Pension Board Minutes – May 15, 2024

Attending: Aldermen: Carrie Savage, Matt Whitcomb, Anna Tadio, and Alex Adams; School Commissioners: Cathy Solsaa and Heather Hauke; Chair, Mary Markowski

Absent: Aldermen, John McCann

Others Attending: Aldermen, Michael Talbott and Joe Barbagallo; Peter Amons (former CFO of RPS), Chief Lovett and Lazaro Guzman, Empower

The meeting was held in person at City Hall in Lamontagne Conference Room. The meeting was called to order by the Chair at 5:30 pm.

There were no additions or deletions to the agenda.

The first order of business was for approval of the minutes of October 12, 2023. The motion to approve the minutes was made by Matt Whitcomb and seconded by Heather Hauke, motion passed.

The Chair introduced Lazaro Guzman from Empower. Lazaro briefly spoke of his involvement with the City pension plan. He also provided an update of the transition from Prudential to Empower. Empower acquired the retirement services business of Prudential as of April 1, 2022. Lazaro and the plan administration team from Prudential transitioned to Empower. The final migration from the Prudential platform to the Empower platform was completed in early May.

Lazaro circulated copies of the Plan Investment Review as of March 31, 2024. The presentation began with a brief economic review on page 4 of the report. The economic updates included GDP growth stronger than anticipated, US economy on strong footing, core inflation above policy targets, labor market strong and business confidence has grown more divergent. Lazaro commented that interest rates are taking a toll on the economy and while the outlook is positive there is a slowdown. Returns for the portfolio for the quarter and year reflect that overall markets are up, and investments there is diversity throughout the market.

Lazaro reviewed equity market returns, fixed income returns, returns by asset class, S&P performance, inflation, and rate expectations. He noted that projected Fed rate cuts may be slower than originally anticipated. Much of the S&P growth involves a small number of technology companies that are driving the market. Lazaro noted that the portfolio was not overweighted in these companies.

As of 3/31/2024 the plan total assets were valued at $113 million with 63.5% equities and 36.4% in fixed income. The returns for the portfolio were reviewed with the first quarter returns at 5.4%, the one-year return was 15.5%, the three-year return was 4.24% and the 10-year return was 7.0%. Lazaro noted that the plan objective based on actuarial reports has been to bring the discount rate to 7%. Peter asked whether the objective and discount rate continue to be appropriate for the plan. Lazaro noted that there were no recommendations for changes to the objective and noted that plan allocation supports the 7% rate. The current investment objective takes into consideration the annual plan contributions and annual disbursements. The current balance of the portfolio provides a buffer of $40 million in fixed income to be able to cover five or more years of plan disbursements.

Lazaro provided a brief overview of the individual funds in the portfolio and fund manager performance. The plan balances by source and investment at month end were outlined on page 26 of the report. The portfolio allocation is 60% equity and 40% fixed income. The largest sector weighting was 38% S&P500 index fund and 15% in Core Bond Fund. He noted the portfolio continues to hold funds managed by Prudential. Peter asked if other clients are using Prudential and Lazaro noted that he has many clients that continue to hold these funds. This is based on the quality of the fund and the experience of the fund managers.

The presentation ended on page 28 and 29 which outlined the individual fund holdings and detailed the annualized returns and peer ranks. Lazaro discussed individual funds, managers, and performance. There were no funds in the portfolio that presented concerns. In prior periods the Artisan and PGIM funds were underperforming but are showing improvement. These funds represent a small portion of the portfolio.

Lazaro completed his presentation, and the committee discussed the challenges of the unfunded liability. Peter asked about the RPS plan and questioned the appropriate school contributions. There was discussion about the funding level and at what point ER contributions could be reduced. Lazaro explained that the assets are tracking liabilities, and these are long-term considerations. Lazaro stated that he would not recommend changes to contribution levels given that both the City and School plans are underfunded. Continued funding is necessary to offset negative market conditions and actuarial forecasting to evaluate the impact of changes would be helpful. He also noted that the distributions from the plan are greater than the contributions. The City has a long-term plan to address the unfunded liability and the City contribution increased by $300K with the local option tax. Matt asked about the risks of market changes. Lazaro noted that actuarial valuations use a smoothing method to offset market volatility.

The committee thanked Lazaro for the presentation and the meeting adjourned at 5:36pm.

Respectfully Submitted, Mary A. Markowski