South Central Connecticut Regional Water Authority
Pension & Benefit Committee
January 27, 2022
Meeting Transcription

[PENSION & BENEFIT COMMITTEE MEETING CALLED TO ORDER AT 12:32 P.M.]

Suzanne:

Thank you. We have three items for the meeting today. Excuse me. First is the approval of the minutes. If everybody had a chance to take a look at them, I'll entertain a motion for approval of the minutes has presented.

Kevin:

No moved.

Suzanne:

Thank you, Kevin. Is there a second?

Catherine:

Second.

Suzanne:

Thank you, Catherine. Any discussion or concerns? Any changes? All right. All those in favor say aye.

Audience :

Aye.

Suzanne:

Thank you very much. So let the record show your unanimous approval of the minutes. We'll move on to our investment report. And of course our Morgan Stanley team is here led by Steve to make that presentation. So if Jennifer, thank you, you're five steps ahead of us as usual. Get it on the screen and I'll turn the presentation over to Steve. Are you with us, Steve?

Steve:

I am. I'm sorry. I was muted. Can you hear me? Okay.

Suzanne:

We can hear you just fine and see you as well. Thank you for joining-

Steve:

As another guy being polite and muting, and then I forgot to unmute.

Suzanne:

No worries. Thank you.

Steve:

Good to see everyone. Happy 2022. Let's hope that besides not having email problems, that we have less COVID problems in the current year. I think this is our second year now, meaning this would be our eighth meeting, eighth quarterly meeting doing it remotely from COVID because we would've started last April. Sorry the year before. I'm going to be pretty brief today. I was asked to use 30 minutes only. So we'll try to do that. Lot to talk about in the market. So let's talk about that. I'll try to do it very quickly. It was a good year. So the funds, all three pools of money. I'm not the actuary, but based on the investment results one would have... In the bond market results, meaning rates have gone up from where they were the prior year. One would think that the act report will, once again, shows very respectable progress during 2021. I believe that Jeff Bower from angel pension will be with us presenting that report at the next meeting. He typically does that in April, if I'm not incorrect.

Steve:

Let's jump to the next page please. Next page after that sorry. Yeah, that chart. So we always, oh, sorry, one back. There you go. Thank you so much. This is just the S&P 500. The slides cleaned up a bit, a little more contemporary looking than it's been historically, but I'm going to go quickly here and point out one thing. In the upper right the S&P finished the year at 4766. I think you all know it is down from that number. And that was at selling at a multiple of about 21 times this year's earnings. So let's keep that number in mind because I've been talking about it for the last year or so. Higher around 21 times forward looking earnings. If we jump forward one slide, please. I have a new one for you. If you look at the dead center of this slide in green, I say to you that 21, 22 times earnings is a little high based on history, but I haven't backed it with facts before.

Steve:

If you look dead center of the screen here, you'll see the 25 year average multiple of the market is 16.83. So let's call it 17 for all practical purposes. We ended the year at 21. The box in the upper center gives you lots of ratios that we don't have time here to discuss today, but PE, CAPE, dividend yield price to book and price to cash flow. The far right side of that box would tell you domestic market, at least domestic equity market, mainly large cap where it's priced versus where it's been over the last 25 years. And you'll see, those are 130, 205. They're all above one. One would be the market's average. The one key number is the spread from investment grade bonds to current yields and that's minus 0.6. So that's interest rates, right? That's the one data point that's telling us the market's cheap. And it's a big one, right? Because it's the discount rate and same thing true when you run a pension fund.

Steve:

What we're seeing here is that the one thing that we really think has been driving this market the most since March 2020, when we hit the COVID bottom is interest rates and the Fed being extraordinarily accommodative. Now we happen to think that fed has probably stayed too long, the Fed's signaling that themselves as of yesterday. We've thought that for several months, as I think we shared the last time, but it's becoming true. So the question will be going forward is... I think we're going to be in a market that is going to be a bit more focused on interest rates and a bit more focused, the size of the Fed's balance sheet, because that is the one major factor that we believe has been driving the market. So it's something to watch this year. Something to watch very closely this year. That valuation, as you see it in the upper right, or the far right, the graph itself, you're about one deviation outside of the long term mean, which is not wildly outside like we were back in 1999, as you can see, but it's a little expensive.

