South Central Connecticut Regional Water Authority
Pension & Benefit Committee
April 28, 2022
Meeting Transcription

Suzanne:

Thank you, David. Yeah, we have a lot to cover. Should I try again? Okay. Okay. So we have a lot to cover in our pension benefit subcommittee meeting today. We're going to start with the approval of the minutes. They're in the package. And do I have a motion to approve the minutes as present?

Catherine:

I move.

Suzanne:

Catherine and Kevin also. Thank you very much. Is there any discussion that should. Great. So all those in favor, please signify by saying aye.

Group:

Aye.

Suzanne:

Thank you. Let the record show that we got unanimous vote from the members present. On item number two, it is that time of the year where we take a look at our actuarial information assumptions for pension and VEBA and related contribution amounts. So the Angell Pension Group is here to talk us through our salary plan executive summary, our union plan executive summary in our OPEB executive summary. Rochelle, would you like me to turn over to you or do you want me to turn it directly over to Beth or...

Rochelle:

Albert's going to go through [crosstalk 00:04:38], and go through the executive summaries.

Suzanne:

All right. So Albert, turn over to the reviews. So why don't you go ahead and take us through the executive summary review? Are you able to share?

Catherine:

While we're waiting, can I ask a stupid question?

Suzanne:

Sure, sure.

Catherine:

This terminated vested participants be terminated for reasons other than voluntary termination or resignation, because that's a very high number for employees that were terminated for August.

Suzanne:

[inaudible 00:06:10]. Yeah.

Catherine:

I just wanted to clarify that. Thank you.

Suzanne:

Yes. Thank you.

Jeff Bauer:

Yeah, just give me one second. Let me just see where Albert's at.

Jeff Liter:

Yeah. Which plan would like to begin with? You want to begin with the salary plan, the union plan, or the welfare trust?

Suzanne:

The salary plan is fine to start with.

Suzanne:

Try to go through salary and executive summary. So for the folks at the pension group, we have it on screen. I think you can see that now what your executive summary is. So you're free to begin.

Jeff Liter:

So we'll start talking about the salary plan. The summary here we start with a summary of the demographics. And as you can see, not a significant change year over year in the covered population. Active participants remain fairly steady. There are still a number of vested terminated participants who're no longer working for the organization, but are entitled to future benefits. And the number of retirees receiving monthly payments is a little bit up from last year. But overall, the plan is very stable.

Jeff Liter:

The age of the active population is average about 55. And as you can see, this is a long service group, almost 23 years of service with this group. Likewise, the inactive population, very steady in their age year over year, just under 69 years. And then we show their future life expectancy as well, as rough 20 years. Moving down a little further, market value of assets, this is measured as of January 1, 2022. So this does not reflect anything that may have happened in the few months since then. As you can see, relative to the prior year, plan assets were just under $46 million.

Jeff Liter:

We also will show here what we call the actuarial value of assets. This is a smooth value of assets that looks at the last three years of assets and sort of blends out any short term fluctuations in the market value. And this gives us a slightly more stable calculation of plan cost year over year by using this smooth value, as opposed to what can be a relatively volatile market value. Investment return on the market value of assets was very good over the period ending January 1, 2022 at about 11.5% rate of return.

Jeff Liter:

And also in that adjustment of market value, we have employer contributions of about $3.1 million, benefit payments going out to retirees of about $3.3 million, and plan expenses under $200,000 for the year. Any questions before we move on to plan liabilities and... Okay, let's move down a little bit on the page there to the funded status. We are measuring liabilities using a 6.75% interest rate. Present value of accrued benefits is about $51 million compared to the market value of assets that puts us at about just under 90% funded. We also will show you that figure relative to the actuarial value of assets as you saw, that was a little bit lower. So we're about 83% funded relative to the actuarial value of assets. And these are both improvements over the prior year, primarily due to the improved asset base.

Jeff Liter:

Next page, here we are looking at the recommended contributions to the plan. The normal cost, this is a measure of the value of benefits being earned during the year. You can see that the expected normal cost is about $1.9 million. For the plan you're beginning, January 1, 2022, this is down a little bit from the actuarial recommended contribution in the prior year. And again, this is primarily because of the improved asset base.

Jeff Liter:

Okay, so we score down a little bit further. We look at a couple of measures of potential funding. The first is a level funding requirement. If the plan were to be fully funded by 531, 2023, which is a pretty aggressive funding schedule. And obviously to get there, you'd need to contribute a very large number about $7.4 million. If we instead look at a level funding contribution to get the plan fully funded on an accrued basis, by May 31, 2025, we'll at about a $2.9 million contribution.

Jeff Bauer:

And I think Jeff, to add context to that, I think that was the original sort of amortization goal of a seven year to mirror an ERISA plan. And then I think due to market volatility a few years ago, I think that was extended out two more years to nine years, I think. Right?

Jeff Liter:

Right. So the contributions that have been made in the past few years have been on par with the level funding figure that we're showing here to be fully funded by May 31 of 2025, that just under $3 million level. As you can see, last year's contribution was, as we said before, about $3.1 million. So you're making good progress toward that level funding by 2025.

Jeff Bauer:

And Jeff, that's a funding level on an accrued benefit basis, meaning that everybody's benefit accrued to date would be matched by the assets, correct?

Jeff Liter:

That's correct. It would not mean that the plan could stop funding entirely after that time. There would still be benefits being earned. And as you mentioned, this does not take into account those benefits that have not yet been earned. This is just funding towards benefits that will be earned by that May 2025 timeframe.

Suzanne:

Right. Also, we have our decline in many assets too.

Rochelle:

Yeah. And we factored that in. So he is talking about the annual service cost that the participants are in every year.

Suzanne:

Thank you, Rochelle.

Larry:

But it is a closed plan, right?

Suzanne:

Yes.

Larry:

So they eventually it works its way down.

Suzanne:

Yes.

Jeff Bauer:

Exactly. Right. Yeah. It's soft frozen, so there's a finite group of participants in the plan. Right.

Jeff Liter:

Okay. And then finally here at the end, we show you the actuarial assumptions and the only significant changes in actuarial assumptions from last year to this year are the mortality tables. Each year, the Society of Actuaries provides a study of mortality improvements and we build those into the actuarial valuation, but the top level important assumption such as the discount rate and the salary scale remain unchanged year over year. And at present, we don't see any reason to adjust those assumptions.

Suzanne:

Salary scale, remind me, is what is anticipated salaries will grow, and will affect the pension earnings of those employees?

Jeff Liter:

I'm sorry. I missed the first part of that question. Could you repeat that?

Suzanne:

Sure. The salary scale at 4%, is that the assumption that that's the rate of increase that salaries will grow in this year, therefore affecting how much gets contributed to the pension plan on their behalf?

Jeff Liter:

That's correct. It impacts the level of their benefits as well. So this 4% is a looking forward rate, attempting to capture both merit increases and cost of living increases in salaries.

Suzanne:

But actual dollars paid to employees at 4%.

Jeff Liter:

This is a measure of how we expect their salaries to increase in future years.

Suzanne:

In future years, or in one year?

Jeff Liter:

Each year, 4% salary growth each year.

Suzanne:

So do we think that's...

Rochelle:

So it's not just what [inaudible 00:19:19] may be pointing out. It's higher than the average, but it also includes things like promotional changes or other changes.

Jeff Bauer:

Right.

Jeff Liter:

That's correct.

Rochelle:

But do you find that number to be... I would think that's much high. I'm not looking to change it. I'm just inquiring and-

Catherine:

You just want to know the reasonable assumption based upon all the factors, which could be salary, it could be-

Rochelle:

So I mean, we usually assume 3%, but that doesn't include promotional changes, changes in position. So it seems...

Larry:

They get included business.

Rochelle:

I think it's [crosstalk 00:20:00].

Larry:

No, they don't affect the pension. They don't pension-

Suzanne:

It's fine. We can leave it. We can leave it, but probably what we should know, Rochelle and Larry, at some point is that reasonable for the RWA? Meaning, including promotional changes and stuff. When we look back on a year, is 3% your assumption, but do we actually end up spending what? For a lot of different reasons besides this. Okay. Very good. Jeff, sorry for the interruption.

Jeff Liter:

Yeah. And also would point out that, because this is a closed group, we're really concerned about the salary expectation for this group, which may be different from the organization as a whole.

Suzanne:

Right. Good job.

Jeff Liter:

Okay. Are there any other questions about this plan? If not, we can move on to the union plan.

Suzanne:

Are there any questions on this? Thank you very much. We'll move on to the union plan.

Jeff Liter:

Okay. The format of this summary is the same as the previous one. We start with a summary of the participants. And as we've said before, these are closed groups that are generally getting smaller year after year with attrition, and some participants passing away. This plan is covering slightly fewer people than it did in the prior year. The active count went down a little bit. The vested terminated participant count went down and the retired population went up slightly.

Jeff Liter:

This group is a little bit older than the other plan where average age of the actives is 58.6. Also, this is a longer service group. You can see the average service of this group is over 30 years. The inactive population, average age about 70 years old with a future life expectancy of 19 years. Looking down at the assets again, very similar asset performance to the salary plan, 11.6% estimated return for 2021. Market value of assets at $28 million. Our smoothed value of assets that we used for determining contributions at $26 million. And as you can see, last year's employer contributions were about $1.2 million. Benefit payments to retirees just over almost $1.7 million. And plan expenses, just over $100,000.

Suzanne:

So with a higher expected rate of return and $1.5 million, and smoothed assets above, you're still coming out with almost the identical contribution.

Jeff Liter:

That's correct. This plan has a shorter expected duration for funding the plan. So when we calculate the recommended contribution, we look at the period over which we expect the active participants to continue in the plan. And as we said, this group is older, which means that they're closer to reaching that retirement age. So when we calculate the minimum required or the recommended contribution, you'll see that it's over a shorter period of time. And therefore we have to pay a little bit more each year to get to that fully funded target.

Suzanne:

Okay. Very good.

