South Central Connecticut Regional Water Authority  
Pension & Benefit Committee  
April 16, 2020 Meeting Transcription

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

Present:  Committee – Ms. Sack and Messrs. Borowy, Cermola, Curseaden, and DiSalvo  
RPB – Messrs. Ricozzi and Slocum  
Angell Pension Group, Inc. – Messrs. Bauer and Krayter  
Morgan Stanley – Messrs. Kelliher and McLaughlin  
Staff – Mrs. Slubowski

The Chair called the meeting to order at 12:32 p.m.

Tony:  
Thank you, sir. I'll entertain a motion to move into the pension and benefit committee.

Suzanne:  
So moved.

David Borowy:  
Seconded, David Borowy.

Tony:  
All in favor, aye?

Group:  
Aye.

Tony:  
We're now in the committee. Suzanne, it's all yours.

Suzanne:  
Thanks very much, Tony. Good afternoon, everybody. The first item on our list is to approve the minutes from our previous meeting. Do I have a motion to approve the minutes?

Joe:  
So moved.

Suzanne:  
Thank you, Joe.
Kevin:
Second.

Suzanne:
Thank you, Kevin.

David Borowy:
Second.

Suzanne:
Thank you. Any discussion, issues? All those in favor?

Kevin:
Aye.

David Borowy:
Aye.

Joe:
Aye.

Suzanne:
Thank you very much. Let the record show unanimous consent in the passing of the pension minutes. The first topic for conversation is the review of the 1-1-20 actuarial reports, and we do have three particular documents associated with that. And I think we have Jeff on the line to take us through that. Is that the case?

Jeff Bauer:
It is. It's going to be a Jeff Bauer and Albert Krayter.

Suzanne:
Jeff and Albert, the dynamic duo.

Albert:
That's right.

Jeff Bauer:
For actuaries, that's a ringing endorsement, so we appreciate it.

Suzanne:
Good, very good. Well, welcome. We're glad to have you here, and took a look at the information. It looks like we have some decent news related to the funding requirements, but I'll let you take everybody through it.
Jeff Bauer:
Great. This is Jeff. Albert, would you like to go ahead?

Albert:
Yes, absolutely. Good afternoon, everyone. Hope everyone is safe and healthy as much as possible given the current circumstance. The three attachments that we have circulated that we will concentrate during today's discussion, and if I could draw your first attention to the summary that at the top says South Central Connecticut Regional Water Authority Allocation of 2020 Plan Year Annual Required Contributions.

Rochelle:
Jennifer, do you know what [inaudible 00:03:52] is?

Jennifer:
Yeah, hang on just a minute. Let me just find that.

Rochelle:
It's the one from last... Yesterday.

Jennifer:
Is that it?

Albert:
That's correct.

Jeff Bauer:
This, Albert, should be for the salaried and union plan first, correct?

Albert:
That's right, to have allocation of annual required contribution for each of the pension plans.

Jennifer:
Rochelle, is this the right form?

Rochelle:
Yes.

Albert:
Perfect. This form, similar to the prior discussions we have had in the past, summarizes what's the contribution that we would expect to go in the plan on a minimum basis as the minimum recommended contribution. And certainly, as we discussed in the past, anything over and above this will continue to improve the funded status of each of the plans. We can see here from this exhibit that the contribution associated with the salary plan for 2020 plan year ... and again, keep in mind that the plan year we're talking about here, it's a calendar year basis and the fiscal year for their 30 it's from 6-1 to 5-31 so the
numbers presented on this particular exhibit. Look at the world from a plan year or calendar year perspective.

Albert:
So the salary plan, the total was $2,100,000 approximately, a union plan is $1,100,000 for a total of $3.2 million. So that's the level of contribution we would expect at the minimum goal in the plans on a plan year basis as a comparative measure, those numbers for the prior year for 2019 the salaried plan was $2.4 million versus $2.1 million, this year was $.8 million, so $800,000 and the total was $3.2 million.

Albert:
So you can see that the level of our required or recommended contribution stayed flat year over year. And the key driver is that the plant population have stayed pretty flat year over year. So that's why we don't anticipate any recommended contribution changes year over year from last year to this year. Looking further in this exhibit, we always kind of reserve the line there to determine how much would need to go in the plan and each of the plan to bring its funded status to 90% level. And you can see that contribution of $6.8 million for the salary plan and $2.4 million for the union plan with the total of $9.2 million would bring the plan funded status on a plan year basis to 90% level and then towards-

Jeff Bauer:
I just wanted to add to Albert's comment that 90% level assumes in today's dollars, so that's not a projection into the future. Those are dollars that would need to be deposited in this plan year. Just wanted to make that clear.

Albert:
That's right. And one further comment to the same kind of wavelength is that this is using 12-31 values of the plant assets because, as we talked, the plan year is a 12-31 measurement date. So to the extent that the asset level is different now, and I'm sure that Joe and Steve will go further in the details on this, certainly that's something that will need to be kept in consideration as well. And then the annual recommended contribution, if the plan is brought to the 90% funding measure, we would expect anticipated the recommended contribution to go substantially down to about $1.8 million on a total basis between the two plants. So again, it's a snapshot as to what the plant's recommended contribution look like as of 1-1-2020. The next exhibit we're going to look at is the exhibit that says it's an illustration of hypothetical level of funding. It's a seven year window projection. So if that exhibit could be pulled up on the screen, it would be great.

Albert:
So that exhibit, that looks at the plan from a fiscal year perspective where we talked right now about recommended contribution at the bare minimum, this exhibit brings it forward on a fiscal year basis. And also include the philosophy of the organization have made in the past to try to fund the plan to a hundred percent level over the seven year cycle. Would that seventh year being 5-31-2023 so this summary illustrate in addition to the recommended contribution, what would be the total contribution level in the plan? So the plan is measuring at the hundred percent mark at the goal of that 5-31-2023 measurement date.

Jeff Bauer:
Yeah, this is Jeff. So I was just going to add to Albert's comment as their funding sort of target the seven year, if we all remember, was developed as if the plan were subject to ERISA which would have minimum required amortization of underfunding over the seven years. So this mirrors ERISA approach to a funding target.

Albert:
Right. The other thing to keep in mind, similar to the previous exhibit we looked at, this is still using the value of the point assets as of the end of 2019 and so the extent there were substantial asset volatility observed in the month of March, these numbers would be re-calibrated and certainly we would recommend once the fiscal year numbers are available, the actual market value of the plant assets as of 5-31-2020. It may be a good idea to revise this exhibit and reflect the actual asset performance, as well as contributions that are made in each of the plans through 5-31-2020 cycle.

Jeff Bauer:
Yeah, and I think... This is Jeff again. And I think, Albert, we had modeled out a, if there were, say a 15% correction, I think you have an order of magnitude on a funded status drop of the estimate as well, I think, right?

Albert:
That's right. This is Albert. So if we're looking at that exhibit at 5-31-2020 cycle, for example. So with our salary plan, we see in this exhibit a funded percentage of about 81% and for the union plan about 85.5% so with the approximate market correction of about 15% from the beginning of the year through the end of March, as an example. That may translate in approximately 12 percentage points drop in the funded status of the plan. So that goes along with our thought process and that heading this exhibit, recalibrate it after 5-31 would make sense because of that substantial asset volatility that will hurt them seen in the last three to four weeks.

