South Central Connecticut Regional Water Authority
Pension & Benefit Committee
July 15, 2021
Meeting Transcription

[PENSION AND BENEFIT COMMITTEE MEETING STARTS AT 12:31]

David:

I heard four ayes passing unanimous of those present voting and we are now as a Pension and Benefit Committee and I'll hand that over to Suzanne. Thank you.

Suzanne:

Thanks David. Hello everyone and welcome to the Pension and Benefit Committee. Our first item of business are minutes, so I'll entertain a motion to approve our minutes.

David:

I'll move that.

Suzanne:

And is there a second in the audience?

Catherine:

I'll second, but I'm going to abstain.

Suzanne:

Okay. Thank you. Thank you for that. No, that's okay. I think you can do both of those technically. Is there any other discussion related to the minutes? Okay. With that, if we can take a vote. All those in favor, say aye.

Tony:

Aye.

Suzanne:

All those opposed and all those abstaining?

Catherine:

One abstention.

Naomi:

Two.

Suzanne:

Thank you. All right. We'll move on to the revised committee charter. So you'll see that up on your screen at this point. There have been a few revisions made to the charter, and so if you've had a chance to review them, I just want to make sure that you have a opportunity to give any feedback. And David, I don't know if we need to vote on the revisions of the charter or just accept them with consensus.

David:

We generally will vote. Probably not, but I think we would vote because we did with the other ones.

Suzanne:

Okay. And do you want me to wait til we come out of committee to do that?

David:

No, it's your committee. So it's your committees charter for their vote. So it's not-

Suzanne:

Right. And so we'll recommend it and then have it vote at the entire board meeting or no?

David:

No. Once you vote on it, it's done. Your committee. It's their rules and only by the committee.

Suzanne:

Okay. Terrific. Thank you for that explanation. Okay. So any conversation, questions, comments?

David:

If I may, I think it's good that it clarifies that the funding policy and investment policy objectives, we didn't have as much of a focus on that I think in the past. So I think that appears to be a good clarification and update. Thank you for that.

Rochelle:

And maybe just add, so we thought also one of the [inaudible 00:03:53] that really has not recently gone before the committee is actually the 401k, which is technically an employee retirement plan. So we're just making a notation that, to do that on an annual basis and also the requirement to do the periodic IPS RPO.

Suzanne:

Thank you, Rochelle. So with that, do I have a motion to approve the revisions of the Pension and Benefit Committee charter as presented?

Tony:

So moved.

Suzanne:

Thank you, Tony. And thank you Catherine for the second. Is there any additional discussion? Hearing none, we'll go ahead and vote. All those in favor, say aye.

Tony:

Aye.

Suzanne:

All those opposed, say nay and any abstentions? Okay. Very good. Then that will stand approved by the board. We'll move on to item number three in the committee agenda, which is quarterly performance and investment review. And we have Steve Geller and Joe McLachlan who normally do that. Did I pick up that Steve is not here at this meeting today?

Tony:

Oh, he's here.

Suzanne:

Okay. Very good. I thought someone was talking about him being on vacation. All right. Very good. Steve, we're glad you're here.

Tony:

We were talking about him organizing a skiing [inaudible 00:05:18] for us.

Suzanne:

I see.

Steve:

I appreciate the thought of being on vacation, frankly, but...

Suzanne:

Not happening. All right. We'll go ahead and turn it over to you guys to take us through the investment performance for the last quarter of our pension funds. Thanks very much.

Steve:

Thank you. And we also have Alan Kantapin on with us today and we are going to do a quick review after this part on the investment policy statement, would be my suggestion.

Suzanne:

Okay. Very good.

Steve:

We did bring that up for its biannual review. [crosstalk 00:05:55].

Suzanne:

Right. It's just the next item on the agenda, so let's just go through this and then we'll pick up on that.

Steve:

I just want to make sure that was there. So we will start with, unless you object and please provide feedback and ask questions as we go. And Catherine, welcome. Nice to meet you.

Catherine:

Thank you.

Steve:

We'll start with a little market commentary. What's been going on yeah to date and really, since we last spoke. We'll look at a quick review like we usually do of the existing IPS, not the amended one. We will look at the asset allocation investor matrices and then the results. And to the degree you wish to, we would go through the investment holdings individually, but that was not necessarily planned today, particularly because we have the IPS that I think you're going to likely vote on. So we could move forward to the next slide please. So slide that we always look at, domestic equity market, large caps S&P 500. Where is it at today? Where has it been and what is the valuation situation looking like now?

