South Central Connecticut Regional Water Authority
Pension & Benefit Committee

October 15, 2020

Meeting Transcription

A regular meeting of the South Central Connecticut Regional Water Authority ("RWA") Pension & Benefit Committee took place on Thursday, October 15, 2020, via remote access. Chairman Sack presided.

> Present: Committee – Ms. Sack and Messrs. Borowy, Cermola, Curseaden, and DiSalvo
> Management – Ms. Collins, Kowalski, Nesteriak, Reckdenwald and Messrs. Bingaman, Norris, and Singh
> RPB – Ms. Mowat Young
> Morgan Stanley – Messrs. Kelliher, McLaughlin, and Kantapin
> Staff – Mrs. Slubowski

The Chair called the meeting to order at 12:31 p.m.

Suzanne:

Thank you, Joe. So, we're in the pension committee and before we start talking about our items, Jennifer, I just want to clear up. I know I approved the minutes for you, but then I saw an email that you were removing the minutes from the agenda. Is that the case?

Jennifer:

Yes. I did that because they are with Tony for review now.

Suzanne:

Okay.

Jennifer:

So, I did not have an okay yet.

Suzanne:

Okay. Very good. Thank you. So, we're going to bypass the minutes at this point and we'll turn to Morgan Stanley. I would say Steve and Joe welcome. And I would just say that since we just recently met as the Pension and Benefits Committee, we probably should just stick with a highlight of performance to date. And, any economic issues that you feel weren't covered in totality last time we should just make it a brief overview and get to the matter at hand, which I think was some discussion on the rate of return.

Stephen:

Yep. All right. Sounds good. I agree that we just met. It seems like yesterday, but it was last week, I suppose. Right?

Suzanne:

Mm-hmm (affirmative).

Stephen:

So, I thought we'd keep it relatively high level today and look at the current period more than others just because we just looked at the longer period. But, please guide me if you'd like me to move around at all. So, we typically start with some market commentary. Maybe we can spend a few more minutes there today on some of these slides that we didn't spend time on the other day. I have some different slides here. We did talk about the fact that large cap and very few companies were leading the market recently in the U.S. So, I was going to spend some more time there just to share with you what's happening underneath the covers inside the market and in the portfolio.

Stephen:

And then I think, again, this is our quarterly meeting, right? So, we'll look at the quarterly results. I have all the long-term numbers if you want to look at them as well again. Those would be the same numbers that we've literally just looked at the other day. So with that being said, if we jump to the next slide in, well this one, we looked at this the other day. I'll just remind you this is the long-term run of the S&P. We're in a market in the upper right. That's running close to 22 times earnings if you looked at current numbers. That's historically not the highest, but at a high end of things, where they typically go. I'll remind you there are two reasons for that we believe at the moment. One, and one of the primary is that the underlying rate of interest in the country is so low and in the world. The 10 year treasury is paying 0.7%. That has an effect of inflating values of assets, right, when you can borrow very cheaply. And two is, the earnings part of the general economy right now. The earnings of corporations are obviously in a distressed situation, depending on the industry you're in. But in aggregate, it's very depressed at the moment. So, we think it's probably a little overstated at 22. In reality, when earnings returned to some normalcy. Hopefully in the next year to two years, we'll see that this number wasn't as high as it otherwise looked. That being said, and we can bounce to the next slide, and you've seen this. I update the numbers, but we're still in a market where there's a lot of dispersion going on in the markets. We did talk about this the other day, a bit. The average stock in the U.S. out of the Russell 3000.

Stephen:

So, the 3000 largest publicly traded stocks, really the U.S. market, is still down over 6%, probably looking at seven or eight by today. This is as of last Friday. Way up from the bottom, but still down, frankly. With the market cap weighted indices that heavily weight today, the tech names and the biotech names, are up about 5%. So, a big dispersion between the largest companies and the average company, and big dispersion between value or dividend paying companies and mainly technology or biotech or growth type of companies. International markets have recovered in a relatively more even manner. The slide after this, we know this, the bond market has also recovered across the board. If I'm going too fast, tell me, but I think we know a lot of this. We've seen it. Today, there's not a single major sector of the bond market. It's negative year to date.

