Pension Board Minutes – October 12, 2023

Attending: Alderman: Alex Adams, Carrie Savage and Larry Cupoli, School Commissioners: Cathy Solsaa, Mary-Beth Lennox-Levins and Sara Atkins-Doenges and Chair Mary Markowski

Absent: Alderman, John McCann and Anna Tadio, School Commissioners: Stephanie Stoodley

Others Attending: Mayor Michael Doenges, Alderman Micheal Talbott, Chief Bill Lovett, Ted Plemenos, RPS CFO 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 5:30 pm.

There were no additions or deletions to the agenda.

The first order of business for approval of the minutes of August 9, 2023. The motion to approve the minutes was made by Larry Cupoli and seconded by Alex Adams, motion passed.

The Chair introduced Lazaro Guzman from Empower. Lazaro provided the economic review as of the 2nd quarter, noting that corporate and consumer spending has held up well despite inflation concerns. The unemployment rate continues to be near historic lows. The Federal Reserve continues to focus on interest rates as core inflation remains high. The housing market improved and is a positive contributor to the 2nd quarter GDP. He also noted that expectations of a recession have moved to early 2024 rather than this year. The 3rd quarter showed some weakness in both equity and fixed income.

Lazaro reviewed the equity market returns noting that the S&P was up 8.7% for the quarter and 16.9% year to date. Fixed income values are down for the quarter as rates have increased. Historical interest rate data was reviewed, and the 30-year US treasury rate was at 3.86% at the end of the quarter and is currently at 4.67%. Lazaro noted that the portfolio continues to be managed with the objective of 40% Fixed income and 60% Equity.

Larry asked how the concerns of a recession impact the way that the portfolio is being managed. Lazaro explained that there would be no change in the asset allocation. The 40% in fixed income is a stable investment and provides about five years of funds available to meet needs for disbursements. Changes in the equity markets would be handled based on the different investment strategies. Individual managers will continue to manage and consider which sectors would offer the best returns for the portfolio during a recession. The current allocation remains at 40/60 and funds are shifted based on underweight or overweighed positions. If the fixed income portion was overweight, it would be an opportunity to shift to equities and buy low.

Lazaro discussed the net performance results on page 2 of the packet. The average rate of return of the portfolio is 3.68% YTD, 10.4% for one year and 7% for the ten-year return. The assumed rate of return for the portfolio is 7% and is a reduction from 7.5% that has been reduced incrementally over the last 5 years.

Lazaro provided a review of the individual asset classes and performance. The performance is compared to the peer group and benchmark. The Core Bond PIGM fund and Artisan Partners fund do not meet the criteria. These funds represent 12% of the total portfolio and do not meet the performance over the 3- and 5-year periods. These are not chronic underperforming funds and there are no recommended changes currently. Lazaro reviewed the performance of each of the funds and noted that 88% of the portfolio is performing well. The details of the performance review are outlined on page 50 to 52 of the packet.

Following the detailed presentation, Lazaro addressed questions from the Committee. Mary asked about the current discount rates and expressed concerns about the economy. Lazaro noted that the current assumed rate of return is consistent with what he sees with other plans of similar size. Lazaro again stressed the importance of the current allocation and having that buffer of 40% fixed income to meet the disbursement requirements for 5 years. The plan is not in a position that would require the sale of equities to meet the cash needs. This strategy is the same that was followed in 2008 and 2009 and has served the portfolio well over time. Ted asked about AI and how the impact on the portfolio and managers. Lazaro noted that managers are looking at investment opportunities in artificial intelligence. AI will impact different parts of the economy in different ways. Mary-Beth asked for a little more information about the Artisan fund and how a recession might change the decision to keep it in the portfolio. Lazaro commented that they would likely not change the position but would raise the expectations of the manager. Larry asked about Artisan investments in China and Lazaro noted that the fund has a relatively low investment in China.

The committee thanked Lazaro for his detailed presentation and the meeting adjourned at 6:17pm.

Respectfully submitted,

Mary A. Markowski