SOUTH CENTRAL CONNECTICUT REGIONAL WATER AUTHORITY

PENSION & BENEFIT COMMITTEE

APRIL 27, 2023

MEETING TRANSCRIPTION

[PENSION & BENEFIT COMMITTEE MEETING STARTS AT 12:33 P.M.]

Suzanne:

Thank you David. Thank you. And I'm in a public place, so I apologize if there's any background noise, but I'll try to keep my mic off as much as I can. Good morning and good afternoon everybody. We have got quite an agenda for the pension and benefit group today, so I just want to make sure that we are purposeful, but move along as best we can while answering anybody's and all questions. So first off, we're going to talk about the minutes. I'll entertain a motion to approve the minutes.

Catherine:

I'll move.

David:

Second.

Suzanne:

Thank you. Thank you. Is there any discussion, comments or questions? Okay, seeing none. All those in favor of approving the minutes, please say so by saying Aye. Not hearing anything.

David:

We said aye.

Suzanne:

Okay, great, thank you. Any nays? Any abstentions? Great. Let the record show that the minutes proved unanimously. Item number two is to review the 1/1/23 actuarial information and assumptions for our pension and our VEBA plans and their related contribution amounts. And today we have both Jeff and Albert from the Angel Pension group to take us through that. Would you guys like to start with, and Rochelle, would you like to start with the salaried plan, the executive summary? Is that where you'd like to start?

Rochelle:

That would be good.

Suzanne:

Okay, so let's do that and I'll turn it over to Jeff and Albert.

Albert:

Perfect, thank you.

Suzanne:

Welcome.

Albert:

So we will start with a salary plan. So again, the layout of this summary is very similar to what we have reviewed during our last meeting. So at the top we show you the statistics of the participants covered under the salary plan as of 1/1/2023. So you have 71 active participants, those who continue to be employed by the authority. You have 64 participants who have left employment and yet to commence receipt of their benefit. And you have 173 participants who are already receiving their monthly benefit paid to them from the plan assets. So for the total of 308 participants. So you can see the plan participant count have not changed significantly year over year. And that's what we want and hope to see in pension plans just for consistency standpoint as possible. So that has been the case.

The average age and average years of service have gone up slightly just a little under a year given the migration of the participant ages as we move along. And the same is true for the average inactive participant age have gone up from 68.8 to 69.2. Again, we expect a slight increase as participants get older in the firm. And then the average inactive participant life expectancy have gone down a little bit because again, the participants are slightly older than what they were the year before. So no surprises there.

Everything is moving along as expected and there's no news or concerns to report. Down below, so that's where we talk about the plan's market value of assets. Again, as a reminder to the group, the summary we're looking at is as of the last valuation measurement date 1/1/23. So the market value of assets at that point was measured at 39.963 millions of assets. And as a reminder to the group, we are using the actual value of assets when determining the contribution recommendation for your pension plans, both union and salary plan.

So the value of the actual value of assets was just a little over $44 million. That was the year where it actually helped you to use the actual value of assets because we know 2022 was rather volatile year on the asset side. You got a negative just under 13% greater return on investments. So ability to use smooth value of assets for determining contribution certainly was helpful given the volatility of the environment we have seen in 2022.

The contribution levels. So this is what we show was the contribution year in the prior year. So the contribution in the salary plan was just on the $3.2 million and the benefit level that you pay out to those retirees, 171 or so retirees, that's just a little over that 3 million 278. So you can see that the lion share of attrition of assets that you pay out to the participant gets replenished by the contribution made into the plan each year.

And then the administrative expenses have gone up slightly from the year before from about 1.92, about 231,000. So again, no issues or concerns. Again, the volatility was there on the asset side and we'll have Steve and his team to opine where the assets are now. But given the smoothing mechanism that exists for this planet helped buffer that volatility last year.

So next we talk about the plant's funded status on the funding basis. So as of 1/1/23, when we measure plan liabilities using the long term greater return on assets expected assumption of 6.75%, we calculate that the plan on the market value of assets is it about 77% funded. So that's a reduction from 89%

funded the year before. And again, all of that bulk of it was due to the negative 13% return that we have seen in the environment in 2022.

Now down below we can see that on the smooth actuarial value of assets as expected, the plan funded status stayed about flat. So last year was about 83%. Now we're projecting it just under 85%. So because we have ability to use smoothing of the plant assets where we average your gains of loss over four years. So that gives you an opportunity to have more of a stable funded status on an actual value basis of the planned funded status. So any questions on any of what we just covered so far?

Suzanne:

Albert, I have a quick question on the, excuse me, on the employer contributions prior year, excuse me. Sorry. Sorry about that everybody. In the prior year administrative expenses, et cetera, in your experience, this seems to be static certainly over the last two years, a little variation there, but does that generally move like that in small variation? And then are there things that trigger large variation where we see large benefit payments accelerate up curve?

Albert:

Yeah, that's a good question, Suzanne. So what we see with your plan is what the traditional pension plan that does not offer accelerated lump sum option would expect to provide. So you'd expect a steady growth and benefit payment and expenses but not significant jumps year over year. So what we see is very consistent with what we would see with the traditional defined benefit plans where there are no accelerated means of delivering plan benefits like lump sum payments to the participants. So it's very natural and that's what we would expect to see in hill plan, similar to other situated plans similar to yours.

Suzanne:

So the things that can cause a cliff are elections to do a lump sum or a very large group of folks retiring and taking on their benefits immediately?

Albert:

That's correct.

Suzanne:

Okay, thank you.

Albert:

You're welcome.

Rochelle:

I just want to add, so the salary [inaudible 00:11:20] for lump sum, but there hasn't been significant lump sums in the two years that we're talking about.

Albert:

That's right.

So next what we need is the plan, actual determined contribution. So we show that we calculate it as of 1/1/2023 that actual determined contribution is 1,858,865, which is a slight reduction from the year before. And the reason for that is because we are able to use the smooth value of assets. So it allowed you to have a fairly steady, actually determined contribution derivation that we have seen here.

Now the number of down below that is extremely an eye-catching number is as we have discussed over the years, your group has identified a specific time horizon. In perfect world, you would want the plan to be fully funded, but since the volatility that we all have seen in the environment, that is the reason why we see a significant increase in this fiscal year contribution. If there is a goal to fully fund the plan by 5/31/25. So it jumped up from just under 3 million to about 7.4 million.

Again, it's not required, but it's something as a barometer measure we keep in our communications with you so you see what level of contribution would require you to fully fund the plan over that close period through the end May of 2025. I know Rochelle will talk a little more about this, about ability to contribute additional dollars in the plan from what's what's available in the budget. But because of the market volatility in the prior year, that is the key driver as to why we see the level of contribution jumped from 2.9 million. Again, it's not required barometer to keep in mind when you try to determine the [inaudible 00:13:32].

Suzanne:

Thank you. Albert.

Rochelle:

I muted you by accident. You on mute, Albert?

Albert:

Sure. Yep.

Suzanne:

Albert, that's what we do when we hear news that we don't like. Okay?

Albert:

Yeah, I figured that. Thank you, Rochelle. So on the assumption... So this year there were no changes in the assumptions. The mortality table that we were using last year is the same mortality that is the latest. And what we used this year, there were no changes in the recent mortality tables that the society reactors have published. So we are not recommending any changes to the mortality table, the salary scale.

Based on our assessment of the past and our discussions with Rochelle and team of what the future expectation is, we thought that 4% salary scale was still reasonable assumptions to keep. And then lastly, based on our discussions with Steve and his group, 6.75% as the discount rate, which is derived from the long-term rate of return assumption of the plan portfolio was still in our view as a reasonable assumption. But again, Steve will refer to you and your guidance as to what that assumption should migrate to over the next year or so.

Suzanne:

So thank you Albert. Any other questions on the executive summary of the salaried plan? Okay, Albert, are we all set to move on to the union plan?

Albert:

Yeah, sure. Yeah, this summary will have the same layout, so we'll go over that real quick. So on this plan, again, some statistical information. So this plan has 64 active participants actively employed by the authority. You have 39 participants who left employment not yet and received an 117 already collecting for the total of 220. So again, the count is very steady and fairly flat year over year, which is certainly helpful to help control the costs of the plan, liabilities and so forth.

So the average ages again have gone up slightly because of aging of the participants and so is the service. And then because of deaths of some of the participants and migration of others, the average age of inactive participants have gone down a little bit because of deaths that we have observed. Yeah, no concerns, no issues. That's just the natural evolution of the plan. And life expectancy, again, because the average inactive age have gone down a little bit, then life expectancy for their average inactive population have gone up slightly as well.