Stephen:

You've got high yield bonds, still up, just a fraction of 1%, but all positive. Investment grade bonds, which we do look at frequently, a third from the left, that were down about 10 and a half percent at the bottom, are up 666 through last week. It's a very thorough and full recovery in the bond market, which frankly puts bonds at what we would consider somewhat expensive, right? And when bonds are expensive, what that really means is the price is high, which means the yield is low. And that is a challenge. We talked about this the other day. That the bond side of things I think is the primary challenge going forward, where rates are so low. Inside the market and you've seen this slide multiple times right now on the next one, but it is what's happening, and it's big, and I think I'll stop using it. But, I want to make this point again. Technology names. You look at the pie chart, information technology in the pink and the left, communication services 11, you add those together. 40% of the market's really in technology names today. Not only that, but you look at the S&P 500, we think we're buying 500 companies when we buy this, or most people do. And you are, but the weightings are so extraordinarily different today. The top 10 holdings make up 28% of the index. It takes almost the bottom 400 holdings, 398 to equal the same number. So, it's a very top-heavy market industry now that we use and that we invest in. And, I think there's some potential opportunity there and perhaps some potential danger there as well. And, that's what I want to spend a few minutes on. We started to talk about this the other day a little bit, but these are some tactical tweaks that could take place and have taken place to some degree within the portfolio.

Stephen:

If you jump to the next slide, we can look at what has happened historically when you get into a market that's very narrow. Narrow, meaning this dark blue line for instance, is just the largest five S&P companies. Today, that blue line is at a historical high. So, the five companies represent the greatest percentage that they have. And, you look at that and we're using the left axis. About 22% of the market is represented by just five companies. If you broaden that out to the light blue line, the 25 largest companies in the S&P represent about 43, 44% of the market. Extraordinarily high, right? So, you get to like company number 30 or 40, and you're talking half the market. In the past when this has happened, we have had recessions, right? Arguably we're having a recession now, right? It's muted by all of the intervention and money printing that's been going on.

Stephen:

But without that, we're absolutely in a deep recession. With that, it's a lighter one. And, what has happened after those recessions? Let's go a little deeper on the next slide. Oops. So historically, and if this is the last decade, the whole S&P, so the light blue line again is the 495 smallest stocks in the S&P, the dark blue line is the five largest stocks. You look at the first four years or so over the last decade and they were touching each other. And then, these five very dominant tech companies began to take off, albeit at a relatively paced manner, until you really got into the last year or so. Yet, there's been some [inaudible 00:08:30] that big dip down is in 2018, but you really see in 19 and 20, the stocks have taken off enormously. The whole market's done well, as we know, for the most part overall, not in any given month, right?

Stephen:

But, the divergence between these small number of stocks in the rest of the market are enormous. What has happened after this is the next slide. So historically, when we've had such high levels of concentration, you've seen it's typically indicative of a change coming, right? And when a change comes what happens? The left side of the slide says your S&P market cap rate is... So the way we read it every day, two years later, this is the left side of the page is up about 18%, 17.9. One year later up about 7%. Those are very good returns. If we see those, I think we'll all be happy, right? 9% a year for two years.

But the average stock, which is that set of numbers just one to the right of the left side of the page, the S&P 500 is equal weighted.

Stephen:

Typically, once the concentration becomes less powerful, as it still is to today, those companies are up 40%, two years later, 21%, one year later. Value companies, you see the same phenomenon to a lesser degree. Your value orientation is up about 23% versus your growth orientation up about 17. And, is usually a small cap influence as well. So, small and mid-cap companies up about 33% again, versus about 17% on the market, or close to double. So, we talked about rates of return looking forward the other day quite a bit, and looking backwards. We do think that these tweaks, and I'm going to add international to this, but a tweak slowly and steadily. You don't want to do this overnight. It's very difficult to time the markets. I don't know anyone that's done that successfully long-term. But tweaking towards equal-weighted, tweaking a bit towards value. And, we've done both of those already. And, tweaking a bit towards small cap, which we haven't actively done yet, I think is highly likely to add value over this next cycle. I'm calling the next cycle the next three or five years.

Stephen:

Again, difficult to time, but as we move forward into the next slide, what you see is this line graph tells us when it's at the top part of the page, value is outperforming. And, when it's below the zero line horizontally, growth is outperforming. So, very clearly since around 11, it went kind of neutral in 11 and 12 and 13. But since then, growth has been dramatically outperforming. It's actually a two plus standard deviation event, which is a highly unusual event, right? Value at some point, I mean, that line could keep going lower. That's what is difficult to time, but at some point more value oriented names come into play. And we are in good shape for that. Your portfolios are in good shape for that, because we do have an overweight to value. Mild, but an overweight to value.

