Pension Board Minutes – November 9, 2022

Attending: Alderman: Sharon Davis, Bill Gillam and Anna Tadio: School Commissioners: Charlene Seward, and Cathy Solsaa and Chair, Mary Markowski

Absent: Alderman, Matt Whitcomb and Carrie Savage; School Commissioners, Tricia O'Connor and MaryBeth Lennox-Levins.

Others Attending: Alderman, Michael Doenges*, Joe Barbagallo; School Commissioner, Stephanie Stoodley; Ted Plemenos and Jodi Sabataso, Rutland Public Schools; Peter Amons and Lazaro Guzman, Empower

The meeting was held in person at City Hall in the Board Chambers. The meeting was called to order by the Chair at 5:31 pm.

There were no additions or deletions to the agenda.

The first order of business for approval of the minutes of October 13, 2022. The motion to approve the minutes was made by Sharon Davis and seconded by Bill Gillam; motion passed.

The Chair introduced Lazaro Guzman from Empower. Lazaro briefly spoke to the acquisition of the Prudential Defined Benefit Group by Empower. Lazaro has been with Prudential/Empower for over 20 years and has been involved with the Rutland City Pension Plan for over 10 years.

The presentation began with a brief economic review on page 27. Lazaro discussed concerns of inflation, fears of a recession. He noted that the U.S. economy strengthened in the third quarter and preliminary data showed real GDP growth expanding at an estimated rate of 1.5%. The markets have been volatile due to inflation, the war in Ukraine, and supply chains issues. The Fed is maintaining restrictive monetary conditions with increases to interest rates.

Lazaro commented on market returns for the first 3 quarters of the year and noted that all market sectors had negative returns. The investments of the plan are well diversified throughout the market in equities and fixed income. Charlene asked about the need to shift plan assets in relation to market conditions. Lazaro noted that the plan is rebalanced quarterly as needed and that no changes were made at the end of September. The portfolio was rebalanced in June.

Lazaro reviewed fixed income returns and U.S. Treasury yields. He noted comparison of rates from the prior year. The Fed raised rates by .75% in both July and September. The ten-year return moved from 2.98% and 3.83% and the two-year return climbed to 4.22% from 2.84%.

The overall market outlook for the short term is uncertain. The Fed was slow to move rates and inflation was considered transitory. Inflation will continue to be an issue over the next several quarters, but is expected to moderate. Once inflation begins to moderate there should be improvements in the equity and bond markets. At that point the Fed might begin to ease rate hikes and that could be in the 2nd half of 2023 and into 2024. The plan investment approach is long term and that approach has been effective over the years in other periods of negative market returns.

Lazaro presented (page 3) the September 30, 2022 net performance results. He noted that that as of 9/30/22 the plan was at $91.4million and was valued at $94.4million as of today, up about $3 million since the end of the quarter, The returns for the quarter show the portfolio down about 5%; YTD down about 20% and the ten-year return was 6.2%. Lazaro noted that the plan objective is currently at 7.2% with the goal of bringing the rate to 7% which is consistent with what he sees with other plans.

*Michael Doenges left the meeting.

The actuarial returns are smoothed so that the contributions are leveled. For instance, in 2021 we had returns of 20%. The market value smoothing is done so that we don't see large shifts in the recommended contributions.

Lazaro discussed the plan objectives at 40% income and 60% equity. The income portion provides for 5 to 10 years of disbursements so that the plan can weather market conditions. With this approach we are not in a position where assets need to be sold to meet cash needs. There was some discussion of the current allocations and there were no recommendations to make changes due to the market uncertainty.

Lazaro provided a brief overview of the individual funds in the portfolio. He noted that three funds do not meet the performance criteria – Core Bond Index (PGIM), International Blend Pictet and International Growth/Artisan Partners. He noted that more than 80% of the portfolio is invested in funds that meet the criteria. The International Blend Pictet is on the watch list and the fund manager will be replaced on December 1st. The Artisan Fund is starting to come so no action is recommended at this time. The Emerging market fund is also showing improvement and there will not be changes at this time.

Lazaro reviewed the overall portfolio. Plan allocations are established based on individual plan objectives and actuarial forecasts for payouts and contributions impact the portfolio mix. The 60/40 allocation is typical for a pension plan. Lazaro noted that the next 2 or 3 quarters will continue to be challenging but as inflation eases, we should see improvement in the market.

Jodi Sabataso asked about changes to the Pension Board, since in the past there had been discussion of including employees as members of the committee. Changes to the pension board would require changes to the city Charter.

With no other business the meeting adjourned at 6:33 pm.

Respectfully submitted,

Mary A. Markowski