South Central Connecticut Regional Water Authority
Pension & Benefit Committee

October 21, 2021

Meeting Transcription

[PENSION AND BENEFIT COMMITTEE STARTS AT 12:33 PM}

Suzanne: Thank you. Before we start on the committee agenda, I'd actually like to take the opportunity to add something to our agenda while we're in committee. And that's going to be a 401k discussion. So if I can get a motion to add to the agenda immediately following the approval of the minutes that we will discuss, have a 401k discussion. I would appreciate that.

Tony: That's good. Kevin, we're finally going to get into a 401k.

David: Well, if that was a move I'll second.

Suzanne: Thank you. I'll accept it as a motion and a seconded thing. So all those in favor, say aye. Thank you. So it's officially been added to our agenda. Moving on, we'll start with the approval of the minutes from our last meeting. Is there a motion to approve of the minutes?

Catherine: I'll move for approval of the minutes.

Suzanne: Thank you, Catherine. And thank you Kevin, for that second. Any discussion changes, concerns? Very good. Then, all those in favors, please signify by saying aye. All those opposed Nay. Or abstaining. Thank you. All right. So let's talk about 401k, which Tony seems to be very excited about. Rochelle and I talked earlier this week, as well as David and I, regarding the 401k plan for the RWA. And as all of you know, if you're familiar with 401ks, we offer 401k for our employees and as such, I think both out of our audit discussion and just as a part of our charter and our plan document, it does, I don't know if we're require is the right word, but it outlines how the board will provide some sort of oversight as it relates to the 401k.

And so Rochelle and I talked and I asked her to do a little research, which she did very promptly, thank you very much, Rochelle, about best practices associated with, at what point, and what burden does the board have in supervising and oversight? What can we delegate, that's appropriate? What are the best practices associated with that? And even when that's all said and done, what should the board be doing? So she did a little research. I'd like her to share that with the group and just have a discussion about it and come to agreement about how to play a role in the process of our 401k plan. Is that a fair setup, Rochelle?

Rochelle: Yes. Thank you.

Suzanne: Okay. So if you don't mind explaining a little bit more detail and then I'll come back to facilitating the discussion.

Rochelle: Okay. And just for a little bit more background, I think some of you did hear that based on discussions with the auditors and a particular governmental accounting standard. There was discussion, as we closed out fiscal 2021, regarding whether or not we needed to record the 401k, which led to some further discussions and thanks to Morgan Stanley, and Joe in particular, that followed up with me to give me some additional information. So based on Suzanne's request to figure out what her best practice was and what other companies do the view was that most companies will, and companies is being used loosely, it could be governmental or private companies, they do generally have at least an annual update, with either their plan advisor or a senior member of management to just go over the 401k plan. So that's considered best practice. Another thing that most org... I'll use the word organizations, do is, they do delegate certain functions to members of senior management.

And that's very consistent with what we have in place for the pension and OEV plan. There was actually a board resolution that was approved, actually a while ago and the routine type activities are actually delegated via that resolution. So what we would propose is that the board does have annual updates, probably given by our investment advisor, and also delegate certain routine functions to senior management. I will mention, I had shared this with Suzanne. I don't think the board's decision should be influenced by whether or not we have to record the 401k. It should really be to driven based on how the board sees the carrying out of their role. And if that results in us needing to record the 401k plan so be it. It's going to be actually simpler than what we do with the pension and OPEB plan. So that's the background.

Greg: Thank you, Rochelle, this is Greg. How many employees, what percent of the employees actually take advantage of the 401k?

Rochelle: Well, it actually, I should have that in front of me, but there's many employees and it's for people who are not pension eligible.

Greg: Oh, okay. Yeah.

Rochelle: That is a benefit that individuals that are not pension eligible get, and then there's certain guidelines in place and how, for people who actually are in the pension plan, how they participate as well. And Jeanine might have that right off the top of her head. I know it's in our audited financials, but I don't have all the statistics in front of me.

Greg: Thank you.

Tony: Do we have a list of the funds that are available to the 401k contributors? And do we review that or does somebody review it?

Rochelle: Yes. So actually what's been happening, although it doesn't appear that it was ever a formally delegated, is Jeanine and I currently review usually quarterly, with Joe, the 401k, and that does include getting input on all the funds that are available on how they're performing.

Tony: Good. Thanks.

Suzanne: Yeah. One of the out outcomes of this conversation, Tony, to your question is that we should decide there have been certain responsibilities that we need to identify that have been delegated, and to Rochelle's point, we should formally, through resolution, delegate those responsibilities, all right?

Tony: Question of... Does that list that you and Jeanine go over, does the employees ever see that?

Jeanine: The employees have access to all of the funds. They can see all of the funds that we currently offer and they're available to put their money in, depending on, obviously, their risk level and whatnot. What we use is, at Morgan Stanley, is our group provide help. Yeah. That helps us to determine, again, that's where their skillset is, is which are the funds that are performing and which ones are not. And then they make recommendations around those funds. But in general, to answer your question, Tony, yes, the employees have access to all of our funds.

Catherine: Jeanine, when you say access, does that mean that they get quarterly reports or that if they take it upon themselves to go look for the information that they can find the information as opposed to a more proactive-

Jeanine: Well, they... I guess using the word access was, might be a little bit of a misnomer. Thought that Tony was talking about, would they be aware of all of our available funds so that they... And the answer to that is yes. So they have a... We have a landing page on the 401k website that Empower administers that details all of that information as well as they can go on and at any point in time, that we have monthly and both quarterly reports that go out to our employees.

Catherine: Thank you.

Jeanine: You're welcome.

David: I just add that employees can opt to receive that in paper, quarterly, or most employees these days receive electronically quarterly pushed to them, but they can go get it more frequently by logging on. So please add if I'm...

Tony: And do we have some record of the fact that they've been offered the opportunity to either receive it in print or verbally or orally or visually or whatever?