Jeff Bauer:
Yeah. This is Jeff. As a sidebar to Albert's comment relative to the seven year funding you've chosen as a funding target, a closed amortization. So you knew based on the seven year period, as you can see by 2023 you'd be 100% funded. If this were subject to ERISA and you had this degree of loss, a new amortization base gets created over seven years. So, an ERISA plan, the amortization is a rolling seven years, yours is a closed entry. So just as food for thought as a funding target, as Albert said, if we rerun 5-31-20, after the assets are known and there was still a substantial correction, you can see you don't have an enormous amount of period only a few more years to make that up. So you would expect your contribution level to go up by probably a couple hundred thousand dollars to still meet that goal. So keep that in mind. You have a closed amortization that certainly puts pressure on the organization relative to meeting the 2023 target.

Suzanne:
And can I ask why we chose to do that? It's not a judgment, it's like inquiry.

Albert:
Yeah, this is Albert. I'll start and just feel free to jump in. And certainly South Central management also. So the seven year amortization is what's common in the for profit and ERISA, covered plans that the plan
is expected to be fully funded over the seven year cycles. So there was the thought process, at least to our understanding, as to why that methodology was selected here as well.

Jeff Bauer:
Yeah, I was just going to say I think it was also to sort of duplicate if the plan were subject to ERISA, the benchmark you were using when you started this, you were in the 60s, so I think there was a feeling, I don’t want to speak for the organization, but I think there’s a feeling that you had a little bit of catch up because if it were subject to ERISA, plans really can’t fall to that level in an ERISA plan because you’re constantly required to put it in, rather than a recommended contribution. So I think the adoption of this methodology or similar methodology was because the plan was for both plans, funded status was far below what ERISA level plans would be.

Jeff Bauer:
For example, if you were in the 60s at that time, most of ERISA level plans were probably in the 80s to high 80% so you’re probably 20 points behind what the rest of the market would be. From a governmental or municipal standard, your plan is similarly funded, as many plans are, in the 60% range. The fact that you’re in the 80% range, I would say you’re in a higher state than many municipals are, for sure.

Suzanne:
This is Suzanne. I would just add that we look at this, but we have deviated even in... For our fiscal 20 contribution. We did make some adjustments. You might remember, the market was down in December, but then it was up in February, so we made some adjustments. And when we get into what the recommendation is, we... It was based on the environment with COVID-19 the recommendation would not be, at this point, to contribute the whole $5.8 million.

Suzanne:
Okay. And does it make sense and can we, over time, as we get closer to this 80% to switch over to the ERISA methodology or it doesn't make sense once we get back?

Jeff Bauer:
Yeah. I mean it's a great point. As you look at the funded status and so forth. A closed methodology certainly gets you there one way or another and it gives you the, I think Rochelle or somebody pointed out, it gives you the ability because it's a funding target and it's not in any way mandatory. It gives you flexibility, but to have an amortization that would be re-calibrated each year as if it were subject to ERISA.

Jeff Bauer:
The feeling sometimes there once you're in a higher funding percentage, that would make sense. In the lower funded percentage, sometimes the feeling for clients is that because you're re-amortizing constantly you sometimes there's a feeling that you're not, that you're kind of treading water, you're not really making progress on your funded percentage. But yeah, I think certainly you could look at when you're well into the 80% level, does the... The seven year amortization makes sense. But it should be on an open basis, maybe not on a close basis. If there was too much strain on the organization to meet that.

Suzanne:
Okay. All right, so we'll stay tuned.

Jeff Bauer:
Put it this way, from a reasonable business point of view, that's what every ERISA plan is subject to. So you wouldn't be going to something that would be unorthodox or unreasonable because every ERISA plan is subject to that. They're not closed amortizations they're... You develop a new amortization base every time there's an underfunded aspect, so you're constantly sort of recalibrating. Here it's a much more fixed target with a fixed timeframe.

Linda:
The rating agencies also really look at our funded status, so they keep watching and I think it would have an impact on our ratings should we... Had we not gone this route or tried to fund... Accelerate the funding. So it was just a benefit for us at that point in time.

Albert:
Yeah. It sounds like it was. Linda, in your opinion, do you think as we go forward, 21, 22, we get closer to high eighties we should reconsider or you're like, no. At that point, let's just finish it out and bring it home.

Linda:
My personal opinion is if we can fund it, I don't know what the economy's going to do next year, but if we can fund it, fund it because we also have the post-retirement health care liability right behind this that we have to start focusing on too.

Jeff Bauer:
Right. And that's, as Linda pointed out, that's a... We'll talk about those numbers in a moment. That's a bigger catch up because no organization has really, obviously, had welfare trusts and that liability wasn't funded. So you're in a about a 30, 29 to 30% funded status there that... This is Jeff. And the other thing I did want to mention, as Albert pointed out, in terms of the 5-31-20, you have GASB numbers or fear of financial accounting. Keep in mind that if the asset level doesn't come back up or it's a substantial correction, when you put money in or don't put money in based on the asset level when you run your financials, you're able... the way the rules work is you're able to use the 7% discount rate in its entirety over the stream of the liability, as long as it looks like under your financial accounting, you can pay for that liability, meaning you won't run out of payments at the current asset level or current contribution level.

Jeff Bauer:
If that number falls below, what the accounting community forces you to do is start using an average of your discount rate. In other words, you can't use a higher rate for the entire liability stream, the 7%, so we want to model that out carefully for you because right now, in the past you've had enough assets and contribution levels projected out that supports the 7% that you're not going to theoretically run out of benefits. So if the discount rate has to be lowered because the asset level is lowered, you know that's going to impact your financials, the funded status, the financial position. So it's not only just the cash issue, you could have a real bump up in your funded status, meaning an unfunded status level. If we can't use the entire 7% discount rate when we run your 5-31-20 numbers.
Rochelle:
We've actually had a... We usually have a very small crossover. So we're like at 6.95 or something like that.

Albert:
And then that's a good point. And with the relativity of the market, and this is Albert speaking from Angell, certainly there would be important to re-evaluate it as a 5-31-2022 sheet if the asset reduction that we've seen coupled with the possibility of lower contribution in the plan if it creates this crossover point at the lower disconsolate.

Suzanne:
Okay. Thanks guys. And Linda, just a quick question. Is Steve listening on the call by chance?

Steve:
I am.

Rochelle:
He is.

Suzanne:
Okay, great. Okay. All right, thank you. Go on guys.

Steve:
I'm taking it all in and we can comment on this when we get to our section, so go ahead.

Jeff Bauer:
That's when Steve guarantees the rate of return on 5-31-20.

Suzanne:
We like that. Thanks very much. Go ahead Jeff. Go ahead Albert.

Albert:
Perfect. Well, we covered what we had in terms of the two pension plans, the salary and union plan. The third exhibit, and Jeff touched on this briefly, is the OPEB portion of the medical plan. So we'll show if that exhibit can be put on the screen and we'll touch briefly on this. Tell me when you get the exhibit on.

Rochelle:
Jennifer, that was the one from last... From yesterday.

Albert:
That's right, at the top it will say South Central Connecticut regional water authority a 2020 plan year in your required welcome member contribution for the VEBA plan.

Jennifer:
Okay, the exhibit is up.