Steve:

We see the very steep, almost straight upward climb in the right hand upper side, beginning March 23rd last year as we've been monitoring since that time. And almost going linear more recently, it leaves us in the upper right at a market that is estimated to be about 21 and a half times this year's earnings. That would normally be a high number, right? You can see in the upper middle box, the highest we've seen in our lifetimes, there was about 25 times back in the dot-com boom, in 2000. So we're approaching those levels, but we're not at them. We've talked about this a few times. The foundation for that is really the fact that interest rates are so low. You've got 10-year treasuries around 1.35%. They were a little higher and they've come back down a bit since we last spoke, and you've got this recovery that we're going through.

Steve:

So there's an argument to be made, and we'll look at it in a minute, that maybe it's not 21 times, maybe it's 20, maybe it's 19 and a half. Earnings are coming in really strong. Stronger than expected, but factually and based on history at least. Again, interest rates being different throughout history. Back in the dot-com boom interest rates were 6%. They're now 1.3 and change. So big difference. So we're setting new history, frankly, at the moment, but we continue on this post COVID bottom, upward move in the markets. And this is true, not just for the S&P but virtually for every market in the globe. And we could jump ahead, please.

Steve:

The markets continue to broaden out. So what we did here was a little different than the last time. In light blue is last year and in the green is this year so far for six months. In the far left, you'll see how well the markets are doing. Last year we finished S&P up 18.40, and this year for six months, it's already up 15 and a quarter. So frankly it would be a very healthy and good year if it ended now from an investment perspective. Moving to the right, which we always like looking at. How's the average stock

doing? So, again, I'll remind you if I had $500, I put $1 in each of those S&P 500 companies. How is that done? That has done fabulously well. It's been healthy, it's broadened out from what we saw last year.

Steve:

Last year earned 12.83, almost all of that in the fourth quarter. This year so far, it's at 19.18 as you can see. One of the biggest divergence is that we've seen since last year and it started last time we spoke, but it's in the value space. So think of it as the dividend yielding large cap space. Actually, this would be large, medium, and small. Last year, that space as you recall, made 2.87% and already this year, it's up 17.67. So we've seen a reversal of fortunes here too, where the next one to the right, large growth. So basically very tech heavy, biotech heavy. Last year, we all know that was 38%. It left everything else in the dust, frankly. This year it's 12.71. So it's nice to see the average stock doing better, value doing better. Growth's still doing well, but taking a little bit of a breather from its leadership position.

Steve:

So I would argue it's extremely healthy broadening of the market, literally from the day of the vaccine news forward. Globally, the markets are doing well also. The all cap world, which is really the whole world, including emerging less US is up 9.16 already this year. Developed markets, so I think of that, basically as Europe and Asia, primarily Europe and Japan heavily, 8.83 this year so far. Already beating last year, and emerging markets, again, it looks like they're taking a break. They were up 18% last year. So far this year, they're up 7.45. That's still a very big number, right? That's a six month in return. That's not a year-long return. So it is running almost on par. So, everything remains strong at the moment. And if we could jump one more, please.

Steve:

A different story on the bond market right now. We saw this the last time we met. It's the opposite of what we experienced last year. We use the Barclays aggregate in the leftmost side. Last year up 7,51. Why? Because interest rates dropped so low. They went to about a half a percent at one point. You get a big spike up in your longer term high quality bonds this year down 1.60%. Was down a little bit further but it has recovered a bit. That's not unexpected. Frankly, given the up seven and a half, the down 1.60 frankly seems pretty healthy. You see the same thing in all the high quality bonds, the first three. The intermediate term benchmark, the corporate bond benchmark. The only benchmark you see up actually are high yield. Bonds are up quite a bit this year, the 362 and municipals with their interest rate sensitivity are up a little bit. So stock market still remains quite positive. Bond markets still remains a little bit negative. That trend has not changed since 90 days ago. The degree of it has changed a bit. Could we jump one more ahead, please?

Steve:

This is what we talked about what happened, and it's happened, right? Remember last year we were worried that there's such concentration in so few names in the S&P last year and in the Russell. And typically historically when you saw that, what you would see subsequently albeit nowhere near this quickly, would be the average stock would outperform the 40 that circled, value would out-performance and small cap would outperform. That's all happened. Arguably it's happened with lightning speed because the vaccine news was an incident in time, a moment in time. It's measurable this time. Typically, this could take a few years to occur. These circles are normally two years out from a peak, from a peak where the concentrated positions at peak. So we think the market's moved almost beyond

a mid-cycle market, meaning we have recovered. We're almost getting to a third quarter of an upwardly bias market, in our opinion, at this moment in time. Equity market, domestically. You could jump one more ahead.