Suzanne: I don't know that we would actually see that, that's a decision that they need to make and will either get it in the mail via snail mail or-

Tony: If they drag us off to jail I won't be able to say, "But, but, but."

Joe: To answer the question directly, Empower does track all of that. So they're helping through your payroll fee tracking when folks become eligible for the plan. You do have, I can't remember if it's everyone, but you have a large segment of your employee population that gets automatically enrolled in the plan, so they would actually have to decline enrollment, if they don't want to participate. And then everyone has the ability to adjust their contribution percentage between any payroll periods. So there's a tremendous amount of flexibility and empower is tracking all of that activity. So they know when someone becomes eligible, they keep records on their system of when the enrollment package was sent to the employee. And to the question about statements, they have records as to who's opted in for eDelivery, who has specifically requested paper statements.

Tony: Who's the trustee for our organization on that plan? Hello?

Joe: Depends on the... There are two types of trustees when it comes to 401k plans. There's what's called a corporate directed trustee and that function is that's an institutional function performed by great west bank and trust. So that is where your 401k plan assets reside and are held in safekeeping for the plan participants. And then at the organizational level, and this is part of the conversation that Rochelle and I had, is that in terms of who are the trustees of the plan with respect to the water authority, and that is this body that's on this meeting today, the water authority board is the ultimate arbiter and ultimate controller of the 401k plan at the organization.

Tony: Okay, thank you.

Joe: You're welcome.

Suzanne: Okay. Are there any other questions about how the plan works for employees? So we can just sort of put that aside and talk about the oversight piece of it. I just want to put it's a nice opportunity to take advantage of the fact that we're talking about it. So let's just...

David: Could I add one thing just so everyone has the comfort, the diligence in detail that we go through each quarter with the pension, Joe is doing that on behalf of the 401k plan each quarter also, to the extent of looking at each individual fund offered to an employee and benchmarking that to competitive funds and to a stagnant index. So that is going on every 90 days, looking at statistics like alpha, betas, innovation, etcetera, and looking at usage. So what percentage of employees are using fund A versus fund B? So just so you know, a lot is going, a very similar parallel meeting goes on each quarter. I don't know if Joe or Rochelle want to add anything to that, but just to give you the comfort that the detail is all there, but not to this whole board, to your designee to Suzanne's point.

Tony: Who's our designee, Rochelle?

Rochelle: Jeanine and I are the designee. We were I think just the missing pieces that for the 401k, for whatever reason, the delegation was never formalized, like it was for the pension annual cap.

Jeanine: One of the other things that I would think, and obviously this is the purview of up to Suzanne and the board, is that it would be nice to have a more regular sense and reporting around all those things that you talked about Steve as well, but benchmarking the plan versus cost and the cost of the plan and all of that other stuff on a more regular basis for the visibility and the transparency for the board. That would be really to do going forward.

David: Jeanine, do you mean to the full board? That's happening behind the scenes, but I think you're saying to the full board?

Jeanine: Yeah. What I'm saying is in much the way you do, we do what we do around the pension and the OPEB, again, I'm not expecting a deep dive every quarter, but it would really be nice to have more diligence from the board. And I'm sure that's what Suzanne is actually-

Suzanne: Right. So one of the things that I'd like to know, from the board members, is the frequency. I was thinking on an annual basis, we would learn what's happened with our 401k. What due diligence has been done. Review the whole process of how the plan is managed, the diligence that's done, learn about the performance of the particular funds, what changes, if decisions were made about those funds, how many employees are in the plan, et cetera. That would be my recommendation, is to do it once a year. That is what best practices at the board level. And then Jeanine and Rochelle, on a quarterly basis, would be in discussions, managing it on a more frequent basis. Not managing it, but staying up to speed as to what's happening. And if there's anything that would need to be brought to the board, because it's like, "Oh, this looks..." We had a major blowout, let's say there's some political issue with some fund, and it becomes this third rail that we need to inform employees. It's some issue, et cetera, et cetera, or some colossal performance impact of a particular fund. They would rise that up to the board for a special meeting and awareness, right? Otherwise, a 401k operates very smoothly and the due diligence is done, but it's just not at the same frequency that the board needs to monitor it. In my opinion.

David: I would agree with that. I think that Suzanne has it right on. I think, if this is something that we, at our level, look at once a year, a lot of it is ministerial acts of just keeping track of the logistics and the paperwork of it, that doesn't necessarily need to have detailed review on our part. The large 60 million, 70 million dollar plan, where we actually do actively work with Steve and Joe in the investments. And what I think that does need to continue to be the quarter. But I don't think the 401k oversight is the same as that. And therefore, I think that once a year is a good idea. Unless something, as

Suzanne said, something different or something out of the ordinary comes to happen, that we need to be informed.

Suzanne: Right. And Steve correct me if I'm wrong, but Morgan Stanley has a whole group that manages the 401k portion of their business, that Steve and Joe have access to for support, but are overseeing the Steve and the Joe's of the world and what they're doing with people's 401k so that they can't run away with the show there.

Stephen: That's correct. We have the corporate retirement services group in New York.

Suzanne: So if everybody's okay, what I'm trying to get to is an agreement on timeliness of review. We can turn to Steve and Joe to recommend to us what exactly does get reviewed. Unless everybody has a very strong opinion about what they'd like in that review, but it would probably be the funds, the participation, how they've performed, et cetera, and not dissimilar to our, when we get to the latter part of our discussion of our pension review. So the timing and that you're okay with the delegation of the other duties that happen on a more frequent basis being delegated to Jeanine and Rochelle. So if we have a consensus about that, I'd like, then for Jeanine or Rochelle to write up whatever we have to write up and approve it by the-

Suzanne: To write up whatever we have to write up and approve it by the pension committee, and recommended it to the board as soon as possible, just to get the ball rolling.

Tony: Okay. With me.

Catherine: Yeah. Me too.

Suzanne: Kevin, any issues with you?

Kevin: No, that's fine.

Suzanne: Thanks. And Catherine, I just heard you say okay?

Catherine: Yes, I'm fine with the proposal.