Albert:
Perfect. Thank you. So this is Albert. So the level of a recommended contribution for that plan is just under $2.1 million this year. That level was about $2.2 million last year. There's a slight decrease in the contribution recommendation because the claims that we've seen that went in effect in 2019 are actually lower than expected, so that's good news. And the philosophy here was we tried to concentrate on making the recommended contribution until we improve the funded status of the salaried and union plan. And as those two plans are close to a hundred percent funded, then resources, maybe kind of geared towards improving the funded status of the RIBA plan. As Jeff mentioned, the funded status of that plan as of 1-1-2020 is just under 30%, 29.9%. That percent funded last year was 23.4% so clearly with the asset performance it was in double digits, close to 17.5% in 2019 coupled with your level of contribution in the plan, you continue to see an improvement in the funded status of that VEBA plan and it's close to 30% right now, which is great news.

Rochelle:
Albert, could I just, by chance... So we usually make the recommended cash contribution, which is the $1,000,885 I don't know if you want to just talk to that a bit?

Albert:
Well that contribution was discounted to the actual date of 1-1. So that's perfectly fine if you make that contribution, which is so we can see it's slightly lower than the contribution presented here because of the timing of the deposit. So, again, it's not required as it would be in a qualified ERISA plan. So here is, if you make that deposit and it's slightly lower, that's acceptable as long as you understand there's going to be a slightly less funded plan for that given year, but it's perfectly acceptable for this type of plan.

Albert:
Then in terms of the additional assets, again, it's just more of a bogie here where we introduce what step contribution that would require to put in the plan to keep it at 90% level. We know this plan has not been the main concentration for the authorities at that level was $15.5 million, to the discussion we had earlier. As the other two plans become better funded then, to our knowledge, more resources will be available in earmarked towards this plan to continue to improve with the funded status of the plan. So I think that's all that we have in terms of our portion of the updates for today.

Suzanne:
Great. Thank you Jeff, and thank you Albert. Does anybody have any questions for Jeff or for Albert, and Steve if you've got any also, please chime in.

Suzanne:
All right guys, well I think we're in good shape. I don't know if you want to stay on the call for the rest of the presentation or not, but you're welcome to listen to the investment portion piece of it. But if you don't, we wish you well and be in good health.

Jeff Bauer:
I would. This is Jeff. I would like to stay in here, post a commentary on the defined benefit plan.
Albert:
I will stay as well. Thank you.

Suzanne:
Very good.

Suzanne:
All right, we will. I'm, I'm Linda and Rochelle, is there anything else you want on points two and three related to the actuarial assumptions, contributions or anything at point?

Rochelle:
Not at this point. I'm good.

Suzanne:
We'll come out of the committee to take action. All right, very good. So we'll move on to point number four which is the quarterly investment performance review. I just want to say something before I turned it over to Steve. I wanted to let everybody know that Rochelle and myself had an interim call with Steve along the way between the last time we met as the pension committee and this meeting. Just to talk a little bit about the interruption in the market and some of the things that they were doing to both protect the portfolio, migrate to certain kinds of assets, migrate away from certain kinds of assets.

Suzanne:
We sent a summary to Tony at that point and really just made note of a couple of important points, and I just wanted to take you through those. Rochelle did a nice job of summarizing it so I thought I'd share it with the group. So as of March 20th the plans were approximately down 19% and that should be in much, not much better, but better position at this point. Most of this decline occurred in the month of March and it was due in a decline both to equities and fixed income. They did take steps mostly in reducing exposure to high yield and increased, high quality, and staying within our targets.

Suzanne:
We expected to be able to meet our short term obligations to the funding of these plans so they were instilling continues to recommend contributions to the plan in excess of the benefit payments to be used to begin to re-balance our asset allocation. And move back towards our equity target. And this will allow for purchasing equities when prices are low, as dips happen and Steve sees the opportunity for making those purchases. They continue to monitor our meeting of our short term obligations obviously because if that should change at any point that would change our strategy. We talked a little bit more about the market outlook and he'll share his thoughts today so I'll skip over that.

Suzanne:
But we were working on many scenarios as you saw in the plan for our year and to inform the recommendations regarding the pension levels, which we'll talk a little bit more about later and the arc, which we just went through. So all that stuff we'd monitored between the two meetings and kept the chair informed and are excited to hear what Steve has to say today. So Steve, I'll turn that over to you at this point. And if, Steve, if you're talking we can't hear you.
Steve:

Yeah, you would do that. I'm sorry. Thank you very much, Suzanne. Are we trying to have a 1:30 hard stop on this meeting today? Can we go over a little bit? Not a lot, I promise. Because I think there's a lot that you need to know and there's a lot that's been going on including the conversation that Suzanne just referred to and the subsequent conversation that Rochelle and I have had also to discuss the potential of funding, just the arc and the fact that your pension payroll would be higher than the arc alone, so we think there's some need to continue to keep some short term reserves available. That was not true in the last time we all got together, so I'll cover that as we looked at the portfolio, but that might be the one little side thing today.

Steve:

I do want to say this. I know Jeff and Albert are still on the call. Thank you very much Jeff, and actually we got to hear each other just yesterday on another call. I'm surprised you're staying Jeff, but thank you. Your fiscal year so far, and we just ran this number, I'll start with this and then we'll talk about the markets a little bit. And really I'm going to spend some time on the bond market because I think that's the part that a lot of people don't hear day to day and frankly had the most significant impact on the portfolio or the unexpected, if you will, which we've navigated through at this point from June 1, 2019 through last night. I just think it's interesting to note, and I'm saying this to the actuaries too, that the portfolio is really down 1% net of costs.

Steve:

So 1.01% because the second... So for your fiscal year perspective and when we spoke, when Rochelle and Susanne and I spoke, we're down about 19% at that point, but that number is now dramatically improved as we will see. And I just thought it was interesting to note that the dollar amount in the current fiscal year, not that it's ending today, is about 653,000 or just over 1% so why don't we proceed unless anyone has any questions, comments, or would like to change the order? Let's look at the table of contents or our agenda here on the next slide please. And sorry, I'm not controlling the slides, although I have it up in front of me also.

Steve:

Pulling the slides, although I have it up in front of me also. So I was going to give our market commentary. I would normally call it our typical usual market commentary, but there's quite a bit different today. A very brief one page review of the executive summary, which I think has important factors today that might not otherwise come up for discussion. And then we'll look at your current asset allocation and the investment results. Does everyone agree with that?

Tony:

Okay.

Suzanne:

Yep. That sounds good ahead, Steve.

Steve:

If you jump two slides ahead please. So we're... At this point, you're all used to seeing this slide. And I recall very vividly sitting in your office about 90 days ago looking at this upper right hand side and
saying, "you know, the market's a bit expensive right now." Little did we know, right? What was going to happen over the subsequent 90 days. But at that time, we're looking at chart that showed a market between, this is US equities only, large caps only, but we had full employment. We had very strong unemployment numbers. We had interest rates very low and the market was down to the 18 or 90% multiple, which isn't surprising given that backdrop, but we all felt... Well, we didn't all felt we shared with you that we felt it was on the high side. That changed very quickly and by the time that Rochelle and Suzanne, who I spoke in later part of March, it had gone from 19 to 13 and at that point I was able to say just as definitively we now have our market that's inexpensive for good reason, right? But it was inexpensive.