Jeff Liter:

Looking down at the funded status calculations, we've got a present value of accrued benefits at just under $30 million. So the plan remains underfunded, but it's pretty well funded. It's almost 95% funded on a market value basis. And that's an improvement over last year, which was just under 90%, again, primarily due to the improved asset performance. Looking at the funded status on the smoothed actuarial value of assets were by 88% funded, which again is an improvement over the prior year, although not quite as much because we were smoothing those gains from 2021 asset returns.

Jeff Liter:

And calculating the recommended contribution, last year, we were at just over a million dollars. This year with the improved asset base, the recommended contribution is going to be now just under a million at just over $900,000. If we were to look at the level funding requirement to fully fund the plan by 2023 on an accrued basis, it'd be just over $2 million. And to fully fund the plan on an accrued basis by 2025, we're looking at under $800,000: $767,000.

Jeff Liter:

We go back up real quick and look at that level funding number one more time. This is one of the first years where we've seen the level funding number at 2025 coming out less than the actuarially determined contribution. As I said before, part of what's going on here is that this is a short funding window for this plan. When we calculate the actuarially determined contribution, we're looking at about a five year time horizon to fully fund the plan, not very different from the time period to fund the plan here to 2025. And again, as Jeff mentioned earlier, one of the differences between these calculations, to fully fund by 2025, we're talking about funding the accrued liability, not the liability for benefits that will be earned further into the future.

Jeff Liter:

So the actuarially determined contribution is funding the plan towards the projected benefits, including benefits that will be earned up until the time participants retire. So that's a higher liability to fund toward, which is why this actuarially determined contribution is coming out larger this year than the level funding contribution.

Suzanne:

Okay. Very good. Any questions on this?

Catherine:

Well, my question on both plans is that is 6.75 the discount rate that we're happy with, or is there any expectations?

Suzanne:

That's a great question. So if anybody couldn't hear it, Catherine's asking about the 6.75% discount rate. And are we comfortable with that? We started, I don't know, how many years ago, at about 8%. We then brought it down to 7%, and just last year we brought it down to 6.75%. And for right now, we're comfortable with 6.75% not because we think the market's going to continue to rage along. It's just that we feel the balance and the risks of assets that are needed to invest to achieve that are well situated for this organization and its risk management tolerance. And Steve can talk more about that when we, if you'd like, but it's an excellent question.

Suzanne:

It's the basis for everything that comes in our investment performance of our plan. So-

Catherine:

I think that said, I'm sorry, [crosstalk 00:28:01]. I think most public pension plans are looking at 5.5. But the funding ratio for those, it's much lower than ours. Our funding ratio, it's getting to perfect, but it's very good.

Suzanne:

It is. And so the challenge becomes, if you bring that down and you're sort of more realistic in the world of risk management, right, but then the pressure on funding becomes much greater. And so at this point, we have continued to perform at or above our target. And so until we see something that's going to put that at risk, we'll probably keep it at that. That's an excellent question.

Jeff Liter:

And like the salary plan, the only significant change in assumption was the mortality. And that had a very minor impact, just a small increase due to the updated mortality projection scale. But we're using the same discount rate as last year. This plan benefits do not depend on salary, so we do not report a salary scale.

Suzanne:

Very good. Any other questions on this plan? Great. Good. Thanks very much. We'll move on to the OPEB. Looks similar.

Jeff Liter:

Okay. The OPEB plan again, similar layout to the prior two summaries. This plan covers a larger number of participants. As you can see, we separate the group by those active participants who are eligible for medical coverage as retirees, future retirees, and those who are only eligible for the life benefit. There was an increase in the number of participants eligible for medical. The total participant count has gone up from 509 to 528. It's a bigger group. The average age of this group is under 50 with about a 16.8 per year service history. There are a number of retired participants who are receiving benefits from the plan, their average age, almost 73 and their future life expectancy, about 16 years.

Jeff Liter:

Looking a little further down the page, the asset value in this plan, almost $9.9 million. Again, this is up from the prior year, we're estimated rate of return on this fund at just 10.8%. And that change in asset value includes employer contributions of almost $1.8 million and benefit payments to retirees of over $2 million. Looking down on funded status of the plan. The accrued liabilities of this plan are at about $26 million, which makes the plan about 37% funded, which may seem alarming, but understand that a lot of these types of plans are not funded at all. So the fact that you are funded and able to pay some of your benefits from the trust are, an improvement over many such plans.

Suzanne:

Thank you for that.

Jeff Liter:

And looking down, the actuarially determined contribution consists of the normal cost of 176,000. And we calculate the actuarially determined contribution in total to be 1,000,951. Again, this is slightly down from the prior valuation, primarily due to the better than expected asset performance. Any questions about that? Likewise, the assumptions are similar year over year. This plan does not depend on salary, benefits do not depend on salary. So again, no salary scale and the primary difference here in assumptions was the mortality improvement scale. Jeff, did you have anything more you wanted to add about this particular plan?

Jeff Bauer:

No, I think Jeff, you summarized it. I think from where they've started, you've made excellent progress. I agree with Jeff that your forward projection looks very healthy and obviously, the main concentration with the two other plans to get them to full funded status, but I applaud you for putting the contribution levels and this plan, as well. As Jeff knows that putting the recommended contribution in, helps quite a bit on the accounting side as well in terms of assumptions. So I think the plan is making good progress.

Suzanne:

Just so I'm reminded, our policy or our plan is that once the two retirement plans are at about fully funded, the cash that may be freed up when the expense of that, some of which will be going towards this to get this with great care. Okay, so that will be our focus.

Jeff Bauer:

Exactly. Right. Yeah. Your main focus, which again, you've done an excellent job of bringing and ensuring up the funded status of the two retirement plans. But yeah, that's our understanding from a funding policy point of view, resources would be shifted after you've got to full funded status.

Suzanne:

Any other questions on the executive summary of? Okay. Anything to summarize beyond what you've said or anything else you want to add related to this? I know we need to make some decisions, discuss the pension contribution. But before we move in to that, is there anything else from the actuarial group that you'd like to add from intel?

Jeff Bauer:

No, I don't think so. I think, as Jeff pointed out, I think you're in very good shape. I know Steve is guaranteed your 10% return, so. [crosstalk 00:34:29]. We should be fully funded momentarily. So yeah, no, I think moving it out to two years that you did, gave you the breathing room that you need, but again, you're still on track and it's a closed amortization. It's not as if it's an Arisa plan where the amortization basis keep growing. So the fact that you've diligently committed to that, I think you're in fine shape.

Suzanne:

Thank you for that. And so a couple things, one, I really want to commend Rochelle and the management team and our investment partners because we continue to make these strides each year in this process. And so while we have funds that we want to stay keep funded and we want to have rates as low as they can, and we want these things to be fully funded, we continue to make progress, which makes RWA financially stronger every year. So thank you very much for the whole team. And Albert, I'm sorry to say, but Jeff did a really nice job. So, Jeff, you thank you very much for doing a pitch.

Jeff Liter:

Yeah. You're welcome. But I think it's made easy for me because you had all good news this year.

Suzanne:

Yeah. And we're very happy that our contribution, timing is everything [inaudible 00:35:47].

Jeff Bauer:

Jeff will only show up on the years you have positive returns, so.

Suzanne:

Thank you. Okay. Very good. All right.

Stephen:

So will Steve. Just kidding.

Suzanne:

Yeah. Exactly. If there's no other questions, we'll move on to item number three, which is the discussion-

Catherine:

Can I just?

Suzanne:

Yes.

Catherine:

Just for clarification. I'm sorry. I know that this is not, we're talking about these specific pension plans, but these are both closed plans. What are the retirement benefits available to employees that are not eligible for these plans?

Rochelle:

We have a 401k that all employees are automatically rolled in. So they start to work both the hourly, as well as the salary plans.

Catherine:

And how is that managed?

Rochelle:

And Morgan Stanley also manages the investments or the investment vehicles that are available of 401k.

Suzanne:

And chosen by the employees.

Rochelle:

And they make their own selection number of equities and funds and just by portfolios.

Catherine:

And that's an institutional look pick and piece structure. So that's an institutional plan, not retail. So the employees are not.

Rochelle:

And Catherine, you'll actually get an update when we talk about the work plan a little bit later, we're introducing an annual review of the authority of our board.

Catherine:

Okay. Thank you.

Suzanne:

Yeah. Prior to this point, it's not been a part of the oversight of the board, which is a good addition and in a scale welcome the opportunity to get some of these questions answered, but what it, Steve can talk about the cost to participants in investing in the 401k and the management of that when we get to his piece of it. So, Steve, if you would just make a note of that question.

Stephen:

Yep. I'm going to have Joe McLaughlin coming on that, because he handles that more than I do, but he's here also. So yeah.

Suzanne:

Okay. That's great.

Rochelle:

And we also have a 457 plan, so the employees reach the maximum in the 401k. They then contribute to a 457 as well, which has similar depth vehicles available.

Catherine:

Great. Thanks.

Suzanne:

All right. Excellent. Okay. So we'll move on to item number three, discuss a potentially year end contributions. And we'll start with the additional pension contribution resolution. And Rochelle, it's pretty straightforward, but is there anything you want to add to this?

Rochelle:

No, I'll just add that, doing these additional contributions is also what's helping us get towards the fully funded. And I know I'm personally concerned about what's really happening with the market. So we continue to recommend when we can to, when we're able to absorb this additional contribution to go ahead and do this. And I will add this is reflected already, pending approval in our fiscal 22 projections.

Suzanne:

So, and remind us. And this is a supplementary contribution on top of the recommended contribution? Or is this all in?

Rochelle:

No. This is an additional to what was already approved.

Suzanne:

Okay. Very good. All right. Is everybody clear? [crosstalk 00:39:03].

Stephen:

Could I ask a question, Rochelle, would this be a lump sum or would this be spread over the year?

Rochelle:

This is going to be a lump sum.

Stephen:

Okay. That would be good at the moment in our opinion.

Suzanne:

Yeah. No, it's a nice time to be getting in an eye a little bit. Okay. Any other comments or questions about this?

David:

Do you want a motion for the committee? Anyone recording this?

Suzanne:

I would really like a motion.

Catherine:

Okay. I'll move that we recommend to the full authority, the motion.

