne said, maybe we'll spend a few minutes there today talking about what's going on in the economy. A lot of it driven by our government and federal reserve. And then we'll talk about what we usually do. The investment policy statement. We're going to pause for a minute today and talk about forward-looking forecasts something that we usually do annually but I think it makes sense to look at now because Morgan has updated our forecasts. And even the backward looking numbers are a bit different than they were about a year ago. And then we'll look at the investment results and holdings to whatever degree you would like to. So let's jump ahead. I'm going to run a parallel here. Can everybody see this on their screen okay? Or is anyone following along on a PDF?

Suzanne:

We can see it.

Steve:

Okay. Let's go with that. Then, if we need to refer to the PDF, I will let you know where.

Jennifer:

You let me know where to go, Steve.

Steve:

Yep. I don't know if it's my view. Is there a way to... Let's go to original size. Okay. Well that didn't work... Fit to window. You might be able to take your screen and go... Alan, do you know... Or Joe... You'd hit view in the upper left and then go to...

Alan:

View and full screen.

Jeanine:

Steve we're in the PDF. Jennifer has the PDF up.

Steve:

Right? Oh, is it full screened already? But see how you have the frame around them. I think it'd be easier for people to see if you go to view and...

Linda:

So Jennifer, he's asking you, if you can make your screen that we're all looking at a fuller screen without some of these tool bars.

Steve:

Upper left, go to view, I don't mean to... We do so many of these.

Jennifer:

I don't have a view because I'm in Adobe right now...

Joe:

Go next to where it says file edit view up at the top left. Yep. Put full screen. And then Jennifer, you should be able to drive the page numbers with your arrow keys.

Steve:

Full screen mode, which would be...

Rochelle:

Keep on going down Jennifer.

Steve:

Third from the bottom.

Rochelle:

Right there.

Steve:

Sorry. I thought that might help. And you can just page down and page up. Okay.

Jennifer:

Thank you. I don't know how to do that.

Steve:

All right. We're all becoming savvy professionals. So we always take a look at this JP Morgan slide that looks at just the S&P 500, right? The most dominant market cap weighted index we see in the U S and what you'll see from here is at the end of last month, that benchmark was still down 8% from the high. See that in the far right. You'll also note and the last time we spoke, we were right in the middle of this. We live through now, it's been not boring at all. We lived through the steepest fastest decline in us stock market history, it was actually steeper and deeper than the crash of 1929. Not really history that we wanted to be setting. However, since we last spoke, we've also now lived through the steepest fastest incline in U S history.

Steve:

So it's been mind boggling and hair raising to say the least. That left us by the end of June down 8% from the peak. And it left us at a place where the markets arguably around 21 or 22 times earnings. And I think you all know at this point that that's historically would be considered a high number, I'll give you the same caveat I gave before when we were up here in early in the year. But it's all different now because interest rates for all practical purposes have all but gone to zero. You see the 10 year treasury in the bottom of that central box there on June 30th was 0.7. I don't have it in front of me right now, Alan probably does, but it's probably in the 0.6 range as we speak today. So the competition for stocks, this is one factor in what's going on in the market.

Steve:

There's no doubt the competition for stocks in terms of in terms of bonds is all but gone. It's pretty frustrating to say the least to go out to the market, Alan could tell us all this and try to find an investment grade, high quality bond and get any reasonable yield that's even 2% or more. And that's on the high end. So that's happened since we last spoke and that helps support a higher multiple on the market. The other thing, when we get into a recession, like the one we're currently in with high unemployment, low GDP numbers, other than not our official GDP numbers perhaps as inflated by government stimulus, you always have a PE that goes higher. It happened in ‘08 and ‘09 because the E, the earnings part of that equation are somewhat out the window at the moment. So it's not atypical that these numbers run high at a time.

Steve:

It's not a true number, if that makes sense, because we don't know what the E is going to be. So that's one factor. So nice recovery. You're going to see a very substantial recovery during this last 90 days since we last spoke, let's jump to the next slide. So one thing that I find fascinatingly interesting, actually, and I hope you do is we look at the S&P. This is something I think is very important to any investor right now, to understand what's going on inside the market. As you recall, the S&P 500 is the 500 large companies considered the most dominant by standard imports. It's not exactly the 500 largest us companies, but it's close. Okay. And what you've got here, when you look at it today, you've got these names in the right hand side, under the top 10 holdings, you see a red box, the top 10 holdings today, and this is unprecedented are making up 28% of the total.

Steve:

And what's amazing, we started at number 500 and went backwards. And as of a few days ago, it takes the bottom 400 holdings to equal that same percentage. So we are in a market that is extraordinarily dominated by very few names, and they tend to be technology names, right? Microsoft, Apple, Amazon, Facebook, Google, really twice in a row there. And just take a minute and look at the percentages there. Microsoft has over 6% of the S&P, Apple, 6% of the S&P, Amazon, 5% on the S&P. You've got like 17% from three names. These are great companies. Not saying they're not, but I will tell you that when this has happened in the past, when you have such narrow focus, as we had in ‘99, as we had in the seventies with what was called the nifty 50, at that time, it tends to reverse itself at some point.

Steve:

Not saying this can't go higher, but it's at the higher end of where it's been historically. So I think it's something to be cautious of. It's something to be cognizant of because we do use indices. And we do, I think you know that we use both market cap weighted indices, like the S&P, or like the Russell 3000, which is a broader version, but we also use equal weighted indices in the investments, which would mean if I had $500, we'd have more or less a dollar invested in each of the 500 names. So same companies weighted very differently and the results as you'll see, have been extraordinarily different, recently, I'm talking very recently. We can jump to the next page. Does that make sense to folks? I think it was one of the more fascinating things that's going on in the market as we speak. You could argue those same five companies or same 10 companies are going to become 60% of the S&P odds are very heavily that no, they're not.

Steve:

So at some point, this trend of these six or so names railroading forward, if you will, will likely come to an end, we've actually been seeing signs of it over the last month. We've really been seeing even stronger signs of it over the last five to 10 days, but that hardly makes a trend, right. And you see it here too. So I updated these slides. We used these the last time we spoke as well. They're substantially different than they were the last time. You've got three sets of markets here, benchmarks really. On the left, you have the S&P 500 that we just talked about, in the middle, you have the Russell 3000, and I'm going to make that my focus right now, because this is objective, this is just Russell builds benchmarks just based on size of companies. So this is simply the 3000 largest us companies unbiased in any manner.