Steve:
Since that time, and this is true last week, the market has recovered quite a bit and it's now back to the high end of fair value and you might say, how is he coming up with that? There are no earnings right now. How can we be 17 times earnings in the center right currently? Markets will ignore short term phenomenon. Not that this isn't a large, massive one that has certainly not been ignored. But from a long-term valuation perspective, if you look at the present value of all future earnings streams in the S and P 500 the COVID crisis that we are going through now will no doubt diminish that 10 and 20 year number, but it will not eliminate it. So the market discounts, the current trough that we are in, to some degree, and looks to normalized earnings and normalized earnings are down from what they wouldn't have, but we're still running at about a 17 times equipped to normalized earnings.

Steve:
So my opinion on that would be, currently after the recovery that we've seen and coupled with the earnings drop that we are in a market, in our opinion at the moment, and this is very volatile at the moment, very fully valued. Perhaps not overvalued as I was able to state 90 days ago, but not cheap like it was three or four weeks ago either. I hope that makes sense to folks. We're not aggressive buyers of equities at this level. Actually, indeed after the recovery we've taken some opportunity to lessen equities in certain cases.

Steve:
Let's go on to the next slide. And your asset allocations obviously governed by your liabilities and then we'll talk about that. This next slide I almost should have started with in a way. This is like our safety moment, if you will. This to me is meditative in that this is a 70 year returns of the SMP and to me this helps all of our minds get around what's going on right now.

Steve:
All right. This says that on average over those 70 years, the S and P has earned about 9% a year. On indeed, there's only been seven times the green bars when it actually earned anywhere close to 9% a year. Like last year or this year, it tends to be wildly above that long-term average or like right now wildly below that long-term average. I think that you have a very long-term time horizon here. Your assets that are longer term, your liabilities, excuse me, that are longer term are those that are invested in equities. We talked the last meeting quite a bit about traunching the assets, meaning what's owed out in the next few years between five and seven years up to 10 years and what's beyond 10 years and it's your liabilities that are 10 years and beyond that are inequities at the moment. It is not any short term liabilities. I think that that helps us all mentally. Let's look at a little history on the next slide please.
Steve:
I’m trying to go quickly on this one. So what’s happened over history? This goes back to 1950. We are corrections regularly, as you all know, and you’ve all experienced both before we met and with us and together. A correction happens in a market falls more than 10% but less than 20 we call that a correction. It’s a strict definition at least what Wall Street uses. They happen all the time, right? We had two of them in 2018 as we well remember, and we had one big one in ’16. They typically recovered very quickly. Like the longest was one of the ones that happened in 18 it was almost 200 days. Nothing in the realm of a long-term investment portfolio, right? On average is just over three months, as you can see at the bottom center 104 days to recover from a correction.

Steve:
However, what we have entered now is beyond the correction it is on the next slide please. We have entered a full blown, bear market, and we have entered, right? There’s no doubt on either of those. We've seen them both. And that has happened many times in history too. And the one thing we're hearing from a lot of investors, but yes, this is unique. This virus has never happened before. How are we ever going to navigate through this? And I will tell you that every singular one of these bear markets was unique and has never happened before or after, including the Great Depression, including World War II, the Vietnam War, 9/11, in our own lifetime, the Cuban Missile Crisis, etc. They're all unique.

Steve:
So yes, this one is unique. Yes, this one is global. Yes, this one is tragic like most of the others, but we think mathematically, not to be cold and heartless here, but mathematically we don't think it looks a lot different in many ways. It's steep. So in the bottom left we'll show you include in the great depression on average these declines of average 44% lower left.

Steve:
We hit close to that number depending on how you measured a few weeks ago. I'm going to show you that in a few minutes. On average, the duration of these declines is 24 months. When Suzanne and Rochelle and I spoke a few weeks back, we had been doing a lot of work and on a lot of calls and obviously, and we'd come up with a scenario that we thought the most likely scenario and I'm sticking to it today, is it economically the US economy and the world economy is back at cruising altitude in 2022 and likely not before that. We may be climbing before then. We may be rocky before then. What our outlook is that it's 2022 before we had a quote, a normal year. And that would fall in line with this 24 month duration basically. Right? Stock market's hard to predict it in that short of timeframe, but we'll stick with it. We believe this will all be behind us in the 18 to 24 months from now.

Suzanne:
And Steve can I interrupt for a second? And you’re talking stock market normality, not economy normality, right?

Steve:
I’m actually talking both right now.

Suzanne:
Okay.
Steve:
There is a distinction but I am talking both of them at the moment.

Steve:
You all know this but I think the numbers help remind us, even in those most severe corrections in history or bear markets in history and we’ve seen it ourselves in the last three weeks, when markets hit a bottom, which I’m not suggesting that we have yet, if we can talk about that in a minute. They turn around with neck-breaking speed. The market always predicts and discount what’s coming in the future, whether that’s a vaccine or some type of clinical drug or social distancing working or testing, testing, coming into play, et cetera. Indeed, three months into after the bottom markets are usually up about 28%. I’m in the bottom center and a year later they on average they’ve been up 54%. What’s interesting is half of the return typically happens in the first 90 days in a recovery. Half of the one year return and then the all important number, the far bottom right and this is a stock market number now, not an economic number.

Steve:
On average, how long has it taken from the trough to the prior peak and this says 50 months, so four years. I will tell you we would exclude the Great Depression from that. We’ve had massive fiscal and monetary response here that we didn’t have in the Great Depression. Frankly, we fortunately have it because of the Great Depression because of the federal reserve and the FUC, et cetera, coming out of the Great Depression. If you exclude the Great Depression, that average is 28 months. So at an average it takes 28 months to go from trough to prior peak.

Steve:
That’s a hard one to guess right now. I’m going to guess, I’m going to stick with my number and assume the economy and the market are both back by roughly January of 2022 so a little bit more than a year and a half from now. Does that make sense to folks? I think that helps to see where we have been very deeply into this. This is not... We are not in the early stages of this, if you will. We can jump to the next slide please.

Steve:
Thank you. If this felt lightning fast to you and like nothing we’ve else experienced and I really don’t enjoy having to refer to 1929 in my comparison, this drop was faster, steeper, and ultimately deeper than the crash of 1929. It is the fastest, steepest crash in US history, if you want to call it a crash. And it was. So that red line is more than all the way through to the bottom. This is a few weeks old at this point, but I use this slide just to give you the effect. It was extraordinarily quick and extraordinarily deep given the short duration. We’ve seen that twice before in history. It was ’29 and ’87. It was faster than ’29, deeper than ’29, not deeper than ’87. ’87 was also the fastest recovery. One of the one of the fastest recoveries, I should say. Could jump to the next slide please.

Steve:
So here’s a slide I want to spend a few minutes on and if we could zoom in on the middle section, is that possible? There’s a lot of information on here, but this is really important. I’m going to use the Russell 3000 to the left. You have the S and P 500 and at the end I’ll refer to international. But what we’re looking at here, can you give me one second. I just have to bring this line up on my large screen. What we’re looking at here is at the bottom, this is only... I produced this document every Friday right now,
and what you've got here is the Russell 3000 the lowest bar there, the are bright red one down 38.13% that's the average stock and the Russell 3000 is simply the 3000 largest publicly traded companies of the United States, and that bare at 38% says, what if I had $1?