So the next section is the plant assets. Has the bar on my end. I can't see what the numbers are. I don't know if you guys see the same bar, but okay, it actually went away right now. So in terms of the plan contribution level, so contribution last year in this plan was about 1,133,000. The level of benefit payments is 1,817,000. So you can see that you are paying out slightly more than what you are contributing in the plan, but I think Steve and his team does proper asset recalibration. So there are enough of assets available in liquid form to promote the benefit payments. So there are no issues. And again, the plan administrative expenses have gone up slightly from last year to this year, mainly on the custodial side of things. So again, nothing over concern to us.

On the plan funded status, so from a market value of assets, just like in the salaried plan because of the negative almost 13% return last year, we do see a drop in the funded status from just under 95% last year to just under 78% this year. Again, that's mainly a function of the asset volatility that we will have seen last year, but because similar to the other plan, we have ability to use actual value of smoothing gains and losses, we are seeing fairly stable funded status on the actual value. 88% last year to just about 86% this year. So again, it's fairly stable. Any questions on any of that?

All right, and then last section is the actual and determined contribution. So it did go up slightly year over year, so it went from 913,000 to 1,062,000. Again, that's because the participants are getting older and the plan, they do have additional accrual. So they have the present value of their benefit is increasing as they get closer to retirement. So that's one of the key drivers as to why we see the actual determined contribution have gone up a little bit from last year to this year.

In terms of contribution. So again, that number have gone up from 767,000 last year as to what would it take to fully fund the plan to about 3.9 million? Again, that's a function of the asset under performance that we have talked about, but to the extent the cash flow allow, and again, will talk more about this, funds should be allocated in addition to actually determined contribution to go into this plan to continue to improve its funded status on the overall goal to hundred percent funding level in the near future. Nothing of a concern for us. Again, Steve will talk where the assets are right now versus where they were at the year-end, but hopefully there have been some improvement which will dampen these numbers as we will move next year.

And then lastly, the assumptions here. Also staying the same, no changes to the mortality tables. Similarly, the discount rate, which is the long-term return assumption, we don't recommend any changes unless Steve and his team recommended. Excuse me.

Steven:

Our forecast on the...

Suzanne:

[inaudible 00:20:38].

Steven:

Do you want to share us to share that just for one minute on the forecasted numbers?

Suzanne:

Sure, if you'd like to.

Steven:

So last year we ran the numbers, our long-term forecast was 6.49% for the allocation and the committee decided we went to 6.75 for a little bit of out performance versus the benchmarks and then it has barely changed with Morgan's outlooks this year. It went from 6.49% forward-looking long-term to 6.47 forward-looking long-term. So there's really no... It's two basis points of change. Basically flat.

Suzanne:

Okay. Thank you Steve. All right. Any other questions on the union plan? Comments? Okay, so let's move along then, Albert, we'll go on to the OPEB.

Albert:

Sounds good. Again, the layout of this summary, just to keep it consistent is fairly the same. So this plan has a larger participant pool, covers both our portions. So the number of active participants that are eligible for medicals, 139, slight drop from 165 last year, and then active that are life only eligible 20, which is the same as it was last year. You do have increase in retired participants with spouses from 243 last year to 262. But all in all that the total count have gone down a little bit from 528 last year to 521. So again, fairly steady and flat level of participant counts included in this plan.

Average age did increase slightly from just under 15 years to over 50 years. Again because of participants who are one year older average age of active stayed about flat. So it's coincidence, but you have about flat average remain active service life of active participants. Then average age of retirees did go down slightly from last year, again just based on mortality of the participants and so forth. So all in all it's a fairly stable and tight group of participants include in this plan.

So again, similar as performance on this plan, negative 13% or so. For this plan, and it's very common for post medical plan, we are not using the actual smoothing mechanisms in here. It's rather unusual to see for the post medicals to smooth any acid gains and losses. But it's also not as impactful in this plan because this plan has a lot less assets to liabilities. So if you look in the sections related to the funded status, we can see that the plan funded status last year was 37.5%, and this year it's 36.06%, so not as significant of a drop in the funded status because the plan is not as well funded as the other plans. If you recall, this plan in the past was just pay as you go. And then only in the recent several past years you started to fund this plan. So as this funding of this plan goes up, the volatility of the assets will have more impact on the funding status on the plan, but we are not there yet.

Suzanne, if you could just scroll up just real quick. I know I skipped over the reference. Perfect. Yes. Just in terms of the contribution levels. So contribution in this plan last year was about 1.8 million. That was two years ago, so last year was 1.7 million. And the benefit payments are just about 1.4 million or so last year. You can see that you're contributing slightly over what is being paid out of the plan. So that's good news that you have less extra buffer going into the plant versus what goes out of the plant. No concerns, no issues, everything is fairly stable here.

In terms of actually determined contributions for this plan, again, it's stayed about flat because the participant counts and benefits were staying about level, so about 1.95 million last year has actually determined contributions and 1,935,000 this year. So again, no concern from our standpoint. Everything is fairly static and stable from this plan as well.

And then lastly on the assumptions, again, very similar way in the 6.75% because the asset allocation on this plan is very similar to the other two plans. So we don't see from our standpoint that there would be any necessity to change the discount rate for this plan. And the mortality table stay the same of last year. So no recommendation to change the mortality table.

So all in all, I think your plans are fairly decent help and again, there's no issues or concerns from our end. Now then we continue to recommend to the extent the cash flow allow, we continue to make more contributions in the plan in excess of actual determined contributions for the goal to bring the plans as close to a hundred percent funding targets as possible. Again, to extend the cash flow outs

Suzanne:

Thank you, Albert. Any questions on the OPEB executive summary? Okay. So before we move on to the year-end contributions, is there anything else on any of this information that anybody has any questions on?

Okay, so we'll move along. So we're moving on to item number three, which is the potential year-end contribution. We'll start with the proposed resolution for the pension fund. I think we'll see pension and union both on here. Yeah. And essentially we have a salaried contribution of [inaudible] contemplated in this resolution and a union contribution of 1.727510 for the union contribution. Would you like us to take both of these at the same time, David?

David:

Sure. Yeah.

Suzanne:

Okay, good. All right. So why don't we put a motion on the floor. We can discuss it further if you'd like. I'll entertain a motion to make the proposed pension contributions as presented in both salary and union plans.

Kevin:

So moved.

David:

Thank

Suzanne:

You. David. I think, or Kevin? I'm not sure. And the second.

Catherine:

Second.

Suzanne:

Thank you Catherine. Is there any discussion, questions, comments, or concerns?

Rochelle:

Just make a comment that says, what was in our read application of what's in our place?

You answered my question. What's in [inaudible 00:28:22].

Suzanne:

Yeah. And any additional contribution will come down the road, correct? Rochelle?

Rochelle:

That's correct.

Suzanne:

Okay. Great. Thank you. All right. Any other questions, comments or concerns? All right. With that I'll ask for a vote from the board members. All those in favor please say I.

Kevin:

I.

Suzanne:

Thank you. Any opposed? And any abstentions. Okay. So with that, let the record show that it has passed unanimously to make the proposed resolutions as presented for both the salary and the unique plans.

Next step is the proposed resolution for the VEBA plan. Here we're proposing a 1.640,907 for the VEBA contribution. Can I get a motion on the floor to make the contribution as presented in the resolution?

Catherine:

So moved.

Suzanne:

I think I'm not. Thank you. I think I'm not hearing everything, so thank you for repeating that. Is there a second?

Kevin:

Second.

Suzanne:

Thank you. So Catherine moved it and Kevin seconded it. Any other discussions? Again, confirmation. Rochelle on this number?

Rochelle:

So this is actually a little more than what's in the budget. It's pending cash contribution from the actual [inaudible 00:29:57].

Catherine:

And why is it lower than what was in the budget?

Rochelle:

Factorial information budget.

Catherine:

Okay.

Rochelle:

But could you know reason that [inaudible 00:30:11].

Catherine:

Okay.

Suzanne:

Catherine, did you get your question answered?

Catherine:

I did. Thank you.

Suzanne:

Okay, any other questions, comments, or concerns. With that, all those in favor of the proposed resolution for the full year 2024 VEBA plan contribution as presented, say aye.

Committee:

Aye.

Suzanne:

All those opposed, and any abstentions? So let the record show that the members present voted unanimously to pass the proposed resolution for the VEBA plan contribution.

