PENSION & BENEFIT COMMITTEE

OF THE

SOUTH CENTRAL CONNECTICUT REGIONAL WATER AUTHORITY

OCTOBER 24, 2024

MEETING TRANSCRIPTION

[PENSION & BENEFIT COMMITTEE MEETING BEGINS AT 12:30 P.M.]

Catherine:

The first item on the agenda is the approval of the minutes July 25, 2024. Is there a motion to approve the minutes? And then we'll [inaudible 00:06:23].

David:

I move but that's up to the correction because there are some corrections.

Catherine:

So moved.

Suzanne:

So, there were two items that we had discussed at the end of the meeting, and I see that the folks from Morgan Stanley are prepared to talk about them. One was the cash flow and observations about the liability [inaudible 00:06:44]. And the other one is the cost overall, cost associated with the pension and how that's changed over time, which I also see is in the presentation. But I'd like it to be in the minutes if possible.

Catherine:

Yes, I agree. So, I assume that this is a motion to amend the minutes.

David:

Yes.

Catherine:

To include both the report of the administrative expenses and the [inaudible 00:07:16] and the breakout moving forward, so we can amend those minutes.

Mario:

I'll accept that as part of the motion to approve them with that. Second.

Catherine:

All right, so [inaudible 00:07:29] seconded to amend the minutes. All in favor of position? Okay, four of us, unanimous votes that are present. And so I'm going to approve the minutes as amended. So, all in favor? All right, excellent.

All right, next item on the agenda is ... Sorry. It's our quarterly report on the investments. I'll turn it over to Steve.

Stephen:

Thank you, Catherine. And good afternoon everyone. If we're going to cover all of those items, I may speak fast. Please slow me down if you need to, but we have materials to cover all of the items. We have a table of contents on the next page.

So, from a discussion outline, we have a relatively brief market commentary. I think you all know the market's been very strong since we last met. We have the usual, we'll look at the asset allocation of each of the pool of money and how the monies are allocated versus their targets. We'll look at the investment results, short and long term, and it's nice to see the long term numbers above the goals at the moment again.

And then we were planning on looking at the liability and cash flow analysis. We have a summary of it, and then in the appendix we have detail if we need to refer to that detail. And we also have historical cost savings and cost discussion period in the appendix. So, we'll try to get to as many of those as we can. You can let us know if we're short on time or if we can go a little over if we have to. But it just depends on ... I think the most important discussion is probably the liability cash flow analysis from a cash flow perspective over the next decade really.

So, let's move forward and we'll get to what we can get to and extend if we have to if you allow us to. Which I'm hoping we don't. I think we're okay.

I'll go quick on the market commentary. It's about the same as it was the last time we spoke. The market's been up quite a bit. U.S. market's been up quite a bit since we last spoke. You've seen an enormous broadening in the market since we last spoke. We've seen participation from international, participation from value, participation from the average stock. And actually the interesting thing is those magnificent seven stocks we always talk about, the fantastic growth companies in the S&P 500, the top names, have actually slowed down and the rest of the market has sped up. So, we think that's very healthy broadening of the market. And it started to happen the last time we spoke, but it's continued.

All that being said, as published every day, the market is, in the upper right, 21.5 times earnings. Historically not the highest number, but definitely not an inexpensive number based on history. Last time it was this high was the peak in '22. The little difference this time, at that point inflation was just arriving, interest rates hadn't even begun to go up yet, but they were about to. This time inflation looks to be waning and interest rates have begun to go down.

Last time, corporate earnings were forecasted to drop. This time, they're forecasted to grow. So, although they're the same number, the backdrop is a little bit different. But my caveat is, yes, do we like when the market's cheaper when we're deploying funds? Of course we do. It's a little more maneuvering at this level looking for value, and that has paid off nicely most recently. We can jump ahead, please.

So, one thing I'll point out in the three parts of this slide, in the upper right I'll focus on first. If you look at the S&P 500 names, the weighting of the top 10 is almost at 36%. So, that's telling you the other 540 names are the other 64%, so it's a heavy weighting and it is almost the heaviest in recent history. It's been at the heaviest recently, but it's just below it now after the most recent quarter. So, that's something to be conscious of. The other 490 names are representing a smaller piece of the total S&P.

And if you look at the upper box in the upper left, you see if we carve out those top 10 names from a valuation perspective, they are rightfully more expensive than the rest of the market and have been historically as well. They're currently 30.5 times earnings on average. A long-term average is 20.5. So, they're arguably about 50% more expensive than they've been historically.

The remaining 490 stocks, although a little more expensive than history, are at 18.4 times earnings versus a long-term average of, call it, 16 15 7. And that's about 17% more expensive than historic. Not multiple standard deviations out of the norm on those.

So, when you blend it all together and you market cap weight it, that's where you get the 21.5 on the S&P. So, we think there are places in the market that are not expensive, and we're beginning to see that. If we jump to the next slide, you see the broadening that's happened recently.

So, here in light blue, the thicker line, you've got the S&P as published every day. And in the dark blue thinner line, you've got the average stock on the S&P. And you've heard me say this so many times, but what the average stock is if I had $500 to invest, it's $1 each of those 500 names. And if you look recently, this is an interesting change of fortune since we last spoke. The average stock in the S&P, as I alluded to earlier, is vastly outperforming the S&P over the last three months at 909 versus 553.

And if you look in deeper actually, I've just got a few notes here, the value side of the equation of the Russell 1000, so the thousand largest U.S. stocks, the value or dividend yielding side, was up 943 in the third quarter and the gross side was up 319. So, those are all good numbers. That's a 90-day number. The numbers are very high right now.

Internationally, and it's interesting that we don't see a lot of this in the press, but for the quarter the international markets all average on the upper approximately 8%. So, we're beginning to see, and you've seen the same thing, the small cap universe was up 9%. We're beginning to see participation not just from the largest names. And we think that's super healthy to see a broadening in the market. So, I'll stop there. I have a few more ideas and comments, but let's keep us moving. I think you get the idea.

The bond market continues its second year straight in an upward bias after 2022. Each borrows a calendar year, I'll remind year. If I'm at the far right, year to date through September, the bond market was up 4. It's come back a bit now because rates ... Believe it or not, although the Fed cut rates, rates in the market actually went up a little bit because the market had anticipated the Fed rate cut.

Last year the bond market was 6%. And I'll remind you that '22 it was down 13%, same year the stock market was down 18. And that 13 was so unprecedented in history, the next worst was down 3. We think the bond market's returned to relative normalcy at this point. And we can jump ahead again, please.