Steve:

So it has come down a bit calendar year to date. If you think about, if you get a market correction of 10%, which you've had in the S&P basically, that number goes from 21 down by two points. So you're down to 19. And frankly, although interest rates are going up, interest rates are still low, right? They are not five, 6% where they were historically perhaps. Let's jump one ahead. Then this one ties in also. The graph in the upper right shows, we've talked about this before, by the year end the top 10 names, basically the Fang plus names, mainly tech names. The top 10 names in the S&P were now making up over 30% of it. A new record. The earnings from those top 10 companies in the bottom chart made up about 26% of the total.

Steve:

That's not a surprising data at all, because these are very fast growing companies, arguably the best companies in the planet, right? But 10 names making up 30% of the S&P 500 is big and unprecedented. So let's look to the left because you talk about the market multiple being above 20, above 21, if you actually X out those top 10 in that box, in the upper left, those are selling it 33 times. If you look at the other 490 stocks, they were 19.7 times when we started the year. So think about it if you're 19 times, 20 times, and you take a 10% correction off of that, you're down to 18 times. You're getting well with evaluations in historical ranges, at least especially where rates... Look at the 10-year treasury still only in the upper ones, right? It's still low historically.

Steve:

So one would think would be above the historic average. I'm not finding the market overall horribly expensive. If rates stay in the one and a half to two, even 2.5% range. I think we're going to see more rockiness along the way. If you started to see rates at four and 5%, then that's different. You'd expect to see valuations lower. But I think if we stay in the 1.5 to 2.5% range and I'm talking about the 10-year treasury, we should see constructive performance below those top 10 names at least. And maybe now that they've corrected so much, maybe even within those top 10 names. Hope that makes sense. Let's jump to the next slide. This slide, I won't spend more than a second on it.

Steve:

It's four different parts of the market. It basically says last year that large caps outperform smaller caps in the upper left. That growth ended up outperforming value. All of that change in both of those cases happened in the second half of the year. As you can see with the six month numbers. Dividend yielding stocks in the lower left and orange, according to Morningstar has given the yield focus. Underperformed last year, by quite a bit and that was a slight distraction to our performance because we have a little value orientation as you know, some dividend yielding stocks to give us some stability, still big numbers. Dividend yielding stocks, according to the Morningstar benchmark was 19.5% last year. That's a great number in a normal year, right? And the biggest thing is us stocks continue to really outperform international stocks in the bottom right by a wide margin.

Steve:

I'm almost going to argue that it's almost like the elastic is being stretched more and more, where non-US stocks seem to be getting less expensive and US stocks have remained expensive. So we think at some point, maybe this year that snaps back, that is an event that's in the multiple stand deviations at this point. We could jump to the next one, please. This is a tough one, but what's really happening here

in the far right. You've got spreads that have become very large. The last inflation print was 7%, right? And you've got the last treasury on December 31st there in the middle of right 1.5, 1%. So you've got real returns at that point at a negative 3.45%. It means if you're in a treasury bill making 1.5%, the rate of inflation at that point was running at 5% so on a real return basis, you're losing 3.45% in a treasury bill.

Steve:

Historically treasury bill yields have followed very closely to inflation. So this sounds crazy, but if inflation's running at seven and it stayed there for any length of time, history at least you'd think that the treasury bill would to be at seven. We're not even close, nor do we expect to get there. But it's an interesting thing in the last several times, the Fed has risen rates. They've not risen them to the same degree that they had done in prior history. I think that's because there is a lot of debt in the world these days, right? Whether it's government debt or household debt or whatever it may be. And I'm talking globally, not just domestically. Last time you saw spread this high was primarily in the '70s and the early '80s. And at that point, it ended when Paul Volcker, as you may recall as the head of the Fed at the time had interest rates, even on the short term, up in the teens.

Steve:

So very interesting. We don't want to repeat that. And the Feds trying to act to avoid any repeat of runaway inflation. Some of this inflation is transitory, and some of it is permanent. Transitory would be things like energy, which is a big component, right? Energy was a big part of the inflation last year. Energy as supply comes on and catches up with demand, you should see that fall and there is enough global supply to come on. Used cars believe it or not we're a big factor in CPI last year as are new cars. Those three factors all should be transitory, right? Some are supply and demand with energy. It's the supply chain issue with the new and used cars. So if you get those to normalize, you'd expect to see the rate of inflation at least come down from where it is. That being said in the short term, it could still continue to go up and be very volatile because CPI does not use the value of your home or my home in its calculation.