Stephen:

The slide after that shows when these changes have happened, right? The dotted lines are when there's a high concentration, which has been recessions. The blue graph is when the turn happens between growth and value. And, you obviously see we're at a very high point right now. So, we think we're getting closer than further away from this change happening. That being said, it's likely not to fully happen until we have a much more clear... Right now COVID numbers are obviously trending downward or upward, I suppose, looking worse. When we see that trend reverse again, if we see it for medical reasons, if we see it for pharmaceutical or virus reasons, meaning recovery reasons, vaccine reasons, we will likely see this switch happen at that point. One more on the front end here. The next slide will show us this same phenomenon has been occurring for years and decades, a hundred years, really, between U.S. and foreign, right?

Stephen:

You have a period where the U.S. outperforms, international outperforms, U.S. outperforms. This also looks overdue for a reversal. The reversal may not be script and severe. You can look at these reversals the last few times in the late '90's, early 2000's, and again, in '08, '09, 2000, they happen slowly. So, this isn't something we have to link to overnight but the reversals do happen. And, I think that we want to have your portfolio positioned so that we at least have some conscious weighting towards equal-weighted, which we already do today, that we have at least some conscious weighting towards value, which we already do today. We'll be getting ahead of this. I haven't necessarily shared it to this degree. What we don't have today is some conscious movement towards some mid and small cap names and some conscious movement, a little bit more towards international.

Stephen:

Those first two we've done already to some degree. Those second two we have not done to some degree. So, the point with all of this is that we can look at the expected rates of return of the broad market, and they may be dampened at the large cap space because of this overwhelming to tech companies and communications companies, because of their high values. They're fantastic companies. They're our best companies, but it's highly likely that their stock prices don't end up taking over the whole S&P, right? That it broadens out quite a bit. So, I hope that helps. I went kind of fast there, but that gives us, I think, more context for what we began to discuss the other day. Any questions, comments so far there?

Suzanne:

So, Steve, meaning that as you look forward tactically with the portfolio, where are you going to emphasize? So, what's the implications for our portfolio?

Stephen:

The implications for the portfolio will be two things we've already done in their portfolio. And so, it's looking forward, but it's relatively recent moves, right? One, is a move towards more equal weighting, the other is a move towards more value. We already have those reasonably in place. The next places that we would go, if we want to overweight some more, and I'm moving more slowly on these two, because I think those first two are easier. Easier, meaning less miss if our timing is slightly off. The two, which is a heavier way to small or mid cap and a heavier weight to international, are something we've been moving more cautiously on. But, I do think that we should steadily move in all four of these directions, if that makes sense.

Stephen:

But it doesn't mean we're abandoning large capita because that by definition should be our core, right? These other safer, larger dominant companies but we think we can tweak and add value. Or the next cycle. Let's call the last cycle the last five years, the next cycle the next three to five years. We're quite confident that these tweaks, all four of them, have a high likelihood of adding returned value over this coming cycle. And I'm going to define the coming cycle as post-COVID.

Suzanne:

Okay.

Stephen:

We've been moving here and I'm going to show you that in just a minute to some degree. If you jump, how many slides? The investment policy statement comes up next. Stop me if you think I'm wrong, but we just exhausted this I think in our last meeting.

Suzanne:

Yep. I agree.

Stephen:

I wasn't going to spend a minute on it. Let's go to the first pie chart. And here's where you start to see what I'm talking about. So, the salary and union plans, what did they look like as of the end of last month? The $61,912,000 at the upper center between the two plans, the breakout is in the box in the upper right, right? 56% equity of that equity were 73% domestic and about 27% international. One move that I see us looking forward, but slowly, is to get that ratio to 70/30. We've talked about it before.