Suzanne: Great. Thank you. And David, you're good?

David: Yes.

Suzanne: Okay. Rochelle, do you need anything else at this point?

Rochelle: No, we can write up the resolution and have it come forward at a subsequent meeting.

Suzanne: Great.

Rochelle: Thanks for helping to get this squared away. Thanks.

Suzanne: Sure, sure. No, thank you, it's a worthwhile discussion. I appreciate it. So, what will happen is, if everybody's in agreement, this will happen inside this committee, the pension and benefits committee on an annual basis. And if anything should come up in between that time, we'll hear from Rochelle, or Jeanine.

And the other thing I think in the resolution, we should specify the timeliness of that report, meaning, when is the best time of year, since it's only once a year to actually do that, is that end of fiscal year, beginning of fiscal year, or is there some other time that might be more, Morgan Stanley recommends as a more significant and [inaudible] time to do that.

Okay. All right. Great. Anything else on this topic? All right, then we'll move into the pension review. And I think what I would say about this before we get started is, unless Steph disagrees, there's not a lot of controversy, or headwinds, or tailwinds going on in the marketplace affecting the performance. So I would say, given we've got other things on the agenda to attend to, let's make a swift presentation to the board, see what questions they have, and if do you have any other contributions to how we can manage it more more cost effectively before we end the conversation, great. And then we'll just take it from there.

Stephen: I agree with all of that, especially because I think we're at about 38 minutes, if my clock's telling me correctly. So, let's not go through the market commentary today, but let's look at this tip agenda for a minute. We may not get through the whole agenda, but we knew that when we put it together. We typically give you a market commentary, I'm going to give it to you in a very brief format as we go through the performance. Basically, I think we all know it was the first negative time period in quite a while, since March of 2020, it was driven by the month of September. And frankly, it's interesting that it's already reversed itself in October, I'm talking global equity markets. We usually look at the executive summary of the IPS. I don't think we need to do that today in the interest of time, either, unless somebody chooses to, it's there for your guidance. We will look at the asset allocation and investment matrices. How is it currently invested? What are the results?

And then we have a couple of topics today that I think are more important and more to what Suzanne was just asking. One is looking at, we use institutional mutual funds and ETFs and individual bonds, as I think you all know. We wanted to look, Alan put together a comparison of what if we, instead of using some mutual funds, in certain cases, we use separate accounts and that would really be not a performance thing, but it could save a little bit of money. If you would agree to do it, we have a couple sleeves, we are recommending that from a cost savings perspective. Then we're going to do our annual advisory and investment cost discussion.

And then this is the topic that really would like to give it more time. We've prepared today, Alan is fully prepared to discuss this topic, but it's the environmental social governance discussion. And we put together a generic, if you will, not specifically to your goals and objectives, we would have to get in deeper to do that, or we've put together a sample of what we call Morgan Stanley's impact quotient report, that also to look at social or environmental type things in investing, we at least show you what your portfolio looks like versus our sample, if you will. So, I don't know that we'll get to that. Maybe that needs to be a sub-committee or a sub meeting between meetings, but I think we can decide as we get through, but there's a lot on our agenda today to Suzanne's point. So, I don't know if anyone has any feeling on what we're planning-

Suzanne: I just want to clarify the last point you made. So, what you're basically saying is that you now have a mechanism to help give visibility to the board, related to the investments we're making and some of the implications that are not specifically performance related, but might be of interest to the board, like social impact, et cetera. Yes, is that what that means?

Stephen: Exactly.

Suzanne: Okay, great. Thank you.

Stephen: It's a deep, complex report would be my only addition to that. And that's-

Suzannet=: It's really frightening when someone really understands Steph, you know?

Stephen: Thank you so much.

Suzanne: Very good.

Stephen: Well, let's see how we roll time wise. I'm not concerned, I wanted to talk about today, I think we all did. The 401(k) just took probably that time from us, but I think we just keep it on the agenda until we have a moment in time. It looks frankly quite solid as it exists today. And if we have time, we'll show you that.

So let's jump to... In the PDF, it would be page 11 of 106, please. How do the portfolios look today? This is a salary and union plans. They're basically all product and purposes on targets. In the box, the upper right, you can see you're close to 58% equity. Very slight overweight there, in the bottom of that box, there's a little bit of a tilt at the moment towards growth domestically. You see value at about 25% core, which is a blend of growth and value at about 45% and growth at 30%. That's heavily due to the fact that the indexes are a little bit tilted towards growth today. The remainder is either in bonds or cash, very little cash, as you can see the smallest sleeve, 0.91% and alternative is being real estate, and or the hedge fund, and or hedge type equity invest. So, it's on target.

If you look at the next page, I'll show you where it's on and off target, please. In the lower portion of this page, only benchmark versus actual, you will see that the Russell 3000, which is the broad domestic equity market, just over 1% overweight, almost equally underweight globally. So, equities are very close to target, a little bit overweight in domestic bonds because we don't have an exposure at the moment to non-domestic bonds, and then slightly light in real estate and slightly light in cash. So, for all practical purposes, you are at target.

Jumping to the page after this. The VEBA is in very similar shape. In interest of time, I won't read you all the numbers, but we could jump right to the next page and see the same thing at the bottom of the next page that the VEBA is overweight in domestic equities by just 0.8%. The bottom right of these bottom section, we're equally almost exactly underweight, global equities and the same story remains true between our domestic and international bonds.

And please tell me if I'm going too fast, because I'm trying to get to the meat. This is relatively routine today, this part.

Suzanne: Yeah. I think you're doing fine.

Stephen: You could jump to the next page. When you are given a short amount of time, you tend to go fast and that's one of my bad habits, yes.

For the quarter, it was a losing quarter, the first one we've seen in a long time. I will read you these numbers across the bottom of the spreadsheet. When you look at all of the accounts added together, including the matrix trust payroll accounts, there was 81,353,332 at the beginning of the quarter, benefit payment withdrawals of almost 300,000 to 297. There were some intra account transfers between us and Matrix Trust. So simple math, that's a remainder of the 81,055,000. The quarter ended at 80,000,638 down to 417,000.