Steve:

I think the next, this one's a little redundant. So in the interest of time, I think I'll jump over it. It says more or less the same thing. It shows the broadening quarter. Finally, this one, I think, is important for us to think about. Everything is liability driven, but let's just look at what we think of valuation, if any. In the middle left where it says bull case, base case, bear case, these are Morgan's forecasts and Morgan's forecasts are close to what the street is saying. So we're just using them as a baseline. And if you look at the bull case, if everyone sees that we're estimating that if you had an S&P unit, it would earn $210 a share this year.

Steve:

And we put a multiple of 20 on that, and you come up with an S&P of 44.50, and today the market's at 43.60. So we're within a percentage or two of hitting our bull case. We think we're going to hit our bull case. Frankly, we're starting to think that 2.10 is too low, that earnings are recovering so strongly and so quickly that maybe that's too low. So I think there's a little upside possibility there. We see the downsides about 11% in the bear case. It could happen if the fed gets a little more active in stopping their bond purchases or in raising interest rates, excuse me. But it seems unlikely in the current year, it seems more likely that we actually hit or go through the bull case at the moment. Not a prediction just seems more likely.

Steve:

One thing I think we should all be aware of, and we haven't talked about this before. So it seems interesting, at least to me, hopefully to you. Far right column, we look at the 20-year average of the multiple of the market, which you sense I always have some concern when the market's 21 and a half times. And I look at down that right side and I say, "Well, we're currently at about 61% more value than we have been on average over the last 20 years." Okay. Well, interest rates, weren't 1.3% over the last 20 years, we weren't in a vast, fast recovery. We didn't have trillions of dollars of government spending. It's fresh. So looking forward, it's about 1.49. So it's still a pretty steep valuation, and as you go down that right column, you see financials at 0.99, you'll see materials at 1.02 and healthcare at 0.97.

Steve:

One would argue that those three sectors of the market, and for good reason at times, are inexpensive relative to the rest of the market. So healthcare, materials, and financials. Just look interesting. It doesn't mean we're going to act on that, but I think it's good to know that you've got a market that's, I would call it, dear based on history, but with this government stimulus and spending, and with the same type of stimulus coming out of the Fed, I don't see it stopping likely until that begins to stop. The Fed starts to talk about it, but they're not doing anything yet. Does that make sense, hopefully helpful for you some context. Let's flip forward to your portfolio.

Steve:

Again, this is the existing investment policy statement. That we always just look at a one pager in this meeting. And if I'm saying a few things, I'm doing it a little bit for Catherine's benefit because she hasn't

attended before. So if I'm repetitive for some of you already know, we just look at this executive summary to say, "What's the goal?" Primary objective is being fully funded. It was by the end of fiscal 2023. That's going to be a change Alan is going to look at with you when he reviews the changes and to meet the actual rate of return, which we know was 7.0 and is now a 6.75, and that changed since we last met. And there are equity targets there and so on. So we could move to the next slide, please.

Steve:

What do the portfolios look like at the end of June? This is the salary and union plans as you can see at the top. I use the box in the upper right as you know. When we look at it, these together, they're very parallel invested, but almost 60% equity, 59.27. Domestic equity is roughly 75, with international 25. of the international, we're running a mix, roughly 80% developed and 20% emerging. When we look at the value blend growth overlay globally, we're quite overweighted to growth. It's almost 30% where value is 23 and a half and core is the remainder, 46. When looking at domestic only, we're much less overweighted to growth about 25% value and 27, almost 28% growth, so almost equally weighted with a slight tilt towards growth. And it looks similar if we jump to the VEBA on the next slide. I'm sorry, that's the one after that, but this one's good for now. Sorry. Can we go back one?

Steve:

All right. Thank you. I want to just focus on the bottom part of this, please. You see benchmark versus actual. So this is saying Russell 3000. So broad US stock market. The benchmark is 42%, we're 2.6, 3% currently overweighted now there. We used all of the cash reserves at this moment in time that we had reserved when COVID was first starting. All cap world XUS, so global stocks were slightly underweight. US bonds were overweight, but we are very underweight global bonds. So bonds in total, we are not overweight and you can see we're slightly underweight global real estate and a little bit underweight at the moment in cash. So it's more or less on target when you add it all together with a slight current overweight to equities. Now we can jump forward, please.