So, where are we at now? And I'm going to focus on the dark blue line, the September 30 bond market. If you go to the 10-year along the bottom and you look straight up, at that point in time, and we'll talk about what has the Fed done since we last met. The 10-year, on September 30, was at 3.8%. And if you go to the far left on that same line you'll see the 4.7. What the Fed really did is they reduced those short-term rates and those short-term rates reacted, and they've gone from roughly 5.2% down to 4.7. The Fed rates a half a percent. So, when it does that, it's cutting the rates on the short end, the overnight money really, which really is affecting that three month side as well.

They don't do anything with rate cuts, at least. They do some balance sheet things with the longer term money. But the longer term money tends to be driven by the markets. And since the Fed has cut rates, it's interesting today if you look at the 10-year Treasury, you're going to find it's roughly 4.2%. So, since they cut rates, the 10-year rate, which is what most lending rates at least mortgage rates trigger off of, has actually gone from 3.8 to 4.2. It's actually gone up. It's counterintuitive.

We believe that 10-year is likely to be a pivot point. If you think of a seesaw, that's probably the center of the seesaw. The Fed's likely and predicted at least, I shouldn't say likely, I'll stick with predicted at least, to continue to lower short-term rates. And what's the market's telling us right now is if the three-year is at 3.6%, to get to a normal yield curve, the Fed's got to go at least below 3.6, right? They've got to go to 3.5. A lot of people are forecasting them going to 3, 2.75, et cetera. But let's just say the market's saying in the mid-3's is likely to happen. And in that case, we think the 10-year just remains as a pivot point somewhere between where it was on September 30 and where it is now really. 3.75, 4.25, potentially a range bond. Very difficult to predict. Not a prediction, but it seems logical as to what should happen barring any unforeseen global events obviously. Jump ahead again, please.

Let's talk about the elephant in the room at the moment I guess or the donkey I suppose. It could be either. I just made that up now. Sorry for that, my bad joke. But let's look at does the market care about who's in the White House. The high end answer is no, not really. Look at this. We got Reagan, GW Bush, Clinton, George W. Bush, Obama, Trump, and Biden. And along the top, you can see the annualized returns rate each of those administrations. Biden's been 13.4, Trump 14.6, Obama 12.4, George W. Bush down 2.4, Clinton actually the highest in this recent history at 15.9, or relatively recent. George Herbert Walker Bush 12.9 and Reagan 9.9.

You look at that and you see certain down years under each of these administrations. So, the point I want to make, first of all, were those results the result of the administration or their policy? Maybe on the edges. But markets care about earnings. If you look at stocks over time, stock prices tend to follow earnings. Earnings rise over time or they have historically, and stock prices are pulled by them. When stock prices and earnings get very far out of sync, they tend to come back. And in the end, logic prevails.

And you look at the events, so just pick the down years because no one worries about the up years. But we're running something like a pension, the double edged sword is you go all stocks, you might get the highest return but you put up with a huge amount of volatility, which doesn't work well when you have to make pension payroll next month. So, let's pick on George W. Bush and what happened there.

Well, he arrived to 9/11. So, that was a big deal. First of all, he arrived, and the dot com bust was already busting. Clinton was the benefactor of the dot com boom, that's a big chunk of those returns. And in Clinton's last year, it was a dot com bust and that carried over to George W. Bush's administration. And then he got hit with 9/11. And at the very end of his administration, it was the global financial crisis that hit. Were those political events? You could argue they were or weren't, but I'm going to say they're global big macro events.

You could go to Trump. Trump, 14.6% annualized returns, so above average but not to the degree some people might suggest. But still above average. But COVID was his second year.

Go to Biden, 13.4%. These are solid returns, right? What happened in his second year? Interest rates went up, inflation arrived. So, he was the victim, again political or not, of inflation from a market perspective. The market was a victim of inflation.

And I won't go through them all in the interest of time, but every major down year is triggered not so much by valuation. Valuation may set you up for a bigger down year, but they're triggered historically by big events. 9/11, global financial crisis, COVID, inflation arriving. You could argue inflation arriving was part of COVID.

So, point with this slide is, yes, everyone's a little tense in the country right now I think, or many, over the election. But the reality is does the market care who's in the White House? Not over time. Instead, the market tends to perform best ... We can jump forward. Sorry if I spent too much time on that.

Historically, I didn't bring the slides, again in the interest of time, but the market performs best, frankly the numbers are best, when there's a split government. Whether it's the White House that's different than the House or the House is different than the Senate or any combination. But just numerically alone in the same timeframes, the market has done best when we've had a split government for whatever that's worth. So, again, not meaning to be political at all, but just trying to quell any thoughts that, oh, if this one gets elected it would be horrible or with this one it would be horrible. From a market perspective only I'm talking, it shouldn't be the case.

Would we expect volatility leading up and around the election? Sure. I'm actually surprised we haven't seen more. But that's a personal view. I thought we'd see more but happy we haven't. So, at any rate, hopefully that's helpful at least or at least entertaining if nothing more. Some new knowledge.

Salary and union plans. As of the end of September, 79,507,097 allocated per the pie chart and allocated per the box in the upper right. 58% in equity of that time. About a 75/25 split as is strategic between U.S. and foreign.

And if you look down to the bottom of the box, more weight in some dividend yielding value stocks and a little less weight in growth stocks with results in a little bit less in core. So, I'm sorry, a little more in core. So, a little bit more core in value and a little bit less in growth, but definitely exposure to all areas.

How does it matrix versus the benchmark? Well, at this point, and we've been re-balancing fairly regularly lately. Our strategy [inaudible 00:22:38] now is not to be over our skis in this market that's been, in my lifetime, I don't remember a 12-month period that was quite as easy as the last 12 months other than maybe 1999, and that was actually more volatility, steeper up, but equally calm, if you will, from a volatility perspective overall.

We've barely had a correction in 12 months. So, because of that, stocks keep running higher, so domestic stocks are overweight by just 1.2%, international underweight by just 0.3, versus target bonds overweight because we have ... Domestic bonds we have a big underweight. We don't really own hedge funds at all right now, and we have no exposure to non-U.S. bonds. So, unless they're in one of the vehicles but very light, if any. So, those are the big underweights. And then cash and equivalents were underweight also. Overweight bonds, underweight cash, and global bonds basically. Same as the last time we spoke really.

If we jump ahead, please. We look at the VEBA a little bit different vehicle. Similar asset allocation for now at least, and we'll talk about that when we get to Alan's section. I won't read you all the numbers because it's very similar. Not that different. 10 million 629 in the upper center.

