Pension Board Minutes – May 6, 2020

Attending: Aldermen, Tom Depoy, Sharon Davis, William Gillam, Chris Ettori and Michael Talbott; School Commissioners, Hurley Cavacas, Joanne Pencak, Charlene Seward, and Cathy Solsaa. and Chair, Mary Markowski

Others Attending: Mary Alma Noonan of Rutland Public Schools, Lazaro Guzman and William Vazquez from Prudential Retirement Services, and Alderman Matt Whitcomb. Peter Amons (entered late)

The Chair began the meeting at 6:00 pm. The meeting was held via teleconference.

The Chair welcomed the new Committee members and introduced Lazaro Guzman from Prudential Retirement. The Prudential financial performance report of March 31, 2020 was distributed to the Committee members prior to the meeting.

Lazaro Guzman provided a brief market update. He noted that calendar year 2019 was a good year and the plan ended the calendar year up 20%. Everything changed in the 1st quarter of 2020 due COVID-19. Due to the virus, all economic sectors suffered declines in the month of March resulting in an estimated 3.5% decline in first quarter GDP. Based on the S&P 500, corporate earnings declined by 15% reporting the worst quarter since the 2008 financial crisis. The Federal Reserve response to the pandemic will play an important role in recovery. During the first quarter government rescue measures, included, action by the Federal Reserve to support credit markets and the economy as the lender of last resort. Congress reached an agreement on an estimated $2 trillion stimulus package to provide direct assistance for households and businesses. Much of the outlook for 2020 depends on how the health crisis is resolved. Hurley noted while the current and short-term results were presented, he was concerned with long term impacts of deficit spending. Lazaro noted that long-term impact of the borrowing and deficits created due to the virus will impede future economic growth. This is difficult to quantify without knowing how long the health crisis will continue.

Lazaro discussed the financial markets and noted that the S&P was down about 20% for the quarter following the longest ever bull market in US history. He noted that the S&P hit a low point of 30% during the month and we are seeing a bounce back from the low point. Year to date the S&P is down 10%. The changes from March to May reflect the significant volatility in the market. This will continue going forward until there is concrete resolution to the health crisis. Fixed income was positive for the quarter with outflows from equities going into the bond market, particularly into Treasury Bonds.

The equity style returns, value stocks versus growth stocks were reviewed as outlined on page fifteen of the report. Growth Stocks outperformed Value stocks across the market cap spectrum as investors favored growth and quality factors. This was driven by higher market cap stocks, such as, Amazon and Microsoft. While all market caps posted losses for the quarter, large-cap stocks outperformed both mid and small caps. Lazaro noted that growth stocks posted higher returns than value stocks, not only for the quarter, but also for the one, three and five-year returns. He explained the portfolio is well diversified in growth and value investments to take advantage of opportunities that may arise. Charlene asked about the growth/value investment strategy. Lazaro explained that over time certain sectors come in and out of favor and it is important to have a balance of both growth and value stocks in the portfolio.

Interest rates were reviewed. The Federal Reserve introduced two interest rate cuts in March, slashing its policy to zero and announcing expanded programs of asset purchases. The yield curve as of March 31st reflects low interest rates throughout the maturity spectrum.

Lazaro presented (page 3) the net performance of the City plan noting the assets totaled $82.3 million at the end of the quarter and totaled $86.8 million currently. The end of year balance was significantly higher at $96.2 million. The portfolio was down 14.2% net of fees for the first quarter, The one-year return was down 5.5%, the three-year was up 2.7%, the five-year was up 3.5% and the ten-year was up 6.4%. Lazaro noted that the ten-year number at the end of the calendar year was 8.4%; this is the basis for the plan valuation. Hurley asked about the plans ability to pay annual pension payouts and additional payouts for retirements due to COVID19. The 40% fixed income represents about $35million in fixed income assets; this provides the source for payouts with an estimated 5-year reserve based on last year payouts of approximately $7 million to disbursed to retirees. The target investment mix is equity 60% and 40% fixed income. Lazaro noted that steps were being taken gradually to rebalance the portfolio from an overweight in the fixed income market. Joann noted that Lazaro had advised the plan to maintain the current allocation in response to past discussions about potentially changing the allocation from 60/40 to 65/35.

Lazaro provided a summary of individual equity investments, including dollar amounts by funds. He noted that due to COVID-19 there was considerable volatility in the market and he did not advise making changes to individual funds at this time. He noted that at the end of the calendar year performance was positive and things were working. The overall portfolio is performing as expected even in the first quarter. Generally, funds should outperform the index over the 3 to 5-year periods or maintain a top half ranking in the peer universe over the same period. He noted that all of the funds are meeting the criteria with the exception of the QMA fund. This is a blend fund, neither value nor growth so it leans toward value and that attributes to the ranking. He also pointed out that the Integrity fund and Pictet Asset fund were being watched even though they are meeting the performance criteria. These funds make up about 11% of the portfolio.

Lazaro presented a detailed review of the underperforming funds. These funds are continually being watched. Hurley noted that Pictet has been reviewed in the past and questioned the retention. Lazaro noted that the rolling return review of the three and five year look back were positive. There were periods that it was beating the index consistently and that supports the decision to hold. There was no recommendation the change based on the first quarter of 2020. Lazaro reviewed the rolling returns of the QMA and Integrity Funds.

From a total portfolio perspective, the portfolio is performing well despite the volatile market conditions. Cathy Soulsaa noted that the funds were underperforming against the indices and questioned how that plays into decision making. Lazaro noted that these could be points in time and it was necessary to review other metrics and returns in the decision making. On the fixed income side there is a long history of beating the index.

The Board thanked Lazaro for the detailed presentation.

Hurley had asked about school retirements. Mary noted that there were approximately seventeen planned retirements and terminations that are being worked on for June 30, 2020.

The Chair noted that the Actuarial report for the January 1, 2020 would be available soon and scheduled the next meeting with the plan Actuary for June 2, 2020 at 6:00.

The meeting was adjourned at 7:25 pm.

Respectfully submitted,

Mary A. Markowski