Steve:

Same story for VEBA. VEBA looks very similar. I won't read you all the numbers. The balance is between value growth, between US foreign, between developed and emerging are very similar and if we jump one further, you'll see at the bottom of this page the same thing. A little less overweight to equities in that bottom box. Russell 3000 is 1% overweight, globally. We're 0.32 underweight. a bigger overweight here to fixed and a bigger underweight to alternatives in bonds, which more or less evens out. So in any case, no dramatic over or underweights. Just domestic bonds versus international bonds, I should note. And if we keep rolling forward.

Steve:

Let's look at the investment results. First, we'll look at your fiscal year end, because that has ended since we last were together. And what you'll see if you look at last June 1st in this spreadsheet at the very top of the page, $66,452,674 was the beginning value. If everyone locates that. During the year, I think we had net withdrawals. We had reserved that cash and the contributions from the entity were less than originally planned pre-COVID. So we actually did use the corpus as a source of funds to the 556,000 last year. Not a huge source, but a source just the same. Transfers net out to zero that's funding. One account at the expense of another basically. So your simple math net invested is $65,895.

Steve:

At the beginning of the fiscal year, your ending value is $81,371. So it was a very healthy 12-month period, a very healthy fiscal year for this fund, $15.475 million, almost 24% net, a little bit over 24% gross. Our real benchmark here, the investment policy benchmark would have been the 7% last year, so obviously it went way over the actuarial returns in the short term, the new actuarial returns. So we put it on here is 6.75 as you know, but that frankly started the day after this report ends. So the seven's the right number. The investment benchmarks are the ones that say with cash reserve. We had to make an interim benchmark last year, as you recall. So the strategic benchmark was 24,33, so basically right at it. We did have more than normal money movement last year with those reserves that we put in place and that's behind us now.

Steve:

Then if we jump and go to the second quarter. So this is your second quarter reading. I won't read you all the numbers like I just did in the interest of time and brain power. I won't burn too many brain cells, but for the quarter, the funds combined earn... I'm third column from the right in the upper spreadsheet, $3,677 million, 4.079% net, 4.88 gross. We take the actual rates of return and divide it by quarters. Your target is 1.69 now. Your old target is 1.75. I have that on there so when we look backwards we'll still see that. The with-cash benchmarks is still there during that quarter. They came in at 4.95 and 4.40, depending on a few market cap weight or equal weight. So right where we should be, frankly. A little better in a way.

Steve:

We jump forward and look a little further out. Calendar year to date. Could you do one forward, please? There we go. Year to date again, I'll read from the third column. The funds combined $5,454 million. It's actually interesting and nice to see that it's 7.27 for the first six calendar months. It's basically made it's actuarial rate of return already this year. Now, will that hold, I'm not prepared to predict that, but it's actually nice and healthy to see. And again, benchmarking very nicely regardless of what you look at from a benchmark perspective at the moment. We go on that a little further and I'll try to go quicker as we go further. The last 12 months looks very much like the fiscal year, $14,945 million and gains 22.62 net, obviously beating its targets by a lot in that timeframe. We obviously know 12 months prior when we were sitting here last July, we were looking at that bottom at March 23rd.

Steve:

We jumped out to, I think, three years we'd be next. Last three years, let's look at the numbers because interesting to see. The fund had $60,175 million, three years ago, 8.48 has gone into net contributions. So contributions net of withdrawals or pension payments. So your net invested as the $61,000,024. The ending value is the same, the $81,363 million. So the three-year return is just over $20 million, $20.3 million, 10.07 net, 10.48 before any costs. Obviously beating its extra rates of return, looking very much like the equal-weighted benchmark and a little bit behind the market cap weighted benchmark, but well, within the ranges where we should be in beating our primary goal by quite a bit. And now you jump out to the next slide and we go to five-years and five years, again, interestingly to look, the starting value was $45 million.

Steve:

Over the five years, you have net contributions of $6.3 million because now we've got the COVID reserve cash. Less funding situation gets smoothed out when you start to look out at five years. So your net invest is really the $51,923 million. It's now an $81 million. So we didn't quite make $30 million, but 20... Oops. My system just walked me off for a minute? Hold on one second, please. Our system is funny if you don't touch a key at times out. All right, I'm back. Sorry about that. She'll be back. All right, here we go. Sorry. 9.73 net per year, 10.14 grows. Obviously the goal during that, most of that time, literally almost all of that time, except one month was to make the 7% actuarial rate of return. And again, you see the benchmarks for right in the center point of the market cap weighted actually above that one and just below the market cap weighted one.