We move forward and look at the results. Same here too, so let's go to the results. So, this is the quarter, first of all. Obviously, it's been a good time-

This is the quarter, first of all, so obviously it's been a good time period. I'll read you the numbers left to right, and then we'll look at the percentage returns, but for the fourth quarter, sorry, third quarter only, you see that there was 86,352,000 in the pools of money, each of them individually outlined in the top three rows, and each of the Matrix Trust related trust accounts in the next three.

There were benefit payments made of almost three quarters of a million during the quarter. Transfers were just money moving between Matrix Trusts and us to the VEBA basically to make some of those payments. And then the net invested is 86 million, sorry, 85,603,000. Ending value is end of last month, 90,740,000, so a $5.1 million gain for the quarter of 6% net and 6.14 gross. That is for the quarter. I'm just saying that. That's not annualized.

The actuaries require 169. The mid-points are 6.07 for the more strategic market cap weighted and 7.48 for the more equal weighted because of the... We do have some exposure to equal weighted, but not enough to overpower the big delta that happened that time. But nicely above the actuaries, and nicely above the first of the two benchmarks in between them.

We go a little further out in time, your fiscal year so far. I won't read you all the numbers unless you want me to, but I'll go to the same... The ending value is going to be the same on every one because all of them have September 30th end dates. So, third column from the right, dollar gain for the fiscal year so far of just under 6 million, 5,939,000. It's 7.06 net and 7.18 gross.

So, it's actually, if the fiscal year ended on September 30th, I think Rochelle would be smiling at us because we're above the actuary rate of return, but for that time period, the actuaries require 2.25. So, there's some cushion in the current timeframe, at least. And from a benchmark perspective, a little bit slow in that timeframe, primarily because the bond... We own a lot of individual bonds to pay out the payments over the short term in the first four- and five-year period, and those shorter term bonds underperformed the bond market during that timeframe, when rates did come down a bit.

But we go out further, calendar year to date, so this is just January 1st till September 30th. Again, same ending value. Dollar gain calendar year to date is 9,716,000, 12.07 net and 12.36 gross. Obviously, for that nine-month period, the actuaries need 5.06, and the investment benchmarks, the midpoint of the high one is 12.89, and the midpoint of the equal weighted is 10.59, so much closer to the high one when you go out to a year, year to date. Sorry.

We keep going. All right, I have too many timeframes here. Last 12 months, the funds together have made 16 million, 21.5% net, almost 22% gross. And again, not surprising, benchmarks nicely above the midpoint of the equal weighted and not quite all the way to the midpoint of the market cap weighted, exactly how it's positioned.

We go out further again, and here's where we'll see the three-year. So, three-year still has the impact of 2022 in it, but it's vastly improved from the last time we spoke. The three-year return is 11,388,000. It's 4.58 net, so it's the only timeframe, I think, in the book that's under the actuary requirement, but that's what happens when you have a bad year that's still in a short-term number. 4.96 gross. Here you're above the midpoints of the benchmarks, both on a market cap or an equal-weighted basis. They are at 4.57 and 3.68, so you're above the net. So, even though it's been a painful three years on a relative basis, it's been the best time period from a benchmarking perspective of all of them yet.

We'll keep going further, where it gets interesting. Over the last five years, you're now... I'll read you the numbers here. It's interesting. Five years ago, there was 67 million in the three pools of money. $3 million net has gone out. That's a net of contributions you've made, so you've spent out 3 million of capital, which means your invested capital is just under 64 million, the 63,969,000.

The ending asset value is the same, again, the 90-plus million. The dollar gain over five years is 26,771,000, and that comes out to 7.16 net and 7.54 gross. Again, the actuaries need 6.75 at the moment and prior to May of '21, needed 7.0. Either way, it's nicely above those from an actuary perspective, and the benchmarks again at the closer to the higher midpoint, but again, between the two, because there is some equal weighted and some market cap weighted in the mix.

We keep going further, and our time frames are getting longer, and it's nice to see eight years ago. I'm not certain. I think this might be the first time we've done eight years, but I may be wrong on that. We'll see on the next slide. 47 million eight years ago. Over eight years, you had net of withdrawal contributions in the longer run, just not true in the shorter run when you go to five years. If you remember, the net withdrawal after contributions was 3 million over the last five years. It's a net positive of 4.2 million when you go out to eight years. But that trend, and we're going to talk about that when Alan comes on, that trend is obviously, as you have folks retired from your workforce, and they begin to collect their pension, those payments grow over time. Or at least at the moment, the cycle that the plan is in, they will grow over time.

Your net invested is 51 million. Ending value is the 90. So, 39 million made over the eight-year period, 7.3% net, 7.70 gross. Almost at the highest of the midpoints, which are the strategic benchmark at 7.81 gross and 6.89 equal weighted and nicely, nicely above what the actuaries need.

And one more timeframe. Maybe I'll shorten this if you guide me on that the next time. Since inception, so since we started tracking. It was basically January of '16. We'll have nine years, I guess, and another 90 days. But here you had $41 million, 7.61 when we started. Again, net deposits is still growing back in the early days of our existence here, at least. 7.3 million net deposited, so your capital, if you will, is 49 million. Ending value is 90 million, so your dollar gain over that inception period with us is 41,665,000, 7.36% net, 7.76 gross.

And that, again, benchmarks well above the equal weighted and closer to the market cap weighted. And it also benchmarks really nicely, if you said to us back on January 1st of '16, "Will you be able to make the 7%?" I would have hedged a bit, as I'm sure I did at the time, and you lowered it 6.75 at one point. But as of this moment in time at least, you're 7.36 net, net, net, so the actuaries should be very happy at the moment. And that's getting to be a reasonably long-term number at this point. That's the good news.

Yes, that's all we're really trying to accomplish here, right? I mean, other than the funded status, yes, but that and the funded status should drive in parallel whilst being equal.

I'm going to turn it over to Alan because I think this is a very important discussion that we typically have annually. I'll headline it and then give it to Alan, but we're at the point where I think you need to start to consider the cash flows and is the allocation appropriate for the relatively near term. And I'm using nine years when I say that cash flows.

And maybe, can you jump back one slide? I'm sorry, because I just want to give you this context before Alan starts because it's not on these slides. I looked before the call. If we look at the net payments that are going to be made out of the salaried plan, as forecasted by Angel, over the next nine years, those payments, net of an ARC contribution, are just over 30 million. The salary plan is 49 million, so that's not scary at all. Right?

And I'm not trying to scare. I'm just trying to give facts. So, 30 million has to be paid over nine years. That's not present value. That's just dollars that we need in the bank to make pension payroll. So, we have no problem. There's plenty of funding there for those nine years.

The union plan, over the same nine years, it has 29 million and change today, as you can see. It has payments over nine years of 17 million, the next nine years. So, great, those are funded.