Moving on to the additional full year 23 pension contribution. The resolution shows an increase of 2 million dollars as combined contribution. So this is the additional pension contribution for full year 2023. Do I hear a motion to approve the proposed resolution for additional pension contribution full year 2023 for 2 million dollars?

Kevin:

So moved.

Suzanne:

Thank you Kevin. Is there a second?

Catherine:

I'll second it.

Suzanne:

Thank you Catherine. Are there any questions, comments, concerns?

Rochelle:

So this is not consistent with our objection.

Suzanne:

Okay.

Catherine:

Just a question. What did we do last? Was it about 2 million last year or?

Rochelle:

Last year was [inaudible 00:31:40].

Catherine:

Okay, so [inaudible 00:31:43].

Rochelle:

We have done contribution [inaudible 00:31:46].

Catherine:

And then a second question in those [inaudible 00:31:53] minutes ago and then it added two [inaudible 00:31:54] rated $11 million more this knocks it down a $9 million more. Am I reading that [inaudible 00:32:02].

Rochelle:

Doesn't necessarily [inaudible 00:32:07] that way, but yes, absolutely.

Catherine:

Okay. Thank you.

Rochelle:

[inaudible 00:32:12].

Catherine:

Okay, thank you.

Suzanne:

Any other questions from the group? All right. Seeing none, we'll move it to a vote. Although in favor of the proposed resolution for additional pension contribution for full year 2023 say aye.

Committee:

Aye.

Suzanne:

Thank you. All those against say nay. Any abstentions? And let the record show that the board unanimously voted for the resolution addition of 2 million dollars to the pension contribution full year 2023.

Okay. Any other questions, comments, concerns or action before the committee related to pensions? Rochelle, do you have anything else of concern?

Rochelle:

No. Thank you for [inaudible 00:33:03].

Suzanne:

Sure. Okay, very good. Thanks very much. Jeff. Do you have anything else you want to add before we say goodbye to you and Albert?

Jeff:

No, no thank you. Albert said things are pretty status quo, so no thank you all for the time. Appreciate it.

Suzanne:

Okay, very good. Thanks very much Jeff and Albert, we appreciate it and you're more than welcome to stay for the investment market presentation if you so choose to. We're going to move down to item number four, quarterly investment performance review for the pension and VEBA plans from Steve Kelliher and Joe McLaughlin. And is it Alan Kantapin?

Steven:

Yes. Alan is here too. Yes.

Suzanne:

Great, thank you. Welcome guys. Good to have you.

Steven:

Thank you.

Suzanne:

I'll turn it over to you. The committee does have work after you're done so we'd appreciate you moving swiftly, but to cover it thoroughly and make sure all questions get answered. Appreciate that. Welcome. Go ahead.

Steven:

Certainly. Thank you. Good afternoon everyone. I think we will be relatively concise today. We the news is positive versus the last time we met and things are heading back in an upward direction, so we're going to run through some numbers quickly and we don't have any additional business today other than to report the current numbers.

So why don't we take a brief look at what's going on in the markets if we could jump forward. Thank you. So this slide you saw the last time because the story remains similar, not exactly the same but similar. The story remains and the markets remains inflation and interest rates. And since we last met, obviously there's been a bit of a banking crisis led by Silicon Valley Bank and a few others. We'll talk about that just a little bit. What you're seeing here is this is the bond market as you may recall back to 1976.

So you can see what an anomaly last year was. The gray borrowers with the bond market, this is measured by the Bloomberg Ag, the most broadly used measurement of bonds was down 13% last year. And that alone was unprecedented and it was also down, if you can see just to the left of that, it was down 2% the prior year. That's the bad news combined over 15% when you compound that back to back.

Year to date, so first quarter rates have come down quite a bit. Rates were hovering higher. When I'm talking about interest rates, I'm not talking about what the Federal Reserve is doing at the short end of the curve, but what the market is doing more in the longer end of the curve, five and 10 years plus. And you've seen rates that peaked in the mid 4% range are down to the mid three.

So rates are down a lot and that really triggered when the Silicon Valley Bank collapse happened. That has caused the bond market as rates go down, bond values go up to be up 3% now on a year-to-date basis. So that is a turnaround and we expect that trend to likely continue, perhaps not at this pace because that three percent for a 90 day period, but we do expect that the fed is close to being done if not being done. The markets still believe that the fed will go up another quarter of basis point at their next meeting, but then we'll be done. And that would be good news for both the bond in the stock market in our eyes. You saw the GDP number coming a bit soft today. So that says that the fed is very likely to do that at the most. You are seeing inflation numbers still a bit stubbornly high but vastly below where they were a year ago. So let's jump ahead.

So that's the bond market and you can see here, I'll just use the leftmost one. This is US treasuries. The gray is where they've been over the last decade. You can see the low end of the gray on the far left was a half a percent. The high end was four and a half, which was earlier in the year. When this printed at quarter end, the blue diamond is where the rate was on the 10-year treasury 3.8. And again, last I looked, that was closer to between 3.4 and 3.5. So rates are coming down again and that is causing asset appreciation on the fixed income side. It is interesting to note, the purple horizontal bar is simply the median. So that says during the last decade the rate on that particular treasuries, the 10 year half the time has been below one and a half percent and half the time has been above.

You'll note the blue diamonds in all of the asset classes that you own in the various retirement programs are at the higher end of the gray bar. You could go to the two over investment grade corporates, 5.2%, there's quite a bit of exposure there. Mortgage backed securities, 4.5%, quite a bit of exposure there. Asset backed securities, 4.9, quite a bit of exposure there and so on.

So you are getting very respectable, strong rates of interest in the bond side of things still and also seeing some capital appreciation now. Good jump ahead. Does that make sense? I hope to folks. So bond market is much more healthy and we believe we have seen the peak of long-term interest rates for this cycle. That doesn't mean the fed is finished, it means the longer rates are likely peaked.

If you look at this, so this now takes not your portfolio but a generic investor, not enormously different from your portfolio in a way, you're much more custom obviously, but it ends up close to this. We'll see it in a minute. This takes a 60% equity, 40% fixed income investor and it says again, you see to the far right there, last year that investor was down 16%. Last year just by way of education and discussion, the bond market was down 13%. You saw that the S and P was down 18 and your funds were down about 13. So it's interesting that you did outperform even though those numbers from Albert looked difficult to swallow right down 13. The down 16 would be a generic balanced investor. As you can see in history, it was one of the worst years ever for a balanced investor.

It's again because it wasn't just the stock market, we don't even think really it's worth more talking about the bond market at this moment than the stock market because the stock market's basically being the bond market is the tail that's wagging the stock market dog. If that makes sense.

Year to date, you now see that balanced investor up 6% just in the first quarter. So there is some obviously not recovered at all fully from last year, but heading in the right direction. And we could jump ahead please.

How about valuation? We always like looking at this. Where's the US equity market today? It peaked out 15 months ago in the upper right at the top, January 3rd, 22, 21 times earnings. The market through the first quarter still remains down 14% in the very upper right corner there. And as of the end of last month, the forward-looking multiple on the market is almost 18. That sounds still a little high historically, however, if you take out those large tech names at the very top of the S and P, you get into a multiple that's closer to between 15 and 16 times earnings, fairly close to long-term numbers and arguably reasonable X those top tech names that are actually very much leading the market this year. We'll talk about that again, it's almost back to the future on what's leading the market and it's really been five big tech names this year. Could jump ahead, please.

So I think it's important for the committee to take a look at other bear markets in modern history and where are we at on the recovery process. And you see on the left, this is every bear market that we've had since the Arab oil embargo in the 70s, the last time we had high inflation in the early 80s, 80 82, the Reagan vol years 87 stock market crash, 2002.combust, 0709 financial crisis. The 2020 Covid, 34% down very quickly.

And then the bear market that we're actually still in currently. Technically the definition of a bear market is down 20% or more. And you can see we're down 26% from January of last year until October when it hit the bottom and it's now six months later it's up 15% from the bottom. So to officially have the end of a bear market you would say we're up 20%. So we still consider we're in a bear market rally. So an upwardly biased market still within a bear market.

Few notable things here. One is what happened during Covid? One up from the bottom, the market was down 34% in a very rapid manner, exactly, basically three years and a month ago now. And you could see where it was three months, six months and 12 months later what's notable is 12 months later it's the best recovery we've ever had. And if you jump back for one moment to the prior slide and I'll get to the numbers quickly.