Steve:

And finally, I think we did this, the last meeting, but we now have six full years of returns and it was a lot of numbers. Where were you six years ago? Six years ago when we were first hired was six plus years ago, but we don't have seven yet when we get each additional year, we'll add it on the back. There was $42,258 million in the fund. Over those six years, you've had net contributions as an organization of $9.3 million. So your net invested, if you think about it, what you had plus what you've added since that time is the $51,579 million. Again, same ending value of the 81.3. So the gains over the last six years have been close to $30 million, 8.15% net-net-net. So we talked about this the last time. It's gotten a little better than it was the last time we spoke given that we know that the goal here is to make the 7% net-net-net for you.

Steve:

So it's been able to do that and it's been well above the equal-weighted and almost at the midpoint of the market cap weighted. So it's been a lot of work on you as a group. I know that in on us, as we look at those actuarial numbers, but the dialing in of the risk versus the payment demand has been able to get you to your 7%. Plus we know we dropped it to 6.75 because we also know that the bond side of things cannot... Should never say cannot possibly, but it's highly unlikely that the bond side of the equation can earn the same return that it's gotten over the last six years. Our starting point is now 1.35% of a 10-year, not 3% or so. It makes a material difference. What is the next slide? I'm sorry. Yeah, I don't think unless you want to, I wasn't going into the trades and the detail because we do want to talk about the investor policy statement a bit. I'll pause here. If anyone has any questions, comments, concerns.

Suzanne:

Anybody have any questions?

Catherine:

How often do we evaluate individual investment performance?

Steve:

We, as your advisor consultant, we evaluate that literally daily.

Catherine:

Good.

Steve:

You evaluate it at these meetings when we get together quarterly. You should know this Catherine for the sake of... Actually, if you'd like we could do a side call and chat through a little bit, if you would want to. Happy to do that. When we were hired, we were hired to have discretion over the portfolio. So we're more or less like your Chief Investment Officer outsourced. I'm sure you're familiar with the term. So we have that day-to-day discretion. It helps a lot because as funding is coming in or payments are going out, we're able to do those trades and we're able to do them the same day instantly within each of the entities. What I didn't mention, others know this, we do a lot of indexing in here to keep costs down, but it's not exclusively indexed.

Steve:

And the indexing is most heavy on the domestic equity, lighter international equity, and even lighter on fixed income, but there's combination of active and passive management in here. We use a lot of institutional mutual funds and ETFs. It's simple, it's effective, it's easy to trade. It's easy to invest new money and uninvested. Obviously you're the client, but we think it's worked in a super efficient and effective manner by doing this in this manner. Prior to us, just for some history, it was more of a classic traditional setup where your consultant, I believe, would bring it. This manager is underperforming. Let's look at these three alternatives and then there's a multi-step decision-making process and the committee would make that decision. So I believe when we were hired, it gets switched to discretionary.

Catherine:

Okay. Thank you.

Steve:

Sorry. That was a mouthful.

Catherine:

Nope. You answered my question. Thanks.

Steve:

Important to know.

Suzanne:

Catherine, when you ask for individual investment performance, do you mean the underlining investments of any one of these funds or the fund managers, or the individual money managers?

Catherine:

I was particularly interested in the individual money-

Catherine:

Particularly interested in the individual money managers for active management.

Suzanne:

Okay. [crosstalk 00:29:10].

Catherine:

... question was answered.

Suzanne:

Okay, great. Thanks.

Steve:

And if you'd like, in a future meeting we can do a little focus on that. It is all in here, but we're happy to pick a few out and focus on them periodically, if that's a desire. We haven't done it too frequently, unless there's a problem or a change.

Catherine:

Okay.

Steve:

Okay. I think we could close this deck and move over to the investment policy deck. In which case I'm going to turn it over to Rochelle and/or Allen, I'm not sure which frankly, Rochelle.

Suzanne:

Can I ask a question, Steve? Well, first off, I want to say thank you very much, not only for six years of solid performance but most recent, it's very reassuring that we're making significant progress to our goals of funding our liabilities and our pension plan. And I also wanted to ask, does 80 million... Because you know I have to ask this, does 80 million get us to a place on our scale of pricing for another break?

Steve:

I don't have that today, but you have passed some of those breaks. So you're well into the breaks where the pricing has come down. I will make a note, I'm asking Alan to make a note that we take a look at where you're at on that scale for the next meeting, but not in today's deck actually. But the answer is yes, I don't know if you hit a new break, but you're well into at least a break or two, it's been coming down.

Suzanne:

Great. Thanks very much.

Steve:

You're welcome.