Steve:

And what it says is, if you had $3,000, we've talked about this before, and you put $1 in each of those 3000 companies, on March 20th, which is kind of the darker, deeper orange you were down 38%. And indeed the following Monday, which was the dead bottom of the market drop, at the moment at least, that average stock was down over 40%. So we did cross 40. So that was the average company, the average investor, the average CEO, CFO employee in a stock purchase plan, et cetera, had lost... And this is average, not the extremes, right? Just a mathematical average of the 3000, had lost over 40% of their asset. By... Is that last Friday by the third, two Fridays ago I guess, we update this on Friday. The average stock in the U S was now down 11.59%. If everybody sees that, that's what the lighter orange is within the bar.

Steve:

So interesting. So the markets... The average stock is still down about 11%, through July 3rd, a vast recovery from where it was. If you go to the left of that and just look at the Russell 3000 as published day to day, the one that most we look at, basically the market was down 30% on that Friday, March 20th, and this is market cap weighted. So this is with those tech names, those more heavily weighted, is now down two and a half percent by the third. And what's amazing to me, the dispersion of the market here is to the right side of these four bars, value names at the bottom... We now know it was the bottom, at least interim. We're down 35% on Friday, March 20th and they still are down 16%. So a little bit less of a recovery there. What's been amazing is the growth side of things, right?

Steve:

Heavily driven by those five or six tech names, the growth side was... And also some biotech names, frankly, but heavily the tech technology names... Down a little over 24%, hit about 26% the following Monday, now is up almost 11%. So the Delta you have between down 16% for the average market cap weighted value and up almost 11% for growth is unprecedented. It's an enormous swing. We've also seen some trends. I'm talking trends, I'm talking five to 10 trading days and a little bit over the last month or so where this trend has been changing also.

Suzanne:

Steve, is this total yield, meaning dividends are included in the rate of return or no?

Steve:

Dividends are included here. Yes. Good question though, because it's... We always... When we give you our benchmarks, we include dividends in them. Internationally, not everybody does. So it's actually always something great to be aware of. That's a little game people play, frankly. International markets at the bottom fell out 30%. There wasn't a lot of variability there, right? The first bar down internationally is the whole world basically excluding the U S. So that includes developed and emerging markets. One to the right of that down to 31 and a quarter, whereas the developed markets, Europe, Australia, and far East, it's basically Europe and Japan heavily. And then the emerging markets down a little less. And then by the third, they all recovered in a relatively uniform manner, also. More recently, the emerging markets have recovered even more.

Steve:

Arguably Alln could tell us, I guess, while I'm talking, but I believe the emerging markets are very close to flat now almost at zero, even. So you've seen some nice uptick in the emerging markets and in the international markets as well. On the next slide... So I hope that helps... Know that this, there is an enormous and a historically unusual amount of dispersion between growth and value and between these five or six tech names and everything else. It's making for a... I believe it will all revert to the mean, it always has. And that means that the Delta between value and growth will likely revert to the mean over the time and the Delta between the average security and just the five or six largest securities, will likely revert to the mean over time as well. One could argue, we looked at that multiple 22 times earnings, your small cap value universe in particular.

Steve:

Last I looked, which is a few days ago was selling more at nine times earnings. So it's not a single market right now. I think since we've known each other, it's been closer to a single market. Now it's not a single market at all. We've got some markets at nine times earnings and some markets at 35 times earnings... A vast dispersion. That should create some opportunity for us going forward, right? If we want to be value conscious, which we tend to want to be, not with a blind eye to growth, but knowing that growth has run up so much, I could see us having a bit more of an eye towards mid cap and small cap and a bit more of an eye towards value without being extreme at the same time, but just moving towards where things are knowingly cheap. Same thing happened to the bond market.

Steve:

I'm sure you remember me talking about this last time, because it was somewhat horrifying at the bottom. Third bar from the right, these are all different bond benchmarks. Third set of numbers from the left, excuse me, not the right is the U S corporate bond market. That is the investment grade high quality bond market. And on March, same date, March 20th, it was down 10.58% and the following Monday, and I think I talked about this last time, which was March 23rd is the day the fed announced their quantitative easing program. Basically their money printing program, where they were going out to the market, acting in their primary role for existence as lender of last resort and buying up corporate bonds. We did follow them into that market quite heavily and since that time you've seen the corporate bond market go from a negative 10 to a positive five.

Steve:

We'll talk about that in a few minutes, some more when we talk about the fed. The high yield market, which you do not own a lot of in your portfolio, it's much more volatile. My theory has always been, and our theory. It's okay to have some in it, but frankly, with the way it can drop at times, it's almost worth buying equities if you're going to go to high yield and we want bonds to be at least high-ish quality for the most part. That was down 18%, it's still down three. And as you can see all the other numbers recovered. We did talk about the last time, just to the left of that, the Barclays U S aggregate bond market benchmark, the far left. This is a much more longer term heavily government weighted security. Remember I said, it didn't really give us... Historically stock markets drop like this, that part of the bond market goes up and gives you a seesaw approach, a balanced portfolio.

Steve:

And that was relatively vacant during the first quarter, right? That only earned 0.01 and basically we didn't earn anything, but has since sprung up and we could jump ahead. And does that make sense to folks so far? Why has all this happened? Why has all this recovery in the markets happened? I think we can point to at least two reasons that are monetary. And then we can talk about vaccines and pharmaceutical agents as well. But from a financial perspective, the two main things that happened are number one, and I believe it had happened the last time we spoke, although it was not... Not that it's fully implemented now even, but it was not fully implemented, but congressional, Washington, DC response to COVID crisis, it resulted in a two point $2 trillion bill that we could talk all day about. Was it the most well-written bill? Did the money end up where it should have ended up?

Steve:

And we all know that the answer is some of it did, some of it didn't. It was rushed through thankfully, frankly, and there's always a little bit of messiness and misplaced monies when this happens, but it accounted to almost 11% of GDP, right? If US GDP is 22 trillion, roughly it has been, at least, you're looking at 11%. So I think I said this last time, COVID created a ravine for us to get across basically. And this massive spending authorized by Congress actually helps fill that ravine, helps us, as I like to say, a rickety bridge across that ravine to the other side. It is historically massive, right? It's double what congressional Congress approved during the great depression. It's more than double what was approved during the 2008, 2009 financial crisis. So it's massive, yet, if we go to the next slide, we're going to see that it actually even pales in comparison to what the federal reserve has done, which to me, this is the number one reason right here why the markets have recovered.

Steve:

It's a combination of the two, but the timing of it would indicate... The fed made this major announcement on March 23rd and March 23rd mark to the bottom of the market, very interesting. So first of all, on the left part of this slide, the fed drops rates basically to zero. And that has been a boom for the bonds in the last 90 days. However, it's enormous friction for bonds looking forward. Now When we're buying a treasury bill, a 10 year treasury today, what did we say was Alan 0.6?