Steve:

It uses instead something called Owner's Equivalent Rent. It's basically what you or I think we would rent our home for. And we think that lags. So I think we could see that go up this year. Well, maybe we see energy and auto prices come back down again. I know this is a lot in a short time. Always feel free to reach out. In the meantime if you have any questions on this front. If you jump one slide ahead. I'm going to skip that one in the interest of time. I think, because we talked a lot about interest rates just now. Any questions I'll pause for a second. Let's go in-

Suzanne:

Steve, just very quickly, essentially what you're saying is that the markets have been a little bit spooked by interest rates and the Feds activity. Having said that quality stocks and certainly dividends stock continue to perform, right?

Steve:

Perform better than growth stocks, yes.

Suzanne:

Correct. Right. And fixed income while it's our protection against risk for liability. It is not helping us perform better in our portfolio because it continues to be a drag on the portfolio, but an essential part of the way we're managing our risk for liability.

Steve:

I would agree with that.

Suzanne:

So is that fair to-

Steve:

I would agree with the last part fully, just for clarity on the middle part.

Suzanne:

Yeah.

Steve:

Dividend paying stocks, value stocks are outperforming growth stocks. But at this point they're all down a bit for the calendar year.

Suzanne:

Yeah.

Steve:

Not the time period we're looking at though, but even last year they underperformed growth stocks, but you take 20% instead of 30 to give you that cushion. Yeah. You probably do long term in a portfolio like this.

Suzanne:

Yeah. The bigger point I was making to your point, I think was that the type of stocks that have been pulling the market down and the type of stocks that we have in our portfolio for quality are somewhat different.

Steve:

There's some overlap but we're tilted more towards the quality and value.

Suzanne:

Right. Exactly.

Steve:

I agree with that. That's absolutely true. And that should be helping us in the current month. Last year it, I don't want to say hurt, but we would've been up more if we were all in aggressive stocks, but that would be inappropriate for a portfolio like this. There's no doubt. I think we're saying the same thing. I'm also saying I think the biggest thing that watch this year, other than the obvious COVID item is interest rates. Watch what the Feds saying, watch what they're doing, watch what rates are doing. That's probably going to tell you what the markets are doing. And I do believe if things stay relatively stable and our firm believes this, meaning rates stay around 2%, let's call it and earnings continue to grow we should be in okay shape.

Steve:

I would love to see those multiples come down to 17 or 18 by either the market moving sideways or earnings continue to grow. That would be great because we know 21, 22 is high. If rates aren't going to be anchored at zero. Let's jump ahead. Sorry. There's so much on that subject right now. That's where I, we know I get a little excited there. That was the investment policy statement I think we all know at this point. Let's look at the funds and how they're invested. This is the salary and union plan as of December 31st. The pie chart displays how it was allocated. In the upper center there was 74,119,901 in those combined plans. A lot more than there was even 90 days ago. The equity exposure is running close to 59%. I'm in the box in the upper right.

Steve:

In my point if you go to the bottom of that right hand box, you'll see value or dividend oriented names are 29.5% and growth is 25%. So we have a four or 5% overweight to value from growth and that would definitely be a little bit of a drag last year. No doubt, not a big one. No doubt at the moment, a bit of a tail when relative to a very heavy down market and the US international exposure equity wise is in the upper of that box on the right, roughly 75% domestic, 25% international, which we've talked about and I'm beginning to think it is time to let it creep a little bit higher, but not dramatically higher. Again, trying to remain prudent with these assets. If we jump to the next page. Again, salary and union plans, and I apologize, this is a little small on the eyes. I have to adjust.

Steve:

There we go. Thank you so much. Oh, that's plenty. Very bottom box, we'll focus on. At year end, the Russell 3000, which is your domestic equities. We have an internal benchmark if you will, of 42% there. It ran to 44% in an up quarter. So 2% overweight, international is the opposite. So call it 2% overweight in US, about 1% underweight in domestic equities. So it gives just over 1% overweight inequities by year end. And that's in an upmarket. A fixed income we know we're a little higher there because we don't have any global bonds right now. So that 4% you've got to subtract the 3% from it, because we're running global bonds at literally zero. Which makes sense, right? If the dollar is reasonably and there's very low interest rates around the globe, why bother going there? The rest are more or less on target.