Suzanne:

And maybe as a part of that, just to revisit, at least annually, I would say maybe this is the meeting to do it in, and we'll do it next year, but maybe we could do it next quarter for this year, is just talk about the cost of the management of the portfolio, at least just annually.

Steve:

Yep. I agree with that.

Suzanne:

Thanks.

Steve:

We do try to do that, and it probably would be the next meeting, even if we didn't have this chat today, so we will do that-

Suzanne:

You bet. Whichever meeting makes the most amount of sense to do it at, okay.

Steve:

Certainly.

Suzanne:

Okay. Thank you.

Catherine:

Is it possible for someone to share with me the price breaks, since I probably don't have that anymore?

Steve:

Yeah.

Catherine:

Okay.

Rochelle:

I probably have that somewhere, Catherine, also I just don't have it immediately handy.

Catherine:

That's fine.

Tony:

[inaudible 00:31:24] can you send it out to us all?

Rochelle:

Yes.

Steve:

Rochelle, we'll have Alan put that together afterwards, we'll ask him to, and I will send it to you as the point person, if that's okay?

Rochelle:

That's fine.

Steve:

Any other questions at all? Comments?

Tony:

Nope.

Steve:

So, Rochelle, is it over to Alan, or is it over to you? You tell me.

Rochelle:

I can do a short introduction, if that's okay. Really, there was only one... Actually two changes in the investment policy statement. One was just to update the target for the fully funding from the end of fiscal 23 to the end of fiscal 25. That is consistent with what we shared in the last 10 year model, as well as in our budget assumptions. And you might recall to keep to the fiscal 23 resulted in extreme rate pressure, based on what the size of those investments would be. We still think, from a rating agency perspective, they'll be fine with it, they will understand that there are some trade offs and we're still making progress to get a fully funded. And the results for the fiscal year should actually help with that as well. So that was one of the changes. The other change was just the change in the chairman, because this update will need to be approved. So those are my updates, I don't know, Alan and Steve, if you have other items that you want to share?

Steve:

No. Alan, do you want to go through any of the changes? Is this the redline version?

Rochelle:

I believe so. Yes. [crosstalk 00:33:24].

Steve:

Why don't we have Alan just show people the actual changes?

Alan:

Yeah. I'll quickly walk through the changes here. As Rochelle said, there are only two changes here on the document. So right here on the Executive Summary page, you can see in the primary objective section, the milestone goal of being fully funded for the pension plans by the end of fiscal year 2025, that was changed from 2023. If you flip forward to, I'm looking at the page numbers at the bottom of this policy, if you flip forward to page... Let me see, looking at my own document to see where it is.

Catherine:

On page seven.

Alan:

Page seven, yes, that's correct. So down here at the bottom, Investment Objectives, we see the same change here, actually the milestone bill is to be fully funded for the pension plans by the end of fiscal year 2025. So those were the two main changes. And then on the final page, in the document, the adoption section-

Suzanne:

And the 2025, is that a by-product of going from seven to seven and three quarters? Refresh my memory why we moved that up two years.

Rochelle:

No, It's not. It's based on when your period gets very condensed, and depending on where you are in the funding, and you might recall we've also had years that we've actually had negative returns. To get to fiscal 23, based on the last update, we would have been needing to contribute over $7 million, which is significant, and it would have put significant pressure on our rates, especially in this upcoming application, as compared to spreading it out, it was about 4.3 million, so it makes a significant difference, especially as the number of years to get to fully funded get shorter.

Suzanne:

So help me understand then, if our performance over the last six years has exceeded our target rate of return, how are we factoring when we projected the years that we'd be fully funded? Did we do a straight line expectation?

Rochelle:

No.

Suzanne:

And that's not how it goes year-to-year, so how come we were off?

Rochelle:

We [inaudible 00:36:14] based on the fiscal year. And I think Steve will attest to timing makes a really big difference, so you might have a high return from one month to the other, but it's based on the fiscal year and the actuaries as part of their evaluation. The last one was done in January, per decks, per looks at where we are from a funding level, on an actuarial basis, because it also has to do with not just returns, but benefit payments and such. So where we are, how much we would need to put in to get to fiscal 23, the last update was that was over $7 million, to extend the fiscal 25 it was about 4.3 Million a year.

Suzanne:

Okay. And so I would guess that retirees and retirements could shift a great deal, and so could investment risk, right? So if the actuaries came in today, you're saying it could be even different outlook at this point, right? So, okay. So what we did is we said, "Look, in our moment of confidence and courage, in the beginning of this year, our best guess based on the data that we had to work with, to make the decision, was to move it out two years"?