Alan:

Yeah, it's right around 0.61 right now, Steve.

Steve:

So if your portfolio went out today and purchased a 10 year treasury from the U S government, we know we would get 0.61% a year for the next 10 years. That's depressing, right? Not very exciting, but that's the facts today and everything else prices off of that treasury. So when we buy corporates or mortgage backs or whatever it may be, the spread comes from that treasury starting at a very low point, looking forward, on bonds. What else did the fed do? And this is really the key right here, that gold line, total fed assets. It... I don't believe it's ever gone up this straight.

Steve:

The fed spent 3.1, so far, at least. It's still spending money, this is only through May. Three point one trillion dollars in the markets, basically going out to market and buying a bond. Some of the bonds, perhaps that we own in the portfolio, thus providing a bit, if you will, to the market where there were none, and that's creating that boom from a corporate bond market in particular, the Investment rate, that was down 10%, to up five. So the question I usually get, so I'll ask it. I haven't gotten it yet. Does anyone have any questions? Maybe I'll get it now.

Steve:

How can we afford this? I just showed you over $5 trillion in spending. Well, let's talk about that. The congressional two point two trillion is actually money spent. And if it's all spent, it does go onto our federal debt, right? Yet if you size it, it is about 10% of GDP, it's survivable and surmountable, if you will, as a percentage of total debt, historically in countries around the world. It doesn't break us, we borrowed 10% of our revenue per year if you will. At the same time, some of that will be repaid, right? Some of that payroll protection program act will be repaid. I don't know the true number, but let's say it's 1,000,000,000,000,008 in total spending. And some of it hasn't been used, frankly. So who knows, maybe it's 1,000,000,000,000,007, it's a big number.

Steve:

Then you've got the fed. This is what I find fascinating. This $3 trillion was not actually spent. It was in effect invested, right? So what does the fed do? The fed came out on March 23rd and said, "We're going to go out and we're going to spend money in the bond market, we're basically going to be a lender to banks and to investors." And when they do that, let's just, for example, say they go out and buy a bond in Boeing. Maybe that was a bad example, let me pick someone less political. Let's say they're going to go out and buy a bond in Pfizer pharmaceuticals. So they go out and buy that bond and they actually put it onto their balance sheet and provide cash dollars out to the seller. That in effect is printing money, it's putting liquidity into the marketplace. They take that bond and put it on their balance sheet.

Steve:

As we can see it grew enormously. Once bond is on the balance sheet, they have multiple choices. They can allow it to... They can collect the interest payments as they do and allow that bond to mature, whenever it matures, five years from now, 10 years from now, three years from now. Or post COVID, if the markets are still behaving in a liquid good manner, they can and likely will begin to sell those bonds off their balance sheet. Based on simple math, if one spent $3 trillion and a market, that's now gone up 15% because you're the reason, right? You're the fed. You would argue that the fed has now made what $450 billion in profits on their balance sheet. It won't be that high, that assumes they bought everything at the bottom and still hold it but I'm going to guess the fed has made a profit of 150 to $200 billion that they will likely be able to keep, we haven't seen that published yet, this is my own personal theory and math.

Steve:

It happened in '08 and '09 but you know, if the Congress spent a trillion... It looks like 2.2, ends up being one seven. And then the fed makes a couple hundred billion, sounds like chump change, right? All of a sudden, what have we really spent? About 1,000,000,000,000,005, a lot of money, but nowhere... Single digits as opposed to us GDP. Yet, if you look at this 3 trillion plus the 2 trillion, we've really spent North of a quarter of us GDP. So Suzanne, when you asked that first question, I hope this helps answer it. We have pumped an unprecedentedly, massive amount of money into both the economy, into businesses, into households, with the checks, unemployment, et cetera and more money into the capital markets because last time we spoke, I probably was speaking fast, we were entering and had been through at that point, a no bid bond market. A bond market where, if we wanted to sell a security on a particular day, it was highly illiquid and we did not do this, we would have had to take an enormous haircut to have gotten liquidity on a given day.

Steve:

Does that all make sense? Super simple. I mean, we can debate it all, but a lot has gone on clearly for all of us.

Suzanne:

Yeah, I think it makes good sense and I think it has a lot of educational value. I think the key question for us is given the market's reaction, the over pricing, if you will, of some sectors and types of stocks and the undervaluing of others and the fact that this unprecedented inflow of money has come into the marketplace, but the marketplace while recovering has not nearly recovered where it needs to at this point. How does that really set the tone for the future and what will that mean for our current holdings and what will that mean for what we should be doing positioning for the future to recapture as much of our loss as possible?

Steve:

There's a lot of questions in that question. I'll try to answer them as... Frankly, on the next few slides, just coincidentally, we're going to be going through some of the answers to that. And then I'll try to add more color to it. One thing you should know on that front is, as of last night, I'm looking at it right now, the combination of the three programs, the salary, the union and the VBA are literally almost break even, they're down 0.77% for the year. We're basically back to approximately January 1st values. Shockingly, frankly, I wouldn't have not predicted that, frankly. I don't think anybody would have, but this unprecedented action from the fed... We're a day away from... Hopefully we get that day, but we're literally a day away from being back to whole, just since this report printed, the combination of the three pools of money is up two and a half percent or 1,000,006 66.

Steve:

So the remaining loss, if you will, year to date is just over $500,000. So kind of interesting that that has happened in such a short... The loss has happened fast and the gains have an equally fast and your portfolio in particular has been doing really well, very short term, almost not worth talking about, but I did, I just went there. In July because we do have some movement beyond just those large growth companies occurring. So it's interesting. Let's jump to the next slide because this is going to bring us into a discussion that I think we're going to have to have. So we might as well begin to have it. It'd be so much easier in person obviously, but...

Jennifer:

Am I going too far?

Steve:

No, can we go back a little bit, back another one. We can skip over the summary of the investment policy statement in a moment but I think it's important to look at just the right side of this and the center. Your preferred allocation is 55% equity, 30% fixed and 15% in balanced, alternative and hedge. So we're pretty much sticking to that at the moment, but let's look backwards and forwards now at things we've looked at before. We could jump one ahead, please.

Suzanne:

And Steve, just a question there. I mean that has been our preferred, but based on what you're saying, the opportunity for anything else to provide yield besides equities seems to be greatly diminished. So would we be thinking about being in our maximum?