Steve:
Right, sorry. I had $3,000 and I put a dollar in each of the 3000 companies. On Friday, March 20th I was down 38.13% and actually by the following Monday, I was down in the low forties. So we indeed, if you're the average CFO in America, the average CEO or president or average employee in a stock purchase plane even, you saw your stock out average down North of 40% by, I guess it was three Mondays ago now, and that is the day that the federal reserve and the treasury announced their quantitative easing program. That marked the very bottom of the stock market drop. Since that time, you can see that average stock by last Thursday because Friday the markets were closed, had recovered about what does that about 13 of those points. Was down 38% is not down closer to 25.

Steve:
Moving to the left, the Russell 3000 that dropped it, oops, sorry. That dropped at 29.68% and it's now back to 14.5 recovering almost half of its lost. The largest companies, again, the biggest companies, the higher market cap. This is the market cap weighted indices on the left side of these four bars now, went down less and recovered more than the average company. And then to the right, still the center set, excuse me. You can see the value index was down 35% and the growth was down 24, the value has now recovered to 20 and growth to nine.

Steve:
Why this matters? Dividend yielding stocks, which we have a little bias towards, not a big one at the moment, thankfully dividend yielding stocks performed far more poorly than growth stocks and a lot of that is because dividends as you all know, are being cut. And those that are being cut, people are worried. Investors are worried that they are in danger of being cut.

Steve:
And finally on the right side of this slide, if we could just slide over a little bit please. The international markets were very... Were much more uniformed than the domestic markets. Yet the dispersion in the best of markets was massive, right? The difference between growth and value. The difference between large cap mid cap and the difference between your average stock and your higher market cap stocks. Internationally, everything fell more or less 30% and it's back to about 20%. So international exposure did not hurt this time. Depending on the alternatives, it may have actually helped, but it definitely was not a degradation in results having some international exposure this time because we know we started with valuation internationally a little bit better than evaluation domestically. The next slide is I think the most important slide in the deck.

Steve:
Your portfolio, like many others owned a lot of fixed income or bonds. Right? And I'm going to blame the bond market for a big part of the stock market drop, in my opinion. What you have here is different sectors of the bond market, and I'm going to focus on the third one from the left to begin with. This is the Barclay's US corporate investment grade bond index. So these are high quality investment grade bonds. At the bottom on March 20th, your average return of a high... The return of the Barclay's index was down 10.58%. These are our safer assets, right? Not our safest because we have treasuries too, but
safe assets. If you move one to the right of that high yield bonds are actually down at 18%. And even to the right of that, not that you own these, but municipal bonds, right? Old fashioned retiree type municipal bonds issued by New Haven, Boston, Massachusetts, Connecticut, et cetera. Tax free bonds were down 7.5%.

Steve:
This is safe money. This was a problem. The Fed recognize it. Mnuchin who was a Yale graduate, right? Right down the street from you all. I think Mnuchin has done a wonderful job as a side comment, regardless of any affiliation, that's not a political statement. It's an economic statement, but a Mnuchin and the treasury got together and at first, they began buying government bonds and municipal bonds and mortgage backed bonds. And later on that Monday, I keep referring to three weeks ago, I think I'll remember it the rest of my life, they announced they were buying investment grade bonds. Since that time that investment grade bond category, the 10.58 negative is now down as of last Thursday, now 1%. That is a massive recovery.

Steve:
Within a day or two of the Fed announcing this program, we did move money at Connecticut Water. We were already beginning to move. We didn't... You had very little exposure to high yield, but the minute the Fed announced that, well minute shortly afterwards, as soon as we can physically and possibly do it, we moved quite a bit of money into the investment grade bond space. And so we have enjoyed that recovery of that space and believe that securities we bought on that were up between six and 7% even already, and it's only been three weeks since, and that's bond. So it's unusual to have bonds trading like .com stocks, frankly.

Steve:
What really happened to the market, and I'm sorry if I'm going maybe along here, where does investors of all types yourselves included come to their advisors or do it on their own and say it could be your household, it could be a pension, it can be an endowment, it can be a corporation, our phones are ringing off the hook as everyone around the world were saying we need to reserve funds, liquid funds, to pay our pension obligations in the near term, to keep our nonprofit open in the short term, to keep our corporation running to [inaudible 00:16:59]. I want a year's worth of my household bills in cash. My household expenses. When that happened, people often go to their safe assets.

Steve:
As you could see, safe assets were highly illiquid. We tried to trade a few of those days. I could not even get a bid on investment grade bonds and that last happened '08. People went to their stocks. The stock market is much smaller than the bond market, but is much more liquid. People went and did a mass liquidation of stocks driving the prices down. Not so much. I've been calling it a methodical panic, in my viewpoint. It wasn't an outright panic. It was a methodology and some thinking behind it. The thinking said, I want to have money for my expenses. We got us enough [inaudible 00:48:44] and I am including a household for the next year and they went to a liquid asset. Later, the Fed provided liquidity to these bond markets and the bond markets are looking a lot better.

Steve:
A week ago, the Fed even announced that they are buying certain high yield bonds but not the whole high yield market. We are still primarily avoiding the high yield market because the Feds are buying what
they call a fallen angels, so like a Ford Motor that was investment grade before COVID becomes a high yield bond. The Fed is buying those also. Does that make sense?

Steve:
Sorry to belabor it, but to me, this is the biggest news item that happened in investment markets since we last met is what happened in the bond market. The illiquidity to freeze up the diminishing value that is now more or less recovered to neutral. Okay. Let's keep building on it. I'll get to your portfolio. How are we doing?

Steve:
Can we jump to that next slide? There we go. I'll leave you with this note. It's a little repetitive but far right, over history after a 20% decline, the markets are typically up about 27, 28% two years later. So it's good news. We can jump right ahead. A few more slides in, to the executive summary of the investment policy statement.

Rochelle:
Jennifer [inaudible 00:50:11] the other way.

Steve:
13 and 43.

Jennifer:
13 and 43?

Steve:
Yep, here we go. So I'll just refer to this. So the investment policy statement has a few things in it. It has a preferred waiting for equities and fixed and alternatives or balance and it has a minimum maximum. First thing to know, is we are within those ranges and we have remained within those ranges. Second thing to note, just below that and it's not something we normally refer to, but the investor policy statement rightfully says that the investor wishes to maintain sufficient liquidity to fund the benefit obligations. That has not been a concern at all of the organization because you've actually been funding... It hasn't been a concern about portfolio, I should say, because the portfolio has not been used, in our existence at least, to fund the benefit obligations. Instead, you had been building it up obviously to increase your funded status.

Steve:
In talking with Susan and Rochelle, I understand there are discussion potentially taking place, talking about funding and talking about the arc levels with Jeff and Albert, that I think it's important for you to know that if you were funding only at your arc levels that that would mean that portfolio would have to provide liquidity for benefit obligations. The arc levels, let me say it differently. The arc levels are below the current pension payroll. Okay? Not fatally so, but if you stress tested your portfolio out to two years as Rochelle and her had done behind the scenes, it would say that, just for example, in the union plan funding at arc paying current payroll amounts with no lump sums contemplated in the union plan, obviously it's about one million one of net negative contributions. And in the salary plan over two years, again assuming no lump sums, which I know there could be, it's a little over one million, seven.
Steve:
So we think it's prudent at this time and as we jumped forward you'll see this that we perhaps not
rebalance until we have more clarity from the board on if you're going to need... If you're going to only
fund at the arc level going forward, if you're still going to do the excess contributions, if that makes
sense. Because if it's only the arc, we would keep more cash reserve as we currently have done. Any
questions, comments?