The first losing quarter, actually since the first quarter of 2020, so it's been a year and a half. From a benchmarking perspective, it's 43 bps gross, and 52 net. So, obviously at a negative number for quarter, it did not meet the actual rate of return for the quarter. It did benchmark above the mid strategic benchmark, which was -0.49.

Now basically what you should know is September was a very rough month. We can keep rolling to the next page too, but September was rough to the degree, the markets were down 4.6 or 4.7% range, just on the S&P for the month of September. And the bond markets didn't have much [inaudible] either. So, not a bad negative month, if we're going to have a negative quarter, I'd love it to be not even a percentage point. So, I don't think it's anything to even sneeze about.

If we look at the calendar year to date, so this is calendar year, I'll just read you the numerics in the right. The fund is up for the first nine months of the calendar year, $5,027,000. If you go over to the left, net withdrawals to benefit payments is 615,000. So, your net invested is a 75.6 million. It's up 669 net year to date so far, 697 gross. So, it is so far on the calendar year basis. And it's particularly true after what's happened in October so far, this is just amazing. In October, these same numbers are now up 9.53% net year to date. So September gave us a huge dropdown, October's giving us a huge drop up. It's almost like it didn't happen, not almost it's exactly like it didn't happen right now.

So as of last night, the funds are up 953 year to date, obviously really beating the actuarial rate of return, as long as that holds for the remainder of the year. Again, benchmark 697 is almost dead on the middle, 703, a few basis points behind. A little softness in a few of our international managers year to date-

Suzanne: And Steph, if just to jump in. So, I agree with you in terms of, overall, you can't manage quarter to quarter, but if you could just help everybody understand where volatility is coming from, so that we're down significantly one month and up significantly another, that would be helpful I think.

Stephen: Yeah, broad economically, I think it's what you're asking is what's causing the market to do this? I think it's a combination of things. A big one is, we really have not had a corrective singular month, even since March of 2020, right? So, that historically, that's a very long run without a correction of any type. Two, we know the valuations we're getting to where we talked about this last several meetings markets selling at about 21 times earnings, it's come down to about 20 with earnings coming in strong. It looks like it could even be 19. Three, we all see these shortages that are out there. We see what's going on with energy prices, we see what's going on in chips, particularly automobile shortages, computer shortages, good shortages.

And because of that, we're seeing inflation. The Fed believes that inflation is transitory, they're still saying that. We're beginning to think that some of that is not transitory, such as the wage, pressure that we're all seeing. And that wage pressure could be a good thing for the worker, right? But if inflation's running at 5%, 4% wage pressure is really not taking you forward. So, the market became very worried about the Fed being behind inflation. The market became worried that it hasn't corrected in a year and a half. The market became worried that it was selling at 21 times earnings. All of those things merged together, if you will, and we had a bit of a correction really just during the month of September. We actually frankly thought it would last a little longer, but at the moment, at least it is behind us. And you got a market that the rate earnings are coming in were probably more like 19 times earnings, which is not that historically high given where interest rates are.

I'll stop here, but the worry is that the Fed could be behind the eight ball and have to raise rates faster and higher than the market currently anticipates and that's what happened. You add 10 year treasury, today is at 1.67, almost 1.7, not high for those of us that have been around for decades. But high compared to where we've been for the last year, where one and a half was tough to break through and we look like we're heading to 2%.

Suzanne: Yeah. And if you would just help everybody understand why did the market stop worrying and go back up?

Stephen: Oh, Good question. Because earnings are coming in very strong.

Suzanne: Right.

Stephen: Oversimplify it, but earnings are coming in very strong.

Suzanne: Yeah. So, in spite of the worries, things seem to be certainly on the equity market and other ways in which impacts company debt, they're doing just fine. And also the other thing I think I would say, and Steph, correct me if you think this is an overstatement, but one might be thinking to themselves, [inaudible] it's been such a long time for correction, should we be thinking about reallocating our portfolio? But our portfolio right now is actually quite conservative in its allocation. We're giving up a lot of performance by virtue of 45% of our portfolio away from equities, which are the hard charging performing assets. And there are other performing assets, but really your equities are kind of driving the store. So, I don't think we would need to do that at this stage of the game, even if anticipating some sort of correction, we would just have to kind of live through that as we do part and parcel for take your ups with your downs.

Stephen: I would entirely agree with that. And the main reason I agree with it is I don't look at it as conservative or aggressive. Instead, we look at it and say, remember, once a year, everyone should remember we look at that liability stream. What do the actuaries tell us you need in the next three years, four years, five years, 20 years. And the equity exposure isn't developed in a random manner whatsoever, it's developed saying, all right, we've got short term liabilities, intermediate term liabilities, long term liabilities. And it's those long term liabilities that go to equities. But I agree with Suzanne a hundred percent that because of that, we basically will have to put up with the volatility that may still be in front of us, it's hard to say it's behind us.

That was a very quick, it wasn't considered a correction on wall street or corrections considered 10% or more, it wasn't even close to a bear market, which would be 20% or more. It was simply a routine correction of less than five percentage points. And your portfolio, because of that balance, I guess the nice thing is because of that balance that you refer to, you're down a fraction of 1% for recorder.

Suzanne: Right. So Catherine, just speaking to, I know you're always alert to our debt... I'm alert to the debt that we have, but you're always comforted if we know that we have the capacity to cover it. So, in this particular case, I don't know if you were a part of our earlier discussions of making sure that the pension liabilities get covered by the assets that are both short term and more liquid and less volatile, but I just want you to have the benefit of knowing, because I know that your thinking pattern works around that.

Catherine: Yep. Thank you.

Stephen: I think another way to say that is the 45% that's not an equities is meant to be more stable and it does cover all of the short and most of the intermediate term liabilities. And we think of short as zero to five years, and intermediate as six to nine years. We feel very comfortable that the money that is in equities is money that's to be used 10 years from now.

