Pension Board Minutes-May 15, 2018

Attending: Aldermen, Rebecca Mattis, and Chris Ettori, School Commissioners, Joanne Pencak and Charlene Seward, Chair Mary Markowski

Others attending: union representatives, Lazaro Guzman from Prudential, Alderman Matt Whitcomb and Peter Amons from the school.

The Chair began the meeting at 6:30 pm, and asked if there were any additions to the agenda. As there were no changes, there are two items on the agenda:

- Approval of the minutes of the previous meeting
- Review of financial performance with Lazaro Guzman and William rom Prudential

Minutes of February 6, 2018, will be held for the next meeting as the committee did not have a quorum.

Mr. Guzman began his presentation with an economic review as of March 31, 2018. He noted that the US economy weakened in the first quarter, with GDP growth falling short of expectations. The major financial market event in the first quarter was a sharp rise in inflationary expectations. Financial market weakness was impacted by fears relating to inflation, monetary policy, long-term investment rates and potential trade wars. In the first quarter, most major indexes were down with the exception of emerging markets. Emerging market stocks benefitted from rising commodity prices and a weaker US dollar. Mr. Guzman noted that the pension portfolio benefitted with a 5% allocation in emerging markets.

Mr. Guzman reviewed the pension fund financial performance of the pension assets as of March 31, 2018. The total portfolio asset value was about $86.7 million as of March 31, 2018, which included a 63% allocation to equities and 37% to fixed income. For the first three months of 2018 the portfolio return was (.57%), for the last 12 months 10.10% growth, 3 year-6.46%, 5 year 7.71%, 10 year 6.61%., all net of fees. The negative return in the first quarter reflects economic factors, including fears of inflation and potential trade wars.

Mr. Guzman discussed the asset allocation. The current allocation is 60% equities, 40% fixed return. The portfolio is analyzed and rebalanced quarterly. A 3% +/- target variance is considered for rebalancing to maintain the 60/40 allocation. The quarterly rebalancing also keeps fees down. The allocation recommendation includes preserving enough in fixed return for 5 years' worth of outgoing payments to avoid having to sell equities at low points in the market. As of March 31, 2018 the asset allocation was within the targets and no adjustments were needed. Managing the portfolio involves analyzing funding levels. Last year contributions were approximately $4.5 million versus disbursements in excess of $6 million. The frequency of plan contributions does not have an impact on rebalancing the portfolio.

Mr. Guzman presented a detailed review of funds in the portfolio. Funds are evaluated against major peer group performance. As of March 31, 2018, three (15% of total) of the funds did not meet the performance criteria. These funds either did not outperform the index over the 3 or 5 year periods or maintain top half ranking in the applicable peer universe over the same period. These funds are followed and are showing an improved performance year to date. It was noted that 85% of funds outperformed the comparative index over the 3 and 5 year period. No funds in the portfolio are on the Prudential "watch list." Fixed income funds comprise 40% of the portfolio. Although interest rates are rising, rates continue to be relatively low. Peter Amons noted that the 10 and 30 year Treasury Bond yields are very close. Mr. Guzman noted that some investor continue to utilize 30 year Treasury Bonds for insurance and pension fund investments.

Following the presentation of investment performance, there was a discussion about the actuarial projected return of 7.5% and whether that was realistic. Mr. Guzman commented that the 7.5% return was slightly higher than what he would estimate but felt that the Actuary may be looking at a longer term in estimating the rate of return. Committee members also expressed concerns that the rate seemed high. Mr. Guzman agreed to work out scenarios with different returns. Lowering return would result in increased liability and would require reevaluating investment risk to get an acceptable return. The current asset allocation and rate of return have not changed and were approved by the Pension Board when the guidelines were established.

The committee discussed the possibility of changing the allocation from 60/40 to 65/35 and what that would do. Mr. Guzman agreed to review the portfolio and prepare scenarios based on a change in allocation. A change to a 65/35 allocation could result in a 0.25 basis point increase in long term results, by his estimation. Mr. Guzman agreed to return to the Committee in the fall to present information regarding changes to the portfolio and the volatility that would be assumed with a 5% increase in the equity position.

Committee members agreed that a meeting in the fall was necessary and the possibility of coordinating to have Mr. Guzman and the Actuary present for the discussion. The Committee thanked Mr. Guzman for his detailed review and presentation of the pension investment performance.

The next meeting of the Pension Board will be scheduled in July or August and would include the presentation of the January 1, 2018 valuation by the Actuary.

The meeting was adjourned at 8:10 pm.

Respectfully submitted,

Mary A. Markowski
City Treasurer &
Pension Board Chair