Suzanne:

Thank you, Catherine. Is there other further discussion? I'll let the record show that the committee is recommending to the board and the board will take further action related to the contribution of 1.13, excuse me. $33,903,000 for additional contribution. So with that, if there's no other discussion. We'll take both, all those in favor. I, all those votes, show that all the present. Subcommittee meeting favor, recommend that to move on. Moving on to pension full year 23 proposed resolutions with salaried and the union plans. So these are without going back to the memos, I assume are exactly that they are the exact same amounts that are amended by Angel. Correct?

Suzanne:

So, but the union plan is the arc because the arc is actually higher. And then the salaried is a little bit above the arc. And that was based on like looking at affordability and such, and also trying to catch up the salary.

Suzanne:

So, one second, what was the salary plan?

Rochelle:

19.

Suzanne:

Right. Okay. 1924690. Okay. All right. So the salary plan's a little higher than the arc and the union plan is exactly at the arc. Do I have a motion to approve the proposed pension contribution resolution will year 2023 for the salary to union? Thank you Kevin.

Catherine:

Second.

Suzanne:

Second. Thank you, Catherine. Is there any other question comments, concerns for? You're voting on? All right. All those in favor, say aye. Aye. All those oppose. Let the record show that all members present voted in favor at subcommittee meeting to recommend to the board to make this contribution. Moving on to OPEB executive summary. Excuse me. Moving on to Viva full year '23 proposed resolution. Here, we have a resolution for contribution of $1.7 million change to the regional award authority and for the Viva plan contribution.

Rochelle:

Right. And this is the recommended cash contribution, which is consistent with what we've been doing in prior years. Okay.

Catherine:

And move approval of the rest.

Suzanne:

Thank you, Catherine. Thank you, Kevin. Any other discussion questions? Okay. Very good to let all those in favor. Aye. Aye. All those oppose. L=Mention, let the record show that all the present voted favor recommendations. All right. I think that is it for all the committee's actions related to contributions. Correct. Okay. Very good. All right. So if there's nothing else related to actuarial discussions and contributions, we'll move on to investment performance. We welcome our actuarial partners to stay. If you'd like to listen to the investment portion of the presentation. And if not, thank you very much for being here and always for your professional work and presentations by the oversight that it needs to release plans.

Jeff Bauer:

You're welcome. Jeff, I can stay. I don't know if you have a commitment.

Jeff Liter:

Yeah, I actually, I do. I appreciate that. Thank you very much for your time and I will hopefully see you all again soon.

Jeff Bauer:

Thank you, Jeff.

Stephen:

Thank you, Jeff.

Suzanne:

All right. So let's just do a time check we're in 40 minutes.

Jeff Bauer:

Plenty of time.

Suzanne:

Plenty of time. So why don't we start with-

Stephen:

Can I-

Suzanne:

Yeah.

Stephen:

Can I suggest that we start with Zoe. As we were going to do before, because we've kind of had some false starts with the ESG topic. And while we have her today on the front part of this meeting, the goal would be, again, this would be a journey and a process also much like funding. It's not like we're going to flip a switch and say, "Okay, everything that we're doing is ESG compliant," whatever that means. And we're going to talk about that. But I wanted to have Zoe today to walk you through what the portfolio looks like today. This will be a baseline.

Suzanne:

Right. So that's exactly what I would say. First off, I'm fine with the order. And secondly, I think that what the board looks at this as is a baseline and an educational opportunity to understand how this is done, what impact it has. And I think that the board remains uncommitted at this point to a position about ESG and what to do about that. But this is all part of educating us in a way so that perhaps in the future, we want to take a position included in our investment policy statement or any of that kind of stuff we care.

Stephen:

Perfect. So the goal here is to get, and Zoe, are you out there? I think I see you initial, right?

Zoe:

Yep. I'm here.

Stephen:

Okay, good. So Zoe, I'm going to turn it over to you to direct, but the purpose of this section, and I think will be relatively brief is to give the board a status. Where do you sit today versus some commonly used industry benchmarks? And I'll turn it over to Zoe who's will introduce herself, but she's from our ESG area within Morgan Stanley. Thank you.

Suzanne:

Well, welcome Zoe and-

Zoe:

Hi everyone.

Suzanne:

Hi, Zoe. I would not hesitate to explain what this is, what's going on in the industry related to this, as well as if we know very little, just to kind of level playing field on that front as well.

Zoe:

Yeah, absolutely. So I'll just give some quick background on myself. So I am on the global sustainable finance team here at Morgan Stanley. I'm a product owner for Morgan Stanley impacts quotient which generated the report that we'll walk through today. And similar to you all, I didn't have a ton of background in terms of what it really means to be sustainable and how to gear investments towards whatever sustainability goals each individual has. And I think that's kind of an important place start, which is there's not necessarily one solution for sustainability. There are so many different ways to become more sustainable. And so the way that the Morgan Stanley IQ or Ms IQ report is laid out is really to highlight those two different segments. So the option one, as you can really hone in on the positive things and choose to invest more in the areas that are "doing good", or aligned with your impact goals.

Zoe:

And on the other hand, you can divest from the bad actors or the mutual funds, ETF securities that are exposed to areas that you don't feel comfortable being exposed to, whether that's an industry, an issue of concern, an environmental practice, you name it. And so, those are kind of the two ways that at Morgan Stanley, we think of gearing a portfolio towards sustainable investing. And that's how I'll walk through the report, starting from those positive things that you want to align your investments towards, and then followed by the areas that you may want to limit your overall exposure to. So any questions from there. Feel free to interrupt as I go through the, I know there's a lot of kind of ESG terminology that you all might not be so familiar with, so feel free to interrupt.

Suzanne:

So I think we're ready.

Zoe:

Awesome.

Stephen:

So who's actually driving the presentation?

Suzanne:

I am. Jennifer.

Stephen:

Okay. So Zoe, maybe as you need the next slide, we would just has Jennifer to proceed.

Zoe:

Perfect. I also have it up on my screen. So yes, I would just keep going down. We're going to stop on a page that says portfolio impact summary, which gives you an overview of actually you can... Yeah, this is a good place to start. So like I said, there's kind of those two sections, the alignment, and then the exposure. The activation we can quickly touch on, but overall, what we've selected for the alignment are 11 impact objectives. So these again, are those positive things that you would want to potentially align, or tilt your portfolio towards.

Zoe:

So we've selected climate solutions, energy efficiency, cleaner energy sources, water solutions, etc, all the way down to governance practices. So you can see that it's kind of covering a lot. There is a lot geared towards water, which is great and unique to you. And then we're going to move on to the exposures, which is those issues of concern. And so far we've selected chemicals, oil, and gas and utilities. And overall, what this summary page is saying is that out of the 11 impact objectives on the left, we are either equaling or exceeding the benchmark on set of them. And then for the exposures, we are exposed to three out of the three issues of concern.

Stephen:

Can I add something?

Zoe:

The way that the yeah, go please.

Stephen:

So just to be clear, we have read your policies. We know your organization, so we've imprinted our viewpoint, or if you will, our opinion of, or interpretation, I guess, is a good word of what we've read about you, what we know about you here in these objectives. These are not the end all, final, be all. These are our suggestions for your organization of things, where you might want to have a positive impact and then areas that you might want to not be exposed to if I'm making sense. But this is why, this is can be a very complex subject. So this is us imprinting, if you will and suggesting if by no means is meant as an end all, be all. Does that make sense?

Suzanne:

It does make sense. And I guess one of the other things that might be helpful for members of the board is to know what you chose this from. So other of the selected issues of concern, what are the 96 other options that you've had? You don't need to go through that right now, but as we get a little bit more sophisticated related to this, just so that there maybe things, because you're in the business you're in and we're in the business we're in that we have a slightly different view about what might be a concern-

Stephen:

No doubt.

Suzanne:

... or an impact.

Stephen:

Yeah, definitely available.

Suzanne:

Okay. Carry on.

Stephen:

Back to you Zoe, thank you.

Zoe:

Yeah. And then the last section, that activation section on the right, this doesn't necessarily pertain to you all, but essentially the last thing that we evaluate is the intentionality of the managers. So there are certain funds or managers that we look at that are taking an extra step to intentionality, whether that be diverse ownership, it could be ESG stakeholder engagement, it could be screening restrictions. So those are what we look at, but we only have access to that data to on the managers that are on our investing with impact platform.

Zoe:

And so, if you don't have any managers on our platform, we won't have access to that data. It's not appear that any of the managers in this portfolio are on the platform. So for now we can ignore that. And if you choose to invest with a manager on our platform, you will then get to see that data and see in which ways they're taking that intentional step to investing with impact. So for now, we'll just focus on the alignment and exposure, essentially the way that the Morgan Stanley yep.

Suzanne:

A question on the activation and the intentionality. What rigor do they have to go through and standards do they have to have in order to be on your list of intentional managers?

Zoe:

So that's a good question. So I don't sit on that team specifically. I work very closely with them. They have their whole onboarding process and due diligence process for those managers. I can get that information for you all, but I currently don't know what it takes to bring a manager onto that platform. Once we have them on the platform, we send an annual survey out to check in with them and see in which areas they're investing with impact, then we ask for documentation and examples, etc. So that's kind of that activation section mostly.

Stephen:

And I'll add to that. Up until now, that has not been a criteria. We're trying to introduce this. And if it becomes a criteria or perhaps infrequently, it becomes a criteria for some percentage of your total. So let's say that you want to say that you want 5% of their portfolio. I'm making this up. This isn't a suggestion, to hit the impact objectives on the leftmost column, where you want 10%, then we would go to an activated manager that has done had due diligence screening by Morgan's committee on both their actual activation and alignment, as well as the traditional things that we would look at like performance, alpha, beta, deviation, variance, sharp ratios. So we look at all the statistical things that you would expect, but then the committee overlays it with how closely they are sticking to the alignment items or the... I call them the negative, the issues of concern that things to exclude. But today we have not activated anything in the portfolio so far.