Suzanne: Right. And so, the benefit is the coverage, but the benefit also from an investment point of view is we don't have to make knee jerk decisions and change our portfolio radically to cover, and that's really important for overall performance. So, it's well situated.

Stephen: And that's why you're going to see that when we look at the five and six year performance out there, it's been solid because you've been able to nod. We've had some bad markets during that timeframe clearly, we had March of last year, right? Although I say it hasn't corrected a year and a half, when it corrected a year and a half ago, it was substantial, it was 33% or so. And we rolled through that without flinching because we're not guessing how much should be equities, we're time dating it basically.

Thank you. That was great question. Let's look at the fiscal year. So, calendar year to date, you're nicely ahead of the actual rate of return, which is the true benchmark.

On the next page, the fiscal year to date, because it started June 1st, so basically it's had June, July, August and September. It's up, but it's flat basically, right? So for fiscal year so far, you're up $140,000 or 17 bps, 29 gross, basically it's flat. So, it's below the actual rate of return, and then this timeframe, which we haven't seen much, it's actually a little bit below the strategic benchmark of 68 bps would be the middle benchmark. Yet it's above the equal weighted, which is a negative 34. It's kind of right between the two, which is what you'd expect.

By skipping the market commentary, one thing we missed is, the market's narrowed a lot again, smaller caps and mid caps have been underperforming. It's the larger caps that are outperforming again, the phenomenon that we saw pre vaccine returned a bit during the third quarter. The phenomenon of the smaller companies, the broader market doing less well than the narrowness that we saw before.

If you go step back a bit though, and look at 12 months, you'd suddenly say, okay great. On the next page, sorry, your 12 month figures, there's a gain. Look at it this way, simply there was 70.7 million a year ago, 1,000,003 went out to benefit payments, net invested the 69.4, there's the same 80.6 you've seen. So, 11 million has been earned in the last 12 months, which includes the bad quarter and some good quarters. 1611 net, 1652 gross. Obviously, currently we're trying to make 675 for the actuaries. I know we're trying to beat that the old numbers there at seven, but either way, it's been a phenomenally strong 12 month period. And then if you step out further on the next page, just to keep it rolling here, you start to go to three years. Again, three years ago, there was 62 million, a net 149 has actually come out.

So all of the gain has been investment gain in that timeframe. So, that net invested is a 62.4, there's the same 80.6. So, the three year gain is 18.1 million or almost 9% net of costs. So, obviously that's been beating the actual rate of return by a lot.

The page after that is five years. I try not to read you all the numbers again, I keep doing it. Five years, there are net contributions, I think it's important to see that. There was 41.4 million, almost 47 and a half million, five years ago, 5.5 million net of benefit payments has been deposited. 27.6 million third column from the right has been earned in the markets. So, basically your net return for all practical purposes, the return of the actuaries look at, is the 8.97% net per year for five years. And we have one more, we have a six year number that I think we had at the last meeting, the six year number, I'll just read you the number, is 9.04% a year for six years running net net net, which is what you care about, that's net of all costs.

Suzanne: And six years is the same time period of your...

Stephen: That's our our full tenure. Yes, there's a stub on the end of that, which was a few months, but that's our true full tenure.

Suzanne: That's right. So this is where we pause and say, thank you.

Stephen: We've made it so far, six years in we're we've made it, actually we've beat it by a lot. So the funded status, it's always about when you actually runs the report, but you've made contributions. You've you've made 9.04% a year net. Early on, we're trying to make seven, the actualizer are using seven. So, other than the effect of interest rates on the liability analysis, the funded status should actually be improving by a lot. Because this is no longer a short history.

Rochelle: It improved a lot at the end of the fiscal year.

Stephen: Good, as it should like. So, I'll try to take a deep breath and slow down, but the numbers look good, rough quarter, rough being relative, frankly, I don't even look at a fraction of 1% as a rough quarter and I don't think you should either. It's very strategically invested. It's not technically, we're not making a lot of tactical moves and yeah, we're going to have bad quarters and we're going to have quarters a lot worse than that one, and we have had those together. We might not have many years better than last 12 months. So, that was a good 12 month.

Let's take a look... Alan, do you want to talk a bit about this next section? So, as we start to move towards the cost discussion... And we could jump to the next page, please. One thing that we've looked at, and Suzanne you have asked us to look at this before, and we really took a deeper dive this time, is what we own today are either institutional class mutual funds or ETFs or on the bond side, we owned some of those, and some individual bonds. And obviously we have the hedge fund side that's separate. So what we did here, and I'll let Alan talk about this. We looked at, is there a way to keep the same managers that we have... And that we obviously like that have been with us? I think all three of these have been with us through that whole six year period. Is there a way to own them less expensively, and still get at least similar, if not better results. Alan, why don't you talk about-

Alan: Sure.

Stephen: We'll go on lot of detail here. Maybe we just show an example or two.

Alan: Yeah, sure. I just wanted to quickly make the distinction between the two vehicles that we're looking at here, the mutual fund versus the, it's called a separately managed account, we have it labeled as SMA. So, the distinction between the two is that when you own the mutual fund, you own a single line item. When you own a separately managed account, you own all of the underlying holdings that the manager owns. So for example, the Columbia Dividend Income fund, when you own the SMA, you own all the individual stocks that that manager owns. It's not as many stocks as a mutual fund, it's optimized to own about 20 to 30% of the underlying stocks and to achieve the same performance or as close as possible. So, any of these SMA managers will own anywhere from 70 to a 100 stocks, whereas the mutual funds will own upwards of two or 300 stocks.

So, that's an important distinction between the two vehicles. So, what we looked at here is we're actually just comparing performance of the SMAs versus the mutual funds. The SMA space in general has gotten a lot more efficient over time as they've been able to manage the underlying SMAs and track the actual performance of the mutual funds better. So, one of the things we did here is we looked at the performance. So, I'll focus on Columbia Dividend. In the interest of time, we'll just take a look at the one. So, for the three months, you can see the mutual fund returned 5.84%, the SMA returned 5.97%. Some of that is due to the cost savings and the other piece is due to the difference in underlying holdings. They don't own all of the smaller holdings that are held in the mutual fund.