Speaker 2:
And Rochelle and Linda, have you decided or you're, you're pretty much going with your arc?

Rochelle:
For the revised budget for fiscal 21 we did put in the arc and we did take out of our fiscal 20 projection
what would have been our recommendation on above and beyond contribution. One thought on that,
depending on what our year end disposition actually is, if we have funds available, we could put some
money into the general fund, keep it in the general fund, see how we weather COVID-19 and potentially
make a contribution in 21 into the pension. But at this point, based on all the pressures and our
revenue, our projection, our current recommendation would be for the arc for fiscal 21 we could always,
if monies were available, make an additional contribution.

Speaker 2:
So then I want to make sure I understand this. So Steve, you're saying if we fund only at the arc levels,
we will be below our payroll level.

Steve:
Correct.

Speaker 2:
And so what are the implications of that?

Steve:
[crosstalk 00:53:56] I'm going to show you that in a portfolio actually because we have reserved for it at
the moment. Can I show you that in dollars as we come to the next slides? Because I have it answered in
a few slides.

Speaker 2:
Sure. And Rochelle did you want to say something?

Rochelle:
I was just going to say, Steve correct me if I'm wrong, the stress tests that we sort of did a quick and
dirty methodology was looking over two years.

Steve:
Correct.
Rochelle:
Not, not just [inaudible 00:54:25]

Steve:
We did two years at current pension payroll levels. So assuming no increase or decrease in payroll.

Rochelle:
And also... And also two years of not funding beyond arc.

Steve:
Correct. All we can assume is two years of flat arc actually, which won't be accurate, right? But it's best we can do. Two years of flat pension payroll and two years of not funding beyond arc says the union plan needs about a million one. And the meaning in the portfolio that we will withdraw... If that all came true, you was a drawer of million one from the union plan during the next 24 months. If that all came true in the salary plan, you withdraw are about one million seven, 30. So those are short term cash needs potentially. So my recommendation, unless we know, until we know otherwise is that we actually reserve those as though we must make them. And I'm going to show you what we've done in the portfolio in order to have that there.

Suzanne:
Okay. Thank you.

Steve:
[inaudible 00:55:30] What we don't want to do is if we know that possibly that's about $3 million in total, I'm rounding. Because we may... This is payroll. This isn't a long-term need now, it changes a bit. The allocation, it pulls that $3 million perhaps from a distant obligation to something more much more immediate. Right? I would consider it very immediate. So we want that money to be liquid and available. So it could impact the results a little bit. For better or worse, we won't know until later because it really needs to be in treasury bills or high quality, short term instruments. As we're talking payroll, we have a... There's a little money in the trust but we're talking payroll as early as a few months from now, like maybe before the next time we meet.

Steve:
Let's move to the next slide that I'll show you that we've already... Based on the call that Susan and Rochelle and I had and then based on the associate call it Rochelle and I had, it's frankly already reserved. In a way where we're lucky we already have it reserved. We don't have to change anything unless you direct us and want us to. But we've got that... Those funds as currently allocated are reserved, but it would stop us from reallocating back to more equity, which we've done once already. I'll show all of this to you. And I'll try to move quickly here. I know we're small on time.

Steve:
The salary and union plans at the end of March, 53 million, 493 upper center. To the right, you can see where 52% in equity in total. You're overweight and fixed income at the moment. I'll explain that and with a slight tilt in the bottom box there on the upper right, a slight tilt towards value and away from growth about a 4%, about 3% overweight with the same. I won't spend a lot of time here. These
numbers aren't that different than you saw the last time. Know that we entered this crisis about a point below equity weddings purposely we thought were a little overvalued so we entered a little bit light in equity but not excessively light in equity because again, your equities are all allocated for 10 year or greater obligations. They have been the whole time. Next slide please.

Steve:
It's time to take a minute and look at your fixed income allocations. So the fixed income structure, because I spent so much time talking about it, the left side of the page with the gray-ish, the blue and the gold are all individual bonds, treasuries and gold corporates, all investment grade high quality. The good thing to know is we have not had a single bond in your portfolio drop below investment grade, not one. As a joke, I say that the portfolio was made of tennis balls, not eggs, right? So when we dropped one, they tend to bounce, thankfully.

Steve:
So we're lucky that we... Fortunate that that was there because we did not have to sell a single bond in distress which you've had to do in a few cases and that that the remaining graded agencies. The right side, the kind of orange color is a mutual funds. Here's where you do a little different thing, like here you had some high yield exposure, you still have a little bit. Here you have some more aggressive fixed income and or you have a mortgage backs.

Steve:
High quality overall. Let's jump to the next slide. I'll show you the actual quality. And again, I'm focusing more on fixed income. Stocks will be stocks, right? They do what they do. We know they bounce around year to year. We know why they're bouncing around now, but bonds don't usually behave this way and that's why I'm spending a bit more time on this.

Steve:
If you look at the next slide, this is your quality breakdown. The Morningstar scan. It excludes the PIMCO funds because PIMCO does not provide that data. Most of the money, 19 million... Sorry?

Rochelle:
Jennifer, go back a slide.

Steve:
Oh, sorry. I'm using two screens here at once. Thank you.

Steve:
Your AAA is the biggest slice, AA at the bottom, single A and BBB. You can see that the vast, vast majority, 95.32% to be exact of the portfolio is investment grade within very small sleeves in non-investment grade. We did reduce the non-investment grade during the crisis, particularly when we saw the fed was backing investment grade and not backing below investment grade. We moved much more heavily to investment grade. Not that we had a lot of non-investment grade to begin with. We were very light on that to begin with. We can jump one slide ahead, please.

Steve:
You can skip over that slide. So let's jump to slide 19 of 43. We've been very busy. This slide sometimes is blank when we meet. What do we do? I'll give you quickly. We had an alternative fund gateway. We decreased that from 2% to zero. That fund was meant to be low beta, low volatility and indeed, it was expressing low beta data and low volatility, but we wanted to take the opportunity of low Dow market to increase beta a bit to increase equity. We did that in a very moderate manner by taking that 2% and increasing each of our balanced funds to four and a half from three and a half. So that was a slight increase in equity exposure. We took Loomis Sayles strategic bond fund, which had a high yield component and it into Loomis Corban Plus, which does not have that high yield component to any degree. That's increasing investment grade and decreasing none as my grade.

Steve:
We did the same thing with pioneer strategic income and PIMCO income. We reduced those in the aggregate by two and a half percent and we purchased a PIMCO investment grade bond fund. Again, right after the Fed announcement at 3% thus spending that money. And finally, we switched one of the alternatives to one that was underperforming to one that was outperforming and that's continued to be the case.

Steve:
In perfect hindsight, we would make every one of these moves again. I would probably even buy more investment grades, but frankly we had all of the money, other money invested, but that was a very active really month. And the net result is no major increase or decrease to stock bond mix. Stocks have gone down slightly because the market's down and we did not rebalance here other than that movie to start at the top. We reallocated quite a bit within bonds because obviously this crisis is not over yet. We do believe there will be defaults in the high yield area that may even be defaults in the investment grade area before it's over. So we've really shored up the balance sheet of the bonds to ensure that we do not have exposures where we don't want them and do not have exposures in places where the Fed is not providing us cover.