Look where we were before Covid hit February 19th, 2020, got right side of the slide there. We had that huge dip that ended in March 23rd, 2020. We recovered that very quickly and then I would argue the amount that we shot up over and above the February, 2020 was primarily due to all the stimulus, to the money printing, to the fiscal stimulus, what we needed to get through Covid. But clearly, and we could jump ahead clearly that looks like an overshoot in perfect hindsight and I believe that 72% up says it the biggest recovery in history from not one of the biggest market drops in history, 34% was big but not the biggest in history by any means.

And I thought it was a valid observation to say I think what we're going through is a normal correction to an overly hot equity market due to the excessive money printing that we were having. And I use that meaning the federal reserve in Congress. The other observation I think is optimistic here is if you note these bear markets don't last more than two years. We are in our 16th month right now. So we're looking forward a bit more optimistic than we've been, yet we still think is going to be a lot of volatil leave from here through this summer. And the personal data I'm using is saying I will breathe a sigh of relief that we're through this period of time, but probably not until November 1st. So I think we've still got some rockiness to deal with between now and the fall. But the progress is good so far.

The progress is typical so far as you can see six months out. It's on the low end of typical right? That 15%, six months from a bottom is not as robust as most of the other occurrences. It's also notable that our drop of 26% is not as robust as the other occurrences. So it makes some sense. Any questions on that?

Hopefully helpful. Let's jump ahead then. We worry about this in the short run. This is a slide we often use with retirement plan participants. Where in a 401K or a 403B. You go back all the way to the early twenties, a hundred dollars in the S and P is worth 1,000,240 basically by now. And that's through almost anything one could dream of, from multiple World wars to great depression, September 11th financial crisis as you name it. It's time in the market that matters. And we always like to say as opposed to trying to time the market. And we've been in one of those times that's been difficult to hang on, but so far you've hung on nicely and it's starting to pay off. We'll show you that.

One more slide please. What does Morgan think? We're still very neutral for the remainder of the year. Morgan's base case here on the left, earnings of $241, a multiple of about $163900 target. We're above that today just by a little bit, but that would be about a 5% drop between now and year end. Our upsides only a couple percentage points. Our downsides double digits still. Earnings are coming in a bit better than expected, but that's an interesting media thing.

Earnings expectations have been hammered down, if you will. So when they come in better than expected, it's not surprising. We always like looking how are they coming in versus last year, not just expectations and earnings are down from last year so far. So it's interesting that two different numbers, beating expectations is one thing when you've reduced expectations, but beating last year's numbers are another thing and that is not happening yet. We do think that will happen as you get later in the year because the comps will be easier.

So we're optimistic. Looking forward to 24. Our optimism begins late this year if that makes sense that we hash through this market in the meantime. But so far this earning season's going quite strong and the markets up a lot today. Actually. Last I looked at least.

Let's jump to the next one. We'll look at the plan. Obviously the executive summary of the investment policy statement. We are in compliance with the preferred and the minimum max on the asset allocation. Albert just talked about the primary goal here, which is to be fully funded by fiscal year 2025 and what that would take either some strong market returns or contributions or combination. And the long-term goal is to meet the 6.75% rate. Let's jump ahead, please.

I'll go fast here unless you slow me down. Salary and union plans pie chart. Think the most important thing is the box in the upper right, almost 57 and a half percent roughly in equity at this point in time. This is as of March 31st. Three quarters of that equity is domestic, roughly a quarters international, which by the way is doing extremely well right now. [inaudible 00:47:00] international, it's roughly 8020, 8118, 8218. You do have an overweight in the bottom of that box to value. So about 27% is in value or dividend oriented type equities with 24% in growth type equities. The market is the reverse of that and then some. So that really helped last year. It's spent a little bit of a holdback this year. The number's still good, but a little bit of a holdback because this market this year is being driven by literally five names. Those five names... Alan can probably tell me the number.

Those five names are up 20 some odd percent while the other 495 names in the S and P are only up 3% in change. So it's very interesting that the market is led by five names. It's almost like we're back in 21 again. As interest rates have come down, the largest tech stocks have really taken off again. We like that value orientation because although to you last year at 12.9% down may not have felt like a smooth year. You just saw a typical balance investor was actually down 16. So that's a big dollar difference. Jump ahead, please.

Basically they're at their benchmark with a few exceptions. We're not carrying global bonds right now. So the minus 3% in the middle page, that's at zero. Very light, don't have any hedge funds and very few hedge vehicles. So light there and thankfully at the moment at least very light in commercial real estate, only a 1% rate waiting there. That's been a very challenged area at the moment for some of your peers and light in cash. So all of that results in a bit of an overweight in US equities versus benchmark, sorry, not target. A bit of an underweight internationally, which is closed the gap a bit lately and in overweight in bonds.

If we jump ahead. The VEBA looks very similar. The VEBA looks almost identical. Frankly, the same attributes apply here, so I won't belabor it. And if you jump to the page after that, you'll see that the allocation is very similar too. A little bigger overweight to equities in domestically, a little bigger underweight internationally. But otherwise the number's pretty much the same. Light in global real estate, light in hedged alternatives, zero exposure to non-US bonds.

And we could jump ahead, please. We'll get to the numbers. Here's the first quarter. So this is January 1st to March 31st. You start in the lower left. This is the salary, the union and the VEBA at the top. And then the matrix trusts balances where the benefits are paid from in the deposits and which Charles go into at the bottom of the top half.

72 [inaudible 00:49:35] 859, 355 was the ending value last time we spoke. You had with benefit payments during the time period of what Charles at 570,000 in change. Thus your simple mouth net invested is a 72289, 75111 at the end of the period. So a dollar gain for that period of 2 million 8223.93%, net 4.02% gross of costs. So about 4% for the quarter. That's a 90 day return, not annualized.

The actuaries during those 90 days need 1.69. So obviously it's back to outperforming that number for that very small timeframe.

Your middle strategic benchmark is 513. So a bit below that. Your middle strategic benchmark using the average stock in the S and P versus the market cap weighted is 335. So a bit above that. Not surprising in the middle of those two because we have some equal weighted and some market cap weighted. If you look in the bottom right, I think this is helpful. You see the S and P of seven and a half percent year to date with the broader Russell 3000, 3000 largest US companies up 718.

Again, that seven and a half is just over 3% if you take out the top names. As a matter of fact, if you look at the equal weighted, so the S and P 500, $1 in each of the 500 stocks for a total of $500 for an example, as I always use, the average stock was up 2.93. Very different story. The average value stock was only up 1.01. And the growth names, again, those tech names are up 14% again. It's very interesting. The markets become split again. Bond market, as you already saw, is up about 3%. Jump forward, please. We'll go to some longer term timeframes.

Fiscal year. I won't read you all the numbers. But basically the fiscal year through the end of March at least. So from June 1st till March was basically breakeven for all practical purposes. Up eight basis points, net $29,000.39 gross before costs. That is better than it was the last time we spoke clearly and it's way ahead of its benchmarks because in that period our dividend oriented focus helped a lot. You see your strategic midpoint market cap weight, it is down point .47, and your equal weighted strategic midpoint is down 108. So some decent outperformance there over the fiscal year, but just back to zero at this meeting, at least. Jumping ahead.

And this is across all of it. Trailing 12 months, still a negative number, trailing 12 months, you do see down 440 before costs and 475 after. A loss of 3.8 million. Vastly improved obviously from down 1290 for the calendar year. Not making the actual returns on a trailing 12 month basis, but outperforming the benchmarks by a lot frankly. Your mid strategic benchmark is 6.57, your mid strategic using the equal weighted benchmark is down 562. So solid actual investment results there versus where the market has been.

And jumping out further. Here's where you start to see some interesting things. This is Covid to Covid. So if you think about this, April 1st last year with Covid was just beginning, I mean three years ago, excuse me. So this is your Covid performance in an interesting way. And it's been a very interesting time period to say the least. Covid hit, the market crashed, basically, liquidity caused it to come back up. Excessive liquidity caused us to enter a bear market and currently appear to be in a recovery stage in that bear market for the moment. So three years ago there was 60,357480 in the combined plans, a net 2,000,006 roughly has come out. That's net of your contributions.