Steve:

Yes, we would. And at the same time, we also have to be conscious of the traunching of the money, meaning what do you [inaudible 00:29:30] in the next five years? Net of contributions in the next 10 years? Assuming we have the next five and 10 years covered then yes, I think the remainder would go to equities right now, there's no question and that's where these next two slides are actually about, so perfect lead in there. We're looking forward. So you have a stated goal of making, I think it's 7% a year, right? Let's look at two scenarios. So Morgan Stanley has updated their long-term rates of return and this was only updated as of April, so I'm going to suggest that it's highly likely that the fixed income assumption is going even lower and Rochelle and us were both surprised that it hadn't gone lower so far.

Steve:

When we looked at this a few weeks ago, I think it was maybe a month ago. But anyway, your IPS target... I'm starting at the bottom of the page because this is back in May of 19. When we blended the mixed together a year ago, looking at our forward looking assumptions, which can be dangerous, right? It's a source, it's multiple sources combined into one, but it's Morgan Stanley's official four looking forecast. It was 370 for fixed income, 760 for global equities and 590 for, other, I'll call it. Your blend would bring you to 624. So we already knew that looking backwards, it's a little below seven. Looking forward now, at the top half of the page, we have brought those numbers down for two of the three asset classes. And I said, these were down in April.

Steve:

They're done annually in April. We've got three and a half now for fixed, seven and a half for equities and 590 for other. That brings us down to 606, we're approaching a full point. I'm going to make an educated guess unless something radically changes between now and next April, that that forecast for fixed income is going lower because I can tell you as a participant in the markets, if I can find three and a half percent from fixed income right now, I will be buying as many as I can get, because the reality is that number is probably more like two and a half percent. Now these are long-term goals. So post COVID, one would expect and think under normal circumstances, at least, that rates would climb again and return to some semblance of normalcy. So that assumptions in here, but that's the caveat. So let's start thinking in our heads, six per... The current mix is producing 6% in all likelihood, whether you look backwards frankly, or forwards...

Suzanne:

And Steve, is our IPS target of 15% in alternatives, hedge and swing fulfilled?

Steve:

We're going to look at that in a moment, not in that exact manner.

Suzanne:

Okay. And are they performing at five nine?

Steve:

Some are, yes. As an aggregate, I would say they're very close to that. the hedge fund from Skybridge had a very rough first quarter, we didn't have that report the last time, but we have it this time and now it's having... Not shocking, it's having a very robust recovery as we speak too. The balanced funds in there, which we use as swing, those are performing very well. One thought is to reduce that exposure and to not increase the fixed income exposure, but allowing the fixed income exposure to be dictated by the liability streams and then increase the equity exposure looking forward and perhaps take exposure in the small and mid-cap space and perhaps in the value space, knowingly going to the cheaper parts of the market with the risk, obviously being at the hot part of the markets remains hot, which can happen for some time. But frankly it's never happened forever. This next page... Whoops. Sorry. Can we jump to the next page?

Suzanne:

Just one last question, Steve, when we look at these historic returns, obviously that's not net of fees because there's no particular investments related to this, right. So how do you factor in the cost rated piece of global equities versus alternative?

Steve:

And there obviously is a cost to it, right? Because even if it's just a pure index fund without an advisor, even there's a cost to it. So this would be gross and you would have to reduce it by some factor and or hope that our selections outperformed... Like the moves we're talking about right now over time, outperformed by the cost of the fees. Historically, they have, doesn't always happen but over the long run that's not an unsafe assumption, I don't think, like if we move into small value and we're very patient for a number of years, by moving in and selling the expensive asset, rebalancing should get us there. And not over a year, or three years, or five years, but over a decade, I think it should get us there. This is looking backwards now. This is interesting. This is just trailing historic. When we looked only a year ago, the historic trailing return, using just indices, to your point, not an actual portfolio was 715. I think we put some comfort in looking backwards at this, just like we have put some comfort in looking forward, but there's no exact science here.

Steve:

Now that trailing return is actually dropped to 666. If you think back to the last slide, these numbers were 606 and 624, now they're 666 and 715. We think, that realistically, going forward, that a 6% rate of return is looking more and more likely, and or, to your point, a potentially increased exposure to some equities to get that higher rate of return. Which obviously increases the risk of the portfolio, A, and B, we would not recommend doing that if it's at the risk of exposing the stream of payments, the liabilities to the participants.

Suzanne:

Right, but if you went from alternatives to equities, would you still be increasing the risk to the portfolio?

Steve:

You would, at least theoretically you would, yeah. I think we need to ... Actually, between now and the next time we meet, unless you tell us not to ... But I wanted to give you this information to think through it, that our suggestion would be to have us go back again to, it's probably been three meetings ago anyway ... I know we're in the front conference room and in your offices, but to go back and look at the work from Angel, and even if it's slightly dated work at this point in time, to rerun those traunches of liabilities versus the portfolio and see what we possibly could do, if anything.

Rochelle:

Oh, I just want to mention, we should be getting our 531 2020 reports within the next couple weeks. I don't know if you want to wait till we get those.

Steve:

Absolutely we would. Good point. Frankly, the next meeting ... I'm going to guess that meeting was a year ago at the next meeting. Unless anyone feels differently, I would say that we prepare that work between now and then. Alan is very key to that work, and that we then present you with what the possibilities are.

Suzanne:

Yeah. And I think if the possibilities are a meaningful change, let's meet sooner rather than wait for the full quarter.

Steve:

Perfect.

Suzanne:

Okay.

Steve:

Perfect. Okay. We're going to switch gears now, if that's all right. That's what's going on in the world, that's looking forward and backwards on returns and trying to be realistic about what we believe is likely to happen. The historic number still says 7% is okay, looking backwards. Some logic says maybe it's a little high looking forward, particularly on bonds, just to summarize that section.

Steve:

Let's look at your portfolio, if we can jump to the next slide, please. This is the portfolio at the end of June. And obviously I just gave you the numbers a few minutes ago. This is just the salary and union plans. Those are 55 and change, upper right hand box, 55.34% in equity, domestic and international split about 73 domestic and call it 27 international. A good mix. Our goal has historically been about 70, 30 there, 75, 25, even running at. And then develop to emerging, we're running at 87, 13. Our stagnant goal there is closer to 90, 10. Emerging has come up a bit lately.

Steve:

One tilt that we had made before COVID, and it hasn't worked well for us so far, but I believe it will, is if you look at the bottom, the style analysis, value core and growth, we had tilted a little bit towards value in the interest of getting dividend payments and lower multiples and a little less towards growth, which is about 29%. It's not a huge tilt, thankfully. We tend to make slow methodical moves as opposed to vast, quick dramatic moves. Had we made a quick dramatic move, even though it looked like it was the right thing to do, it would have detracted from outcomes, at least so far.