So, what Alan is going to talk about now is how much of that 30 million and 17 million are we comfortable having reserved, knowing that we have to make those payments in that timeframe?

And then we back into the asset allocation and say, "Are we comfortable? Where are we comfortable having money in equities versus having money in fixed, something that we know will be there?" We've had this discussion. You probably remember. We tranche the liabilities out by calendar year and say, "In 2025, the salary plan has to pay out X. The union has to pay out Y."

2026, we go through every year, and we come up with short-term payments, intermediate-term payments, and long-term payments. We've always had the strategy that long-term payments go into equities, short-term payments go into bonds, and intermediate is always the ARC to it, if there is an ARC to it.

I'm sorry, Alan, I took it, but I wanted to give you all the context of the dollar amount over the capital. 30 million over 50 million, call it, and 17 million over 30 million, call it. With that context, we could jump ahead the two slides again, please. Is there any questions on that so far? I know it's...

Okay.

Suzanne:

I have a question. Do you guys, at all, ever use the rule of 72? Do you have a sense of when the pension should double its money?

Stephen:

I can do it quickly in my calculator here. If we assume the pension makes 6.75, which is the goal, it would take 10.6 years to double. And that's a factor. And we're going to show you present valuing, which is indirectly I think what you're asking, but stop me if I'm wrong. But Alan is going to talk about when we present value it, because I gave you gross numbers on purpose, and now we're going to present value them for you.

Joe:

And Steve, if I could just... You need to discount that number a little bit that you just calculated because of the cash flows out of the plan.

Joe:

In terms of [inaudible 00:34:52]?

Suzanne:

Yes, but, so...

Stephen:

Correct, correct.

Suzanne:

Yes.

Stephen:

Because I assumed it's going to be static in that, yes. If no money came in and no money went out, that's the answer. Right. Joe makes-

Suzanne:

Thank you. And then in our first five years of performance, how much money did the portfolio grow by in comparison to the liability of the same period? And you don't have to answer that this second.

Stephen:

I'm not capable of answering it this second, but I like the question. We'll have to follow up with that one.

Suzanne:

Okay. Thank you.

Stephen:

Could someone on our side, please, maybe Joe, could you get a note on that question so we get it right? Thank you. I love the question because that's how we try to think.

The goal is, obviously, to have long-term money in equities and simultaneously have the liabilities comfortably covered in the short term. And I do refer to short term as less than 10 years, just for the record.

All right, go ahead, Alan. Unless are there any other questions on that? Because that one was interesting.

Suzanne:

None. None, at this time.

Stephen:

All right, let's turn it over to Alan then.

Alan:

All right, great. I'll walk through an analysis, and then what our results were from the analysis. As Steve already mentioned, he spoke to the level of detail that we work with in working with the actuary with Angel. Every year they provide an updated schedule of expected future liabilities along with the required contributions. So, we run those figures that Angel provides us through a framework that allows us to help determine what the asset allocation should be, based on the liabilities, and if the asset allocation currently is reasonable, given that outlook.

So, we do run, and then we do have all of the detail in the appendix. We can reference that if we needed, but we also created these executive summary pages just to simplify it and to review the results of the analysis.

What we do here is there are two boxes in the middle of the page, Equities 10+ Years, Equities 8+ Years. We run a couple of scenarios that one is more conservative than the other. The more conservative scenario would say, "Let's match any liabilities that are 10 or more years out to equities. And then within 10 years, all the liabilities will be matched to either bonds or some sort of alternative or balanced fund that's less volatile than equities."

And then for each one of those scenarios, as well, we run two alternate scenarios, one using present value of all of the liabilities, which is typical. And we also run a more conservative hybrid model where instead of using all present value of the future liabilities, we'll use present value of the future liabilities that are 10-plus years out, and we'll use gross values of the liabilities that are within 10 years. So, all of these different scenarios.

And then the second scenario, which is slightly less conservative than 10-plus years equities, which is the box to the immediate right of the 10-plus year equity, we match the liabilities eight years or more out to equities, which creates a slightly less conservative result as well.

Taking all of this into consideration and running all of these scenarios, you can see that the most conservative end, on the far left, will generate an equity allocation of 40%, and then the least conservative would generate an equity allocation of 56%. And then the average of all of that, to the far right, generates an asset allocation of 39% cash and fixed income, 49% equity, and 12% in some sort of alternative hybrid or balanced vehicle.

Currently, the IPS target is 55% equity, 30% cash and fixed, and 15% balanced, or alternative, or hybrid. The portfolio, as it stands right now, slightly less equity at 52%. The reason why that is is because we actually do have some equity beta that we're generating from the balanced funds in that balanced bucket. So, when Steve reviewed the asset allocation earlier, we saw that we were actually just slightly ahead of 55% in equity because we're pulling some equity from that balance. That's just why it shows a little bit less equity there.

What this tells us, basically, is that the average of all four methods, 49% equity. The current IPS target is 55, so we're basically right on the cusp of at least thinking about potentially moving the equity allocation target down from 55 to maybe 50%. We're not outside of the range because you can see the high end of the range there is 56. So, we are still within the range, but at least, I think it deserves a discussion whether it might be appropriate or not to move that down from 55% to 50.

Stephen:

So, that's-

Alan:

That's for the salary plan.

Stephen:

I was going to say, this is our... Just so you know, and this should be a migration, in my view. As Alan says, we're at the point where we think it should be considered, and we're not outside that range. I'm repeating a bit, I guess, but it's definitely something to consider.

But the consideration will be, when we do that, our forward assumptions for equities... And Alan, I think, will get to this. Our forward assumption for equities is higher than for fixed, so it actually would affect the actuary rate of return. It pinballs a bit. It bounces. It has different impacts if you were to do that.

Look, we're not extremely out of the range, if you look at the most aggressive of the mixes, but we're at the edge of it. I'll stop and let Alan carry on. Any questions on that?

Alan:

Exactly right.

Suzanne:

Yes, I have a question. I want to make sure I understand what you're saying. You're saying if you look at your equity allocation, if you have a ten-year liability model that equities are invested after the 10 years of liabilities are put into fixed income and your equities are invested in at eight years, the second box, you're saying that there's an average of the two, and that's what's driving our thinking at this point for consideration?

Stephen:

Well, Yes. What we're saying is, if you have a ten-year, which we like because we know there have been ten-year periods in the US where there have been negative markets, but never 11... That make sense? We're saying if you use the more conservative ten-year focus, and you present valued it, so the middle box to the right-hand side of the box, you'd go to 47% equities.