Suzanne:

Right. Thank you for that. And couple things. And if I'm speaking on behalf of the board in a way that you're not comfortable, let me know, because we haven't had a chance to talk about this. But I think for right now, our philosophy, as Zoe mentioned is probably not necessarily to move forward with the activation level because I don't know how many managers you have on there and what selection we have. And I think for us at the funding level that we are in all of our programs, investing in the best places makes the most amount of sense, but keeping away from the bad actors, which keeps a whole host of world open to us. They may not be as intentional as maybe someday we'll move toward. But at this point, I think the first step is really about, is there anybody in here that we're terribly uncomfortable with because of their bad actors and that's limit our world to the activation list of managers when we don't really know how broad that is at this point for our investment purposes.

Stephen:

And primarily that's the purpose today to show you where you're at versus these granted put upon you objectives by us. But you're going to now see where you stand on each of these.

Stephen:

I would just characterize, not try to characterize as bad actors as where are we increasing risk because of something that is going on in a particular manager. Look, it comes out down to bad actors. Sure. Absolutely.

Suzanne:

We can call them whatever.

Zoe:

From my perspective, what I look at is, what are the risks and where are their opportunities? And that's the only thing I really care about with perspective the ESG is, let's identify where there are risks that we don't know about because we don't have the sub probation. The disclosure is not there or something, there may be some increased risk, but the other side of that balance is that there might be some opportunities. So let's not leave opportunities on the table as well. Anyway, I'm sorry. I didn't mean to interrupt.

Suzanne:

No, that's quite great

Stephen:

That's great perspective actually. Fantastic.

Suzanne:

It really is. And I think that the risk of investing with someone that is counter to our mission is probably the biggest risk that we have in fact in the portfolio. So very good. We appreciate your... So you're getting to hear our discussion as you are representing your discussion, which is good because we haven't talked about

Stephen:

That's great.

Suzanne:

All right. So carry on Zoe.

Zoe:

Great. So, so I'm happy to go as granular and detailed as you would like. So I'm going to start off with the high level, which is the way that the Ms IQ report is laid out. And if you have questions or want further detail, I'm happy to go into it. I just don't want to take away from the broad picture and really what's happening at the overall portfolio level. So we can go down to the next page. And so you saw on the previous page that there were seven out of the 11 impact objectives, either equaled or exceeded the benchmark. The benchmark is unique to each portfolio based off of the asset classes that are given in the portfolio and the market cap weight across the board. So if you rerun this portfolio on a different account or a different user, the benchmarks will be different.

Zoe:

On the left hand side, we have impact solutions and this is just repeating those 11 impact objectives. So we have climate solutions, energy efficiency, all the way down to access to clean water and sanitation. The way you would read this is, the benchmark alignment percent. So the overall portfolio alignment for the benchmark portfolio would be at 13, 4%. So 13.4% of the benchmark portfolio would be aligned towards climate solutions. And we are 1.1% below the benchmark. So slightly under the benchmark for climate solutions. If you go to environmental practices on the right hand side, we see that the portfolio benchmark is 72.6% and we're 8.6% above the benchmark. Sustainable corporate practices vary slightly from impact solutions. And you'll see the benchmark alignment for sustainable corporate practices on the right. Those tend to be much higher than the-

Zoe:

Practices on the right. Those tend to be much higher than the impact solutions because sustainable corporate practices tend to be around policies, guidelines, things at the company level that can be put into place. This could be parental leave, employee treatment, child labor policies, as opposed to impact solutions on the left, tend to have to do more with revenue generated from a specific activity. So I would just view this as impact solutions are revenue-based or revenue-generated, whereas sustainable corporate practices are our policy and guidelines driven.

Stephen:

So for example overall, frankly, this is a first look and a status, to me it's quite strong that you're over in most of the areas. The areas on the left where you're lower, which the impact [inaudible 00:58:55] Let's just pick on water solutions and access to clean water and sanitation because I think they're quite obvious subject in this committee. That would be, if you said we want those two areas in particular, which would not surprise me, to be... Well, one of them is slightly above access to clean water and sanitation is actually a slight positive, that is a green. It's just hard to tell, it's so small because it's first will be a small bench mark and then a small work slightly over. We're only under on the waterfront, the 0.1 and water solutions. But let's say we wanted to make that, US came to us and said, "We want our investment policy to state that we want to be above benchmark on anything, water or water solution or clean water-related."

Stephen:

We could simply add a clean water specific manager or sleeve to the portfolio. Again, we want to look at the performance, the opportunities, the impact it might have on the performance of the portfolio, but because these are relatively small alignments, if your goal was to be above benchmark, we could add a relatively small exposure to that space and be above benchmark and actually have a proactive... I'm not saying it would be a big one, because that would be a narrow space in the market to invest in for a broad-based pension. But I could see you wanting to have a increased exposure to those particular spaces if I'm making sense. And that would be a pretty easy fix proactively to make, and I hate to call it a fix. Let me take fix back, it would really just be proactive action to invest more consciously in the space of clean water or water solutions, et cetera.

David:

Yeah. This may be appropriate this time but it's in my head now so I'm going to ask. How do we know if we do slightly wait towards water solutions or access to clean water? How do we know how that rates against what we're taking away from and how will we be able to judge whether that was a good move financially for us and maybe a good move mission-wise and social-wise as we're talking about? But how do we know financially or how will we be able to know?

Stephen:

You would have to task us with doing two things, is a great question. You would task us... We only have backwards to look at, so we can look backwards and say, "Let's go do a search of the best water solution, activated managers on our platform and clean water-related." There'd be the same managers in those two categories. Let's go look at water solutions, I'm going to call it category. How is that done looking backwards versus our equity exposure for example, and what's our outlook looking forward? We could answer that question definitively, the first half of that. The second half would have to on a regular basis, monitor did our exposure to water solutions in clean water add or detract from the performance of what we came from or from the broader equity portfolio? Would be the better way to look at it I think. And with no definitely has it added or subtracted from a investment portfolio performance perspective?

Suzanne:

Steve, you're only looking at this from an equity point of view?

Stephen:

Nope. I realized when I said that. No, I'm not and we're not, but equities make up the bigger piece of portfolio so I went there. But this actually, and as Joe goes through this, we look at the fixed income side and the equity side, we look at all investments actually.

Suzanne:

And the only reason why I ask is because water solutions and access to clean water may actually be better suited in fixed income and buying their debt rather than [crosstalk 01:02:33]

Stephen:

Very possibly correct. I would agree with that. I almost stopped myself as it was coming out.

Catherine:

And to just build a little bit on David's question. Obviously when you're doing your analysis, at least it's obvious to me, that when you're doing your investment performance analysis, you're not only taken into consideration the performance in terms of dollars and cents, but also increasing risk. So there's got to be some risk analysis that goes along, but it's one thing to say that you have great performance, but what are the risks associated with it? I used to say, look, if all we cared about was performance, we can go sell cocaine, but then there are risks associated with that business [crosstalk 01:03:17]

Stephen:

Indeed we would agree

Catherine:

I like to use extremes.

Stephen:

That's a good one. And I'll get another [inaudible 01:03:25] from a risk management perspective, we would never recommend that you're going to put an enormously large percentage of the portfolio in clean water solutions because it would absolutely have the impact of increase in the volatility of the portfolio, whether it ultimately results in a higher return or not, it would increase to volatility because it would be in a single, relatively narrow sector of the market, whether it be stock or bonds. So we would not suggest that. But we would look at together putting a percentage, a probably small percentage of the portfolio in something proactive like this. And before we agreed to do it, we would absolutely study the impact, at least looking backwards on the results in the risk, both, no question. But this wouldn't be, oh, let's now put a quarter of the portfolio in access to clean water and sanitation. That to me would be inappropriate for the objective of the pension, maybe not the entity, obviously not, but the pension, because it will be increased.

Suzanne:

One of the things you might want to put in for the future, I think that Catherine would appreciate and maybe other board members would appreciate is the discussion about our portfolio as it relates to risk and the kinds of risk that you [crosstalk 01:04:40] risk of diversification, risk of volatility, risk of over exposure, et cetera, and look at our portfolio yet, turn our portfolio over one more time and say, "Okay, here's what it looks like on ESG, here's what it looks like in risk, here's what it looks like in investment performance." So that everybody's got the whole picture of the various things that you're looking at. So if that's appealing, then we most definitely can look at that.

Stephen:

Absolutely. And Alan, I hope you're taking good notes there on that one because Alan's on here too.

Suzanne:

Okay. So [crosstalk 01:05:14]

Stephen:

So carry on, and then we a stop at 2:00 today, is that correct?

Suzanne:

Yeah. We're okay.

Stephen:

Okay. We just do want to go through the important [crosstalk 01:05:26] discussion

Suzanne:

We're going to have initial questions and all that so I'll keep going.

Stephen:

No problem.

Suzanne:

Thank you.

Zoe:

Okay. So any questions on the overall summary of the impact objectives page? What we'll see next is what's driving these numbers. So how we break it out is we first go to the fund level. So mutual funds ETFs primarily first, and then we'll see based off of the given asset class benchmark, whether each fund is above or below the benchmark on each impact objective. So we would read this first line as this MFS Ma investors fund is 6.1% below the benchmark on climate solutions. And the benchmark is the Russell 1,000 growth at 19.9% aligned towards climate solutions.

Zoe:

However, it is 11.2% above the benchmark for environmental practices and the benchmark being 81.8%. And so we break it up into asset class. Each asset class has its own benchmark, and this gives you a really clear way to see which funds are over performing the benchmark, and which ones are underperforming and on which areas. So this gives you an opportunity to either invest more in the managers that are crushing it and consistently performing above benchmark on all of your impact objectives or potentially divest in the areas that are consistently below the benchmark across the impact objectives. So this gives you a little bit of insight as to what's driving that overall portfolio alignment number.

Stephen:

And can we pause there for a minute, because I'd like to add something here. So there's a lot of green there in Vanguard growth. Two weeks ago, there was a Barron's cover story, and Alan I'd like to make a note to get everyone on the committee a copy, a reprint of that cover story on ESG investing. One caveat to this style of investing, looking backwards at least has been, it makes logical sense that energy companies screen poorly theoretically, and technology companies screen friendly, makes sense. One of the implications of that is that a lot of ESG managers have become tech-heavy over the last several years. And their performance looked into recently stellar versus broad market indices or benchmarks, now I think we all know we'll talk about the investment is appropriate, the tech sector of the market in particular has finally corrected dramatically.