So your simple net invested dollar amount at that moment in time is 57758. The ending value of the 75111 that you've already seen. So there is a gain over the last three years through Covid of 17 million 352 in the markets. Despite two bear markets in that period, we've also had some big up markets. It's 8.92% net and 9.31% growth. So most importantly here, beating the actual rate of return over the last three years, and I have to believe, I don't know if he's still here, this is why when Albert smooth is the two four year returns, which I didn't run, you're seeing a much more robust number. Your mid strategic benchmark, there is 899, so better than that and your equal weight, it would've been better off just being equally weighted the whole time as opposed to market cap weighted where it is 10 and a half. So very interesting there, but strong three year numbers jumping out, I think I give you five years. I won't read you all the numbers. I just thought that covid numbers are interesting.

You have 4.76 Net, 5.14 Gross. Obviously not at the actuarial numbers but at or above the midpoints of 5.17 and 4.96. We go out seven years I believe. Yep. So we're getting closer, Suzanne. Last time we were quite a bit lower than this, so there is an improvement on getting closer to the Actuarial Rate of Return. There is a $25,369,000 gain over the last seven years and you have made a $6,576,000 contribution net of deposit/withdrawals over that timeframe. So there's about $31,000,000 net more than there was.

The net return, which matters for this purpose is 6.17, from a market benchmarking at 6.56. So we're not at the 6.75, but getting a lot closer than we were just 90 days ago. Strategic benchmarks are 6.42 and 6.11, so nicely above that, gross and above one of the two at least net. So the health has improved quite a bit over the last 90 days, but there's still a ways to go and we really think it's more likely to get most of the improvement late in the year and next year. As you can see, other than the bonds should get a decent rate of interest this year. We just think stocks are going to remain quite volatile for the remain of the year.

Could you jump to the next page, but I think that's... Yeah, unless you want to go into the excruciating detail of the holdings. I wasn't planning on... It's 126. I thought I could do that pretty quickly today because there's nothing extraneous or unusual to report at this moment in time. Any questions, comments, concerns?

Suzanne:

Oh, nice job Steve. Thanks very much. Board members have any comments, questions? Committee members?

Okay, I have just a couple of questions. One is would you mind taking the committee through again, sort of the rationalization of the numbers as you have put aside in more liquid investments?

Steven:

Yeah.

Suzanne:

The amount that is outstanding in for a certain period of time. You follow what I'm saying? I'm sorry.

Steven:

Yeah, I do, I do. Actually, do you want to take the presentation down for a minute? I don't have anything today on this. So each year, and we've spoken to Angel about this already, we have not yet done it for this year. So at the end of the fiscal year, Rochelle and I have spoken about it too. We'll get fresh numbers from Angel like we do every year.

And what those numbers do for us for each pool of money is they outline the liabilities per year. So they tell us 2023, 2024 out for the entire duration. So we then tranche those liabilities. So we say let's look at the shortest term liabilities, zero to five years and let's keep those in highly liquid safe investments. So those go into bonds and they tend to go into shorter term bonds. Right? So that way we are assured that you are, we're all together assured that there are plenty of liquidity and no surprises there to make benefit payments to your retirees during the shortest period of time.

We then do a second tranche of between six years and 10 years and we do this because that's a space where we still keep the risk relatively minimal, but as you get out to 10 years, there have been US equity markets in history that have lost money annualized over a decade. So we're pretty careful with that decade number because history says you get to 11 years, you've never really lost money in the US equity market, but 10 years or less you have.

So there we go to, we can be a bit more opportunistic, I'll call it in the bond space. So own more corporate bonds, own more mortgage backed bonds, own bonds that we can hang on to for that period of time and thus also ensure that the money's there to pay your retirees over that 10 year period with monies that are not equity for the most part. We might start to get a little bit balanced there. We might own some real estate there but that is not where the risk in the pool is being taken.

Then we take all the liabilities from 10 years and beyond and we allocate that to equities. So when you see that you're 57%, I'm taking it from every now 55%, 57% in equities, that is not a random calculation whatsoever. That is a calculation that comes from each and every one of your retirees and active pensioner, meaning people are getting paid now and people still working accruing benefits. The actuaries help us to get, they go down to the individual person and then bring it up to us by year and then the asset allocation is built. It's considered a liability driven approach. So you're looking at your liabilities, which are the pension payments and allowing those streams of cash to dictate what type of asset you own.

We then can and do, and we show it to you both ways each year when we do this, we take a look at your assumed contributions. We just look at the arc. So we then say on a net basis, so what I'm saying is if a annual, a year of tracking this number from memory too, let's say that the pension's going to pay out $3,000,000 the salary plan in the next year, and you were going to put in the arc, we don't remember what it was, but let's just say it's a million for the sake of argument, we account for that extra million, but we know we don't need to reserve for it, if that makes sense. So we look at it accounted for and we look at it as if you didn't make it both scenarios and then we typically come up with the middle scenario between the two.

So if your portfolio looks generic, it is far from generic, it's custom to your liabilities and we'll do that work. I think we do that work again in June and we'll present that to you we've been doing every year.

Suzanne:

Is that and Steve-

Steven:

Does that answer your question Susan? I'm sorry if I went too [inaudible 01:00:30]

Suzanne:

Yeah. No, no, no, that's exactly what I wanted you to talk about. Thank you. So a follow-up question is, Is that I'll call it a protocol for lack of a better word. Is that a Morgan Stanley institutional protocol? Is that a protocol that your group runs by? Is that something that the RWA asked for when they initially came on board?

Steven:

It's not a... Protocol is a strong word. It is a... What would be the right word for it? Our group does run by that protocol. Our group. Pensions often and typically run by that process, I'll call it protocol. So call the protocol if you want, but I'm calling it something less than that because it's not a defined prescribed thing, but most pensions, most all pensions, any we deal with in at a firm level that have to assume that most are following that type of protocol because if you don't, how would you possibly come up with what's the appropriate asset allocation, right? You'd say. And it's also a factor of, and after the fact we then look at what is the assumed rate of return, right? So where does that 6.75% come from? Which we just said the new number is 6.47. Where does that come from?

It comes from the end result of saying this pension in order to be certain it's going to pay its liabilities comes up with 57% equity, whatever the number is, we then take our long-term forecast and roll it into there. So it's all connected. So is it a protocol? It's close to one as you're going to get without having a defined protocol. Jeff, is Jeff Power still on? No, he could talk about it, but it's an asset liability matching is what it is.

Suzanne:

Okay.

Steven:

So if you read it all about pensions, you often say, so a lot of pensions that become fully funded oftentimes will start to reduce the required rate of return and de-risk it by going more to fixed income. Obviously it has an expense, but the reason that's done is it then, some plans go a hundred percent fixed income because then they've got that surety that we have over the first five and 10 years permanently, if that makes sense.

But the cost of funding would go up if you were to do that, right? Because your rate of a return assumption would go way down probably four to 5%. So it's a live plan, it's accruing active accruals. So because of that you still have equities and you still have the requirement to make that 6.75%, but it would be a de-risking strategy as it becomes, we've talked about this before as it gets fully funded or closer to fully funded like we were getting there and I suspect it will be, again, it can make sense to consider de-risking the investment portfolio so you not dealing with the swings to the same degree.

Suzanne:

Right. So I'm going to ask a little bit of a trick question then following up on that. So if the other alternative is for the RWA to pursue a higher risk protocol, if you will, or process and so I guess after, how long has it been now for seven years? A little bit more than seven years that you're-

Steven:

We don't have eight, otherwise it would've brought that. So this, it's seven.

Suzanne:

And so we're just slightly under the overall benchmark, but a little lower than what the benchmark was for about two thirds of the time that we were working with on it. Sorry, I lost my mic. So how do you feel about that? How do you feel about the performance of the-

Steven:

The performance is actually excellent. You can look at last year and say, well you're down 13, a typical investor that's allocated the same way is down 16, it's a great example. When you measure something in the middle of a bear market, think about this, you have seven years, you have one year that was just down 13%. So if you asked me the exact same question 15 months ago, we are way above those benchmarks, right? Because that we are at 6.14 if I recall right now, and if I take 6.14, think of simple math. If you lose 13% in one year, which last year was, and you only have a seven-year universe, you are taking 1.85% per year. I'm using simple math not compounding off of your long-term return. So if suddenly, just say you had a zero year and not that minus 13% year for the sake of this discussion, you add that to the 6.41%, you'd be at an 8% long-term return. And this is my point with de-risking at some point while you're invested and if you're invested more aggressively, even the swings would be greater.

Because on a seven-year record, think about it, if you lose 7% one year you take one point off more or less, I'm not compounding again, but when you're looking at this January 1st, 2021, it looks over. It looks like we've beat it. When you look at it December 31st, a year later in a bear market, it looks like we've missed it. And if you have a one good year, again, it will look like we've beat it. It's the problem is the volatility of both the bond on the stock side, it's a moving target at this point. It's less subject to those movements, the more years you have.