Rochelle:

And it was not that recent, because even when we did the 10-year model last year, based on what their projections were, even at the time. We knew that it was going to create pretty significant rate pressure, so we made that determination at the last 10-year model.

Suzanne:

Okay. Terrific. Thank you, Rochelle.

Steve:

I would add and agree though, Suzanne. If look at what's happened in the last 12 years and you look at what's happened year-to-date, you didn't have the luxury of the snapshot of this point in time. It might potentially change it a little bit, not as dramatic as the 20 some odd percent looks like, because it has to flow that over the whole six-year period. But yes, the moment in time thing, and Rochelle has learned this over the last year, in a big way, right? The market is down enormously, last March, we look back six, seven years and things look bad. And now if you looked at them today, it's suddenly, you've got the eight plus percent per year, over the last six years. So it does move, depending on the measuring moment.

Suzanne:

Yeah. And when we started this, Rochelle, how many years were we looking at fully funding? Was it seven, ten?

Rochelle:

It was actually, it was seven years after we got to 7%. So when we started this we were actually at 7.5, then we went down to seven and a quarter, then we went down to seven. So we said once we were at seven, it would be seven years after, which got us to fiscal 23.

Suzanne:

To fiscal 23?

Rochelle:

Yes.

Suzanne:

Okay. So adding two years is approximately... I can't do the math in my head, I'm so lame. But it's not quite in a third of an increase in the timeframe, right? That's another way to look at it.

Rochelle:

Right. And we fully caveated it, and it's even in the policy statement here. It really does depend on the cost and the market environment.

Suzanne:

Of course. And so just to manage our expectations as we look at... Because being off by a little less than a third is, to me, statistically somewhat significant, right? I'm not saying anything bad happened here, I'm just saying as we project further and we put the state of 2025, how confident are we that it can be more closely related to where we think we're going to be, and it's a realistic goal?

Rochelle:

I think it is really going to [inaudible 00:40:03] depend on the market on, because again, if you have a down year with only two years to go, it makes a very significant impact and we've seen that in the [inaudible 00:40:15] that we get from the actuary. I should mention that we get from the actuary a 10 year view as well as a seven year view. I think even early on, I'm just thinking back, it was like maybe seven years is aggressive, let's look at seven versus 10, seven is somewhat based on ERISA guidelines and ERISA plan.

Suzanne:

Okay. So the reason why I'm asking you is, for me, this is a meaningful change. And before we just sweep it right through, I just want to make sure I really understand it, so does the committee. So when we made this a projection of fully funded in seven years, to your point, will the two years that we're adding onto this be a good and reliable prediction for the future? It's also fraught on all sorts of assumptions that are made, right? And the market could change [inaudible 00:41:08]. Is there anything that you would point to, or Steve you would point to, in these last five years that was the most significant driver in having to extend these two years? Or is it the combination of everything adding up?

Steve:

I don't believe it was a market item, frankly. So it may have been some faster retirement, some bigger retirements, some unexpected deaths. It could be any of those because I'd also have to go back and look at the investment numbers, the day the actuaries did this, but I believe the five-year number was still [inaudible 00:41:45] at that moment in time. So it shouldn't have been the investment side, but it could be the mix of other variables that go into these formulas. Also, I believe what people are accruing for benefits currently would be a factor too, right? Wage scale [crosstalk 00:42:00].

Rochelle:

I mean, benefits... Yeah, absolutely. I mean, benefit payments are off fairly significantly since even a few years ago, based on the number of retirements. And I think the point in time is also very critical because even if you look at last year, fiscal year ended in May, the market was quite a bit down in May. And then in January, when the valuation report was done, the market... We were still not fully out at COVID and all that impacts the point in time. There was over the course of the last several years, there has been changes in the mortality table assumptions also.

Steve:

I'm going to add another one, we did reserve that cash to make benefit payments during COVID, when there was a worry about collections. So that would have been a factor too. And that might've been a reasonably decent size factor, frankly.

Suzanne:

So all this adds up to two years? [crosstalk 00:43:08] Okay. All right. Does anybody else have any questions on that change?

Catherine:

I do. Actually... [Crosstalk 00:43:15]. Suzanne, you asked almost all of my questions. [crosstalk 00:43:19] In fact I think you asked all of them. I just want to confirm because in other organizations, seeing other things in the past, I just want to make sure this is the first time that this particular objective has been pushed out, is that correct?

Rochelle:

Are you talking about the fiscal 20... I don't believe so.

Suzanne:

The seven-year funding goal. Rochelle is this a thing that continually gets pushed out? I think is what Catherine was on.