Steve:

We still believe in that move. Obviously, the delta in valuations, in the market between value and growth is about as wide as it ever gets. Maybe we take another step in that direction and maybe we take another step towards smaller and mid cap names in that direction. I do think that that next meeting, whether it's 90 days from now or whether it's sooner, we'll get into that particular discussion deeply. I think it's tough to do that today in one hour.

Steve:

The remainder's either in fixed income or cash, very little in cash. And you will recall, and I think we'll see it on the next slide if we can jump there, maybe. No, not quite yet. We give you a lot here on the structure of the fixed income portfolio. I'm thinking in the interest of time, maybe I don't go too deeply here today, unless you want me to. We did this quite deeply at the last meeting. And instead we jumped to page two from now, one past this, one more. Thank you.

Steve:

Can we go back one? Perfect. And again, I won't go into huge detail. I guess I will, at the top of the page you have potential cash need. We agreed in the last time we spoke to preserve some funds for cash needs. And indeed you are beginning to use some of the funds. We haven't used this as a source yet, but going forward from here, we will use this. We carved out a million 650 into treasuries due to the fact that the organization was planning on potentially funding at a lower rate. And it looks to us at least ... I guess I'll ask Rochelle this, it looks you are actually doing that.

Rochelle:

Yes we are. And we also, towards the end of May, we also had a lump sum withdraw from the salary plan.

Steve:

Yeah, we did see the net. We've been net negative on cash most recently, you'll see that in a minute. Meaning that the funds are being used as a source of payments, as opposed to, prior to this time, you were net savers, if you will, net investors. That money is still carved out there. We used some other money in that portfolio to fund those May and June payments, but going forward our plan, at least, unless you tell me otherwise, is to use that million 650 ... And again, this is both the salary and the union plans. We're planning on likely burning that to zero over the next year. Meaning, using it as a source ... Unless things change on the incoming funds, it would be used as a source to pay out those pensioneers. Do we still [crosstalk 00:40:52].

Suzanne:

Rochelle, the pension payouts are not shifting or changing greatly, they're just there and we're funding them, correct?

Rochelle:

Right now, because in fiscal 20, we were contributing at the arc, as opposed to above the arc, the pension benefits are higher than the contributions.

Suzanne:

Correct, but the pension benefits ... We're not accelerating retirement or anything like that.

Rochelle:

Not so far.

Suzanne:

Right. Okay. Thank you.

Steve:

If you recall, Rochelle did a lot of work and Alan actually did a lot of it too, and I just explained it to you, I think, but that million 650 was arrived at scientifically I'll call it, not random by any means. The only thing that's not scientific is we haven't touched it as of June 30th, but we are going to be touching it literally now, next time we need to make a payment.

Steve:

The remainder of the portfolio remains at target. Because of that, the portfolio is slightly off its long-term targets at the moment. If you look at the bottom box on this page, I think it's an important box. The bottom box, it has your benchmark and then it has how we're actually invested. It summarizes the rest of the page, which I think we've all found challenging in these meetings over time so we created this bottom box at the last meeting.

Steve:

The benchmark has the Russell 3,000 at 42%. You're basically there, slightly light. It has global stocks at 15, you're basically there. Where we're overweighted and it's partly ... This is excluding cash, we have an overweight in the bond side at the moment by six full points domestically that is made up of the fact that in the benchmark we have global bonds. We're currently running them tactically at zero, right? Three of that six, it's not coming from stocks to bonds is because we made it a conscious decision and it's been a good one so far of only owning domestic bonds and not international bonds at the current time. Later we could talk about, does that belong in the benchmark? Historically we've had it there. Our plan right now is not to buy there.

Steve:

If you think that yields low in the U.S., it's even lower and most places around the world. Although, that does give us room to buy some emerging market debt. Hedge fund of funds were just below target. Global real estate, we're consciously a full point below target. And cash and T bills were below target because we own some bonds instead. Basically, stock bond mix is relatively on target, even though that 6% at first makes you think it's off target. It's just not in global bonds and it's not in cash, in treasury bills. It's a little more invested than either of those.

Steve:

The page after that shows just the few moves we've made since we last spoke. The green are new additions, there were very few changes during this particular time period, right? The major ones were in bonds. After the fed announcement, we put roughly a million dollars into a bond front of America. We put some additional money into market strategic bond. And just prior to this timeframe, we put a million dollars into PIMCO investment grade bond.

Steve:

I'll pick on PIMCO investment grade bonds just for a minute. The top there it's literally the fifth one down from the top, has 1,000,067 target and 1,000,102 in it. I believe that was actually a million dollar purchase. You can see what's happened here. There is a 10% gain just from when we bought that in late March through the quarter. And that's a bond fund. It's been very interesting what's gone on out there since then.

Steve:

We did add an additional JP Morgan hedged equity as kind of an additional alternative. We were slightly light in the alternative space, and this is a fund that's done extremely well on the downside yet has participated on the upside. That's been a good move. But not a lot of changes this particular quarter. The change in the middle of the page was upgrading quality. We went from one group of dividend paying stocks that are dividend growers to another larger cap group of dividend paying stocks and dividend growers. From the Spyder S&P dividend to the ProShares [inaudible 00:44:51] 500 dividend, it simply upped the market cap during what appeared to be potentially a dangerous time. And actually, despite the fact it wasn't so dangerous for the markets, the one we moved into has outperformed when we moved out of, so that's nice to see.

Steve:

VEBA on the next page. I'll try not to repeat because I know we'll run out of time on me. Can we jump to the next page please? Looks relatively similar, right? The difference really here is the alternatives are vastly smaller, right? It's a bit simpler portfolio. There's no hedge fund here. There's only liquid investments here. 7.3 million at the end of the month, the breakup is in the box at the right. I won't read through it unless you need me to, but the same story holds true here. Generalized weightings are similar, [inaudible 00:45:37] the hedge fund, and generalize tilt towards value overgrowth is here, [inaudible 00:45:41] the hedge fund.

Steve:

We could jump right onto the next one, please. Same thing here at the bottom of the page, you'll see that you're very close to the benchmarks with those same exact exceptions. And the exceptions aren't so much stock to bond again, the exceptions instead are within the bond space, not global, not treasury bills, instead more longer term bonds in that mix at the moment. And we're moving away from that now, we moved into it quickly and we're going to move out of it quickly too because the fed made it obvious that was a good move and now the rates are making it obvious that move may have happened already.

Steve:

We could jump to the next page please. We'll jump right past this page, we've made the exact same page changes. Thank you, Jennifer. Good job. What happened during the quarter, an absolutely wild quarter, right? The different pools of money are listed on the left. The beginning asset value, which was March 31st closing value, in total was 60 million, 3614, you can see that. Here's where you begin to see that there's net money leaving at the moment. We haven't seen this since you've been with us, really, because of that net funding you've been doing, but it's not big. But $135,000 was a source of funds in the combination of the plans during the quarter. Relatively light on a net basis.