Think about it, you go out to 10 years and lose 7%, it's 0.7 comes off of it. You go to 20 years, it's half that. But when you're, we're getting more mature in our relationship, so it's even that 30% down year didn't move it as much as it would've done. If that was our third year in, which we did have a bad year, I think right around then. Did that math make sense to folks? It's a little tricky but...

Suzanne:

It does make sense. I think I'm asking a slightly different question in that it's not so much based on the portfolio's allocation, but based on the process that we're using, are you comfortable that the process for our situation and the conservative nature of that process is still the appropriate process?

Steven:

I would be uncomfortable not using it.

Suzanne:

Okay. All right. That's what I thought. All right. Any other questions?

Steven:

Because it's mechanical, methodical and it's how pensions, when they're well run and you could talk to the actuaries about this, it's how they should be run. You've got to look at the liabilities, you've got to be able to pay those liabilities and you take on too much volatility. Those swings become meaning in the versus the required rate of return become wilder.

Suzanne:

Right, exactly. Any other questions from the board?

David:

And if I could. Steve, the fact that you're doing the asset liability matching with a plan that's closed and has half members could qualify to start collecting the pension. Do you use benchmarks that have similar gains or does that make it harder for us because you have to more concerned [inaudible 01:07:42]

Steven:

I'm not, I'm not sure I fully got all of the questions, David. It was a little spotty on the voice side or maybe it was the hearing side. Do you mind asking it again?

David:

The fact that we have a plan that's closed and have members that could start participating.

Steven:

Yes?

David:

Make it harder to meet the benchmark or is it benchmark other plans that are simple?

Steven:

I don't believe that makes it harder to meet the benchmark. The plan's interesting because it's closed but still accruing. It has actives accruing, right? So it's kind of a combination, closed to new members but not, you still have people working in accruing benefits. So when the actuaries, look it's an estimate from the actuaries, it's inexact, right? So the actuaries make assumptions as to when somebody is going to retire and that annual report they do makes that assumption that says, employee ABC is likely to retire next year and that's going to increase the liability by $50,000 a year, whatever it is.

That's in all of those numbers. So that is accounted for in what we're doing and what we're doing is a loose, I'm going to call it asset liability matching, not an exact one, right? It's a somewhat inexact, but an exact one would be if you were all fixed income and we knew the payment in 2010 was 2 million, we would buy something that matured in 2010 at 2 million. That's when you really do LDI driven investing, right? We're doing a soft form of LDI driven investment here, just tranching the money and because it is still active and accruing, right? And you still do need to make that 6.75%. Did that answer your question?

David:

No, I was just wondering if you were by the type of population we have in our plan, are you hindered from being able to get a benchmark that might be higher because the other groups may not have to be so conservative?

Steven:

Oh, well sure. If you had a younger group, right? On average, most certainly. This is custom to your group. Because a younger group wouldn't have the liability of $3,000,000 next year, and the year after, and the year after, a younger group might have zero.

So I misunderstood your question originally, I think absolutely. Hinder is an interesting word. I wouldn't call it hindered. It's matched to the age of your group. It's matched to the benefit payments that are expected to be paid to your group. And that hinders the returns clearly in the long run because it's presumably if equities are going to earn more in the long run, if you had a younger group by a decade, let's just blink and we're all 10 years younger, wouldn't that be nice? Then your equity allocation would go higher using the science that we're using.

David:

Okay.

Steven:

Does that make sense? It absolutely would, because we wouldn't have the same liability stream. But your liability stream is if you remember those numbers that Albert showed us, you have a lot of people retired and collecting benefits now and a lesser number, if I'm not mistaken, actively working in accruing benefits now.

Your plan is going to... Alan and I, I wish we'll bring these numbers after the May date, after the fiscal year, because Alan and I already ran some numbers showing your plan hits a peak and then starts to decline. I think you know this, right? So it hits a maximum asset peak and it may be right there now. And then as you get more and more retirees and all of us, your retirees begin to leave the planet, those liabilities come off. And to your point, it's not taking in new participants.

So ultimately this is a bubble passing through time, and because it's relatively mature in its lifespan, it does hinder the asset allocation. It does hinder to me the ability to reach for a higher return and accept higher volatility for equities. You've got a reasonably robust equity exposure. That being said, without "Cheating on the science."

David:

Thank you.

Steven:

You could see a pension that's a hundred percent in equities, right? Actually, we have a client that they had an enormous amount to pay out to a very senior group of long-term employees. The company had, the population had aged, and they began hiring younger populations and they had a lump sum. Millions in lump sums had to be paid out. And we knew it was coming over the following, say five years. It was about five or six years ago. Actually, we were reviewing that plan this morning. That plan has now paid out virtually all of those large lump sum liabilities or workers, if you will, nicely. And it's now young. We've gone from nicer allocation. In that case, that was like 30% equity to one. That's like 75% equity. Because that's what is dictated.

So if suddenly your workforce got younger, I'll repeat my point, you would absolutely have more inequity by the science. You don't have to do it this way, right? You could say the organization is going to take risk on the balance sheet and have more equity, but that would increase risk on the balance sheet for those shorter term liabilities.

David:

Thank you.

Suzanne:

All set, David?

David:

Yes. Thank you.

Steven:

Or maybe I should have said the income statement, but one or the other or both. Does that make sense? I mean, it's fairly logical. It's not fairly logical. It's very logical, at some level.

Suzanne:

Makes a lot of sense. Any other questions from the group? Okay, so one last question for you, Steve. The group is going to talk about after we say, complete this segment and say goodbye to you guys. We're going to talk about the work plan, and then we're going to talk about the charter and then potential amendment to the charter, to have some requirement that the RWA board members seek out services on the investment advisory side, or not so much force it to seek out, but consider every five years the potential of doing that.

So while you're still with us, I'd like to just give you the opportunity to comment on that. You've been our advisor, you've served us very well over this time period. What do you think about that discipline? What do you think about it for this group, so that the group would have the benefit of your input to that when we have the conversation?

Steven:

Yep. I actually am not surprised by that and I think it makes a lot of sense, particularly for governmental quasi type agency. I'm not sure if that's the right term, but it's not atypical. I would say that I would be cognizant of a few things during the process. One of them is, as I think you just heard, we are very accustomed to the client. You do not have anything generic about what we do for you. It's custom to the liabilities of this plan, which is what it needs to be. The investments are not jobbed out to our New York office or elsewhere as we have multiple CFAs in our group. We use research from all over Wall Street, including our own firm, but outside too. And we build a portfolio for you that is efficient, inexpensive, and matched as closely as possible to the liabilities in an active type situation.

So I think, you probably go to bid to say what else is out there? You go to bid to say, does anyone have the ability to sharpen a pencil or not? And does it make sense to consider doing it? Of course. Do you have to do it? No. We like to think, and we're certain that there's a lot of value in the relationship. Those that were here. Think about the first couple years there's a little rocky gathering the assets, getting them in one place, getting an understanding of the liability streams, the funding streams, getting an understanding of the investments that were already there, making the appropriate changes, et cetera.

There is a lot to making a move. I would obviously make the argument that it's not broken at all. We're in a bear market, we go into a bull market and you're beating it as you were a year ago, and then it's very methodical, well-thought-out, and I think very well run. Frankly. I commend you all and I think you have exhibited lots of patience through these markets. You've taken the time to understand what's going on and I believe that we've had a good relationship doing this. We'd love to keep you as a client, but does it make sense to consider it? Of course it does.

Suzanne:

Okay, thank you very much. Does anybody have any questions for Steve related to that?

Steven:

I'll add a comment to that. In the public space it's more typical in the private space, it usually doesn't get questioned as long as things are going in a good manner for decades even.

Suzanne:

Right. Well thank you very much for that. And I think one of the greatest things that can come out of a process like that, having been through it a couple of times, in a couple different boards, is the confirmation that the people you're working with are the right people to work with.

Steven:

We agree.

Suzanne:

Right. All right. Very good. Well, we appreciate that and unless the rest of your team has anything else, Steve, I think we're done with the investment portion of the conversation. Yes. Board members?

Board members:

Yes.

Steven:

I'll add one little comment there, maybe two. One would be, what you really have with us is you have your own custom outsourced chief investment officer, right? That's a big buzzword in the industry today. You'll hear lots of it, but I think what you'll find, if you really look under the covers, it's typically not super custom. It's groups like us giving it to the New York office, which we have the ability of doing, but we know what the results look like versus the results we're able to produce. And they're not the same is all I'll say.