Steve:

Small deltas were a little bit light in cash at year end, which we have that working instead. So more or less at target to the benchmark. We could jump to the next slide, please. The VIVO is slightly different, but very similar. You see the equity weighting in the upper right hand box. Very similar you see the weightings in the lower part of that box value. Over weighting growth, very similar. By the way both cases that's after a huge growth run up, right? So it's hard to actually keep it overweight because growth

keeps running away. But we've been keeping it overweight. The VIVO had 9,761,507 upper center at the end of the year. If we could jump ahead, I think two slides. I won't spend the time on the same benchmark for the VIVO because it's basically the same overweights and underweights.

Jennifer:

This one Steve?

Steve:

No one more please. Sorry, Jennifer. Let's look at how it's been doing that. One's perfect. I love that's beautiful. Everyone sees this okay? Please speak up in case anyone doesn't see it okay. There's a lot of data here. I'm going to go to the first row of numbers in the upper left. You can see the labeling on the far left salaried union, VIVO, Skybridge, which we've now sold and then Matrix Trust who I think you all know at this point is the paying agent in the trustee for the plan. So that is where the pension payroll is sent from there and received by a pensioner or a beneficiary on the VIVO case from Matrix. They would do the direct deposits and the 1099s, et cetera. So all added together you started the quarter or the entity started the quarter at 80,386,181. And you could read each line individually. I won't read them to you. There were net deposits of withdrawals of $49,255 for the quarter. This is the fourth quarter only.

Steve:

Transfers are just intra account transfers. You can see that it's money that we fund to Matrix and or vice versa. Your net invested is 80,435,437. You ended the calendar year at 84,006,953. I believe a new record number. The dollar gain for the 90 days was 3,571,561. And the far right, you see it was 445 net 454 gross is a very robust quarter, right? The actual rate of return that we're using currently at 6.75, would've required a 169 return for the quarter and the prior, the 7% would've been 175. So obviously the quarter went way over what the actuaries need. The benchmarks range from the low of 331 to a higher 477 for the quarter. So we're way near the high end of those, even though that's much more equity than we have today. So solid quarter. Let's jump forward and look at, I believe we have the calendar year next.

Steve:

Yeah. So this will be really important to Jeff Bower when he does his work. And I believe I know one year ago that the funded status of all three plans increased quite a bit. I'm not the actuary, but I'd be very surprised if that's not the case again this year, because here's what happened this year being 2021, you start of the year, again, the row of numbers in the upper left, the year began with 76,226,796 net 811,469 came out. That's net of contributions. My screen just timed out on me. I apologize. Security. This year net invested the value if you will, simple math 75,415,327. The same ending value you already saw the 84,000,006, because this is the same date, just different starting point. This is the whole calendar year. For the calendar year the funds cumulatively earned 8,591,625, 11.43% net, 11.81 gross.

Steve:

Obviously that is quite a bit above the actuary rates of return of 675 at the moment and the prior rate of return. So last year was a mixed. It was a 7% required rate of return before May 31st, as you can see left in bold and it's 675 starting June 1. Either way you can see why I believe the actual report will look good. The 10-year treasury a year earlier was 0.92% by year end it was 1.51%. That's helpful. And obviously vastly out earned the actual rate of return. The benchmark returns, there's a wide range last year,

depending if you growth or value in how much equity you have, you'd run from 943 to 1582. We're obviously more closer to the midpoint there. If we start going out further, I think I give you the fiscal year next. So this is where I have a little concern at the moment. The actuary does the work. Rochelle, correct me if I'm wrong, but the actuary does the work on the calendar year basis.

Rochelle:

They do the valuation on the calendar year, but they do and we do a report on the fiscal year is incorporated into our financials. And that's the basis for recording any change in the liabilities.

Steve:

Right. Okay. So the actual report will look good. The fiscal year is not over yet, but I won't redo all the numbers, but let's start in the right hand side in the interest of time. So far for the fiscal year, the funds combined are up 3.7 million, 462 net, 483 gross. So they're on target. The actuary returns of 394 and 408, as you can see just below this. So they're out earning your actuary returns through December 31st, right? January has been rough, right? I didn't run the numbers through January, but I can tell you without having to run the numbers, I'm certain that they're below the actuary rate of return so far from June 1 last year until last night because the market's been so rough in January. So it's just something I want to give you caution to, although the numbers are fantastic for last calendar year. The fiscal year, this has happened before, right? The way the fiscal year falls.