Stephen:

And now the performance from the ESG sector that has focused on gaining their ESG consciousness through overweighting tech is now looking poor from an investment perspective. So my point is, this is not an investment return look at all. This is a return looking at factors as they relate to impact and this sustainable corporate practice solutions. And by overly looking at that, you can become overly concentrated in a particular industry such as has happened with tech and software. So it's a caveat... We're very conscious, don't worry about it, but I'm just warning you. You could look backwards, especially if you looked at 1231 numbers and say, "Geez! These ESG managers all look great." I would say, "Well, then look at them now today and you'll be able to tell implicitly." At least we can tell implicitly and we can look inside of it and say, "Well, they got there because they owned a lot of software and no energy, or they got there because they owned a lot of technology and no chemicals."

Stephen:

So as part of it is just say, do we accept traditional energy and chemicals, but we accept those companies that have proactive corporate practices, good sustainable solutions, even though they're in a tough environmental industry, I'll use your term versus the bad actors. Because one thing we want to be careful with from an investment perspective is we don't get too... I'll use the extreme example, we could invest in all clean water, that would be an inappropriate portfolio. But what a lot of ESG managers have done, invested in a lot of software and created a hidden risk that has reared its head lately. So I think it's a lot of things to be conscious of in this space.

Suzanne:

Sure. And it's early in this whole science of looking at this [crosstalk 01:10:03] So can I ask a question, so on the first two, am I to read that their are policies are quite favorable, but their revenue with the exception of Vanguard in producing outcomes related to it are not as strong as their policies on this venture?

Zoe:

Yeah. That's a tough one. So just to caveat, there are definite at the back of every single report to help understand really what is being evaluated for climate solutions, for energy efficiency. And so I would think of it less as a comparison between corporate practices versus impact solutions. It's more so just based off of the nature that they're being evaluated is different. So if you look at this Columbia dividend income, it would really indicate to me that this fund does not necessarily have as many securities underlying it that are generating revenue for cleaner energy sources, water solutions, or access to clean water and sanitation, whereas they have more funds or securities within that holding that is aligned towards all of these great sustainable corporate practices that you care about. So that's kind of how I would read it. It's not really a compare or contrast, but more so just we needed to differentiate between impact solutions that are revenue-based and corporate practices which are more so policy-based.

Stephen:

And I'm going to add to that too, that as you go to value versus growth, you'll note that inevitably there are more misses because value includes things like traditional energy, things like chemical and growth includes... Heavily it's all tech falls under growth. So it kind of circles back to that same thesis that we want to be careful as you move in this direction potentially that we don't end up in a software/tech-only oriented investment or biotech or pharma to the exclusion of traditional industries either.

David:

Again a 101 question, will you be the company that looks at each of the companies and gives them a rating? So you have your own criteria that you use to decide for instance, the company like FedEx, let's say they want to be a 100% sustainable and clean by 2030, but they buy credits from somebody else in order to [inaudible 01:12:44] That's not as good as if they were being clean themselves. So do you go and do the ratings on all these companies or is there a standard by which these companies are judged that's acceptable and therefore we just say, "We want to direct it a little bit towards cleaner and you'll accept that." How does this work? You get a basic one-on-one [crosstalk 01:13:07]

Zoe:

Yeah. That's a great question. So what we do is we gather all of the data for the underlying company security level data from third party data vendors, such as MSCI, ISS, [inaudible 01:13:19] handful of others. And so we're kind of curating the best of the best when it comes to gathering that raw data at the company level, and then we have our own proprietary way of evaluating each impact objective. So we created the water solutions, impact, objective, we determined what it would be evaluating, what that threshold should be and then essentially each security is given a binary. Yes, it is aligned towards our definition and it is aligned towards water solutions or no, it is not aligned towards water solutions and therefore it's going to have a zero. And so it goes to the very granular underlying security at the yes, it's aligned or no, it's not aligned. And that's the kind of quote unquote rating it's given, and then that gets rolled up to the fund to evaluate what percent of the fund is aligned towards that impact objective. Does that answer your question?

David:

Yeah. So essentially you're taking other third party information and you're using that to form your own opinion of the ranking or the rating of that company in the different metrics?

Zoe:

Yes. We don't take anyone else's ratings, we just get the raw data. So we will get the percent of women on board, we won't get their opinion on if they have enough women on board, et cetera. We get that raw data file and then we determine on our own and how we should be slicing and dicing that.

Stephen:

But ultimately, it's not an opinion. My one comment, it's an objective cut point, I call it. And we have the criteria that we show you, but it's not saying we believe that is it's saying they exceed 51% or whatever it may be. So they're objective numeric measures as opposed to... I just always wanted... You said opinion that's why I went there. Also there's access to Morgan's one source. We're not solely in entirely captive to that. You can go out and look at all kinds of sources of data, but Morgan has made a huge investment in putting together what we think is a super competitive platform to measure these things.

David:

Your measurement won't necessarily be the same as Sierra Club measurement of certain companies, but you're going to take a honest dispassionate look at what you believe are the criteria that will meet them to be categorized as [crosstalk 01:15:46]

Stephen:

Correct. And people like Morningstar are beginning to do this. Some of the index providers are beginning to do this. And nobody's is exactly the same, but they're generally directionally the same.

David:

Thank you.

Suzanne:

All right.

Stephen:

So do you want to jump forward any further? I'm time-checking, trying to give you a flavor here today where you sit without... I don't want to lose all the time. I don't think we want to lose all the time we have for the investment review either.

Suzanne:

So how much time do you need for the investment reviews Steve?

Stephen:

Well, we're down to 15 minutes. I'm sure I need that much.

Suzanne:

We can stay until 2:30. That's fine. [crosstalk 01:16:31]

Stephen:

Then we're fine. I didn't realize that.

Zoe:

Go ahead. So we can kind of skip down to the next couple pages.

Stephen:

Can you show a bond?

Zoe:

And then we can just-

Stephen:

Okay, here we go. Just because we had that question earlier.

Zoe:

Yeah. We can scroll up. So right now, MSIQ has some data for corporate fixed incomes and we're just expanding over to ADRs, but currently we don't have all bond level data. That's something that we are actively working on and that's part of our roadmap for the future but currently we don't have all fixed income data.

Stephen:

You scroll down to the next page though, where we were a minute ago. So these are individual fixed in some securities, excuse me. I think everything on this page is an individual fixed income security. So you can see it's... So I'll let you talk to it, but it's the sustainable corporate practices are heavily filled in, but not the impact solutions on the fixed income side.

Suzanne:

So it's all corporate debt?

Stephen:

No federal farm credit is there, that would be government entity.

Suzanne:

But generally not all municipalities and-

Stephen:

We don't own municipalities in the portfolio, but they probably wouldn't be providing enough data at this point, but municipalities are not, we don't own municipal bonds in this portfolio because most of them are tax exempt, not all of them. The portfolio could own taxable municipals, but we don't today. You could pick on our competitor, Goldman Sachs there. So you can see that Goldman Sachs about fifth from the bottom, no rate, because we don't have the data on impact solutions, but on sustainable corporate practices versus our criteria, Goldman is green and all of them so it's passing, its green for environmental practices, climate is closure.

Zoe:

So the one thing I'll add is, anywhere that it is white, so anywhere that it shows white cell, means that they are not aligned towards that impact objective. So it should show that Goldman Sachs is not aligned towards any of the impact solutions. Whenever there's a grey cell, it shows that we don't currently have. So we don't have the data for access to clean water and sanitation for all the securities on this page, but we do have the data for the other impact solutions and then we're also seeing that Goldman Sachs is aligned towards all of the sustainable corporate practices on the right hand side.

Stephen:

Thank you for correcting that. And do we want to keep sliding through here a little bit?

Zoe:

Yeah.

Stephen:

So every security you currently own is here. And then I think [inaudible 01:19:44] so maybe take back over here.

Zoe:

We can move on to the issues of concern. So we just wrapped up the alignment modules. Again, those positive things you'd want to align and tilt your portfolio towards, and then we have the issues of concern here. These are the potential objectionable areas that you may want to limit your exposure to. So at the portfolio level, we have 1.4% exposure to chemicals, 3.2% exposure to oil and gas, and 2.9% exposure to utilities. Unlike impact objectives, we don't want to compare these to a benchmark. We feel that this is more of a personal preference and really your personal comfort level when it comes to your level of exposure.

Zoe:

We do have the same way of quote unquote grading it. So we look at the security level, we determine if based off of the criteria that we have set in place, if a security is exposed to an issue of concern, or it is not exposed to an issue of concern, and then that gets rolled up to the mutual fund ETF level to see at a fund level, what percent of the underlying holdings are exposed to that issue of concern. So you can see the Invesco funds and their level of exposure to chemicals, oil and gas utilities. And then we do the same thing for the underlying securities. But I'll pause here on this page if anyone has any questions on the exposure.

Kevin:

Thank you. This is Kevin. What makes up an issue of concern? What is that comprised? How is that identified or defined?

Zoe:

So I'm looking up right now. So there are definitions for all of these issues of concern. So for example, chemicals, I'm reading here, it evaluates companies based off of their engagement in the production of basic chemicals, excluding plastics as determined by ISS. So we get this rating from ISS, we get the data from ISS and then whether or not they meet that criteria, it would be considered exposed to that issue of concern.

Zoe:

So specific types of chemicals, not all chemicals?

Kevin:

Question was [crosstalk 01:22:12] specific types of chemicals?

Zoe:

It says basic chemicals, excluding plastics.

Stephen:

Right. And can you go to utilities for one second, because I want to give you an example over here. Could you read the utilities? So don't forget that we imprinted on you a bit and plugged in chemicals, oil and gas and utilities is potential issues of concern to use as an example. They're not things, from Connecticut Water came to us and said these are issues of concern. We just overlaid the water with things that could be damaging to clean water potentially. So could you read the utility definition for a minute?

Zoe:

Yes. Utilities is evaluating companies that provide water, electricity, natural gas, waste removal, and or other essentials for the public at large as turned by ISS.