Over the year to date period, the mutual fund return 15.26%, the SMA returned 15.53. So, you can see, as you go to down from left to right, the performance is pretty similar across all time periods, slightly better for the SMA. Again, part of that is due to the lower cost underlying the funds. And that's the same for mass... The one difference, so the Columbia Dividend income fund in the SMA are exactly the same strategy. The EuroPacific Growth Fund and the capital group international, exactly the same strategy. There's a slight difference in the MFS fund, the large cap growth fund, same company, similar strategy in that, both managers tend to look for higher quality growth names, but there's different management teams.

And as you can see, the performance varies slightly more than the others in that. Even in the 10 year column, you can see the MFS Large Cap Growth SMA actually outperform the mass investors growth stock mutual fund by almost 3% a year. And that's slightly to the strategy difference, and also that the large cap growth strategy is a little bit more high growth than the Massachusetts Investor's Growth Strategy. But again, we're very familiar with that manager. We use the large cap growth fund in places we're comfortable with it, and we'd be comfortable making that swap in order to save some expense. So if we can-

Stephen: I'm going to butt in for one second. So, one caveat to all these numbers, and there's a lot of numbers here. Two things, one no. is we've done deep diligence as you'll see on the next page, do I think we can go through that quickly? The point is the diligence is there. Two, when it's a separate account, it's a composite of like accounts. When it's a mutual fund, it's a factual, that's your performance. When it's a separate account, different accounts came in at different times, money was added, money was subtracted, much like in your case.

So that the numbers on the separate account are simply a composite. This sounds old fashioned, but when it's a mutual fund, what I like is we know that that's the number that was published in the newspaper are now published online every night after four o'clock. It's a fact, the separate account is a composite and there can be variability between accounts based on timing, right? So, I just think it's very important. The goal here is not a performance related goal. The goal here is where can we save a little bit of money around the edges? So, a lot of diligence has been on the performance side to make sure it's at least comparable. And as Alan says, in some cases it's better, in some cases not. But anyway, I wanted to be aware of that caveat.

Catherine: I have an idea of where the cost savings are, but if you could just clarify for me, how are we saving money costs?

Stephen: Let's jump in two pages further. So this next page... Alan, sorry, I'll take your time in for a minute, just for some time. We looked at every calendar year and then I'll give it back to Allen to talk about costs.

Alan: Right. So, here's where we outline the actual costs of the product. So to the second, third, fourth, and fifth column in from the left, you can see expense ratio, SMA manager fee, platform fee, and total expense. So, I'll pick again on Columbia Dividend Income, the expense ratio of the fund itself and the institutional share class is 0.69%. So, that's an annual expense that's assessed on the value of the fund. For the SMA, there are two layers of fees here. There's an SMA manager fee of 0.28%, and there's a SMA platform fee that's charged by Morgan Stanley at 0.07%. So, when you look at the total expenses, you have a comparison of 0.69% total for the Columbia Dividend Income fund, 0.35% total for the Columbia Dividend Income, SMA. So, it's almost half the cost to own the SMA in this case, than the mutual fund.

You can move down and look at the MFS funds. The MFS mutual fund is 0.46%. The separately managed account comes in at 0.35%. And then in the EuroPacific Growth Fund, the mutual fund is 0.57%, where the SMA is 0.39%. So, cost savings across the board on those three strategies.

Suzanne: So, they're actually just less expensive, their cost structure is less.

Stephen: It's become less over time, yes. Because those separate accounts fees used to be 0.50, and over time they've come down to where they're 0.28 and 0.2. So yes, they're outright less cost.

Suzanne: And then your advisor fee goes on top of either one, per se, right? So it's not like the mutual fund or the SMA has anything to do with the advisor fee, the advisor's over all of that.

Stephen: Correct. Like that 35 or 69 has got nothing to do with the advisory fee. I'm going to show you that in the next section.

Catherine: So, are the SMA manager fee and the platform fee inclusive of trading costs?

Stephen: Yes. The platform fee at Morgan includes all the trading costs.

Catherine: Okay. Including-

Stephen: That's actually where the trading cost is coming in, frankly, this is-

Catherine: Okay, all right. So that also includes your foreign exchange?

Stephen: Depending we're trading away, it should include foreign exchange, yes. And the returns are all netted, I would also. The one place where it gets really tricky, but since you asked, these three funds would be relatively clean because they're equity funds, they own equities.

I'm very aware that there's a difference between a mutual fund and a separate account from a... As Alan pointed out, they don't have the exact same holdings that can be deviations in performance, separate account performance is not published every day. So, I've always taken the view, and this is personal. I'm Columbia, every day I'm publishing the results of the dividend income institutional class mutual fund. I am not publishing publicly, not publishing the SMA.

Suzanne: Hey Tony, could you put your thing on mute please? Thanks. Go ahead, Steph.

Steph, are you still there? Or is that my internet going-

Joe: No, it looks like Steph [crosstalk].

Steph, is your audio still on?

Jeanine: I was bounced a couple times in the last half hour, I don't know why.

Joe: There he is, he's back. Steph, you're on mute.

Stephen: I froze for a moment there. I don't know what you last heard.

Joe: Steph, you were just about to make the point about how mutual fund managers are looking at their own performance on a daily basis versus the separate accounts.

Stephen: Right? So, it's basically, it's not a-

PART 2 OF 5 ENDS [01:04:04]

Joe: The separate accounts.

Stephen: Right. It's basically not apples to oranges, but it's a Cortland apple versus a... I don't know, whatever those green ones are. There're still apples. It's definitely less expensive, but I know that's a goal... Do you like that? I don't know my apples, I guess. It's a sweet, delicious versus a Cortland. There are still an apple, but the slight variances. Look, if we move in this direction, we're going to watch. And we do think we should go to separate accounts because it is the goal to do it for less cost here. Let's keep moving because knowing it's a Costco, knowing this diligence has gone into it, let's jump to the cost discussion because let's see how that all summarizes, because remember this isn't the entire asset base.