Steve:

It's not over yet, right? We've got all the way till May 31st. But if the fiscal year were over today, we would be behind those actual rates of return for the time in a while. Just something that we'll remind you of and be conscious of, again, at the next meeting, we go out to a little longer term history now on the next page. Trailing three years. So it's interesting to see the perspective of the three years I think. 57,943,584 in the various pools three years ago. A net withdraw over that time of 414. So despite the fact contributions of come in, benefit payments have been that much more than contributions. It's not a big difference, but they're running basically your contributions of funding benefits at the moment. Simple math, 57,529,460 invested the same ending value the 84 million. So for three years, the funds in combined erupt 26,477,493, 13.43% net and 13.84% gross. So obviously that's vastly outperforming the required rates of return of 675 and seven. And it's right in line with the various benchmarks as you go. And we'll go on a little further to five and six years.

Steve:

The next page, please. This is where it really starts to matter, right? It gets a little more realistic, I think too, because we have had some really good years there particularly last year and from March 2020. You bring this into play, you may not recall, but '18 was a tough year for the market. So this runs 16 to 21. So you've got a combination here of tough years, good years, everything in between. And here five years ago, there was 48.7 million. You've actually made net contributions over the five year period of four million, 181 second row of numbers. So you net invested the 52,935. Again, broken record, but same ending value just over 84 million. So the dollar gain of a five years is 31,071,000, 986 net, 1027 gross. Obviously the 986 is what you compare to primarily the 7% at the time, right. Because the 675 has only been in there for seven months at this time. And that looks really good regardless of what you compare it to benchmark wise. And we have a six year number now too. I think we're getting close to a seven.

Steve:

I'll go to the right because I know I'm dictating a lot of numbers to you. I'll start at the 84,000,006 fourth column from the right. The dollar gain over six years is 33,849,000, 9.24% net, 9.65% gross. And again, the 7% would remain dominant over that timeframe because of it was in place, call it five and a half of those six years. And the benchmarks even changed during this time. But these are the current benchmarks. I didn't go back and give you the old ones. The range of outcomes would've been 817 up as high as 1056, if you were less equity or more equity. So benchmarks towards the upper end of that, which looks nice.

Steve:

I think that if we jump to the next page, I think it's in very good shape. We've got a nice six year track record under our belts now. It's the current year since this printed the first challenge we've had since basically March 2020. So we're back in a challenging period of time. Could we jump one more page ahead please? Two more. Yeah. And then I think Suzanne I've used two minutes less than my 30 minutes. Does anyone have any questions so far?

Suzanne:

I do, but I think you should go ahead and finish and then I'll just ask the questions then.

Steve:

Okay. We're in a challenging mode now. I suspect that this calendar year will be more challenging than last. I think that's a pretty safe assumption and I'll leave you with the... Watch the 10-year treasury, the 10-year treasury is likely to tell you what's going on in the equity market. I'm going to tell you as long as it remains in the two range, it could easily put a two in it. The market might have a hiccup the day it does that, but I would even be comfortable up to two, to quarter two and a half, as long as it remains in that range I believe that will likely be okay from our net present value of future earnings' perspective, meaning from a multiple perspective of the market. Suzanne, you may have the same things but I know you.

Steve:

Perspective on the market. Suzanne, you may have the same things, but I know you emailed me or Rochelle did one thing that we talked about the last... It might have been the last time we spoke, I was the environmental, social governance type overlay to the portfolio. And my thoughts I'll give mine and then please share. We'd like to go into that discussion deeper. I did not prepare for it today. I almost think if we did it properly, that it's going to take up a longer time than we usually have at these meetings. And I don't know if you want to do that as a side activity and the report back to the main board and committee?

Suzanne:

Well, let me ask the board members who might be interested in it. If it's all five, then I would say we'll find a time to come back and try to manage our time judiciously. If there's just a couple of us, then maybe we can have an offline meeting as long as we're not bothering quorum issues and that kind of thing. So I know that Catherine is very [inaudible 00:31:01].

David:

Sorry. I'd rather see us do it as a group. And I think we could certainly allow for more time at a subsequent meeting when it's going to come up we'll just plan.

Suzanne:

Okay. Very good. So let's ask for it to be tentatively on the agenda for next time.

David:

Okay.

Suzanne:

And David, if something comes up and it's not working for your total agenda, we'll do it the following agenda, is that okay with everybody?