Stephen:

A lot of people would go higher than that. Maybe 65/35. I think their first stop needs to be to get that to 70/30. And, I'm not saying between now and 90 days from now, but that's definitely a move. At the very bottom of that box in the upper right, you can see we've already moved towards a value orientation. We have growth down at 26, 27% of the domestic equities. We have [inaudible 00:16:57] right about 39% and we have value at 34%. So, that's a reasonably strong over-weighting devalue, right? It's about eight percentage points more in value than there is in growth. That we've been moving to over the last year or so. And, I think I'm likely to stop right about where we are on that move. That move happens by A, buying some more value-oriented indices and funds and managers. And B, as we moved a little bit more towards equal weighting, equal weighting gives us more value than the market cap weighting does. So, as you can see that first move, we talk about the value growth move has been made in the portfolio. We've been trending this way for a while. We're hitting a point where I think we're in a not neutral, a desired position, but not to the same degree between large cap and small cap yet. And not to the same degree between U.S. and international yet.

Stephen:

I'm going to skip over to the next slide too. I don't think it's super important at the moment. And, I'll go right to the Matrix slide. Don't worry I'm not going to spend a lot of time on this because I don't want to. It's hard to read. But, at the top you see, we're still in yellow, have some potential cash need that we had worked with Rochelle and shared with you that we had reserved some cash. Because we know that the moment that you are using the pension funds, as opposed to making net contributions, you're actually in a net withdrawal mode in 2020. So, payments are being made out of the corpus of the fund, as opposed to from over-funding contributions, if you will. Meaning, over-funding over and above the arc. So, we still have reserved there. We pulled this out of the portfolio.

Stephen:

It's still in the accounts obviously, but we're reserving it on the sheet at least, and factually in dollars, a $1,120,000 that's in treasury bills and cash that is being used to pay current benefit payments. That's something that's new 2020. We normally, and typically in the past have not had that because we have not needed it obviously. When you remove that out, the remaining numbers are the invested part of the portfolio. And, if you go to the very bottom of the page, we began this, I think one meeting ago, we run for you. How is the portfolio position versus its benchmark? And you can see, for instance, the Russell 3000 in the benchmark is 42%. We're slightly over that by 0.66. Basically, when you summarize this, we're on target equities. Bonds, we look like we're very over target, but that's because we are overweight in domestic bonds, and we currently have a zero weighting. The benchmark has a 3% waiting to global bonds. We currently have that at literally zero. So, that overweight to domestic is not as big as it first looks. The other two points from the overweight come because we're running cash quite light, and we're running real estate about a point light. And, that's actually been a good thing. And, a hedge fund to fund in that space we're running slightly light, but don't intend to keep that light. Does that make sense? We're very much on target other than within bonds. We have all domestic and not non-U.S. bonds at the moment.

Suzanne:

But not over-weighted in general and fixed income?

Stephen:

In general, no. Only to the degree that we're light in real estate and light in cash. But frankly, but no.

Suzanne:

Okay.

Stephen:

We're pretty much very close to the targets. Let's jump ahead, please.

Stephen:

I give you excruciating detail here. Very few changes made during the quarter, and they were one move. I referred to it the other day. We moved out of the Invesco S&P equal weight into the Goldman Sachs equal weight. It's less expensive. That was the sole reason for the move. And Pioneer Dynamic Credit, we merged it into two of the other existing fixed income funds. Really no material changes. A slight cost savings with that Goldman Sachs move, which I think was eight basis points instead of 25. But, Alan could correct me on that if I'm wrong.

Alan:

Yeah. That's correct, Steve.

Stephen:

We then look at the VEBA. And, where it's made sense we've continued to make those kinds of moves. It's slightly different. The frequency of the rebalancing is different. You could make an argument either way, but we said we'll go with it. We know there's been a cost focus.

Stephen:

So, we did go to the lower cost. The VEBA pie chart is the next page. It looks similar, but it's different in that we don't have the same amount of alternatives here because we don't have the hedge fund here. It has the same over-weighting devalue almost to the penny. The equity exposure is slightly higher because we don't have the alternatives. And we also do not reserve the extra cash here, which that has made a difference, right? So, that extra cash... Market recovery has been a slight drag on the two pension plans. Albeit, it's been real, but it's been slight, but we did move that money out earlier in the year when the market was down, frankly. So, that we ensure that we had the money to make those net benefit payments. So, that's had a little drag on this year's performance, actually. Continuing on the VEBA.