I think if I'm not mistaken, Alan, this is about 10 million of the entire 80 million?

Alan: That's correct.

Stephen: It has an impact, but all of these impacts add up, but they're all small as in themselves. Because it looks like you're saving 35 basis points versus say 60, but then on how many dollars is that? And what does that really result in? You've seen us a hundred times go through what's included in our fees, but I think you should know it's an investment policy working with you. Asset allocation strategy, all of the monitoring and meetings. I can't read this whole slide. There's a bottom half of it. Cash flow liability management that we work with, the actual construction, risk management of the portfolio, et cetera. To Catherine's point, we include... When we buy an institutional mutual fund or ETF, we do it at a hundred percent commission discount. There's no trading costs. That's included in our advisory fee. The fact is institutional care classes, that's included in our advisory fee. The fact is no tweet, probably one fees and if we ever buy something that has a 12D1 fee, it's rebated to you as a receive it or shortly after. That's in our advisory fee.

Catherine: I have to say this. I was so happy to read that. I cannot stand 12B advisory fee. It's the biggest scam out there anyway. [crosstalk]

Stephen: And what we do is we eliminate it and then give them to you if there are any. So that works. We're acting as a fiduciary. We're in a fiduciary role trying to do it. Our comp is level, regardless of what we decide for you. This cost savings, this doesn't change our advisory costs. This changes the underlying cost because remember there's the advisory cost and there is manager costs. If you could jump in another two slides in, I'm going to jump over this next one. It has a lot of data, but rest to this one. What are the actual costs been over time? Suzanne, we thank you for this. Suzanne drives us very hard. I worry about different things, cost being one of them, but this has been a good exercise.

If you go back to 16, you see the actual internal costs of the managers, whatever they may be.

We're at 58 basis points. And as of the December, they went down to 41 and we're currently down to 37. Here is where it gets a little complicated. If we adjust the expense ratio, some of the fixed income funds as though they were separate accounts, as this came up, you actually save a basis point, right? Because fixed income funds or the hedge type funds have to count if they're shorter position and they have to pay a dividend. If they're shorter position and have to pay interest to their broker dealer, it's in the expense ratio of a mutual fund, but it's not in the expense ratio of a separate account yet it's borne by the separate accounts. Again, it's not apples and oranges, but it's maybe someone can help me. It's a two different types of apples. If we do the SMA's in green on the top half of the page, that drops your costs down to 34 basis points from 37.

It saves another three. That spike because it's 10 million not. And over time we maybe do this with more sleeves, but these sleeves made sense. The sleeves, the performance is similar. Sometimes the fixed income sleeves on very different things. And the adjusted expense ratio net of those non manager expenses goes to 33 basis points. It saves quite a bit still. We're never going to get to zero, right? But at that point, we've gone from 58, five or six years ago, down to 33 adjusted. In fairness, the comparison would be to the 34.

Suzanne: Thank you and thank you for all this. And what would be interesting not for today, unless it's in your back pocket, is what this equates to in money. Because it's money that is saved, yes. But then that's money that you get a chance to reinvest. And if we're talking about pennies, it's a lot of work maybe for not so much, but if adds up to something and that money gets to be reinvested and grow, that makes a difference.

Stephen: I still think it takes us in the right direction, right? We're on this quest to keep getting lower, we're getting lower. We agree with that quest. Here's an easy way to do it. The risk being what I stated, we're now part of a composite, not part or something that's published every day, but in these three particular manager cases, those numbers... The correlation of the separate accounts and the mutual fund had been very tight, tight enough that we're comfortable doing it.

Suzanne: Yes, I'm not talking about these particular. I mean, the whole timeframe in terms of what kind of money you're talking about going from 58 to 33, and I'm not saying calculate our particular savings, but just in general, having a cost ratio that drops by that amount, could do this for your portfolio.

Stephen: Right. [crosstalk] I can ballpark it in my head right now, and we can run could run you something. But if you think about it, if you have $80 million, every 10 basis points that we saved, that you save is $80,000. So if we save 20 basis points and we're over that, we've saved 160,000 a year and so on. And it's more like, what is it? If we do this, it's going to be 34 versus... What was it? 58- [crosstalk]

Joe: It's about 270,000, Steve. I just did some quick math.

Stephen: At 80 million. Remember the fund was 40 million so when we started.

Suzanne: But that's okay, it just points out that the exercise is worth it because that's when Rochelle makes a contribution at the end of the year, that's like a portion of that extra contribution. Right?

Stephen: [inaudible] Correct. All else being, yes. We think we should do that. We think you should do it. There're some tactics to it. Here's where the friction comes in a little bit. Right. We have to open three separate accounts. We have to have the managers run those three separate accounts, and you're going to own the individual securities and all three separate accounts. No one other than maybe Rochelle and us on this call is going to be aware of that or crossover that. It still comes in a single statement, single consolidation, the trustee matrix can still consolidate it. It really doesn't mean anything to the high level. It means in the back office, there's a little bit more auditing, perhaps. There's definitely more transactions, those types of things. It's not a reason not to do it, but I think it'd be remiss of me not to make you aware of it.

Suzanne: Okay. Unless anybody disagrees, I think we should go ahead and do it.

Stephen: Do you think that's something that you want? I don't know the protocol on this, but should we vote on that? We don't have complete discretion here as we usually do, because we have to actually open new accounts. And then each of these three managers will have the discretion of those accounts.

Suzanne: You don't have that. Doesn't make sense to me. You don't have discretion over the accounts?

Stephen: No. No, because just like we don't run the actual mutual fund. We're the advisor on top of it, we don't have discretion. We're not going to go tell MFS what to buy or Columbia what to buy.