Steve:

And I'm going to suggest that I think we can do it some justice in 30 minutes. I'm saying that carefully because that's not going to be easy, but if we do what we just did for 30 minutes and I did that for 30 minutes, I think we could do that. And if you decide, we need further follow up to do it, real justice probably be a full hour meeting, just throwing that out there.

Suzanne:

Okay.

Rochelle:

And Susie, just to clarify, when you say the next meeting, do you mean the next pension meeting or on the agenda for actually the next authority meeting?

Suzanne:

I was thinking the next authority meeting, but I'll leave that to David to decide.

David:

Oh, okay. I was taking the next pension meeting. All right lets see-

Suzanne:

And we can do it, Emily can do it that way either. I don't think it matters.

David:

All Right.

Suzanne:

It's where you have time in your agenda to do it really.

David:

Yeah. But it's a priority. So we'll do it over at the latest, the next pension meeting.

Suzanne:

Okay.

David:

But not at an authority meeting and Larry and I we'll get together as we start planning these things and see what other committees are this month and what other items they may have.

Suzanne:

Right.

Steve:

We will ask you a question on this. It will help us prepare. We know that, or we believe, we don't know from our reading. It appears that you have some efforts in this exact same vein in other areas of the entity, any available, I guess, publicly available that you're willing to share that you've worked, that you've already done in this space on your day to day business. Like I know that you have some water initiatives, obviously, et cetera, would help us, I think guide you in that and make that meeting efficient.

Larry:

Yeah. Steve, we can send you our corporate social responsibility report that we issued, which I think will give you a good snapshot of all of our ESG and social responsibility efforts that we've been undertaking.

Steve:

I think that would be great, Larry that would, I think, give us a head start, trying to help you on the investment side to follow suit with what you've done there.

Suzanne:

So thank you. So I have two questions related to investment reporting. One is given where we are in the current fiscal year. Do you feel like you need to make any changes between now and May. I know May is a long way off and I know a lot could get settled or a lot could become more disruptive, but are you at this point recommending anything to be changed?

Steve:

No. And I'll say why we've made a few changes already. So we did do some things like where we indexed. We actually more heavily weighted the equal weighted index versus the market cap weighted index. Meaning that helped us underweight those top 10 names if you will. I shouldn't say underweight less weight them. We haven't done this yet, but we're likely to add a little bit more to international as I referred to.

Steve:

But other than that, and oh, Alan and I are also meeting on the side to look at your alternatives versus other things we might be able to do in that space, vis-a-vis a bond market where rates are rising. So do we take some of the bond market money off the table and put a little more on alternative?

Steve:

So those three things, one has been done, two are being worked on, but we do believe that despite the fact that January's been tough, that we need to keep the asset and allocations strategic and long term oriented, and again fed by the liabilities if you will.

Suzanne:

Right. So on that note, I guess the question I have is looking forward. So I think the strategy has served us well for the last six years, right? Obviously we've exceeded our benchmark.

Suzanne:

Having said that it was a time, and correct me if you feel like I'm characterizing this incorrectly, but for an opportunity in equities to participate in the market more. However, we were following our strategic asset allocation, we were respectful to our liabilities and risk management associated with that.

Suzanne:

So we did that and perhaps gave up some capital appreciation, and hindsight and exact science in regards to our strategy of how we approach this. And we know why we did that as we look forward and the climate starts to change. If it changes to a more inflationary, more uncertain time for a longer period of time, if the strategy stays the same, how do you see it helping the portfolio or hurting the portfolio? Because in one regard, we might be able to capture better return on our fixed income assets. But on the other hand, we may not. So tell us a little bit about that look at your crystal ball and tell us.

Steve:

My crystal ball it always has a little fritz going on in it, but you're right the one benefit of rising rates is clear. That it A, it could reduce the liabilities and B we could actually get some yield on the fixed income side, but we're not there yet. I like to say we're in a tunnel and we really just entered the tunnel.

Steve:

I'm going to suggest we entered this tunnel of rising rates roughly in second half of December started to get rocky on the equity markets. There's multiple things we can do look looking forward. One of which I just referred to that we've begun to do, to lessen the equity only risk going forward. One is we can have less market cap oriented indexing. So not just the S&P or the Russell 3000 as we own, but some increase to equal weighting.