Instead, you were willing to pull that in and only have fixed income out for eight years, beyond eight-year, and we could obviously pull that into seven or six or five, but it's made it a lot more aggressive to pull it in too far. But if you went eight years, two years in earlier and said we're going to own equities beyond eight years... Or eight years and beyond, I think it is, Alan, right? Eight-plus years.

Alan:

Correct, yes.

Stephen:

It would be 56% in equities, which is basically where we're at now. So, using that box, the Equities 8+ Years, and using present value version there, it's because the present-value version goes to your earlier question, I think, you'd be right around where we're at today.

Suzanne:

Right.

Stephen:

But as time has moved forward, these numbers are coming in a bit. So, whether you make a decision now to do it or not, we look at the future cash flows, we think when we're talking about this a year ago and a year after that, it's likely that these percentages are going to be pulled down by the fact that you have liabilities to pay, in the salary case at least. Is different for each case.

That's the other thing. So far, we've had the same asset allocation for all three pools of money. There may be a fork in the road at some point where the asset allocation is a little different for each of them based on their cash flow needs.

Suzanne:

You've answered my second question, which is why you choose 10 years. How many times has a market been negative for 10 years?

Stephen:

I have to go back. I believe only once, but it got very close again in the '70s. If you go back to the '20s, obviously it happened, and if you go to the '70s, we were down 50-something odd percent between '73 and '74. It took a long time to recover. I have to go back and study that, honestly.

Suzanne:

Okay.

Stephen:

And that-

Suzanne:

And our annual liabilities have been, on average, for the salary plan?

Stephen:

That's not going to fully answer your question, Suzanne, but it's going to show you the future, not the past.

Suzanne:

In the appendix?

Stephen:

No, I'm sorry, not the appendix.

Suzanne:

The appendix is liabilities.

Stephen:

Liabilities, that's-

Suzanne:

Right, Stephen?

Stephen:

Very first page in the appendix, which would be late in the document.

Suzanne:

... it's been visited. For people retire.

Stephen:

Here you can see this is the salaried plan. This is the data that we get from Angel, and this is the detail, and we have this for each of the plans.

If you look in the third column, gross benefit payments, those are the actual benefit payments that need to be made every year, including this year. So, you see '25, '26. We're not really focused on this year right now. And you see all the way out.

What we know, between now and year nine is you're going to pay out in gross numbers 22 million plus 24 million. So, 46 million has to be paid out during the nine-year timeframe. Now, minus this year, but then, again, you'd add year 10, and it's about the same. That's gross.

The net payments are what are the present value of those payments? What's the ARC? So, what is the pension contribution that your entity is likely to make? And then the net benefit payments of the number I gave you earlier, that's the 30 million. That's net of pension contributions that you make, and then the present value of the net payments. This is what we're using when we come up with... Obviously, the present value version is very clear and the gross version is very clear. So, when I said 30 million over nine years, I was using the present value column, third from the right, on the salary plans.

I hope this helps. It shows you the trend over time. What you see over time is you got to get really out there, but if you start to go to... Let me see where it peaks. On the salary plan, the gross benefit payments peak in 2036, 12 years from now, and they go down in '37, '38. They go down after that point. And these are forecasts, but these are not our forecasts. These are Angel's forecasts.

Suzanne:

Maybe I'll just add in, this does assume, conservatively, that we're contributing to ARC. Right?

Stephen:

That is correct. Right.

Suzanne:

But just to simplify, I'd like to know, if can simplify it like this, that our payments, our investment performance in the last eight years has matched our obligation without eroding collateral.

Stephen:

In the last eight years, your investment performance has outmatched what you've had to pay out. We just saw that, right? Yes.

Suzanne:

What does that mean?

Stephen:

If you go back to the performance page, Yes, let's go backwards. This is good, I'm glad we're doing this. I thought about this. Can we go back to the investment page since inception.

So, what we see here is ... we've seen, here's what we don't have here, I'd have to go back and look at your contributions, but you have 7.3 million in net contributions over that timeframe. What I don't know on this slide, so I guess I can't answer it right now, what I don't ... because we have its deposits net of withdrawals. So you made 7.3 million in net deposits. What I don't have, but we could run it, is what your withdrawals were.

But what I do know is that the dollar gain is 41,665,000. Your investments have made 41 million out of everything. I don't want to guess, Suzanne, but it would appear that that's likely a lot higher than your payments have made. But we've got to split that net deposit column into two. We need to see deposits and withdrawals separately in order to answer that.

Catherine:

But Stephen, can I make a comment, this is over eight years, that's not necessarily the current trend.

Stephen:

Correct.

Catherine:

This is over an eight-year period.

Stephen:

Correct.

Catherine:

It's not the current trend because we're paying more in benefits.

Stephen:

Yes. The trend is changing quite a bit. And you can see that in the benefits your forecast have paid. I think early on, back eight years ago we talked about this, that eventually the plan would reach probably a peak in value as the benefit payments grow because the benefit payments become larger.

Suzanne:

I'm just trying to make this simple in my mind. My whole thing is I loathe to take this down in equity if we're outpacing the liability. And if the liability increases, I don't know that there's a need to get more conservative in the portfolio. That's all I'm trying to say.

Stephen:

And we would suggest that we remain, we could go back to the page we were on ... I understand your thinking, but we're looking at ... I guess, if you were making contributions above the ARC and we knew that, we'd rerun the calculations, that would make a very big impact. But the only assumption we can make is making the ARC for now, unless you tell us otherwise.

Catherine:

We have been doing that for the last few years. The question is whether or not we're going to continue to do that. And the other thing that what I'm hearing is, that this is a think about doing this, not do it now, it's for consideration. Because the more that we need on an annual basis to meet our payment obligations.

Suzanne:

Payment obligation.

Catherine:

We need to make sure that we have enough cash or cash equivalents in order to do this. So that's what I'm hearing is maybe do more shift towards, as those liabilities grow, we need to shift to more fixed income.

Stephen:

We agree. And as they become more current, I would add. But I agree with everything except that I would just add, as they grow and become more current.

Catherine:

Yes. Okay.

Stephen:

More immediately payable.

Suzanne:

Yes, I understand that's what they're saying. And it's a little bit counterintuitive to having the portfolio itself produce the [inaudible 00:52:27]

Stephen:

It is. Because if you think about a plan ... Let's just, as an example, let's say we knew that every last person that was ever going to collect a pension was going to collect it in the next five years. Well, we would be handcuffed then and have to say we have to have everything in fixed. And thus we would say we know we can only make 5% in fixed. And it would be forced upon us all to say this portfolio really needs to be in fixed income. Unless the entity can pretty much assure that it can make payments if the market goes down. So, thinking of it in that term. And when it's five years, I think everyone agrees that, Yes, right, he's not wrong, that money's got to be there to be paid out in the next five years. So we tranche it that way.