Rochelle:

It's a [inaudible 00:43:58] 10-year model, I believe was the first time that we changed it to fiscal 25. So that was October of 2020, may have even been the year before that we began to think that based information from the actuary, that keeping the seven years might create too much rate pressure.

Catherine:

Okay.

Suzanne:

So Catherine, it sounds like we've been talking about it for a number of years inside of several different analysis', and this is the first time we're actually making it a part of our investment policy statement.

Catherine:

Okay. I just want to make sure that we didn't establish it and we're going to be fully funded in 2021, and then we moved it to 2023 and now we're moving into 2025.

Suzanne:

Right.

Catherine:

Yeah.

Suzanne:

Correct. No, we did not. That's exactly what I was trying to make sure was illuminated for the committee before we moved on. But thank you.

Steve:

I only have the six plus year memory in regards to this because that's how long we've been here. But in that six plus years, this will be the first time you're making a change to this.

Catherine:

Right. Okay. Thank you.

Suzanne:

Yep. Good questions, Catherine. Thank you. Okay, any other questions about the investment policy statement and any adjustments? I'm not sure about that name change at the bottom.

Tony:

I'd be suspect of that too.

Suzanne:

Yeah, I'm sure you would. All right. Anything else from the committee related to this?

Tony:

I think it's going to be a great deal.

Suzanne:

What does that mean? [crosstalk 00:45:33]. Oh yeah. Okay. [crosstalk 00:45:39].

Steve:

... question for the committee, if that's okay?

Suzanne:

Yeah, please.

Steve:

And it comes to mind because we're looking at the investment policy statement, is would you want us to run... It would add a little time to the next meeting, I think, but I was on your website recently and you have an environmental and social governance type policy and a lot of clean water discussion, obviously in your organization, would you want to see us run that portfolio through an Impact Quotient type analysis? We've done it internally, but we could share that with you, if you'd like to see that, just to see what is the environmental, social, and governance impact of each individual holding? We don't have a policy per se on that front, but I know you have a corporate policy on that front.

Catherine:

We'd be interested in seeing that.

Steve:

I can run it. And it's a little raw, but it can at least share with you what we know. So [crosstalk 00:46:39] we could add that to the agenda for next meeting also, if that's something that people would like to see.

Suzanne:

Sure. So anybody else have a comment on that? I think I heard Catherine say that she'd like see that.

Steve:

Yes. I would.

Suzanne:

Okay. Very good. So let's- [crosstalk 00:46:53].

Steve:

... increasingly common question.

Suzanne:

Sure.

Steve:

Doesn't mean it's... It is an increasingly common practice too, but it's by no means universal, but I think it's worth looking at.

Suzanne:

Very good. Okay. Thank you.

Steve:

Thank you.

Suzanne:

All right. So we need to vote on the investment policy statement as a committee, or are we making a recommendation? David and you'll be voting on it to adopt it later in the full meeting.

David:

This item is not just within your purview, so it is a recommendation to the full board.

Suzanne:

Okay. Very good. Thank you for that clarification. So I'll entertain a motion to recommend to the RWA to improve the investment policy statement as revised.

Catherine:

... moved.

Suzanne:

Thank you. Is there a second?

David:

Second.

Suzanne:

Thank you, David. And any further discussion related to the investment policy changes? Where the recommendation... All right, with that, all those in favor, say aye. [crosstalk 00:47:54]. All those opposed, say nay. Any abstentions? All right. Let the record show that the members of the RWA present have voted unanimously to recommend to the RWA, the investment policy changes as presented. And with that, I have no other business before the committee, unless there's something else on somebody else's mind.

Steve:

I would like to wish everyone a happy and healthy remainder, I guess it's the beginning of this summer, the way it feels. So enjoy this summer, now that it's starting. And thank you very much.

Suzanne:

Thank you very much. [crosstalk 00:48:32].

Larry:

Thank you very much for the good work, please.

Suzanne:

Yes. Thanks very much to the Kelliher team, appreciate it.

Steve:

Thank you.

Suzanne:

All right. Enjoy your summer. [crosstalk 00:48:39]. All right. With that, David, I'll be happy to make a motion to move out of the pension and benefit committee, and put that on the floor.

David:

All those in favor signify by saying aye. [Crosstalk 00:48:54]. I heard all [crosstalk 00:48:57].

Suzanne:

All those opposed? Any abstentions? There you go. David, it's your meeting.

[PENSION & BENEFIT COMMITTEE MEETING ADJOURNS AT 1:18 P.M.]