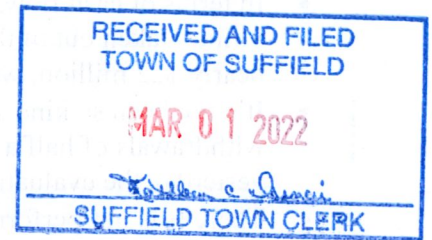




TOWN OF SUFFIELD

**MEETING MINUTES
RETIREMENT COMMISSION
REGULAR MEETING
FEBRUARY 2, 2022 5 P.M.
HELD VIA ZOOM TELECONFERENCE**



Committee members present: Eric Remington, David Mercik, Jack Henrie, Ryan Burrell, Chris Childs, Dan Sheriden and Glenn Gazdik

Committee members absent: Colin Moll

Others present: Human Resources Director, Karin Ziemba, Michael Lepore and Claire McDonald of GYL Financial Synergies, and Steve Lemanski and Marc Condon of Hooker & Holcombe

Chairman Remington called the meeting to order at 5:04 P.M.

Approval of the minutes from the November 4, 2021 Regular Meeting and the December 2, 2021 Special Meeting

- Commissioner Childs motioned to approve both minutes with the following changes to December 2, 2021:
 1. Page 2 – In the first, third, sixth, and eighth bullets, “Gazdick” should be spelled correctly as “Gazdik.”
 2. Page 2 – In the first bullet, replace the text with:
“Commissioner Gazdik expressed that high-yield may not work since the committee is targeting a certain return on the portfolio and can’t afford to lose principal on cash like investments, and in general, equities may make more sense (more upside) vs high yield. Currently fixed income isn’t providing too much protection and perhaps, from a general risk perspective, it’s not worth the extra 30bps going down in quality.”
- All in favor. Motion passed unanimously.

Public Input

- None

GYL review of investments

- Claire McDonald reviewed the 4th quarter performance and presented tables of portfolio performance. The last couple of years have been kind to the pension plan and the market, even though there has been a lot of change.
- Going back to inception, with nearly 8 years of data, we’re in good shape. Going back to April in 2014, the annualized return is up nearly 8.6% showing a nice margin of outperformance vs the benchmark which is up 7.5%. That was done with about 4% less volatility, coming through in the beta number of .96. Looking at the upside and downside deviation, when the markets are in positive territory, we’re capturing a good amount of that with 6.05 vs 6.23, but the gap is somewhat wider on the downside. That all comes together in a decent alpha of .11, which doesn’t seem like much but really is a strong number.

- In terms of cash flow, we started with \$26.4 million in 2014. Net cash flow since inception is just at 3 million taken out of the pension plan. Thanks to the gains from investments plus income and interest of nearly \$22 million, we closed the year with \$45.3 million.
- It's not been so kind since the end of the year with the markets being much more volatile. With withdrawals of half a million, we've dropped about \$2.5 million in volume (just over 5%) and as of yesterday the evaluation was \$42,350,095.
- There was out-performance across the short- and long-term time period. We finished the year on a strong quarter, at 4.9% vs the 4.25% benchmark. Our one-year number was terrific, up 15.4% compared to the 13.8% benchmark. The benchmark is updated each time a change is made to allocations. The three-year return is up 16.2% vs the 13.9% benchmark, with outstanding returns from the equity market. These returns are not expected to continue on an on-going basis and are expected to be much more muted. At 5 years we see out-performance continue, up nearly 11.3% vs 9.7%.
- Looking at underlying performance on the whole, the large cap growth fund of T. Rowe Price moved to reclassify themselves this year as a non-diversified portfolio. This hurt them earlier in the year. They were also over-weight in the communication sector which was the worst performing sector in 2021. They dropped below their peers over this time period, but their longer-term numbers look worse because of this 2021 return. They were on the median for the 1-year number at the 49th percentile and they are in the top 10% when we look at their 3yr, 5yr and 10yr. Commissioner Gazdik asked that GLY share with the committee how they performed and rank with their peers during these time periods.