We treat those payments, and after making the five years, like they have to be made in the next five years. Because they do. And it's those intermediate payments, you start to get to six, seven, eight, nine years where there is subjectivity to it. And that's why there are different outcomes here. Look, in our outcomes alone, we run from 40% on the conservative end to 56 on the aggressive end of our assumptions. And if we dialed equities into seven plus years, that 56 would bump up a little bit more again. It would probably go, I don't know if it would hit 60, but it would go closer.

So, it's all about how conservative or aggressive we can be. And that's partly a function of the organization's willingness and ability to fund in a down market. We could go all equities, we would have a higher return over the last eight years, but we would also have had some sleepless nights to say the least. We want to know in a pension plan that those payments can be made when they're due. So, it's a matter of ... And we are just saying it's time ... We haven't had to have this conversation in quite a while because we're getting to the point where, to Rochelle's point, the benefit payments are increasing over time.

So, we don't have an answer ultimately for you, but we're suggesting that you begin to think about it. That is correct, Catherine. We're at the point where no one's forced to make a decision here, but we're thinking that it's becoming time to consider making a decision. How's that?

And I don't mean to be too soft in saying that. We think we're at the point where it should be considered. And we can repeat this in multiple meetings, it might be the way to do it just to bring it up and keep looking at it.

Mario:

If I'm reading in the appendix, that first sheet, it's in years, looks like six through nine is when we hit our peak. So it's not ...

Stephen:

Let's see.

Mario:

We're 15 years out until we hit the peak. I'm going with the third column, the gross benefit payment. That's what you were referring to. So it's sooner rather than later.

Stephen:

The peak is ...

Mario:

Seems like year nine.

Stephen:

Yes. [inaudible 00:55:42] that earlier. It looks like year nine, I agree with that, 2033. Which is really year eight now because 2024 is year zero, we're pulling in.

Mario:

Sure.

Stephen:

You're correct. And if you look at the far right, this is where we say, look, we need to be cash flow matched and core fixed income for these short-term payments. We get a little bit more aggressive, even the bond space when we go into years five, six and seven, and we have year eight and nine, we can go a little alternative or balanced there, and we go global equities beyond. So, we feather into more aggressive investments as we have the luxury of time.

It's mechanical, it's very mechanical. We know we have to make the benefit payments in column one. We assume the present value based on a discount rate, that Angel does that work. But Yes, it's very mechanical. And what Alan certainly does is just take that right-hand column along with these benefit payments and roll it up to what would be in stocks, what would be in bonds, and then what would be in the middle.

Catherine:

Steve, I just want to tie this up in a little bit of a bow. With respect to the salary plan, which is, this is close, right?

Alan:

Yes.

Stephen:

Sure.

Catherine:

Okay. So, eventually this is going to ... we will spend it down? Yes.

Stephen:

Yes.

Catherine:

This is not one of the ones where we need to worry about, we always need to try to continue to increase our assets under management. It will be, use an insurance term, it'll be in run off.

Alan:

Eventually.

Catherine:

Yes. So, it does make sense and it also makes sense to make sure that we have enough money available at the time that we need it. And that's to make the payments on an annual basis.

Suzanne:

Yes.

Catherine:

Okay.

Suzanne:

But I don't think we should assume a 0% or less return for 10 years.

Catherine:

No.

Stephen:

Well, we haven't done that though.

Suzanne:

That would be too depressing. Because that means that the entire markets are doing horribly. Hit's all of us in lots of different ways. Okay, sorry, keep going, Steve.

Stephen:

So, we'll go back to Alan on the ... let's look at the union plan. Are we okay on time? Obviously, this is important.

Catherine:

Chairman says yes.

Stephen:

Okay. Here's the union plan. Alan, back to you.

Alan:

Great. Yes. Perfect. So union plan, I'll focus on the far right here, because everything else for the most part is the same, the analysis. But we do see here that the liabilities, the duration of the liabilities are a little bit further out for the union plan. So, when you look at the average of all of these different scenarios that we run, the equity allocation here is 53% for an average. And that ranges from 43% on the low side to 60% on the high side. So not a huge difference from the salary plan, but definitely a little bit longer liabilities here.

So to Steve's point earlier, if there's a need to adjust one plan's asset allocation and not another's, these are the types of things that we should be considering. Because right at the moment, they're all at the same asset allocation, all three plans.

Stephen:

And we do think that's a fork in the road that you'll likely want to take. We don't think we would change the union plan today, but we'd certainly be strongly considering the salary plan. And it would be really helpful if we knew potential cash flows above ARC again, because that would make a difference. But the union plan's not talking to us the same way, if you will, when you run the numbers. It's actually, as you can see, the equity value's 43% on the really conservative end, but 60% on the really high end, and 53% average of all the methods, we're not uncomfortable with where it's at. And then there's the VEBA. So they're beginning to divert through time obviously based on the age and benefit payments to the different constituencies, different employees. And do we have one more?

Alan:

And when we run the VEBA ... Yes, Yes. When we run the VEBA too, the framework here is not as useful just given the underfunded status of the VEBA plan plus the high level of ARC that's required by annual. So it results in a less useful study here of 33% equity on average. But we do know that the VEBA is a whole different animal here given the funded status of it versus the other two. So we probably do think that the higher equity allocation versus what this framework tells us is appropriate given the funded status.

Stephen:

And I'll add to that, with the higher equity allocation here than the liability analysis would provide, just says, okay, you're trying to earn your way out of the underfunded status here a bit, and you're obviously taking more market risks than you'd otherwise take to do that. It's not really germane. I'm going to, I guess, turn this back and say this is more of a balance sheet organizational choice as opposed to completely liability driven, if that made sense. The other two are quite precise. This one's ... we honestly don't have the knowledge of the entity to the degree that we would have to have it to comment on what we think you should do there. We always defaulted that your decision was to default that to the same allocation as the other two.

Suzanne:

So why don't the same principles apply? You lost me when you said that.

Stephen:

Can we go to the liability stream for that one in the appendix, Alan, is there one in there?

Alan:

They are in there, yes.

Stephen:

So let's go to the VEBA. So here's a different animal.

Alan:

Let me scroll forward. Yes.

Stephen:

So could you quickly tell me the current balance in the VEBA is in the blue at the bottom, it's 10,629,000. Well, the benefit payments in the next five years are 11 million, almost 12 million, but you're going to make contributions of six, seven. So, your net benefit payments are four, six. But either way, if you continued at those pension contributions, and you look at the net benefit payments over the next nine years, they're more than is in the fund now.