Stephen:

Right. So here's one of the other dangers or caveats when doing this. So we see that, for instance, I'm going to pick on a big one, Invesco equal weighted. That's just the equal weighted SP&500 index. It has a 7% exposure to utilities. That could be people like Duke Energy or NextEra Energy, which is the former Florida power and light dominion resources, et cetera. Those are the people that may bring us... If you are publicly traded, it could be you. So it would be water, gas, electric utilities.

Stephen:

What's left out here is as you know, there are utilities and I'll pick on NextEra energy or AES, they're both doing this. NextEra Energy is one of the largest, if not the largest producer of wind power, solar power in the world and frankly, nuclear power. So you get down into the kind of minutia saying, "Okay, we know we have this exposure to utilities," but then you have to go almost to the next step and say, "Which utilities do we have exposure to?" And are we worried about owning NextEra or AEs? I would suggest no, they're actually two of the greenest utilities on the planet going towards wind and solar heavily, and they've gone natural gas, they don't burn coal, they don't have oil fired plants, I just know this. But you've almost got to get to that area before you say, and I know you didn't say this, before you say utilities are a bad thing.

Zoe:

Yeah. And that's part of the reason why we don't like putting benchmarks here because it's based off of what you would like to either visualize for... Some people just want to know where they're exposed to certain industries. I mean, there are so many industries, there's biotechnology, there's financial services, not all of these people would deem as bad or negative. And so this just gives you a different lens of view in your portfolio against a handful of other industries.

Kevin:

So the reason we would be interested in this is-

Suzanne:

So as I said in the beginning, since we don't have a position as a board on this, and I did want to speak on behalf of board. But my perspective at this point is really about understanding what this is, understanding where our portfolio stands, understanding if we have exposure to some, either entity or policy practice that is in complete conflict with our mission, that it would be distasteful and risky, whatever you would want to describe it for us to be an investor in that kind of thing.

Suzanne:

And for me, that's sort of where we are on this, is that it is to say pop up anything that says, "You really may want to think twice about investing in this, because given the nature of the mission of your institution, this seems to be counterintuitive to that mission." Other than that, I'm very neutral about what we should do with this, because I don't have a real zealous perspective about it, mostly because it's variant for many organizations, the data on how you measure it, it is new in the world. The perspective of our mission is to invest performance and manage risk. So I'd rather use it as a risk management tool than a driver of a performance. So that's how I look at it this point, but that's me and I input on [crosstalk 01:26:46]

Stephen:

So I'm a little more, I won't say salads about this, but I'm much more interested. And I think that the reason I'm interested in it is I've actually kind of had a seat at the table over the last 20 years and seeing the development of...

Stephen:

Over the last 20 years and seeing the development of consideration of information with respect, mostly disclosure, but information with respect to ES and G environmental, social and governance issues and how it can have an effect upon not only performance your investments, but also which is key, but also of the world. And I've also watched over the last 20 years how European nations and the EU and well, just other parts of the world, have embraced this concept. The U.S. is a bit behind, and I've watched the development of standards that are they're all over the place. It's right. They're there are they don't even use the same criteria, but I think information is important. And I believe that we should be mindful of how our investment decisions not only affect our portfolio, but also affect the world that we live in.

Stephen:

I do think that first and foremost, we care about performance, but when you also just look at how those decisions have an effect upon our world, I think it actually can move the needle, even though we're relatively a small portfolio. I do have one quick question, and I know that we have other things to talk about so we can probably move on, but are there any types of investment choices in the 401k or the 457 programs where you have your employees, if the employees of the RWA have an interest in making their investment decisions that are aligned with green issues, whether there are opportunities for them to choose an investment option.

Stephen:

Yep. It's a great question, Joe, are you out there?

Joe:

Yes, I'm here. Steve, can you hear me? Yes.

Stephen:

It certainly can be in the plan. Joe can talk to what is in the plan today.

Joe:

Yeah. There's nothing in the plan today directly to offer as a choice to the employees for a socially responsible option. But these are things that we evaluate with the 401k committee. And as a topic, even though ESG investing is not a brand new topic in the context of offering ESG options in a 401k menu, there's been a lot of, I'll just say back and forth tug of war with the DOL and their views on offering those types of choices. And the prior administration was seemingly making it more difficult to be able to prudently screen and offer those options. The current administration has offered some different views on that, and it seems that the DOL is going to in relatively short order issue guidance that I guess is more friendly to offering ESG options inside of 401k menus.

Stephen:

So just to follow up on that teams, we're doing fairly good already without focusing on. Is that inaccurate putting seven out of 11? And the one that we here, like 0.1%, 0.3% off

Zoe:

Go ahead.

Stephen:

Having not invested with a specific eye towards this. I absolutely agree. We've invested with an eye towards the actuarial requirements and eye toward the age of the population and eye towards returns. And we brought this up probably about a year ago, saying this is happening a lot. Let's look at this, but I would agree that to my pleasant surprise if you scroll back towards the beginning, when you had the greens, you are, again our fed to you criteria, but it's logical. I mean, we read your own corporate policies. It aligns quite well, actually for the most part. The one thing could you keep going back a little further? I'm going to go back to a prior suggestion, because this is a like getting to funded status. This is a journey and a process. And I'm glad that we're beginning this process together because I agree that this is where the Europeans have already gone.

Stephen:

We're way behind in it. I really think we should look at as a suggestion, if you agree, that we should look at these criteria on the left, at least at the start where we're missing, especially the bottom two that do align with your organization. And it wouldn't take a lot to say Rather than screen out and look at all the managers we're using today. I shouldn't say all of them, generally speaking today, domestic equity managers are screening out the bad actors, and that's why you get this result first pass without even going there proactively. But we as together, your board and us could come up and say, let's test what would happen if we added some water solutions and access to clean water and sanitation to the mix, not in a big way, but as a proactive place to say, let's go make a little impact without hurting performance, without changing risk to any meaningful degree. And at least explore that. That's what I was hoping would come out of this. But yeah, to answer your question simply, you are better aligned than one would've expected without having screened like this before.

Stephen:

I would actually argue that the reason why we're very well aligned is because the better companies better run companies have good governance. Better run companies avoid environmental challenges. Better run companies, avoid challenges that are going to have a negative social impact. And so that's probably why we're better in line.

Stephen:

I'll accept that, which means that we have good management compliment, but I think that's why.

Stephen:

And it may very well be that the place where we could have the greatest amount of impact is probably inappropriate, which would be on the private equity side, where you actually are looking at opportunities to have an impact, invest in specific solutions to issues. And maybe even some emerging technology or something like that. I don't know that we're doing that type of investing on a higher risk perspective, but private equity, but that's the opportunity side as it comes to the next side.

Stephen:

Yeah, and you're not doing that today. Your portfolio is primarily liquid today.

Zoe:

I would take it one step further just to explain. It's the companies' quality, the companies, it's the quality of the asset manager, not just the asset managers, that it's the quality of our investment advisor, Steve selecting those managers. Yep. So we have this creation of it. And so when we look at our portfolio, one thing I want to be, and I think Catherine's point is right, is when you start to look at it after you lay over all this quality adherence over all these different levels, it's really hard to say this manager is good at this or not good at this for reasons that Steve started with. Today they're investing this way, tomorrow, they're investing that way. And they're shifting in that we don't own any individual stocks, any individual companies, whatsoever. So this is always going to be an amalgamation of information, so to be able to pinpoint either a superstar or a fact, there's going to be quite difficult the way we invest. So the opportunities may come more in the more pinpointed.

Stephen:

And if we head there, like when we get to the fee discussion, if we head to more individual managers, we have more ability to direct away from certain areas, or it's mostly away from. I was going to say towards, but it's less towards, it's more away from.

Zoe:

Okay. So why don't we see if we can pick any more major salient points related to this topic so that we give adequate time to the investment performance piece and wrap this piece up if that's okay. Is that okay?

Stephen:

Do you have for an initial review of a portfolio status, would you have anything else to add your perspective?

Zoe:

I wouldn't say that there's a ton else to add. I think the important thing to keep in mind is that we can keep generating these reports throughout the year, see where there's improvement and like we said, just make adjustments or keep an eye out for the exposures or the ones that you'd like to potentially steer clear from, and also happy to provide you with the full list of options for those impact objectives and issues of concern as well.

Stephen:

Right? I thank you for that, because for this, we could give you the full list and have each individual board member, and this is some way we do it sometimes is individually, have you each select what you think is important or unimportant as we did for you here and then come together as a group and say, how, what, how many people thought access to clean water and sanitation was really important or thought that climate footprint was really important versus some other criteria, because even in the board, the diversity of the board speaks to it, right? That there's different issue issues are more important to others. So it has to somehow bubble up from the individual members, the objectives of the organization, what the organization's already doing on this front, which we know is a lot. And then it should bubble up to the portfolio in a way.

Zoe:

So, alright. Thank you very much for being here. We look forward, you a continued dialogue as it relates to this topic. Thanks Steve, for interjecting, as it relates to our portfolio, that makes it meaningful and applicable for us. And unless there's any other questions, comments, or concerns or thoughts about next steps,

Suzanne:

I have a thought about next steps. So would you say for the next meeting or prior to then we have a discussion where we think we want to go with this?

Zoe:

If you feel like you're ready to have committee. [crosstalk 01:37:55]

Suzanne:

At the next meeting or just have a further discussion at the next meeting briefly.

Zoe:

Sure. If you want to put that in there now that you have time to digest it, think about it. You may take more time looking at this presentation that we have it, and with a better understanding of what it means and come a little bit more informed. Sure. If you feel like that's a good use of our time.

Larry:

You want an outside facilitator to provide that discussion?

Zoe:

It's a to the [crosstalk 01:38:28]

Suzanne:

Yeah, no, I think we should. I appreciate that general thoughts on this.

Zoe:

Yeah, I got it.

Suzanne:

Yes. Yeah.

Zoe:

Yeah. I think so, because where I come out on this, I think this is conceptually a really wonderful thing that's really challenging the way we invest to make big impact on a opportunity side, but probably well suited to take a look at, is there anything in here that flashes at us that feels very inconsistent with who we are, but that's just my philosophy, but we can talk more about that. We'll have it. Well, I've had chance to distill it and say, Hey look, what do you think matters? Okay. So, so Jennifer, I would just ask that we make sure we get it in the agenda. Okay. Thank you. Thank you again. So, and Steve on this section and everybody's ready, we'll move on to the

Stephen:

Thank you. So Zoe, feel free to, you can exit and move on to your next item if you'd like, we very much appreciate you being here today.