Stephen:

I'll give you the same numbers at the bottom of the page. This doesn't have the yellow at the top, because again, there is no cash reserved. Here we are a little bit overweight, a little bit more overweight in domestic equities. It's for organic growth. And we will rebalance this in the near term. 1.5% over, slightly overweight, internationally. Just the 0.13. Same phenomenon on bonds. It looks overweight, but frankly it's because we don't have the three percentage points that's not in international bonds at the moment. It's all in domestic bonds. And, we're carrying a full percentage point less in cash and equivalents because frankly T-bills are paying virtually nothing. So, we've got that invested in the bond market. So, any place that looks slightly off-target, it's really not off-target. I shouldn't say it that way. Any place that looks very much off-target, which is really the bond weighting isn't really off-target. We've taken it from global bonds and from cash. We are still also light and global real estate. There will be a point in time, perhaps in the near future, where we should go back to a full weighting there. The page after that shows...

Suzanne:

Did he only freeze on my screen or did he freeze on everybody's screen?

Committee Group:

Frozen mine too?

Alan:

Am I frozen?

Committee Group:

[crosstalk 00:23:25].

Alan:

Oh. Sorry.

Stephen:

Where did you lose me?

Alan:

Right when you flipped the page, Steve.

Stephen:

Okay. I'll summarize what that was. The VEBA looks very similar to the others, except for the alternatives that it doesn't have because those aren't allowable investments there. And, it is a little more slightly overweight in equity because we did not reserve the cash there that we reserved in the two pensions. And, what you probably missed is this page is basically the exact same story. I won't repeat it. We made the same two changes here that we made within the two pension funds, for the same reasons. We can jump ahead, please.

Stephen:

It's kind of funny. I'd say, tell me if I froze, but it's hard to know. So the quarter. Let's look at the third quarter which we did not look at the other day. This is the most recent period. This is officially, I believe why we're meeting today. If you go to the upper left, you'll see that at the end of the second quarter. So, really June 30th at 4:00 PM, there was $67,389,650 invested in all the various corpuses, including Skybridge and including Matrix Trust. You did have net deposits in aggregate, which I think is important here at $48,000 during the period. But, you had net withdrawals as I've been referring to from the salaried and the union pension plans. So, during the 90-day period, there was $275,000 net paid out of Matrix Trust on the salary plan and $188,000 net paid out of the union plan. The VEBA had a $500,000 net contribution. So, that's a little different than we've seen in past years. We transferred funds down from the salary and union plan in the transfer column to Matrix's salaried payroll account, and the union payroll account in order to fund those withdrawals. And, we also transferred up a little bit of money. Actually, where did that transfer go? The transfer is net zero. Some of that money apparently went to [Vivo 00:00:25:39].

Stephen:

So your net invested simple math, $67,438. Your ending value that you saw just the other day is $70,794,000. So, for the 90 day period on September 30th the various pools of money are up $3,356,432, 5.09% net, 5.18% gross. So, it was quite a strong quarter. Obviously, it was a recovery quarter. You have the market cap indices still doing extremely well during the quarter. You had the equal-weighted indices doing less well during the quarter. You had growth equities still doing extremely well during the quarter, up 13%. You had value equities up five and a half percent during the quarter, a little bit less. And, you had the bond indices just over 0.6% for the quarter. The actuarial rate of return for the quarter at seven, just divided by three twelfths of that or a quarter of a year at 175.

Stephen:

So, obviously for the quarter you vastly outpaced the actuarial returns. The current benchmark that we've created for the short-run with cash reserve, market cap weighted came in at 499 and equally weighted came in at the 314. So, you're nicely above those mid points of the benchmarks for the current situation. Your least and most risk numbers are there, benchmarking your least risk portfolio. Lowest number would be 2.96% for the period. Your highest risk number, if you're higher in equity and more market cap weight, it was 598 for the quarter. So, frankly above benchmark quarter and a good 90-day period that continued to recovery. But again, you saw all of these numbers baked in just the other day. You just didn't see them delineated out for the quarter. I could, it depends on what you want me to do.

Stephen:

I have still lots of different numbers here for all the different timeframes. I think you've pretty much seen them a few days ago because ultimately the one that matters the most, I think is that five-year number. The only thing that's changed on the five-year number here from the other day is it's slightly higher than it was the other day because we have final numbers out of Skybridge for September 30th now. The five-year number is now 7.69% net. One number that you might be interested in is the current fiscal year, which is... Why don't we jump in two more slides I think. That's third quarter, year to date. Nope. One more, fiscal year. So, your current fiscal year, just so you have some grasp of where we're sitting today. And, let me bring this up on my big screen. Give me one second.