So arguably, I think Alan was almost generous in his analysis, but this could all be in fixed income right now. You could have the outer years in equities, but it would result in maybe a 30% equity exposure, which is I think what Alan showed on the prior screen. Because this isn't so well funded versus the benefit payments it has to make, you really end up with 70%, 80%, if not a 100%, some entities would say put a hundred percent in fixed income here. Because even when we-

Catherine:

Stephen, isn't the key reason your recommendation is different is because it's so much underfunded in the pension?

Stephen:

Yes. Because we know you're going to at some point have to make bigger contributions here, we believe that. So based on that, I think the logic has always been keep putting money in it. But you are ... factually, we're assuming these contributions here in column number, I guess, dead center of the page, pension contributions, center left, 6.9, almost 7 million over the next four years, and this year is included there. And then out to 2033, another 6.9 million. So that's, call that 14 million.

But even after that's made, your benefit payments are 24 million. First column of numbers, 11.6 plus 12.5. But we present value those, and you can see that column at center right. That's where I'm coming with 4.6 plus 5.6 call it 10 million.

Yes, Rochelle, that is why. But factually, if we're going to treat this exactly the same way, this would have a lot less equity in it.

Suzanne:

Without question. So what we're doing is, for the plan that could take the least amount below in a difficult market year, we're taking the most amount of risk. And for the ones that are more cushioned, we're taking less risk.

Listen, this work is excellent. This is exactly what I was looking for in terms of information to understand what was happening and how we should allocate our portfolio. Just the fundamental piece that's very difficult for me is for us to continue to ratchet down our percentage return expectation as our corpus grows and to reduce the amount in equity simply because we can and it reduces the risk for the payments that need to be made on a worst case scenario situation. It feels ultra conservative.

Stephen:

I don't think that's worst case scenario. I mean, we're running eight years, why don't we run it again at six and seven years and bring that to the next meeting? We wouldn't want you to have less than five years in reserve for payments. So why don't we run equities at six years and seven years beyond and see what it does to the mix. But I don't believe when doing the eight years, we're saying worst case.

Rochelle:

No. 10 years to me is the worst case scenario.

Stephen:

10 years is the worst case, I agree with that.

Catherine:

Anyway, thank you very much.

Stephen:

Thank you for that feedback. I think, look, so we're saying, we're getting close to the point where you need to consider tweaking the salary plan allocation. And we'll run the numbers a few different ways the next time, and we'll bring some more data on markets.

We always target this one hour, and this is so important, I think we almost need a meeting on this subject alone it seems.

And then the union plan, we think the allocation reads fine the way it is, if not even if we go to shorter term, fully funded liabilities, it might even go higher. And then the VEBA plan based on this should definitely go lower, meaning lower equities. There's no question on that regardless of our assumptions here.

Catherine:

It's definitely worth talking about and thinking about what we're doing with respect to the VEBA plan.

David:

What's the funding percentage?

Rochelle:

38.

Alan:

38/39.

Catherine:

And I would also say the benefit payments are more based on what we think medical is going to be, which is a little different animal than a defined [inaudible 01:07:30].

Mario:

That's true.

Alan:

Okay.

Stephen:

All right.

Suzanne:

The next steps, it would be great to see five and six years would be awesome.

Stephen:

Yes. We'll run that. Should we do that for the next meeting in 90 days?

Catherine:

Yes. Actually, I need to take a look at what the plan is, but let's plan on doing that for the next meeting, yes.

Stephen:

We'll at least be ready for the next meeting. We could be ready sooner if you want to do a sub intermittent meeting, it's up to you, but you could just let us know afterwards.

Catherine:

I don't know if we have time to go into a little bit after the advisory piece.

Stephen:

Yes.

Catherine:

Okay. Can we move on to the discussion of [inaudible 01:08:27]

Stephen:

Yes. That's also in the appendix. So if we go forward in the appendix. Yes. So I'll let Alan do this part also, and I'm sure I'll add my two cents. Thank you, Alan.

Alan:

Sure. So this is just a quick list of all the services included in our advisory fee. As a reminder, it's an all-inclusive fee, there aren't any additional fees on top of, no trading, no custody fees. It includes all the bullet [inaudible 01:09:01] here, but it includes everything listed on this page.

So, if you move forward one slide, we can get into the numbers. So here's how the cost advisory fee has evolved over time. So back in 2018, December, there was actually a flat fee on all assets annualized, 0.4%. After that, we moved all the plans to a tiered schedule, which is in the bottom half of the page there, so you can see for the first 55 million in assets, they're assessed at a fee of 0.4%. For the next 15 million in assets, 0.3%. And then in the next 15, 0.2%. The next 15, 0.1%. And then all assets over a hundred million at 0.025%.

So you can see the trend has been coming down over time as the assets have grown, which is what the tiered schedule is designed to do. So as of September, 2024, the most recent quarter end, the total advisory fee on all three plans combined, 0.333%. So that's down from 0.4 just six years ago. And then on the next page ... Go ahead Steve.

Stephen:

I was just going to say the same thing. Because I think this is lesser seen and probably lesser known, but we've been working diligently on this side. Go ahead, Alan.

Alan:

So this is, there's the investment costs over time as well, so as Steve pointed out, we've been working diligently to reduce costs with the investments, the underlying cost of the investments in the portfolio over time. So you can see there in 2016, when we first ran this analysis, the weighted average cost of all of the investments in the portfolio was 0.58%. And we've whittled that down to 0.3% as of the most recent quarter end. So that resulted in a, you can see there at the bottom, resulting in savings of 28 basis points annually or 48% savings since we first ran this analysis back in 2016.

So we accomplished lowering costs by using individual securities, individual bonds mostly, also swapping from actively managed funds into passively managed index funds, and also utilizing actively managed exchange traded funds ...

Kantapin:

And also utilizing actively managed exchange-rated funds that offer similar strategies as actively managed mutual funds, however, just at slightly lower costs.

So, we continue to look at the portfolio, to look at the investments and make adjustments, as we see fit, to lower that cost over time.

Stephen:

Now I'll add that this is ongoing, but it gets a little harder each basis point to keep driving this lower unless you went to an entirely indexed portfolio, in which case you could drive it lower then. And then talking both bonds and stocks.

Today you've got, we think, a healthy mix of indexes, of individual bonds, especially... Individual bonds tend to [inaudible 01:12:50] those shorter term liabilities since that's all fresh in everyone's head, one year, two year, three year, four year, five year. We have bonds that mature on the dates that you need the money. So those don't have an investment cost to them. They're covered in the advisory costs.