Steve:

We transferred some money, transferred money from the salaried plan down to matrix trust to be paid out. And the VEBA transferred some money into the plans, but all of those transfers net to zero. Simple math, your net invested is 60 million 225. You ended the quarter at 67 million 388. You ended the quarter up 7 million 162. I'm very happy to share that with you, I didn't think we'd be sharing that with you this quickly. And today, just for note, I mentioned the number earlier, the 68 million 308 in the fund as of today. And money's coming in with those now so I think it's mostly gone up.

Steve:

It made 12% net, a nice even number for the quarter. 12, 10 gross. Obviously that's way above the actual rate of return for that quarter, which is 175, but obviously that's on top of the prior quarter, which was way below. The current benchmark, we made it a little adjustment here just to show you with the cash reserves, the benchmark was 1232, so quite close to it, slightly below. Mainly for two reasons, the hedge fund you can see, came in at 647, 646, a little bit drag on results for the quarter. The other accounts are very close to where you'd expect them to be. A little low, primarily and almost exclusively, from that slight tilt towards value and not having the overweight in growth. Your regular benchmarks range from a low of 1124, you can see that below, to a high of 1922. That is a shockingly unusual wide range of outcomes, right?

Steve:

Normally I share these benchmarks and they're basis points apart from each other, and I always say somewhere in between is acceptable, this is a crazy variability. One other thing I wanted to point out to you this time is you'll note in the benchmarks down towards the bottom right, the equally weighted Russell 3,000, that we spent some time talking, about came in at 3286, the equally weighted fourth one down, S&P was almost 22%, the 2173. Both of those, it doesn't make a trend again, but both of those for the quarter, did better than the market cap weighted. The average stock actually started to have a good time period. And it's accelerated as we've entered into July. You see that hasn't become true of growth versus value, and you can see that if you study below the Russell 1000 value versus the Russell 1000 growth. Again, I'll try not to go too deep there, but since I talked about it earlier, I thought it made sense.

Steve:

Year to date is the next page. And we know that this is basically back to zero now. At the end of June, we're still down 2.2 million, or about 3%, just over three. The benchmarks, that's performing more like the equal way to benchmark because we do have some waiting there. And those equal weighted ran between a 183 negative and 551 negative, a little bit of a narrower gap here. And just good to know is that basically you're back to even now on the calendar year. I have a slot on the next page that has a new one that I hope you like, because I feel like we look at a lot of numbers, but I think this summarizes [crosstalk 00:16:10].

Suzanne:

When you say we're back to even on a calendar basis, you mean a fiscal year basis?

Steve:

Calendar, sorry. Fiscal year, we're actually profitable.

Rochelle:

Up a little.

Steve:

Yeah. The last 12 calendar months, you're up 4.2, 6% of 2.8 million. Alan may be able to run a fiscal year while I'm talking.

Rochelle:

I think it's in the deck Steve, it's further on. There is a fiscal.

Steve:

[crosstalk 00:50:42] that ended though. But yes, I didn't know if you met the last one or the current one.

Alan:

The new fiscal year, I have it right here. The portfolio combined is the three pools of money are up 2.762 million. And that's positive 4.21%.

Suzanne:

Right.

Steve:

And that's which fiscal year Alan?

Rochelle:

It's the fiscal year that we're ...

Alan:

It'd be the most current fiscal. [crosstalk 00:17:05].

Rochelle:

... what the actuaries will be using approximately.

Steve:

Yeah. It will be off from the actuaries about 2.7%, it sounds like. 2.8.

Suzanne:

Does everybody understand that? Just for a fiscal year, against our desired benchmark rate of return of seven, we're turning in, what did you say? Four ...

Rochelle:

It's like four [crosstalk 00:51:26].

Rochelle:

4.21. Yeah.

Suzanne:

Thank you.

Rochelle:

Suzanne, if we've got the talking points, that's in there.

Suzanne:

Yeah. Okay. Thanks.

Steve:

I think we're going to come to it. Yeah.

Suzanne:

Yeah. I saw it last night in the deck so it's in here somewhere.

Steve:

These are talking points and I think this helps us understand the portfolio a bit better. And frankly, I think in the future, if you like these and agree, I think this might better talking points than me just talking sometimes because it gives you something concrete. This is attribution is what this is. It's like what attributed to outperforming the benchmark or underperforming. And we know we're a little behind at the moment versus this straightforward benchmark, we're ahead of the equal weighted benchmarks so I guess we could do this both ways. But fixed income for the quarter at the top of the page, outperformed by 72 basis points. That's nice to see. It's not a shock. We think that will continue at the moment because when rates dropped steeply and straight to zero, we weren't positioned for that, clearly. I don't think anybody was. But the benchmark was, the benchmark outperformed and now we're catching up to it with our higher yielding portfolio. That should likely continue the rest of the year.

Steve:

Equity performance really was we're a bit underweight in aggressive growth as we know, right? By definition, a fund like this, we don't own those heavily weighting in those aggressive growth names. And those have been the whole game, as you know. and then alternatives were 11 basis points, a much bigger number on the year to date basis, but not too big. Those three resulted in 33 of underperformance versus the current benchmark. Almost a rounding error, I don't mean to discount it, but as value outperforms growth, we'll see the reverse.

Steve:

Year to date fixed income, although it just outperformed by 72 basis points in the quarter, it's still behind by 92 year to date, right? That's because in order to be at the benchmark right now, I don't think we have a single client that is on the fixed income side, we would have had to had a long-term treasuries and pretty much nothing else, or long-term government. That's not how our portfolio normally looks. Again, our portfolio is quite a bit higher yielding than the benchmark. And because of that, I strongly suspect we will see this number go away and erase itself as we turn to normalcy A, and B as just time ticks on because we're getting a higher yield.

Steve:

Equity, same thing. We're underweight growth versus value. That's a conscious decision that we all made and I stick with. And then Skybridge had a very poor second quarter. They are recovering nicely now, day-to-day, we're in touch with them. We will look at them again in January in quite a bit of detail.

I think we'll do a deep dive then to say, do we want to continue to hold it to the behavior should have during the full cycle? But it owned a lot of credit, right? Meaning corporate debt. And they own a lot of private credit being a hedge fund, and that became a highly, highly illiquid market. When even the liquid markets became illiquid that even became more illiquid, and it's recovering now, but it's taking longer to come back, but it has begun its comeback.