Discussion of potential changes to fixed income asset class

- Michael Lepore explained that there were initial conversations and Hooker and Holcombe are going to model some various scenarios with regard to funding of the plan and consideration of any changes to the core fixed-income portfolio. More short-term, about two weeks ago they found out that one of the lead portfolio managers at Mesirow, Ryan Johnson, was leaving the firm (and has since left). Mesirow is not going to another core fixed income manager, they are going into the private credit arena. The senior leadership is still there but they believe Ryan was key part to the team. Although not cause for immediate concern, Mesirow is now on a watch list and GYL is finalizing a mini-RFP to look at other fixed-income managers. They will report back in the early part of the 2nd quarter.
- Commissioner Gazdik asked if it would be possible to see a peer analysis for all of the funds. Michael agreed that they will pull that data, add it to the report, and re-run the 4th quarter report.
- Michael Lepore reported that Prudential Retirement entered into an agreement to be acquired in whole by Empower Retirement, which is the 2nd largest record keeper in the country behind Fidelity. They are looking for this to close early in the 2nd quarter. As part of the deal, Empower will be acquiring Prudential Stable Value business as well. They are acquiring rather than transitioning, so existing contract terms, pricing, minimum credit rate guarantees and the like will persist after the close.
- Commissioner Childs asked GYL if they have a feeling since the start of the year how Conning has performed. Michael will provide that data to the Committee.
- Commissioner Gazdik asked with the Empower deal if the treasury guaranteed fund has a minimum guarantee of about 3%. Michael stated he doesn't believe it's 3% but will confirm the 1% is just for new contracts. Commissioner Childs suggested that it may be 3% but that they can't put new money in. Michael replied that they've stated they won't change any of the guarantees, but he will send confirmation.
- Chairman Remington asked if there was anything we need to be aware of for rebalancing. Claire McDonald answered that there needs to be some rebalancing to generate some cash.
- Commissioner Gazdik stated that if rates start backing up significantly (especially given the news that Ryan Johnson has left) and if the thirty-year treasury gets above 3.5 (it's around 2.25 now), he would recommend that the committee reconvene quickly to consider shifting some of that fixed income allocation and to evaluate the opportunity of adding to equities if the S&P were to drop another 10%.

Chairman Remington stated the committee could react pretty quickly, with 24 hours' notice to schedule a meeting.

- Commissioner Childs asked if it's the time to be putting more money into growth, or to not take as much out, particularly if we think rates are going to grow higher. Michael suggested they could zero out the Conning and reduce the T. Rowe by \$138,000. No objection from the committee to this suggestion that they do not rebalance out of Conning. All in agreement. GYL will update the rebalance sheet.

Review of actuarial valuation presented by Hooker and Holcombe

- Steve Lemanski presented the two-year valuation report. This valuation develops the budget for the upcoming years 2022/23 and 2023/24. Summarizing what's happened since 2019, he stated that the ratio of the assets to the liabilities improved (up from 75.8% to 79.3%) and the contribution is down (\$1.69 million to \$1.62 million). Most of the change is attributable to the favorable asset return over the last two years, averaging about 15% per year.
- There was a small liability loss (about .07%) driven mainly by inactive mortality (fewer deaths than expected) and salary increases that were a touch higher than assumed. These baseline results incorporate the 2nd half of the phase into the new public sector mortality table the committee previously agreed to.
- There was discussion about offering a buyout, a cash balance, or possibly annuitizing the whole thing to lock in the liability. Steve Lemanski will get information together regarding demographics of how many employees people are in each bucket, so the committee can review and formulate a plan.
- Steve Lemanski explained the potential assumption changes. The investment return side of things continues to trend lower. Michael expressed the need to monitor the current asset allocation vs the assumption because the trend is for lower capital market assumption going forward.
- Contribution is down a little bit and funded ratio is up. If the inflation rate were dropped 2.4% again, it will have an impact on the assumed salary scale for the actives. In terms of liability, it moves the needle, a moderate but not huge change.
- The committee discussed continuing to reduce the discount rate especially since they are really 88% funded and when a lump sum contribution could be made.

Motion

- Commissioner Childs motioned to adopt a 2.6% inflation factor with a 6.5% investment rate of return and to ask that the model be run with a 6.375% rate as well for comparison purposes. The motion was seconded by Commissioner Henrie. All in favor. Motion passed unanimously. Mr. Lemanski indicated that he will provide that to the town tomorrow.

Discussion of pension administration services with Hooker and Holcombe

- Karin Ziemba introduced Marc Condon to discuss a record keeping option for the plan. It seems the process for doing the pension statements is outdated.
- Marc Condon of Hooker and Holcombe presented a tool that would allow participants to go in have access to their benefits 24/7. He showed a sample plan where participants can view their contributions, annual earnings, benefit statements, election forms, etc. They can run their own benefit calculations and get a summary of their own benefit options.
- Steve Lemanski believes the plan can pay for the cost of this program since it benefits their participants.
- The committee discussed the benefits to employees. Karin Ziemba will work with Mark Condon to get more information and some costs. There is a fixed annual fee once the program goes live, no set up fee.

Old business

- None

New Business

- None

Adjournment

- Commissioner Childs motioned to adjourn the meeting at 7:01 P.M. The motion was seconded by Commissioner Gazdik. All in favor. Motion passed unanimously.

Respectfully submitted,
Laura L Fournier
Recording Secretary