Steve:

We've done that we haven't made... I want to call it move heroic, but we're 65%. Where we're indexed we're 65% market cap weighted and 35% equal weighted. That's a big increase of the equal weighting to help reduce exposure to those just top 10 names.

Steve:

We've also done some indexing on the value side with Vanguard. So we've got a fairly big position in VTV, which is a Vanguard value index, so that moves us a little bit more towards dividend yielding as you could see in the report today. We could continue to move in that direction I suspect it will help us.

Steve:

Look at it we don't think growth is dead by any means. We just know as rates go up growth valuations come down because they're all priced on earnings 10 years from now, 20 years from now in the long run versus companies actively earning money and paying dividends today.

Steve:

We do think we can absolutely, and this is I say a big project for Alan and I between now and the next meeting is what else can we do in the alternative space? We sold SkyBridge we sold that at a very good high point it was up 20% somewhat percent last year don't quote me, Alan, correct me if I'm wrong on that number, but something that's not correlated with the equity markets, whether it be hedge fund or liquid alternatives of which you already own some. But we do think that would be a good place to protect some of the gains that we've made over the last six years. And I'd really like to see the [XRS 00:38:15] report to see what the funded status is now, because I'm quite sure that, that's looking more and more robust. What am I leaving out?

Steve:

Oh, I know what I'm leaving out. The fact that you already agreed to bring down your rate of return from seven to 6.75 is exactly. We didn't mean for it to happen this soon, but it was actually based on our forward looking equity forecast, being more muted and they remained more muted. So we do think we could either spread out a little bit from a constant. I know we haven't been over concentrated in equities, but we've had all of your 10 plus year liabilities and equities.

Suzanne:

Right.

Steve:

Well that was a lot. I also think we could have a little more international exposure because value is there. We might have to be patient with that and wait, but eventually, joke in our industry like you stretch this elastic only so far, and eventually it snaps. And if it snapped, that would mean those international values would come closer to US one would think. So there's lots of places we can find value today. It just hasn't been in the largest market cap stocks or in the S&P 500 at this moment in time. Did that make sense a lot?

Suzanne:

It does make sense. It's a big question for us, because five years from now, I want to look back and be able to say the same things that we've been able to say about the last five years.

Steve:

I will agree with you that I don't think it'll be as easy in the next five years, but I probably would've said that five years ago too.

Suzanne:

I agree. I agree.

Steve:

It's never easy. Don't forget we went through 18 together in the last five years. That was rough fourth quarter of 18 was brutal. I remember Rochelle and I talking back and forth like, "Oh my goodness, how can it make this much difference in just three months?"

Suzanne:

Right.

Steve:

And it does. And then we went through March, of 2020 together, which was about as bad as it gets. So time does heal things.

Suzanne:

It does. And those are more transient punctuations rather than long term declines or anything.

Steve:

Yeah.

Suzanne:

All right. So, and lastly, can't leave the conversation, any work on cost containment of our portfolio management that you need to report?

Steve:

Nothing prepared for today. Doesn't mean we're not always on it, but nothing prepared for today.

Suzanne:

Okay. Thank you very much. Are there any other questions from the board members?

Steve:

Did I have any other notes? Give one second. I wrote down ESG actuary international. I think we're good on our end, if you're good.

Suzanne:

Any questions from anybody? All right.

Catherine:

I don't have a question.

Suzanne:

Yeah, go ahead, Catherine.

Catherine:

Suzanne I don't have a question, but I just want to emphasize my interest in hearing the ESG overlay. I do think that how companies in which we invest manage their ESG does have an effect on the bottom line. The US is behind the rest of the world in these considerations. And it's something that I would like to hear more about

Suzanne:

And you shall.

Steve:

Okay. And we completely agree with you. Plus we brought it forward. I think the last meeting, but yeah.

Suzanne:

Yeah.

Steve:

We're prepared the agenda.

Suzanne:

Yeah. And I just don't think it was going to work out in this particular agenda.

Steve:

It needs its own agenda. I think to do it justice.

Suzanne:

Okay. Very good. We'll work toward that end. Steve, Joe Alan. Thank you very much for being here today. Appreciate your time and attention. I think the board has got the information that it needed for this quarter and we'll look forward to both presentations going forward within the next couple of months.

Steve:

Thank you all stay safe. And be well.