The other thing is just on the, if we're the right people, I'll give you one minute ad. I'm not good at talking about ourselves usually, but we did just receive, we're humbled to and grateful actually that we just received top 100 institutional consultants in the United States by Barron's for the second year in a row. That's just our group, not the firm.

Suzanne:

Congratulations. Congratulations. And I think, Steve, for whatever this means to you, I think the board would have to have a reason to make the change rather than it's assumed that we're going to go in and a change will be made. I think that if the board decided to adopt us in the charter, that it would have to be something where we felt either something was lacking in the existing relationship or, and or something that was showing up somewhere else that we really thought was important that you couldn't do if we gave you feedback to do.

So that's at least how I feel personally about it, is that you stay with what you're doing as long as it's working, but making sure you're doing the due diligence and the governance of knowing what the world has to offer.

Steven:

Very much appreciate that and that I think is typical also, and we very much appreciate that. And you said this, I think it's smart and because continuity is super valuable in these spaces, you know. If there is something that comes up that you don't realize we do, maybe because maybe we haven't brought it up, our bad. For instance, I just said we can do OCIO through the New York office. We choose not to in most cases, but we can look at that. But if something does come up that you say, "Well, I wish we had that now." Then please bring it to us because we probably do have it.

Suzanne:

Right.

Steven:

We're pretty fast.

Suzanne:

Right, right. Very good. Thank you very much.

Steven:

Thank you so much everyone.

Suzanne:

All right guys, thanks for being here, Alan, Joe, Steven, have a great day.

Speaker 3:

Thank you.

Steven:

Have a good afternoon. Take care.

Board members:

Thank you. You too. Bye now.

Suzanne:

All right. Just moving on with the agenda. Thank you very much everybody for your patience during that conversation. I just wanted to give him ample opportunity to comment before we went into this conversation, so you had the benefit of his insights related to it.

And I'm sorry, I'm trying to get my other computer back up. Oh, here, it's right on the screen. Great. Thank you. Jennifer. Always there, right? Johnny on the spot.

All right, so here is our work plan coming up in July. Again, we'll look at the investment review and we'll have our 401k annual update. I think that'll be our second one that we've done. October will be a regular investment review and in January, potentially, if the board adopts the charter to take a look at various investment advisors will take a look at the RFP and the recommendations. And then in April, again, we'll do very much what we did here today. And then possible May would be for additional year-end contribution.

So unless anybody has any questions on the work plan, that's how it is. Nothing has really changed with the exception of the January 2023 work of potentially dealing with an RFP.

David:

Well, and that's my point that I wanted to ask or bring up for discussion for a moment is that the January is not a definite date I would think. Also it needs to say 24, I just noticed. But depending on whether we wanted to have a calendar year start or a fiscal year start if we were to consider going to somebody different. So I think that would be one item that would play into the timing. If we wanted a calendar year start. Obviously January's late and it's early for fiscal year. So I'm guessing it probably will not be January. It'll be either sooner or later, depending on when we-

Suzanne:

We might be the decision David in January and not implement until June. That's a possibility as well. So I think one of the things it depends on in some, first off, it depends on the charter being adopted in that way. Second, it depends on, I think the people on the staff who have to do the work. This is not a small amount of work to go out for an RFP to review the proposals, to gather them, to assemble the interviews and the board going through it. So I think the earliest we could expect to do this is July of next year. In an implementation point of view, meaning if we were changing an advisor.

Catherine:

And if you're changing, then there's also the transition

David:

Right.

Catherine:

Time.

Suzanne:

Yes. Correct, correct.

And I would say my experience 50% of the time or more, the board's comfort with the existing advisor, but it is a good discipline. All right. Anything else on the work plan? All right, so let's take a look at the charter. We have a couple of changes. One has to do with our 401K.

So the committee responsibilities on the number one we just added, and again, we can adjust the words if we look to, it says this includes the annual review of the authority, voluntary investment plan of 401K, and at least every two year review with the investment policy statement. Any questions or comments on that adjustment? That's just adding in something that we've brought to the governance level of the board to take a look at the four 401K plan.

Catherine:

I just think it's a good discipline.

Suzanne:

Yeah.

Catherine:

Certainly in favor. Maybe just add, so we actually talked about [inaudible 01:23:36] but unfortunately it didn't get fully incorporated, so it's just to get it into the document.

Suzanne:

And number two is the same thing. It's all about the 401K plan. Okay, let's move down along, Jennifer. Thank you. So here's where there's the discussion about the request for the proposal for every five years. And the way this is written and we may want to change this. And there was nothing magical about the way this is written. It says it's an issuance of an RFP. That means that it happens automatically regardless of the board's perspective on it.

We also can write it so that the board contemplates an issuance of an RFP on a disciplinary basis every five years. And perhaps in a five year period it wanted to postpone it for a year or whatever, it could do that. We could write it any way you want. But the idea is, as we heard from Steve, is that in a quasi-governmental pension plan, making sure that there are a couple things I think you're safeguarding against or for. One, is that you have the best investment advice that matches your organization, A.

B is that you have no relationship has gotten too cozy, if you will. And there's an arms length and it, there's really an objective pursuit of managing the plans. And that three, again, you have the best insight as to how all folks manage plans such as this. And their heat uses two distinct things that we may hear different things about.

One is the protocol we were talking about at the end, and again, I call it protocol practice, whatever it is of matching the liabilities and the number of years they use for putting into fixed income investments.

The second thing is he does manage our portfolio all through third party asset managers, which is not true of all investment advisors who could do everything the same as matching the investments and all that, but use a different way to implement the asset allocation and the investment policy statement. And those are the kinds of things that we'll be trying to evaluate as we look at an RFP. So I just would love to hear what you guys think about this idea of causing the board to contemplate this every five years and potentially issuing it if the board feels it's appropriate.

David:

The issue is leave the wording the way it is. This includes management, this includes the committee's consideration of issuance of an RPF, which means that we would consider it every five years. So that's what you want our choice to be right now?

Suzanne:

I would recommend that we consider it and not put it in that it's a fatal complete. I think it's just a good practice for the board to do that and to weigh the pros and cons and make a decision. But I'm very open to whatever. If the group was like, "No, let's just do it as a regular process." I mean, some people do that with their legal services as well. I'd be very comfortable either way.

Catherine:

I'm actually more interested in making sure that you go through a process with auditors every periodically. There's a lot that goes in... Well, frankly, [inaudible 01:27:25] with auditors too. But there's a lot that goes into changing your investment advisor, including just transition costs if you make a change. So I understand the interest in avoiding getting too cozy, which is one of the reasons why, no offense auditors, but it's also I think a good discipline to hear different ideas from your investment advisor. And I will say this, that just because you have an RFP does not mean necessarily you're going to make a change.

David:

Suzanne felt that more than half of them you end up staying at just the validate what you have.

Catherine:

But I will say that it's a complicated time consuming effort to go through. So I'm kind of on fence here right now. Both, whether you do it as a discipline or you certainly considering it is part of the discipline. But I think I'm on a fence, I guess.

Suzanne:

Yeah. And Catherine, can I ask you, when you're talking about transitionary costs, what transitionary costs are you talking about?

Catherine:

Well, depending upon what changes you're going to make. Our assets right now are managed through third parties. A new manager may want to change that. So then you have transition costs in terms of selling assets. If you can't move the investments from one [inaudible 01:29:10] another, those are costs that come up. Creating a transition plan is yet another cost and of both time and money. But that's assuming that you're going to make a change.

Suzanne:

It assumes you're making a change. It also assumes that they'll make a lot of changes in the fundamental underlining assets and that those changes will be made quickly, and that might all be true. So then you would have transitionary costs.

Catherine:

You manage access to every single investment opportunity. And they may have different relationships, and they may want to make other changes. You may end up with a similar asset allocation, but in different investment vehicles. That can be a significant cost. Look, I've gone through transitions before, so.

David:

It's doable.

Suzanne:

Well, we should talk.

Catherine:

Exactly. That's definitely a factor in whether change.

Which is why... Steve is absolutely correct that it's typical in governmental funds. We're kind of quasi-governmental, but it's typical governmental funds because you're dealing with public money and there's a kind of discipline and that's sort of what happens in the industry. But in private companies, people will make changes because [inaudible 01:30:48] even what we went through prior with the custodian changing, oh, custodial changes even worse.