These are, for instance, we're using some Vanguard ETFs for example. There's a cost to Vanguard inside that. We're using a fidelity bond ETF in one example I can think of on the top of my head. There's a cost inside of that. That's what these are. So these are the investment costs that they were incurring. These costs do not go to Morgan Stanley. These are not our costs; these are the vehicles we're using. So we think it's been a nice run down in cost in total since '16.

Suzanne:

Yes, it's been improvement. I just want to talk about the way we're saying this, it's not actually a 28 basis points savings. It's a 28 basis points reduction since 2016. We didn't save... I don't know what we would be saving in 28 basis points of, do you understand what I'm saying?

Stephen:

Of the total, so it's 28 basis points less cost now than it was then, right? We didn't do dollars if that's... But I would agree your language-

Suzanne:

Correct.

Stephen:

It's 28 basis points. Correct. I will agree with your language, but it... Yes.

Suzanne:

It would be interesting to know how much money, but that would be too complicated to figure out. The only other thing, I know you're talking, it's difficult-

Stephen:

Well, go ahead. Sorry.

Suzanne:

I know it's difficult to reduce the basis points, but the one thing that I would ask you to consider is the baseline zero to 54,000 at 40 basis points simply because that's where the huge amount of corpus is.

Stephen:

Right. That's where our base fee comes from. Our base cost. If you go back one slide, please. Because you make a point that, so today the last dollars in the plan today are paying just 10 basis points and they're getting close to paying two and a half. Obviously when we put this in place, we said... And actually, also knowing it's probably going to arc meaning here to peak. We put in place saying what is the base amount that from a cost perspective that we need to bring in. And that's where that first tier came from at the time. And then we go down pretty quickly after that so we can discuss it and talk about it. But we're looking at the 33 basis points today we think is reasonable in the marketplace, especially given all the services. It's not just us, it's zero trading commissions. You could drive that lower and say fine, lots of advisors, maybe they'll make it lower, lots will make it lower, but maybe you could get it a little lower.

But then you're going to be paying trading costs separately. We trade more frequently than you might realize. I know I've looked at that in the past, but money comes in, money goes out, we're doing trading. Alan could tell us the frequency, but it's frequent and it's across multiple vehicles constantly. And it's done with no trading costs at all. Any commissions you would normally pay are at zero. We do all the asset liability work that you just saw is all included in the fee. So I think I honestly can sit here and look you straight in the eyes. Granted over a camera, it might be a nicer in person and say, we actually think we've driven it down nicely and it's at a relatively fair value. I will look at it, but we think it's well within the market of what's out there and especially the level of things that we do on that asset liability matching. I think it's hard to find out there.

So I'm not at all embarrassed by the cost. I think it's very sharp and you've helped us, Suzanne, thank you. You've helped us drill it down lower and lower over time. There's no doubt it's been big value. I did a quick analysis of the 28 basis points. If I got the math right, that's about a quarter of a million dollars annual savings on the internal expenses at 90 million. I ran 28 basis points on 90 million.

Catherine:

Are there any other questions or comments? I do want to say that this is very a favorable performance report, quarterly report. So thank you very much to Morgan Stanley and [inaudible 01:17:35], your team, but also compliments to the former chair of this committee and the work that she did with respect managing us through. So thank you, Suzanne. This is nice. And the other one thing that I just have to say because for reasons that everybody here will understand, I think it's great that we're earning more on the fixed income side, but it's definitely going to mean our borrowing costs will be higher.

Stephen:

This is true.

Catherine:

But we still have to borrow. So it's great that the market's doing well, but then it's a concern-

Stephen:

I'm going to add to that, Catherine, if you don't mind. We're at a bit of a peak right now. This train never goes on forever. We've been through troughs together. Thank you for hanging on tight through troughs. It's easy at a more peak level, obviously when all the long-term numbers are there, where they need to be, but it won't be the last trough we ever see, we know that.

Catherine:

Fair enough.

Stephen:

For the last peak, let's leave on a high note.

Catherine:

Any other questions or comments with respect to the investment performance report?

Jennifer:

No, I just appreciate all the work that was presented, very much so.

Stephen:

Thank you so much. And we'll have more of it for the next meeting. And again, offer holds if you would like to do something in the interim on that asset liability side, which we think is probably the single most important decision that we all have. That you have in particular, right? That we're free to do that.

Catherine:

I agree. Asset allocation is critical.

Stephen:

Yes.

Jamie:

Can I ask a question? Am I permitted to ask a question?

Catherine:

Go ahead.

Jamie:

Thank you. I just want to go back to when you were making the recommendation, not for an immediate change, but for the potential reallocation to more conservative funds in the salaried funds. Was one of the components to your recommendation a concern that we're going to see a upcoming trough and get that money out of the equities now while we have it and put it into more conservative funds? Is that what was driving that recommendation, as opposed to preserving it so we have the money to pay, which is basically the same thing, but was that what was nudging you?

Stephen:

No. At a base level, no. Is it in the back of my mind? Sure it is. At a base level, no, because at a base level, this is driven by, we got the numbers from Angel, we run them once a year. We mechanically, as you just saw, look at the liability stream. We mechanically look at which should be fixed, which should be equity. Those mechanics are telling us that, not the market. Is it in my mind a little bit? Sure. But we're not going to become market timers for long-term pension money. There's no way, right. But I'd be lying if I didn't say it was in the back of my mind? But it's not what drove this discussion whatsoever. Completely driven by the mechanics and timing of the Angel liability analysis.

Jamie:

Well done. Thank you.

Stephen:

Thank you.

Catherine:

Thank you very much Steve. Appreciate it. This is good news, and we have more work to do.

Stephen:

Agreed. Thank you all so much. Appreciate the extra time today. I think the subjects balance it no doubt.

David:

I don't think we'll see you until January. Enjoy the holiday season.

Stephen:

Likewise. Oh, that's a scary thought. Thank you.

Larry:

Thanks Steve.

Stephen:

Thank you all. Take care.

Catherine:

Is there any other business before the committee?

Suzanne:

Yes, so I was wondering where we stood in our consideration we were going to go through a process for. Did we abandon that?

Catherine:

No we processed the results. We do have the results on that. We've been talking about that.

Suzanne:

Okay, so more in January, or?

Catherine:

Before January.

Suzanne:

Okay, very good. I'm serious. All right, very good. Thank you.

Catherine:

Okay, I see no other business. I entertain a motion to adjourn.

Suzanne:

I'll entertain that motion.

Kevin:

Second.

Catherine:

Move is seconded to adjourn from the Pension & Benefit Committee and reconvene as the Authority. All in favor?

Committee members:

Aye.

[PENSION & BENEFIT COMMITTEE MEETING ADJOURNS AT 1:50 P.M.]