Pension Board Minutes – May 11, 2023

Attending: Alderman: Carrie Savage, Larry Cupoli, and Anna Tadio; School Commissioners: Heather Hauke, Sara Atkins-Doenges, Mary-Beth Lennox-Levins*, and Cathy Solsaa*; Chair, Mary Markowski

Absent: Alderman, John McCann and Alderman Alex Adams; School Commissioners, Stephanie Stoodley.

Others Attending: Ted Plemenos, CFO of RPS; Michael Talbott, Chair of Board of Alderman; Peter Amons (former CFO of RPS) 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 5:32 pm.

There were no additions or deletions to the agenda.

The first order of business for approval of the minutes of November 9, 2023. The motion to approve the minutes was made by Larry Cupoli and seconded by Anna Tadio; motion passed.

The Chair introduced Lazaro Guzman from Empower. Lazaro briefly spoke of his involvement with the City pension plan. Lazaro serves as the plan investment consultant; he has been with the Empower/Prudential Defined Benefit Group by 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 28. Lazaro provided a recap of the first quarter 2023. He noted that inflation has been dominating the market but is starting to moderate. Higher interest rates are putting stress on the bond markets and banking system. Despite high levels of uncertainty and volatility, capital markets performed well in the first quarter. He noted that the pension plan is up 5.25% in the first quarter. US Growth is expected to be slow with concerns of possible recession by the end of the year or next year.

Lazaro commented on market returns and noted that positive returns were posted in many indices in the first quarter but do not make up for the negative returns posted in 2022. He reviewed the Equity Market Returns and Fixed Income returns as outlined on page 30 and 31. Plan investments are well diversified throughout the market in equities and fixed income.

Lazaro presented (page 3) the March 31, 2023 net performance results. As of 3/31/2023 the plan total assets were valued at $101.4 million compared to $100.9 million as of today. The returns for the portfolio were reviewed with the first quarter returns at 5.24%, the one-year return was down 5.53%, the three-year return was 10% and the 10-year return was 6.65%. Lazaro noted that the plan objective based on actuarial reports has been to bring the discount rate to 7% which is consistent with what he sees with other plans.

Lazaro discussed the plan asset allocation objective is at 40% fixed income and 60% equity. This has not been changed in a while and continues to be a good balance for the portfolio. This weighting takes into consideration the annual plan contributions of approximately $5million and annual disbursements of approximately $8.5 million. The current balance of the portfolio provides a buffer of $40 million in fixed income to be able to cover 5 years of plan disbursements. Peter asked about how the low interest rates have impacted the decision to carry the 40% fixed income position. Lazaro discussed the fixed income rates and noted that even though past fixed interest rates have been low the balanced approach allows the portfolio to weather the market fluctuations. With this approach we are not in a position where assets need to be sold to meet cash needs. The portfolio allocations are reviewed quarterly and adjustments are made as necessary to keep the allocations in line with the objectives. There were no changes recommended at the end of March.

*Mary-Beth and Carrie left for another meeting.

Lazaro provided a brief overview of the individual funds in the portfolio. Funds are compared with market indices and a universe of similarly managed funds. The review and analysis of the funds has a long-term focus primarily looking for funds that are either beating the index in the 3- and 5-year term or performing in the top half of the peer group for the same period. He noted that there were 3 funds in that are "no" in the meets performance criteria. These funds included the following:

The Core Bond Index Fund/PGIM Fund (7% of portfolio) – This fund objective is to track with the index and provides a lower risk in the portfolio at a lower cost.
The Int'l Blend II Fund (4.89% of portfolio) – This fund is managed by MFS; the manager of the fund was changed in December and there were noted improvements in the 1st quarter.
T**he Int'l Growth Artisan Fund (5.10% of the portfolio)** – This fund is performing well when reviewing the 1-year results.

Lazaro continued to review all of the funds held in the portfolio and noted that the three funds that are being watched represent 17% of the portfolio and 80% of the portfolio is performing well and meeting the performance criteria. Peter asked about the change in the manager in the Int'l Blend Fund. Lazaro noted that this impacted all of the clients that invest in this fund. There was some discussion of the 17% of the portfolio that is not performing as expected and Lazaro noted this is not uncommon. Overall, the portfolio is in good shape and well diversified. Anna questioned investments in fossil fuels. Lazaro noted that he sees more movement to diversify from oil and looking for less dependency on fossil fuel. Lazaro provided additional discussion of the economy, impacts or war in Ukraine and inflation.

With no other business to discuss the meeting adjourned at 6:01pm.

Respectfully submitted,

Mary A. Markowski