Zoe:

Thank you. Thank you all.

Speaker 8:

Thank you. Thank you.

Zoe:

Thank you. So, Okay. And go back to number four is quarterly review and timing is everything. Steve, welcome. Welcome to March 31st performance.

Stephen:

Yeah, exactly, which is very different than April 28th performance. And I think we all know that. I'll talk to that a little bit, but one more thing, just because it's in my head on the ESG, the nuances are so important here, right? So somebody brought up in a good way, FedEx and their goal of being clean energy in a certain amount of time. And then you say, okay, great. Let's go invest in FedEx. And the next thing you might realize is, well, we have union employees and you know, FedEx is a generally known as a less union friendly company than ups. I'm just throwing this out there because this is a very interesting slope.

Suzanne:

Oh absolutely.

Stephen:

And then, your union employees say, well, we don't want to own FedEx. Our union brethren, at UPS, and UPS is a labor friendly company, even though their five years behind FedEx in that mantra. So again like the next era energy versus an old, dirty, perhaps in an emerging market oil producer, there's nuances. It's got to be thorough.

Zoe:

I would ask us, if we're going to start doing anything. start the mission of the organization as our guiding principle. And once we get really fancy, we need to get into other social, and other kinds of things, but our mission to be seems to be a great place.

Stephen:

Thank you. All right. I'll jump into here. Limited time. So, and thank you for having that conversation. It is where the world is going in the U.S. Some have gone there, not usually with a portion of their portfolio, not the whole thing. But that being said, let's move forward. Let's look at the markets. A lot's going on in the markets. I'll try to do this relatively quickly. If we could scroll to the next slide, please, and then I'll try show you how you're doing. So the S&P as we always like to look at has had a correction. It's had a correction earlier today. I wrote down the numbers, but then I took a lot of votes. We're down about 12% on a calendar year basis. I think you know that we expected to have a drop roughly of 10%. Sometime in the first half of this year, you saw inflation coming.

Stephen:

You saw interest rates likely rising that would typically result in a correction to the market. And I think what you've seen is almost mechanical and expected and in a good way, right? We were overdue for a correction. We've gotten one. We were overdue for interest rates to go up, we've gotten that. We've gotten a lot of that actually. And we were overdue for the excessive outperformance of technology stocks to come back into line. And actually we've gotten that too. So to me, this appears to be extraordinarily healthy. Morgan still thinks the correction could go further, that our investment committee at a national global level believes that we could see a correction before this is over of a full 20% or 12 points into that. Who knows if it will get there yet, they still have a year-end target. That's about 4,400 on the S&P.

Stephen:

So that's higher than it sits today by three or four percentage points. But we probably get to that number, but have a lot of volatility between now and then. So the market, last time we spoke, I want to say that the valuation, the upper right hand side of the sleeve was 21 and a half times earnings were down to 19 and a half times earnings. And frankly, if you look at the average stock in the S&P that multiple is closer to 18, or even below 18 times earning at this point, which puts us back into a normal cruising altitude, if you will, as opposed to what we considered a somewhat high valuation on domestic equities heavily led by tech and biotech. Interest rates have moved quite a bit, and we'll talk about that. Let's jump forward, please. I've got a lot of data in here.

Stephen:

I'm almost fearing that it's too much. Let me go to the bottom right. The main thing you've been seeing in this market correction in the bottom right. This is as of March 31st, this is just growth equities versus value equities. And another way to think of that as growth equities, a very heavily tech value equities, a more traditional dividend payers typically. Look at the difference year to date. Growth equity is down 9% through the first quarter, value equity is barely down at all. So this is really a correction in the tech and biotech sector dragging the broad market down and dragging the growth side of the street down. But it has not dragged down things like farmer and traditional energy, some manufacturing, et cetera. So it's basically been a very heavy tech correction with less of a correction in traditional names. I think that's super important.

Stephen:

And you see it even more at the top of the next page where the orange comes in. So I'm going to look at the upper right here again, because this is through the first quarter, year to date through the first quarter. Yeah, the S&P down 460. That's an important number. That's a little tech heavy, but less so. The average stock in the S&P, so the equal weighted S&P that we often talk about. I have $500. I put a dollar in each of the 500 companies, and that's an go Investor fund that we just saw that had the heavy weighting to utility. That's only down 272 where the Morningstar dividend index. So if I only owned higher dividend yielding stocks, I was actually up during the first quarter. So it's a very different situation than you saw last year, which is the upper left with that dividend was up 19.5 percent, still a very healthy number, but much below either the average stock in the market at 29 or the index itself at basically 29 also.

Stephen:

Big change in what's going on and finally bottom `right. We know that international has been underperforming for number of years at this point. And frankly, it looks to us like it's a third or even fourth in deviation event the underperformance has been so long and is so big. Valuations around the globe are much cheaper on an earnings basis or a price to book value basis almost any criteria you can come up with. And that began to even out this year, you actually had non-US stocks outperforming U.S. stocks until Russia invaded Ukraine. And even at after Russia has invaded Ukraine, you can see the U.S. international markets they're down 460 and 540 are pretty close to one another this year, they're changing day to day, but there's not a big divergence between us equities and international equities this year, even with the fact that the Ukraine invasion has caused a lot of angst in the European markets in particular. So we still expect that will that looking forward, hopefully in a post Ukrainian event situation that you'll see global stocks outperform domestic stocks, and we could jump forward again, please.

Stephen:

This is everyone's biggest fear. There's a lot on this slide. I go through it quickly, but all of these years across the top are since 1950, there are rate rising periods when, when was a fed raising interest rates. And let's pick on the period that scares everyone. It's 72 to 74. And, and forward you notice the fed raise rates from 72 to 74, then pause in 75, did it again from 76 to 81, then paused for a year. Did it again, till 84 paused, did it again, there's a lot of right rising and then drops going on. In that time, the fed funds rate peak, you can see it under 1976 to 81 at 19%. Some of you probably remember your first mortgages at 18%, yet during that time, when the Fed was raising rates that much, if you go to the second from the bottom, the S&P earned 4.6% a year during that wild rate rise. The period that was really painful was early on in that 70s inflation from 72 to 74 fed funds rates started at 3%, 3.3 ended at 12.9.

Stephen:

During those three years, the S&P lost 11 and a half percent a year compounded. So that's 11 and a half percent annualized, but it was a year. So start doing that math. And frankly in 73, 74, it was like the global financial crisis. The markets lost north of 50% when you compound it all in and use the dates, not just at fed rate increases. So the point of the slide is look at that annualized S&P return row across the bottom. You'll note that's the only period when the feds raising rates with the S&P actually had outright negative returns. It's had some very modest ones, 76 to 81, 83, 84, but they've they've most for the most part, been positive. What we're seeing now is typical rates go up early in that cycle markets, correct? And then the market adjusts to it becomes used to it if you will.

Stephen:

Has already priced it in and then becomes more stable as the cycle goes on. That's presuming that we're not in the 70s style inflation. We actually think we're in post World War II style inflation, as opposed to deeply entrenched 70s styles in inflation, post world war II. What you had in a way, obviously from a human perspective, it's not similar at all, but from a numeric market perspective, you had people coming home from the war, you had households being formed, you had demand on housing, you had high demand on energy, you had high demand on travel, you had high demand on automobile orders, you had high demand on appliances. Sounds very similar to what we've been dealing with now, doesn't it? And, and you had high inflation. And that high inflation lasted for about two years. And we think we believe we're more in a period like that right now, which to use chairman Powell's terms, is transitory.

Stephen:

But I think what Powell get wrong is it's transitory over a couple years, not transitory over a couple months. Wage pressures that we've all seen. Those wage pressures are not transitory, but they tend to be bumpy lumpy, meaning they go up and then they return to some norm. They don't keep going up at the rate we've been running up at. So we do think that we're in transitory inflation, we'll impact interest rates for the coming year or two, we'll impact the market for the remainder of the year. But we think that ultimately it ends up being a World War II situation, post World War II, where inflation returns to some level of normalcy after sometime for next year.

Suzanne:

Steve, can I share a quick question? How do you look at the 2008 recovery and how much the government took on its balance sheet as a factor in making those kind of comparisons? Do you feel like the country is in a similar place financially as well?

Stephen:

No, because it's been different. So we took on more on our balance sheet during COVID than we did in '08 and '09. And we have yet to really fully unwind it. Our concern, frankly, there's a lot of good intent on both the Fed side of things and the congressional side of things. Right? But if you think about it, the Fed's been printing money and they needed to do that to get us through COVID right? We obviously all know that COVID hasn't ended from a health perspective, but it seems to have ended at least for the moment from an economic perspective. So the fed helped us with zero interest rates. The fed helped us by buying bonds and building an enormous balance sheet bigger than it's ever been. And then Congress helped us by passing bills all the way back to the original Cares Act of about 1,000,000,000,009 I think it was at the time.

Stephen:

What's happening now and it's counterintuitive. It's scaring me a little bit. I think it's scaring anyone that studies it. You've got Congress still printing money, if you will, as still being stimulative. And if you get the fed contracting, so you think logically you've got the same government, both expanding money and contracting money from a different arm. We think that needs to stuff. It's got to be one or the other. And if you're going to keep printing money, you're probably going to have more inflation and it's unnatural to have one body printing money and the other body contracting money. But I think it's just a timing thing that they're bit out of sync, but appear to be getting more in sync as we move forward, if that made any sense, but it would not be good.

Stephen:

It could end up 70s if Congress keeps printing money and the fed keeps tightening, because Congress is printing money, thus creating demand and inflation. The fed has to rise interest rates more than they thought in order to control the rate of inflation. That's when you get into that stagflation type situation or potentially do so. We're hopeful and optimistic that this won't continue, but the Fed will be allowed to do their thing. They will shrink their balance sheet. They will do their interest rate rises. And that Congress has probably done all the COVID related stimulus they're going to do for the moment.