Stephen:

Current fiscal year, which is the June to September number. The gains in the various pools of money are third column from the right in the upper piece of the page, $4,454,000. We're currently at 6.84% for that timeframe. Again, we know this from the other day. We're talking short time windows here. So, these numbers can change pretty dramatically because we're not looking at five and 10 year numbers here where you're looking at less than a year number. But, just to track where you're at so far in the current fiscal year. I'm not quite at 7%, but there's still a long time to go yet. But, at 6.84. Does anyone want me to go through the other numbers? I'm reading your spreadsheets here, but I think we've seen them all.

Suzanne:

I think we're okay for now. Just a couple of quick questions. Because we've got the screen live on a slide I can't slip back. What's our cash holdings in the salaried and union plans? Just approximately how much cash do we have in them?

Stephen:

I can give you the exact number. It's going to take me just a minute. And if you're talking, I have to do them one at a time. Just give me one second. Actually, I could also do them by an earlier slide. Might even be easier. Give me a second.

Suzanne:

Right? I think you do have it on the earlier slide.

Stephen:

I did. I do. I just realized.

Suzanne:

Jennifer, they are back a few slides.

Stephen:

The salary plan is on slide 20 and 41 in the PDF.

Jennifer:

Okay. You'll have to tell me when to stop because I don't have page numbers on my screen. Keep going back.

Suzanne:

Is it going to be a pie chart?

Stephen:

No. It's going to be one of these.

Rochelle:

Keep going.

Stephen:

That's the salary plan.

Rochelle:

That's the salary plan.

Stephen:

The salary plan might be hard to read. I'm going to look up at my big screen here. We have $695,000 in treasuries. We have another $207,000 in cash. And, then I actually have to go into the account to see what we have.

Suzanne:

So, approximately a million, right?

Stephen:

Yeah. And then some short-term bonds too though.

Suzanne:

Okay.

Rochelle:

If you go back one more slide it's a little higher for the union plan.

Suzanne:

Okay. So about approximately $2 million in cash. Cash equivalents, right? Okay. The other question that I have is, am I reading the last... I'm sorry, now the last slide that you just showed at the very end of your presentation, but the VEBA plan is performing the best at this point?

Stephen:

That would make sense. Yes.

Suzanne:

...Best at this point.

Stephen:

That would make sense. Yes.

Suzanne:

Okay.

Stephen:

That's because we didn't reserve any cash in the VEBA plan.

Suzanne:

Right.

Stephen:

A and B the VEBA plan doesn't have the hedge fund, and the hedge fund has been dragged this year.

Suzanne:

Right. Okay. Very good. Does anybody have any other questions for Steve? And Steve, do you have anything else that you want to share with us related to the quarterly performance report or fiscal year report?

Stephen:

I don't think so. I think between this meeting and the other, unless there are questions, it's been a good period. You see the changes that we're looking towards tactically. Making those tweaks going forward. Some of them have been made and I won't repeat. I think we've... No, I don't.

Suzanne:

Okay. Thank you. And Rochelle, did you want to proceed in discussing anything related to the rate of return target?

Rochelle:

I wasn't planning on doing it at this meeting. I think the meeting that we just had sort of set the stage for that. Our plan is, we're going to get some sensitivity analysis from Angel in preparation for the discussion to potentially lower the rate of return to the 6.75%.

Suzanne:

Okay. So Steve, would you continue to do the good work you're doing related to reducing the cost associated with managing the portfolio? All those slight changes make a difference. I would love to not move this down from 7 to 6.75, I'll let the facts speak to us. But I'd love to not do that and see if we can't manage it through performance and/or through cost control to get there.

Stephen:

Yeah. I hear you.

Suzanne:

Okay.

Stephen:

And so far it's worked. I have a few orders going forward. Some we can manage through on the equity side. The fixed income side is the hardest side to manage going forward.

Suzanne:

It is. The other thing that occurred to me is, from the meeting last time, we talked about that alternative. We are invested in alternatives and the alternatives are somewhat... Their a current drag on the portfolio, but the alternatives are, they were over... I can't remember exactly, but they were out of whack in the overall weighting of the target portfolio. On the high side.

Suzanne:

And so I would ask you to take a close look at the alternatives. I know you're a believer in the alternatives. I just feel like it's such a microcosm of our portfolio, that I don't that it's making enough of a difference. I don't know how much it costs overall, but I know that they're probably the most expensive investments that we're making.