David:

Is Kevin on? I'd like to also hear from him if he is on. You don't mind, Suzanne?

Suzanne:

I'd like to hear from everybody actually.

Kevin:

Yeah. Yeah. Hi Suzanne. Can you hear me?

David:

We can hear you.

Suzanne:

I can.

Kevin:

Oh, okay. Great. Thanks. Yeah, I'd be in favor of leaving the language as it's currently proposed and it just automatically happens. I just think it's easier that way rather than having to remember to talk about it every five years or potentially not talk about it. I think it should just be a reminder that comes up every five years and something that automatically takes place.

Suzanne:

Okay. And is five years the right timeframe for you, Kevin?

David:

Exactly. That we consider it.

Kevin:

I mean, three years from now maybe, but then five years thereafter would probably be better. But my reading of it is that it's not considered that it just automatically happens as it's currently proposed. Right?

Catherine:

Repeat every five year?

Kevin:

Not the transition, but the RFP.

Suzanne:

Yes. That is the way it reads right now.

Kevin:

I agree with that.

Suzanne:

Okay. Thank you.

Kevin:

Yeah, I agree that I agree with that.

Suzanne:

Thank you, David.

David:

My preference was that it, we be forced to consider it, but that we not necessarily go out... We consider whether to go out for an RFP or not every five years. That way we're forced to deal with the issue, but we don't necessarily go out for an RFP if we review the situation, we find we're happy with what we have. That was what my thinking was.

Suzanne:

Okay. So we're sort of in three different places with you guys. There's your Catherine's sort of on the fence. David's comfortable with it, but make it just more flexible with consideration, and Kevin's more comfortable with it being a discipline that's in place, correct?

Catherine:

Yeah, I think that's right. I think on the one hand, I know it's a burden. On the other hand, if you go out with for an RFP, you have an opportunity to hear new things and perhaps have exposure to different ideas that you may not have had in the past. So I remain honest. I mean, we have a lot to do.

Suzanne:

In your experience, I'm assuming the bigger burden is if you change, if change-

Catherine:

Yes.

Suzanne:

... vendor. Not if you RFP, but how much burden is there on the RFP? [inaudible 01:33:57].

Catherine:

No. It's sterile. No, it's a lot of work to run an RFP to change your investment manager first. Just the RFPs is a lot of work. And I'm thinking that we have all of these capital projects. Staff has a lot of to do. I mean it's one thing for just the board, but there's a big burden on staff as well.

Suzanne:

So the question is do you want to have the right to do it or the application to do?

David:

Exactly. That's a better wording than I was using. I'd like us to have to review it but not necessarily decide to go out for an RFP if we're happy with the proposal.

Catherine:

I think I felt that I like the consideration.

Larry:

I think having that flexibility is good for management and the board to consider. So you may want to make that wording be, this includes management's recommendations. That way management's responsibility to keep track for five years. Is there background noise there?

Suzanne:

Yeah. That's me, Larry. Sorry

Larry:

That puts it on management's shoulders to keep track of the time, Kevin. So I think that would take a burden off the board, but also it could be management's discussion with the board on whether or not they're happy with the investment services, whether or not they're getting the performance that's necessary to meet our obligations, and whether or not market timing might come into play there. And I realize you don't time the market, but there just may be something going on in the market that we don't want to make that change in five years. Maybe it's six years. So I think if you make that include management's recommendation for an issuance of a request might be the way to meet both of your objectives there.

Catherine:

Okay.

Suzanne:

I actually wouldn't leave it to management to make the recommendation. I would make it so that management to Larry's point is the one that's going to drive it, is the one that's going to keep the track of the time and will have a recommendation inside that. But I do think that it shouldn't be that the board considers it only because it's recommended by management. I would just say, let's make the language so that it says that every five years the board will consider it, and we don't do anything without management's recommendation. So a part and parcel of that would be a consideration of what management thinks about the whole thing. So if you guys are comfortable with that, that might be the solution.

David:

So we would change it to, this includes the committee's consideration of an issuance of a request for proposal at least every five years for investment advisory services?

Suzanne:

Or would it say.

David:

Just that, do what we want?

Suzanne:

The committee will consider a management's recommendation for the issuance of...

David:

No, this question.

Suzanne:

No. I-

David:

Oh. We want your opinion and we will not move forward without it, I think. But just like Suzanne said, but I think it's the committee's job. So I'd like to-

Suzanne:

Yeah. I think if they should say this includes the board's consideration of an issuance of an RFP proposal at least every five years for investment advisory services.

David:

The only thing I would change the word committee to committee from board because it's actually the charter or the committee of [inaudible 01:37:40].

Suzanne:

Sure, sure, sure. The committee to recommend to the board. Right.

David:

Kevin, are you okay with that? Because you had a little different, I wasn't sure you had a little different.

Kevin:

Yes. Thank you for taking comments into consideration. Yeah, I'm fine with that. As long as there's an automatic trigger where it will be discussed at least every five years, I'm fine with that.

Catherine:

Okay.

Suzanne:

Yeah, that's the idea. But doesn't force the board because Larry had a lot of good points. There may be in a year, not a lot of good reasons not to do it, including internal workings of the company or external issues as well.

Catherine:

So I think then we do have to just [inaudible 01:38:25].

Kevin:

Right, and I defer to Larry's comments as well.

David:

What was that Kevin? I'm sorry, please.

Kevin:

I just wanted to add, Suzanne reminded me, I was deferring to Larry's comments as well on that with respect to the revision in my agreement with it. So I'm in favor as revised.

David:

All right. Rochelle is right. We do have to come up with a start date for when the five years starts.

Suzanne:

Well, I think we can discuss this next July. I mean, unless there's, how about this? If we do what we are saying we'll do, let's decide to do it in the next pension committee meeting. Unless for some reason management feels like that's not the right time for us to do that. So unless Larry has objections to having that discussion in July, which means that sometime within the next six months following that, the issues of the RFP would need to take place. I wouldn't want it to be any more than that. So what do you think about the timing, Larry, for your team?

Larry:

I think July would be a good time to take this up and decide to move forward or not that way we can begin working on that in September after we've completed the audit. So that would be, I think, good from a timing standpoint.

Suzanne:

Okay. That's very good. Okay. So if I understand the wishes of the committee, we're going to include it in, we're going to include the consideration of the issuance of an RFP at least every five years for investment advisory services. And we'll put it in the work plan for July. And with the understanding that if we decide to go forward with it, that September would be the timeframe which the staff would initiate the process. Any questions or comments there?

Larry:

Okay. Thank you Suzanne.

Suzanne:

Sure. Okay. So I'm sorry, Rochelle, were you going to say something? You

Rochelle:

Want us to vote on this, Suzanne?

Suzanne:

Yeah, I'd like on all the charter changes, we can take them all at once, if you don't mind. And David, I need to do that. Correct?

David:

That was going to be my recommendation now we as a committee. Because it's a committee charge.

Suzanne:

Right, right. All right. So is there a motion on the floor to accept the adjustments to the committee charter as amended, presented and amended?

Catherine:

So moved.

Suzanne:

Thank you, Catherine. Is there second?

Kevin:

Second.

Suzanne:

Thank you, Kevin. Any other further discussion? I appreciate the discussion that's happened thus far.

Rochelle:

And the work plan and Jennifer, and I'll send it to you.

Suzanne:

Okay.

David:

Yeah, we'll be [inaudible 01:41:28] did you hear her?

Suzanne:

I did. Thank you. Rochelle.

David:

Work plan because what we reviewed and did not vote on, because we don't work on the vote on the plan. Was that January we would do this, but it's going to change it to July.

Suzanne:

Okay. That's fine. Do you need me to amend the motion or no?

Catherine:

No.

Suzanne:

Okay. Very good. All right. So all those in favor of the revision of the charter, please say I.

Committee:

Aye.

Suzanne:

Thank you. All those opposed? And any abstentions? Okay. So let the record show that the members present voted unanimously to vote for the changes in the charter as amended.

Okay. That brings us to the conclusion of the Pension and Benefit Committee. So I'd like to recess back to the main meeting.

David:

The Pension and Benefit Committee and reconvene as the Authority.

Catherine:

I'll second that motion.

Committee:

Aye

David:

Suzanne that was a very involved meeting and it was very important and we did a lot of good things. Thank you.

Suzanne:

Yes, thanks very much everybody. Nice work.

[PENSION & BENEFIT COMMITTEE ADJOURS AT 2:12 P.M.]