PART 2 OF 4 ENDS [01:02:04]

Steve:
Writing as cover. Does that make sense to folks?

Steve:
Let's look at page 20 of 43 please. This page is very important today because we are off balance a bit. We're off balance a bit for a couple of reasons and purposely so, let me state.

Steve:
First of all, we did all that rebalancing you saw, but that wasn't enough to bring the equity exposure back where the markets had taken a down from. But in the meantime, in the subsequent conversations I've been having with Rochelle and Suzanne, I decided not to rebalance until we have a better understanding as to your funding status, right? Because we may need, what you'll see here is they're over weighted in fixed income and it's really Treasury's by 2.7 million and all of that under weighting is really currently in equity, right? Not quite as much as it looks because they're a little bit over weighted in balance because of that rebalancing I did there, so that gave us some equity exposure, but we're roughly 4% underweight equity target at the moment.
Steve:
Basically, almost all of that is from the market itself. If you go to the next line, I don't normally look at these lines, I'm only looking at the top of it, but I want to show you something mechanically.

Steve:
This is the salary plan. Our stress test tells us that we need about a million and seven to a million and eight in cash for potential payroll in the salary plan, and if you look in the very upper center just to the right of center, you'll see under the very top row, you'll see two million dollars and 64,000. Does everyone see that?

Steve:
We have a higher than normal amount in treasury bills because that 2 million at least once we've structured it, unless you direct me otherwise, would cover the payroll in excess of the arc for 24 months. If that's not going to into the case, I would deploy that 2 million back towards equities. Does that make sense to folks?

Steve:
The number that we really need is about a million seven, thirty. We normally have some money here, but if indeed that scenario came true, that it was only arc contributions for two years, all the things we talked about previously, we would use that 2 million to make the payroll in the next 24 months.

Steve:
The same is true on the next page, which should be the union plan. On the union plan, if you look at that same box if you will, we have a million three eighteen in treasuries and in that same scenario, the union will need approximately a million one to make that 24 month payroll.

Steve:
So improvements in conservatism, it's almost like that money is currently carved out of the total, if you will. What's the risk of doing this? There's no risk of making the payroll at all. Not that we're worried about that, right? But it's liquid, we've been in highly illiquid markets over the last month. I don't expect that to come back because the Fed has bailed out the liquidity. But we want to be in an asset that we know is liquid and we know is available.

Steve:
The risk of doing it is that have we've been overly conservative and I open this for discussion, but if we're overly conservative, what happens? It costs us a little bit if the market goes up from a return perspective, but we have the assurance of knowing if the market stays sideways or goes down, it didn't cost us anything and it gave us the luxury of knowing that if you only fund the arc for the next two years, that the portfolio has the liquid funding to fill that gap. I'm going to put it out for comment or question.

Suzanne:
Yeah, so Steve, I have a question. So what's driving this conversation. Is driving this conversation the assumption that the contribution will be funded at the arc? Or is what's driving this conversation is the value of the portfolio based on the interruption in the market? Or a combination of both? Because
we've never talked about it. We've talked about linking the portfolio to the obligations, but we've never talked about being concerned about funding the payroll.

Steve:
Right. Thank you for that. Until now, we've always been told there were going to be contributions in excess of payroll. Now I'm hearing that potentially if the contributions are at the arc level only and that's not a fact that we know yet, right?

Suzanne:
Right.

Steve:
Then we know that the portfolio switched from being a net recipient of assets for some period of time to a net provider of assets.

Rochelle:
I just want to add...

Steve:
It's not a market...

Rochelle:
We've been funding well above the arc now for quite a number of years.

Suzanne:
Right. No, I understand that. It's just this has never been part of our dialogue in regards to being concerned or even... it's never been a part of our dialogue about funding.

Suzanne:
We've talked a lot about linking the portfolio to the obligations to make sure that the liquidity and ratio and risk aspect was appropriate, but not so much that there is a concern about the ability to pay the payroll. And so I just wanted to see what started the conversation and bumped it up to this level and what it sounds like this is our decision to fund slightly differently than we have in the past.

Rochelle:
Yeah. And the market environment. Because I believe, Steve, correct me if I'm wrong, the assumption is there's no earnings. So you're funding the arc for two years and there's no earnings to help fund the payroll.

Suzanne:
Earnings on the portfolio?

Rochelle:
On the portfolio, right.
Steve:
No, I wouldn't agree with the second half of that. I'm really saying that for the first time, we're being presented with the possibility at least, and it sounds like the likelihood, of being a net provider of capital to the payroll. In the past as you fund above the arc, the trust is the receiving more money and paying that out and the remainder has been going to the portfolio.

Steve:
Now the portfolio needs to take money out and send it to payroll, so it's reverse. So regardless of the market backdrop, if we have payroll to make in the next 12 and 24 months, we keep that payroll money in very conservative assets.

Steve:
We just haven't been in this position with you before. We don't take short term money and invest it in longer term assets, it's really resulting from the asset and liabilities are changing a bit if you're funding in a lower basis. The liability was pulled forward in that example, in that case.

Steve:
It's not a market call, it really isn't. It's a cash flow call. I may be being a tad more conservative today than I usually would be because of the potential illiquidity in the market, right? So normally I would say, let's keep one year of payroll in treasury bills. I've stretched it a bit, so I'll give you that on the market perspective. That we don't want to get caught with things in a bond ladder that's not in a government security, that can become an illiquid, and that we have to take a haircut on. There's a slight market weighting there, but I'm going to call that 80% of it has to do with the liability being pulled forward and a smaller percentage, under 20, has to do with the market conditions.

Suzanne:
So Linda and Rochelle, the reason why I asked that question is because I just wanted to make sure that we were aware that those additional contributions have made a difference in the way that we've chosen to manage the portfolio and our targets. And I wasn't, and that's not anybody's fault, I'm just saying I wasn't as cognizant and now I am, and I just want to make sure we understood it.

Steve:
And let me add this. You're still within the investment policy statement guidelines, and we'll just have to keep making sure that you stay within there. What we really need to know as your advisor, is if that is the decision to fund only an arc, then I would stick with this excess cash. If that changes or you're going to fund it more, then we'd go back to routine business. But this isn't a market call.

Suzanne:
Right. I guess the only implications are, given where we are in the market, if the outlook on the future is that this market will recover from here, our participation is limited by our limited to the arc.

Steve:
That's accurate. That's the risk. The risk isn't losing money, the risk is...
Opportunity.

Steve:
If the equity market does... It's opportunity, thank you.

Suzanne:
Yeah. Okay. All right. I just wanted to make sure we understood.

Steve:
I think our hand is somewhat tied on that front though because again we've liability allocated the assets. So what really happened here is you brought... $3 million came forward, went from maybe a long-term, it came right up front basically.

Suzanne:
Right. And I think we'd recommend regardless, but in light of where the market is, that if there's any way, shape or form that we can make a contribution beyond the arc, we should. It'll make a difference to the portfolio given where the market is today. Just, I mean that's stating the obvious I'm sure, but...

Steve:
No, it's a good point though. I'm not assuming the arc, I'm just going off from conversations and knowing that it's a possibility.