Stephen:

They are.

Suzanne:

Please take a look at those as a potential. I don't know that they're adding value to the salaried or the union.

Stephen:

No, looking backwards. I absolutely agree with you. Looking forward there's a couple of alternatives, that are liquid alternatives, not the hedge funds. But they are likely good alternatives to bonds as opposed to stocks at this point. Not the hedge fund, but let's look at that. I would agree with you.

Suzanne:

Please. Thank you.

Stephen:

I'm looking to perhaps replace some bond exposure, but it does not come cheaply.

Suzanne:

No, exactly.

Stephen:

That's actually the problem with it.

Suzanne:

All right. Anything else from anybody else?

Kevin:

No. All set.

Suzanne:

Okay. Anything else for the pension and benefits committee in general?

Jennifer:

Yes. [crosstalk 00:34:40] I have something. Even though there isn't October 8th minutes to approve, there are July 16th minutes to approve. Sorry.

Suzanne:

That's quite all right. That's quite all right.

Kevin:

I move approval of the minutes.

David:

I'll second.

Suzanne:

Thank you, David. Any discussion? Okay. All those in favor?

Committee Group:

Aye.

Stephen:

And if we didn't get a chance to say goodbye to Steven, Joe. I think they popped off already, but thank you very much.

Alan:

Thank you all very much.

Suzanne:

Thank you.

Stephen:

Enjoy the rest of your fall. We'll speak soon.

Suzanne:

All right. Anything else for the pension and benefit committee?

Joe:

You've got a sixth amendment [crosstalk 00:04:16].

Rochelle:

Yeah.

Suzanne:

Okay. I'm sorry. I can't see my materials while we're on the call. So let me...

Joe:

Suzanne, you still have the sixth amendment on the voluntary investment plan.

Suzanne:

Okay. I need a way to figure out how to put that on the screen for us to see.

Rochelle:

You want me to do it?

Suzanne:

If you can.

Jennifer:

I can get it on there.

Rochelle:

Can you? Okay.

Jennifer:

Yes.

Suzanne:

I can go back to board pack, but then I can't see anybody and I guess that's fine.

Jennifer:

Okay. Let me just jump down here.

Jennifer:

There you go.

Kevin:

Suzanne. This is Kevin. I have one comment.

Suzanne:

Go ahead.

Kevin:

While we're loading this up. I didn't know if somebody could just give a one or two sentence explanation of what the different... What the changes we're making. I've read everything, but I wasn't a hundred percent clear what the previous... What specifically we're changing from.

Rochelle:

Okay. Larry, can I take that?

Larry:

Yes, please do.

Rochelle:

Okay. So all of this is an amendment to our plan, to the union plan, to ensure that.... To the 401K plan, to ensure that... Last year, when we negotiated the increase for the 401K from 3.5 to 4 with the union. This is an amendment that allows us to do that, somehow. And we're trying to figure out how this got lost in the sauce last year. But that's what this is doing. Just ensuring that the plan is in compliance with what we are doing.

Suzanne:

In terms of their employer contribution.

Rochelle:

Correct. It moved from 3.5 to 4, and this is the...

Kevin:

Okay. I thought it was close and I saw that what was being moved to, but I was just... Thank you.

Rochelle:

Yes. You're welcome.

Suzanne:

Any other questions related to this amendment? And is the consent for the sixth amendment, the piece that we vote on?

Kevin:

Yeah. I make a motion to consent to the amendment.

Joe:

Thank you.

Suzanne:

Thank you. Is there any further discussion? Does anybody want to revisit? This was done in negotiations and an outcrop of that and just adopting our plan to that. Does anybody need any more information or questions answered?

Speaker 2:

Nope, I'm fine.

Suzanne:

Again, I can't see you because I'm looking at my documents now... Okay, great. Thank you. Very good. So all those in favor?

Committee Group:

Aye.

Suzanne:

Opposed? And abstained. That passes unanimously by the Regional Water Authority, less Tony's vote. And that's it for the committee, unless there's any other matters.

Joe:

I'll move. We adjourn the pension benefits committee and reconstitute as the authority.

Suzanne:

Thank you. Any discussion? All those in favor.

Committee Group:

Aye.

Suzanne:

Apposed? Abstained. Thanks very much everybody. It's back to you, Joe.

[PENSION AND BENEFIT COMMITTEE ENDED AT 1:10 P.M.]