Steve:

I think if we jump forward, fiscal year is on the next page. There's your number. It's 454 net. That's versus a goal of seven. You're 244 basis points below from Jeff Bauer from the actuary's perspective. And I don't think that that will have any major material. I don't want to speak for Linda or Rochelle. I don't think it will have an enormous major impact on your financials overall, because it's still was positive to a decent degree, just not quite at the 7% that we would expect.

Suzanne:

Right, I guess the key question is when you look at ... And I think it's only fair to look at it since you've been managing it, how does that fit into the overarching?

Steve:

You are leading me today. Let's jump in two more pages. I was going right there, right now. Let's keep going, one more. Perfect. This is the trailing five years and I have a current as we speak, just to show you how volatile it is. Here's what's interesting, because now we've lived through COVID and this crazy down market and recovery, that's not fully recovered, in effect what it's done is it's cost us some time, right? We're basically at zero. What you look at since we began, let's go back to the beginning ... In June of 15, in the left here, there was 42 million, 258 in these accounts, across the board, including the trust accounts.

Steve:

Since that time, net of distributions, your organization, the authority has contributed net 10,289,577. There have been many transfers to both fund the investment accounts into pay beneficiaries, but they equal zero, right? They're just net transfers. Your net invested, over time, is 52,547,000. The ending value at June was the 67,388 number. Over time there's 14,840 earned, which comes to, call it five and a half percent net. It is not, at the moment ... Not surprising at the moment, given the moment in time here. It is not at the moment. It has been at different times when we've met, but at the moment it is not keeping up to the 7%. I'm looking at it right now on my screen through last night, it's at 587. We're very close to six, but we're not at seven. And that's not surprising, because remember we went back to those earlier slides and you look at the historical returns, and they're closer to six.

Steve:

A few things we're going to have to [crosstalk 00:22:59].

Suzanne:

I'm sorry, this is five years. Okay.

Steve:

This is five years old. This is the longest that we have. We started just before that, late 14, but this takes us right to 15. Obviously the goal is to get to seven. The goal is two things, right? The goal is to make seven from an investment perspective and the goal is to perform in line with the benchmarks. Really the goal is to get your plan funded to a fully funded status over time.

Steve:

And funding happens in two means, right? Really three. It's the makeup of your population, who's been paid out and who hasn't, what liabilities they are accruing and what liabilities you are diffusing. It's the contributions the, 10,000,003 is the earnings, the 14,000,008. And as the actuary's crunching all this together and say, where does 67.4 million, if you will, put us?

Steve:

But the actuaries expect that 7% return over time. They expect that over a decade or so, this is half a decade. Could we get to it? It's possible. It falls in line with the benchmarks, right? That 588, the benchmarks are running from 387 to 616. You're even at the higher end of them, right? The mid points, 418 and 616. I do think we'll return to a market where just those five and six, or even 10 names, aren't as powerful and that should help us, but that'll help us versus the benchmark. I think we're in a market, obviously we've talked, about where things are nine times earnings or 35 times earnings, depending on what you're buying. And I think that could help us with some tactics.

Steve:

But all that being said, if the benchmarks are coming in between four and six, can we make seven and eight? Probably not. If they're coming between four and six, can we get to the higher end of that? I think so. No question. We're showing that we've been there, for the most part, with the exception of the current year. But I do think a discussion ... And we'll have this discussion when we crunch the new numbers, but I'm beginning to think that six is a more realistic number than seven in the environment that we're living in.

Suzanne:

Yeah. Well, I think actually it sort of begs the question, so we're five years in, right, and we probably should step back and ask ourselves ... Because the other factor is cost of the managing the portfolio. But I think we should ask ourselves, is this working? Is 7% realistic? Because we have a particular investment style that is our preference, and in the last five years, I would say, it was a very robust investment environment, certainly from an equity point of view, which is usually one of the bigger drivers of the upside of the potential, right?

Suzanne:

Is it our investment policy statement? Is it our approach to investing being as diversified as we are? Is the cost of our portfolio and the way we invest it? What factors are it, and is it possible to get to 7% or is it not given the way we're approaching it? And do we want to change anything about the way we're approaching it to make it happen? But I think this is a good time, five years in is a fair amount of time for us to step back and ask ourselves, how well are we doing this? And I don't mean, how well are you doing it Steve, it's how well are we doing it?

Steve:

You're right. I get that. Can I respond to it? Because I think ...

Suzanne:

Yeah.

Steve:

From a stock market perspective, this five years was average. See the Russell 3000 right at the top of the benchmarks there? 10.03. if you ask me what stocks making the long run, I'd say 10, couldn't be much more average. That's domestic equities heavily weighted towards large caps. Perfect hindsight. Right below that, however, the average stock has only earned about a half of what it's earned historically, the 532 number. Just some sort of perspective.

Steve:

Again, it goes to these largest names have had a crazy last few years. If that evened out, you'd expect this next number down to be 10 also. And if looking forward, that should even out, and if you got 10 out of each of those, all of a sudden this portfolio, we could crunch the numbers, but it probably would be more like seven.

Steve:

Today, from what you've been doing for the investment policy statement, you'd expect this portfolio to earn between 616 and 418, the two midpoints. We're basically right there. We're towards the upper end of one. Other factors. We have an exposure in your portfolio, in your investment policy statement, rightfully so, to the global markets, right? You look at the MSC [inaudible 01:01:37] the U.S., it's earned 2.26% over the last five years. A real drag, right? If you look at the bond market, the [inaudible 01:01:46] is there in 430, not a drag, but not the number that we have in our expectations.

Steve:

When you say it's been a robust five years, that was the only thing I wanted to go deeper on. It's been a robust five years for a very small number of the Russell 3000 or the [inaudible 01:02:02] 500. The average stock has made 5%, 7% if you use the S&P, or if you go globally, 2.26%. When you blend those altogether, I would say it's been a below par five years by quite a bit.

Steve:

I can't do that math right now, but you're probably looking at equity returns that are more like five to 7%. I'm really rounding here. Not 10 that they've been. Because the only thing that's made 10 are those top five and 10 names. And we are heavily weighted towards those, don't get me wrong, we are, but we've got some international exposure, we've got some bond exposure. I would say it's been a below average five year period.

Steve:

I would expect these strategic benchmarks, the 616 and the 418 ... Those tell us a lot, those tell us what has a portfolio that's not all equities done during this timeframe. And it's earned between four and 6%. [inaudible 01:02:54] all equities, one would argue, over time is maybe between five and 10%. And if you add international, a much lower number.

Steve:

I hope that helps context, but I do think we have to look your investment policy statement, but we have to remember, most important thing in my mind, is your retirees, right? Would it be wonderful to put everything in equities and put it all in market cap way to looking backwards? Sure.