Rochelle:
Right. And I think the other key assumption, Steve, you're assuming that we make the arc not just for a one year but for two years, because I think that's another key assumption, because we don't really know what's going to happen with the COVID-19 and what the impact is going to be for 21 and definitely not for 22.

Steve:
Right. When Rochelle and I ran those numbers, we ran them for two fiscal years.

Suzanne:
Okay.

Steve:
And if you tell me that's too conservative, that's all we need to know. If that's too conservative, it's not too aggressive, I know that, right? But it's possibly too conservative.

Suzanne:
No, we're engineers. It's not too conservative.

Steve:
I love it. Okay, let's keep moving it. I think that was the most important thing. I'm going to give you results now, you already know them more or less.
Steve:
Let’s jump to page 29. I'll go quickly, I think I said that a few times now. I remind us of last year because it gives us a baseline. I normally don’t bring this, but I think it’s important if we look in the upper right last year the funds in aggregate made 10 million five ninety-eight. So I think it gives us some perspective long run.

Steve:
We can keep jumping right to the next line because now we'll go to the bad news. Through March...

hang on I've got to move my slide here.

Steve:
Through the end of March. I won't read you all the numbers unless you want me to in an interest of time. The fund ended March, the combined with $60,633,784. I'm in the upper right of the upper part. Basically you were down $9 million at the end of March, which is just over 13% benchmarking, well within the range of benchmarks, particularly given the bond exposure that we talked about.

Steve:
What has happened since then I think is very important. If you jump to the next page, we've had quite a recovery. It's only been nine days since the end of March. We had some recovery in March. That's 9 million at the end of March is now just over six and a half million. The portfolio is down basically 9.5% on a net basis for the current calendar year. Again, that benchmarks, the benchmarks range from a low of 6% to a high of almost 15% we're right around the mid-point, which is where you would expect us to be.

Steve:
The bond side is improving day to day. The credit side of bond is still not all the way back, but it's most of the way back, but the results are right in line, if not, the better end of line, it's six benchmarks there that are better than all the two of them. So I don't feel good about that, but I feel good that it performed as you would expect in a downdraft and you participated fully in the recovery too.

Steve:
This is despite the fact that we are carrying that bit of extra cash for the payroll. So that's where you're at today. If you look at the fiscal year, I mentioned this in the beginning, it's actually a fiscal year because I know this affects obviously in the financial of the entity, you're down basically 1.01% through last night. Because this is just calendar year basis.

Steve:
We go in longer term, obviously the last year has had big impact on the longer term results. As this ends, it should completely recover on those. The trailing 12 months is the sheet after that, tell me if you want me to read through all these?

Steve:
The last 12 months, it's down 5.5% or three and a half million. On page 32 of 43, even over the last three years, that beautiful return that we looked at the last time we met, is at 2.5% a year now. And over five years, I get to show you our first five year number now in the middle of a crisis, is just over 3% a year. So this degradation that we've seen in the last 45 days or so now, has had a real impact, not just on the
short term numbers but on the long term numbers. That I want to say the last time we met, your five-
year number was running north of 7% or so.

Steve:
So we've seen this before. The longer the time horizon goes on that we're doing this, no less movement a
long-term number will have based on short term results, but when you still talked from three to five
years, it does degrade those numbers when you fall as much as, and these are through, these are
through month end. So these are not improved through April yet, except for the first one that I showed
you. So those are when we were down 9 million or the worst published month then we were down 13%
I think when Suzanne and Rochelle and I spoke, we were down 19% and that was right around the very
bottom. Right very close to the very bottom. It might've literally defined the bottom that day.

Steve:
We then give you a lot of detail as typical on the investment
holdings, but I've gone way over my time
allotment. I will not go through there unless you want me to. I hope everyone's still awake and that it
was informative and interesting to you today. It's not exactly fun. I will leave you with this though, the
portfolio...

Suzanne:
Go ahead.

Steve:
Go right ahead.

Suzanne:
No, go ahead.

Steve:
I was going to leave you with the fact the portfolio is durable. It's asset allocated amongst US and
foreign stocks or bonds. Bonds, as we know are relatively high quality. I can't remind you enough times
that the equities are for exposures, liabilities that are 10 years and beyond. We've been very diligent
about that, and that I am not worried about this period of history eventually becoming history.

Steve:
But I still will reiterate that the Fed has bailed us out. The Congress has bailed us out at the moment.
We'll see how far and how deep they can go. I equate this to we're crossing the Grand Canyon on a very
rickety rope bridge. We have the Fed underneath and the government underneath filling it in with sand,
if you will. So if we do fall, the fall will be cushioned, but we'll get to the other side and we can see the
other side, unlike other crisis's and I'm sorry I'm going long again in doing this, we do know this has a
finite end. I'll leave you with that. Thank you very much. I very much appreciate it. And Suzanne, back to
you.

Suzanne:
Thanks Steve. So I'm just going to kind of summarize what I think I heard from this conversation is that in
spite of the fact that we've had a major interruption, nothing about our portfolio was unique or at risk in
a way disproportionately that would have put it in a situation that would make this kind of interruption more impactful on our portfolio than a regularly and carefully distributed asset allocation and distributing the risk over time and the quality of the investments.

Suzanne:
So while it's impactful to be sure, it's part of being a part of the market. You feel like it's going to be okay over time, but time is really the key indicator and that it has a finite end that our short term and long term obligations should continue to be linked to the portfolio and even more so if our contributions are only going to be at the arc. As we invest and move forward, sticking to quality matters and returning to equity in excess of our obligations and as we can add additional money to the contributions gives us an opportunity to participate as the market recovers. Is that fair?

Steve:
I would add just one thing to that. That we are below target on equity because of the potential short term cash needs, it's not a market call.

Suzanne:
Right. Right. Right.

Suzanne:
Okay. Any other questions, comments, concerns?

Speaker 3:
Oh, I just think that you and Rochelle has spent a great deal of time and energy keeping track of this, Suzanne, I thank you for that. Steve, I thank you for your hard work on this. This is the time when you earn your money.

Steve:
I may be overpaid at times, but I'm underpaid now.

Tony:
Thank you.

Suzanne:
All right. Thanks very much. Thanks Joe. Thanks Jeff. Thanks Albert.

Albert Krayter:
Thank you all very much. Take care.

Jeff Bauer:
Thank you all.

Albert Krayter:
Take care.
Albert Krayter:
Take care. Be safe.

Steve:
Bye everybody.

Suzanne:
Be well everybody.

Rochelle:
Thanks, bye.

Tony:
[inaudible 01:20:40] can you take the... Oh, there you go. Thank you.

Suzanne:
The last item on our list for this committee is the work plan and you have it in your package. I don't know if there's any questions or comments related to it?

Rochelle:
Just say it's basically the same as it was in fiscal 20, just updated for the dates.

Suzanne:
Right? Right. And so what's next is possible in May, additional year end pension contribution. So we'll just have to keep squirreling away those nuts so that we can make an additional contribution. Other than that the committee has done with its business and unless there's any other questions, I'll entertain a motion to go out of the pension committee and return to the general authority.

David:
So moved by David Borowy.

Suzanne:
Thank you David.

Joe:
Second, Joe Cermola.

Suzanne:
Thanks guys. All those in favor?

Joe:
Aye.
David:
Aye.

Kevin:
Aye.

[AT 1:55 P.M., PENSION & BENEFIT COMMITTEE MEETING ADJOURNS]