Suzanne: No, but can't you move us in and out of mutual funds and individual accounts without discussing it with us?

Stephen: Alan, can we move them in and out of the individual accounts on the current contract, do you know of the top of your head?

Alan: Of the top of my head, I'm not sure what type of discretion we would have under UMA contract.

Stephen: Right. We need to look at that. We can do UMA with discretion. That's going to be in the contract, Suzanne, but at a minimum, we've got to open those three accounts. I think you want us to have discretion to move money in and out of them, but at baseline, we don't.

Suzanne: Okay. Do you need a vote of the board? Is that what we need to do?

Stephen: I would suggest that you vote both to allow us to hire these... To use separate accounts. It doesn't even have to be these three. And I think at a secondary part of it, is to also have to the degree possible contractually, because we're going to have to adjust the contracts that we have, to have discretion over those separate accounts. Over the allocation to them.

Suzanne: Yes. I'm just a little confused, because I feel like... Don't you do this with all our SMA accounts?

Stephen: Today, you're not using SMA accounts. That's why I didn't pull a contract before you asked the question. I have to look in the contract.

Suzanne: So all those active managers that we have listed are not SMA?

Stephen: Today, no. They're institutional funds, ETFs, and or us. In the bond side, it's actually us.

Suzanne: Oh, I didn't actually know that. That's very interesting.

Stephen: Yes, so we may have to adjust the contract that we have between us and you. I have to go look at that.

Suzanne: Why don't we find out the details before the board votes, if that's okay.

Stephen: Yes.

Suzanne: Because I want to mentally understand it before I have the board carry it out. [crosstalk] Because I am a little surprised by that.

Stephen: Yes, no. It's always institutional mutual funds, ETFs, and then individual bonds. We have discretion over all of those.

Suzanne: Right. Okay. [crosstalk] I thought the active managers were in SMA's. That's interesting. Okay, very good.

Stephen: The active managers are the institutional funds. Okay.

Suzanne: Okay. Thank you.

Stephen: I don't want to rush through it, but by no means is this urgent. This isn't changing the strategy of the fund. This is temporary trying to save a few dollars.

Suzanne: And all it is, is account structure. I understand that. Whenever I get caught by surprise, I don't want to rush through it. And I'm not saying you surprised me. I just was not aware that we didn't have SMA's accounts and you didn't have discretion to go in and out of SMA accounts.

Stephen: Well, you have an SMA account for your fixed income, just to be clear. The active equity managers are institutional mutual funds or ETF's. They always have been actually. And sorry about that.

Suzanne: No worries.

Stephen: I don't know how we're doing on time. Are we allowed to go over by a minute or two?

Suzanne: Just a minute or two. I think we're like over a little bit more than a minute or two, but let's go.

Stephen: Well, just to show you, what's in the rest of this section of the booklet, the advisory fee is here. Currently our new assets, it's 20 basis points up to 85 million and you can see some around here, the effective rate at the top center above the solid line, is 35 basis points on 79 million, 142, which is where it was on September 30th.

So that, continues to come down. Also, it was 40 then 38, 37 and now is 35. So that has not come down on actual dollars, but as you can see, it starts to level out, basically. It doesn't quite cap, but it becomes close to capping. We're not going to get to, I didn't think we would, but the very next page, we can just look at it and maybe give us some guidance if you would, on how we might want to handle this. Oops. If you could go back one page, sorry. I just want to talk about, we did talk about, and everyone agreed that you want to look at ESG issues and the impact quotient that we have. Maybe we start the next meeting with that, or maybe we carve out... It probably takes 15 minutes.

Suzanne: So that's interesting. Did I miss a meeting? Did we discuss this? And we asked her to do it.

Stephen: Yes, we offered. And you agreed.

Suzanne: Okay. I don't remember that. That's okay. Yes, I think next meeting, we'll carve some time out for this and we will reshape the presentation so that we have adequate time and it's not taking more time.

Stephen: Okay. The last thing, my suggestion is that on the separate accounts that we speak to Rochelle behind the scenes, in the meantime about how to enact any contractual changes it may require, it may not. I'm not even certain, frankly. I didn't look at the paperwork part until we get on here today. And then we report back to you between meetings.

Suzanne: Yes.

Stephen: Okay.

Suzanne: All said and done?

Stephen: All said and done.

Suzanne: All right. Steve, Joe, and Allen, thank you as always for your professionalism and your hard work and overseeing our assets and investing them so that we can meet our obligations and continue to grow for the future of our place. I thank you very much.

Stephen: Much appreciated.

Joe: Thank you.

Stephen: Thank you all, everyone.

Suzanne: Thanks. And unless there's anything else from the committee members before we...

David: Suzanne, can I just summarize the two items. Items or action by the full committee recommending to the board, are not ready yet because there's still language and putting together for those [inaudible]

Suzanne: That's correct. We have a resolution related to the 401k, which Jeanine and Rochelle will draft. And then secondly, the idea of these SMA accounts. I think we should just take care of that so that they have discretion, but I'll work that out with Rochelle behind the scenes and then I'll come back to the board and if we need to vote, we'll vote.

David: Yes. And it may be that you don't need to, but we will see how that pans out. Okay. I just want to make sure I know [crosstalk] .

Suzanne: I honestly I'd be surprised if we did. I wouldn't want the board voting on that kind of stuff. Honestly, it just investment decisions like that really should be made at their level.

David: Okay, thank you for the summary.

Suzanne: Unless there's anything else for the committee, I think that's my full committee agenda. Sorry to have absorbed so much time of the meeting and I'll entertain a motion to adjourn the pension and benefits committee and return to the regular RWA meeting.

Catherine: So moved.

Suzanne: Thank you, Catherine. Amen, she says. Is there a second?

Kevin: Second.

Suzanne: Thank you to Kevin. And he's saying hallelujah. All those in favor, say aye. [crosstalk] And anyone opposed? It's all yours David.

[PENSION & BENEFIT COMMITTEE ADJOURNS AT 1:35 P.M.]