Suzanne:

Yeah. [crosstalk 00:29:21]. I'm going to interrupt you Steve, not because what you're saying doesn't make sense, I just don't want to try to answer this right now.

Steve:

I get you.

Suzanne:

My thing is that if we have a responsibility to produce a certain rate of return over time, in order to make this work financially for the payment of the end, the overall funding of the pension programs. If part of this is lowering our expectations, there are implications I know associated with that. I just want us to step back and take a look at it and say, with all the information, including what you just said, if it says, look, these five years we underperformed the 7% and you would have expected that in this five years, based on [inaudible 00:30:12], and as we look at the next five years, we think that there's an opportunity to do better, than that's part of the story, right? But if the next five years are not an opportunity to do better, then I think we just have to get realistic about what we're doing, and what the expectations are, and how much it's going to contribute. That's all that I'm saying.

Steve:

I love that. And why don't we do that quantitatively? Meaning we can look at expectations down to more narrow asset classes when we meet again, even if it's in between. And we can see ... Because you know already that our expectation for bonds doesn't get us to seven unless stocks are heroic.

Suzanne:

Right.

Steve:

I think there's a chance for stocks to be heroic. The average stock versus those top five or six also. Heroic might be a strong word, but to perform in more ... [inaudible 01:05:04] you be able to get 10% a year out of the Russell 3000 equally weighted, you should. Yet it's only made five.

Suzanne:

Right. You can decide how you want to look at that and help us get that context. You're our expert, right? I'm not telling you, this is how you should do it, I'm just saying, in recommending to the rest of the other RWA members, that after five years, we now have experience, right? And we have experience with someone who we have high regard for, and we have experience with a certain amount of knowledge with the markets, and we have certain circumstance going on, and we have an anticipation, potentially, for the future and it's just time to take stock and figure out, stay the course? Change the course? And if so, what do you do in changing the course?

Steve:

I, for one, completely agree with that. To take a deep dive at this point and say ... Starting with the IPS, looking at capital market assumptions, IPS, actuary report, combination of these components will help us to that answer.

Suzanne:

And like we did for the other RWA members on the non-core revenue, it might be a special meeting because it's worth taking the time to do it, it's that important of a topic. But I'll defer to everyone to see if that's an interest to do that or try to tackle [inaudible 01:06:25] meeting.

Kevin:

Suzanne?

Suzanne:

Yeah.

Kevin:

This is Kevin. I agree with that last comment. I think it should be a special meeting. And I also appreciate the way that you just framed what you were looking for, what we need to decide, because I think that it's ... I wonder if there's some value in setting a goal, but if it's not a realistic ... I believe there's some value in setting a goal, let me rephrase that. But if it's not a realistic goal, then what are we doing? I really appreciate you bringing that up today and how you framed that. I agree with that.

Suzanne:

Thanks Kevin.

Rochelle:

Suzanne, if I maybe just ...

Suzanne:

Yeah, go ahead.

Rochelle:

... add too. Because of what the long-term returns are that Stephen showed earlier and what our actual returns are, just from a financial perspective, we would need to revisit the 7%. Just to share with everyone, I did talk to the auditor's because what Stephen shared is actually a disclosure item that will show that the long-term returns are less than the 7%. The auditor's agreed that, at least for this year, as we're closing out, that it's close enough so they're not requiring us to change the rate of return assumption. But I do think also it's time that we should re-look at it.

Suzanne:

Yeah. And we need to understand the downstream implications associated with that too. Because there are some, right? This is all part of a bigger conversation, but thank you, Rochelle. Thank you, Kevin. Any other questions for Steve at this point? Or anything else Steve that you need to do before?

Steve:

I guess the only thing I would leave us with is I think this is all great that we will wait until we receive the actuary report from Rochelle that can begin our work and then we'll schedule a meeting in before the 90 days is up, but probably closer to 60 days from now with the results of that work. I think that meeting, hopefully, it's tough to do on Zoom, but hopefully it can be interactive and discussion because we're not dealing in hard facts looking forward.

Suzanne:

Right, right. Always. Yeah and maybe that's a good time to have a special meeting associated with just kind of taking stock as well. So, why don't Rochelle, Steve and I touch base in 45 days and kind of plan what this meeting should look like. Okay?

Steve:

Perfect. Perfect. [crosstalk 00:00:53].

Suzanne:

I do have one administrative item to just check up on, is we were going to take a look at, you know how we stacked our portfolio and got a break in our advisory fee?

Steve:

Yes.

Suzanne:

We were going to look at, because it took them so long, your compliance department, to put it together and getting some rebate on the fact that we went months without and I don't know, that's going to add up to any money. Did we ever look into that and sort that out?

Steve:

Yes. And we gave you the rebate.

Suzanne:

Okay. Terrific. [crosstalk 01:09:22]

Steve:

And I believe Rochelle has the accounting for it. If not Alan does, but that's [crosstalk 01:09:28] a closed issue. Yes.

Suzanne:

Thank you. Thank you very much for that. All right. Does anybody else has any other questions for Steve?

Steve:

No? And I'm concluded there from our end, that's as far as... There's a lot of other detail in there on the holdings, as I usually say, it wasn't our intent today to go into that unless someone wanted us to, but I think this is a good place for us to thank you and we'll talk to you soon.

Suzanne:

Yeah, I think so too and I appreciate all the educational value to help the members continue to see this in a context that is informed and fact based rather than just trying to guess what's going on and what the future might hold. So, thank you very much as always for being as thorough and thoughtful in giving us the information that you did.

Steve:

And likewise very much appreciate you all. And I appreciate that Tony seems to have gone to Florida in the meantime while we've been talking.

Suzanne:

He does that honest sometimes. All right, Steve, Joe and...

Joe:

Alan.

Suzanne:

Alan. Thank you. Thank you very much for being here.

Steve:

Thank you. Have a good rest of the summer everyone. Bye-bye.

Joe:

Thank you.

Suzanne:

Okay. I'm sorry. I have to go back to the agenda and see what's on there. Okay. Actually it doesn't look like I need to take any action, correct, Rochelle?

Rochelle:

Correct.

Suzanne:

Okay. So then I think I'm done Tony and we'll turn the meeting back to you. If you'd like to...

Tony:

Entertain a motion to come out of the pension and benefit committee and resumed as the authority?

David:

So moved [crosstalk 01:11:03] or second.

Tony:

All in favor, "Aye."

Group:

[crosstalk 01:11:06] Aye.

[PENSION & BENEFIT COMMITTEE ADJOURNS AT 1:40 P.M.]