Suzanne:

Yeah. Thank you. Bye-bye now. And pardon me for one second, because I'm on one computer trying to see documents and see you at the same time. So I'm going to be looking at a document and not at people for the next couple of minutes. And I apologize for that, but we have a proposed resolution moving on to item number three on the agenda, which is to consider an act on a resolution designating senior management functions for RWA's 401k plan.

Suzanne:

So I don't know if you recall, but in our previous audit or audit conversation, it was brought up that the 401k plan at the RWA does not filter up to the RWA board in any oversight fashion. And it was a desire of our auditor and of our management team to make possible. And Rochelle did a meaningful amount of work alongside the auditor to figure out what does that really matter? How much supervision did the RWA board need to have, et cetera, and came up with this resolution, which I think does the... I shouldn't say does the trick, it's such a bad term for what we're talking about, but I think it fulfills the idea of what the board should be doing at this level for the 401k.

Suzanne:

And so I'm just going to read it. So it's on the record and see if anybody has any questions, but whereas on July 18th 2013, the pension review committee consisted of members of senior management with human resources and finance responsibilities was authorized and empowered to act on routine matters related to the authority, salaried employees, retirement plan, and retirement plan for the union, and with introductions with instructions, excuse me, to defer final action on non-routine matters until they consulted with what is now the pension and benefit committee of the authority board.

Suzanne:

Now therefore let it be resolved that the pension review committee's responsibilities be officially expanded to include the routine matters related to the authority voluntary investment plan with amendments and non-routine matters requiring the recommendation of the pension and benefit committee and authorization by the authority board.

Suzanne:

Be it further resolved that the pension and benefit committee of the authority board will receive an annual report of the authority voluntary investment plan. So that's what we have proposed to the board to be a part of, as it relates to the 401k routine matters, it'll be held inside the pension and benefit committee and any such matters that need to be brought to our attention will be brought as needed and on an annual basis, we get a report.

Tony:

Can you describe if possible in your mind, what are the issues that would come directly to the authority board versus those that would be consulted with the pension and benefit committee?

Suzanne:

Thanks. I would have asked for Jeanine to explain that. And so Larry, I don't know who would be the one who would say when they would push those items forward to the board.

Larry:

That would be something that Rochelle and I would consult on and determine those non-routine items that need to be brought up exceptions to [call 00:45:32] or perhaps a change in investment part accounts and those sort of things.

Suzanne:

Right. And also if any reason the plan itself was getting altered would be something that will come to the committee as well. So it's really the core fundamental things that make the plan work that would come up to the board. So again, your investment strategy accounts, any maintenance or administrators that in fact service it, any investment management association we have with anybody who helps us advise on the plan and an investment performance review on an annual basis. So those are some of the things that would happen or again a fundamental change in the plan.

Steve:

I have one quick question in the second paragraph, is it meant to say including routine matters or should it say to include non-routine matters? I'm not-

Catherine:

At the pension review committee is the management committee not [PFAS 00:46:41].

Catherine:

Right. We're the pension and benefit committee. Not to be confused with the pension review committee.

Steve:

Right. Okay.

Suzanne:

Sorry. It's confusing.

Tony:

Oh, you are going to confuse the heck out of me.

Steve:

No, I got it. Now it makes... So I was just-

Suzanne:

No, it's a good catch. You look at these things a 100 times. You don't see that small stuff. Any other questions, comments or concerns?

Catherine:

No.

Suzanne:

Okay. My understanding, this is a resolution that we need to vote upon. Is that correct?

Tony:

Yes.

Suzanne:

Okay. So I'll entertain a motion to put forth the proposed resolution dated January 27th, 2022 as presented to the pension and benefit committee.

Catherine:

I'll move the question.

Suzanne:

Thank you, Catherine. Is there a second?

David:

Second.

Suzanne:

Thank you, David. Is there any other further discussion questions, comments, or concerns? Okay. With that, I'll ask all those in favor. Say aye.

Board members:

Aye.

Suzanne:

Thank you. Any nay and any abstentions? Okay. Very good. Let the record show that it passed unanimously by the five member authority board. And that concludes my business as the pension and benefit committee, unless there's anything else that anybody has on their mind

David:

That I'll make a motion that we adjourn as the pension benefit committee and reconvene as the authority.

Catherine:

Second.

Suzanne:

And all those in favor, say aye.

Group:

Aye.

Suzanne:

Thank you. And David, it's back to you.

[PENSION & BENEFIT COMMITTEE ADJOURNS AT 1:17 PM]