Suzanne:

So I appreciate that. And I appreciate the optimism. I am not as convinced if we continue to have a democratic leadership that the spending will continue, and I'm not Republican or Democrat either, don't promote either. I just see one being more aggressive in their desire to expand access, to resources for more people. And so [crosstalk 01:52:53]

Stephen:

It's all well intended, we agree. It will force the fed to go higher on rates and you'll get into an inflationary cycle in our economic opinion. Non-political economic opinion,

Zoe:

Right? Right.

Stephen:

It's a risk. But we do think that the risk is neutralizing at the moment, meaning we haven't had any new spending bills recently that are massive trillions, and we've got the Fed tightening. So as that cash that's already coming out into the system comes out and it is inflationary, it is probably going to cause the fed to bump rates a little more than they might have otherwise had to. So there's some counterintuitive than it is to it. And they're two different hours of government, right? One's independent and one is elected.

Zoe:

Okay.

Stephen:

But that is the biggest concern that we continue that post COVID, if we continue with that exact behavior, we'll have to raise rates higher than expected. Let's jump to the yield curve for a minute, because this is very important. And this is important to the pension in a big way, the pension. So December 31st, I'm going to pick on the two year and the 10 year. And you can go up vertically. The two year yield was 0.73 on December 31st. It was 2.28 by the end of the quarter. Wow. That's a big move. The 10 year was 1.52. This is what you get on a 10 year treasury. By the end of March, you get 2.32 and the 30 year was 1.90. And by the end of March, it was 2.44. Let's jump one more slide ahead. What happened by last week? And this is what's going on in the markets in April, the one year went from that.

Stephen:

I'm sorry. The two you went from that 0.73 to 2 48. The 10 year went from 1.52 to 2.85, almost doubling. And the 10 year, I mean, 30 years up to 2.95. This yield curve has lifted. Look at the short end though. What has the fed done? They've said a lot of things and they've raised rates exactly 0.25%. The market is way ahead of them. All you're going to see now in our opinion is this short end is going to go up to a half to one to one and a half to two and a quarter. And guess what? Even if to a two and a quarter, this is still a positively sloping yield curve, which indicates growth moving forward. So I'm going to argue that the Fed can raise rates an additional 2% right now and have almost no impact on the markets because the market already has that priced in.

Stephen:

You could arguably get to two and a half percent before we start to be where with the market needs to move again. Does that make sense? The folks that left hand side needs to lift. The market lifts everything beyond the left-hand side, but the fed has to lift the left-hand side by raising the discount rate. And I've already said that they're likely to go up a half a point. We believe the next four raises will be a half a half, a quarter and a quarter that will put you at 1.75 over on the left axis. And they might have to go a little higher than that, but that those are the next logical moves. Those are fully, fully, fully priced into this market. So we're already seeing, I don't know, if you saw the numbers today, we're already seeing a little slow down on GDP. You're already seeing mortgage rates on average across the country at 5%, this is already happening. A big impact. You've seen stocks go down 12%. This move in the yield curve explains all.

Stephen:

You've seen stocks go down 12%. This move in the yield curve explains all of those things, really. You've got a market that's super reactive to what the Fed is saying. And now the Fed can do their thing, we think with having minimal additional impact on the market. The good news in this yield curve, it's a negative short term. We can now go buy two year investment grade corporate bonds in the portfolio, and we're doing this as we speak, and get 3.5%. It wasn't long ago that we could barely get over 1%. So this is going to enhance the expected returns of the portfolio on a go forward basis, particularly on the fixed income side of things, because we can actually buy real yield now. It's been a long time since we've been able to buy a real yield. So I hate to sound excited about a bad market correction, but it's an opportunity for the fund like this, to get higher yield going forward, albeit at the expense in the short run of a pretty good size drop. Does that make sense to folks?

Stephen:

Let's keep jumping ahead. I might skip the next two slides. I've kind of addressed them already, just in the interest of time so we can get to the portfolio itself. Investment policy statement. We just always put this in here to remind you and us of what the policy currently is and what the goals of the policy are, which is obviously to target rate of return. We want to meet the actual rate of return of the portfolio. And obviously we know it's going to be over at times and under at times, but that's the long term goal.

Stephen:

We could keep jumping forward, please. Please interrupt me if you have questions. I know I'm going fast now. I'm trying to respect everyone's time. So the salary and union plans, this is all 331. 69,815,074 upper center. If you look at the box near the right, almost 59% in equity at the end of March. Your ratio of equities is along the right, predominantly U.S. equity, about three quarters with a little less than a quarter international. And of the international, just over 80% developed and 18 emerging, emerging has been a soft spot.

Stephen:

And then your value core growth. And if you look at the very bottom, domestic value core growth. A little tilt overweight to growth because we own a lot of passive indexes in there that tend to do that. But we've been actively pulling that towards value. We have been doing it for a few years now because the indexes themself have a massive overweight to growth or did, but we keep pulling it back to mitigate that overweight to growth. And that's been very helpful with outcomes. Let's jump forward one more slide, please.

Stephen:

Benchmark. We're pretty much on benchmark. We're a little overweighted domestic equity. That's been helpful. 2.82%. We're underweight international equity. 1.45%. We are a little overweight domestic bonds, 3.77, but we're not in international bonds whatsoever. We're at zero. Little overweight in hedge fund, a fund space, which those are liquid alternatives, not illiquid. A little underweight in global real estate, which we expect to bring that up to a full weight in the near term for the first time in a long time. And a little bit underweight in cash.

Stephen:

More or less on target, slight over and underweights, more within the vehicles, which really helped this year for any of investor is two things. One of the only times in my career I ever remember talking to clients and saying, "Well, the stock market's down 7% and the bond market's down 7%," and this has happened a few days ago that was nine and nine. It moves around. But it's interesting that don't ever remember seeing this in my life before you could say, "Well, if you're 100% in stocks, you'd be down 7%. If you're 100% in bonds, you'd be down 7%." So it actually doesn't matter wherever you are on the spectrum. If you're in the indexes, you're actually down, you could be 50/50, 70/30, 60/40. Highly unusual period. In that they went down almost exactly the same amount. Not the exact same amount, but almost the exact same amount. But there have been certain days where their literally exactly the same.

Stephen:

So it's very interesting that the mix has mattered less now than I think it's ever mattered in history. It's been the biggest bond drop in 50 years because rates went up so quickly there since January 1st of this year. But you're not long in bonds to begin with. So I'll show you the results. If we keep moving forward. VEBA invested in a very similar manner. Here we know we use all liquid investments here. And here we don't have the individual bonds as a component of the portfolio. Where in the pensions we've been increasingly buying more and more individual bonds, and that has a dual impact of getting us known stated yield at a known stated maturity and without an expense born against it, like would be in a manager. We could jump forward again, please. Matrix looks very similar here, as well. Go right past. Yep.

Suzanne:

Could you just explain to the board, if you continue to buy bonds and interest rates go up, what the impact is for?

Stephen:

Yes. And actually one of the reasons we're buying individual bonds now, because we can get higher rates. And we have what I said, a known yield when we buy it and a no maturity date. Because I think you all know if rates continue to go up, the value of an existing bond goes down. But the bond value has gone down, but the yield on it goes up. So if you hold that bond to maturity, you'll get an increased yield. So the luxury of owning individual bonds, besides the fact they're cheaper, meaning the cost of owning them is cheaper, we can buy a two year bond at 3.5%. And yeah, we care when we report about what it's worth between now and that two years. But think about it, two years from now that bond's a one year bond, we buy with a 3.5% yield, as long as we hold it to the maturity, we're going to get 3.5%. But in the interim, it's going to price down if rates go up enough, if rates go down. Did that make sense?

Suzanne:

It does. Just a little bit of a downside in the overall value of...

Stephen:

Yes. We're liking owning individual bonds now more than we have I think in any time since we've worked together. Because rates are reasonably attractive. We can buy two year bonds, three year bonds, four year bonds, five year bonds. We can buy bonds that match the shorter term liabilities of the funds. And we can more or less exactly match them so that money comes due as we need it. And we know the rate of return. So we're moving towards a preference for individual bonds versus a preference for pooled funds because to try and make money in the last three or four years in the bond space, we needed, for instance, a double line to go into the mortgage back market, which is extremely complex and fraught with peril. So we want an expert manager to do that. But when we're buying now, we're buying more investment grade bonds. We're very capable of doing that on our own and we are doing that.

Suzanne:

And do you buy that? So you buy that outside and active manager, you and your team are buying that?

Stephen:

Yeah, we act as the active manager in that case. So there's the advisory fee, but there's no manager fee when we do that. And look, we're not going all to that, but we've slowly and steadily been moving that way even recently because there's opportunity set that's presented itself now there.

Suzanne:

Yeah, we appreciate that.

Stephen:

And it's a good opportunity. You probably can tell we're quite confident that's a real opportunity set. And a lot of the downside, I think, has been priced in because of the way that yield curve looks like now. If you go to two or beyond, remember it kind of kinked at two? We're pretty comfortable buying two to five years right now. It's not really a high risk proposition and it's a decent yield proposition. It's not going to get us to 6.75, but it's certainly better starting at 3.5 than starting at 1 on in that portion of the portfolio. So it gives us a little bit of a tailwind that we haven't had at all previously.

Suzanne:

That's true. But if you're in an increasing rate environment, doesn't it tie up your capital for future?

Stephen:

It's an opportunity cost, because you could say, I could wait to buy a bond and wait for rates to go higher or I can start getting 3.5% on my capital today. And there's a trade off because if I wait, I'm in cash earning, let's just say 0.5%. So every day I wait of eating into the 3.5% I could get waiting to get 4. So we do make a judgment call on that. But we do model it. We say, look at one year from now, if rates on that bond are 4.5, was I better off buying it now and getting 3.5 For waiting. I'm better off buying it now because now I have a bond that matures in one year and when that comes up, I can renew that bond at 4.

Stephen:

So there's a cost of waiting to extend the maturities. We're not going out far. Trust me I'm to talking about two year bonds here because that's where the logical kink in the curve is right now. But your point is well taken. There's a risk to it that you could have. The risk is opportunity costs. Could I have gotten more by waiting? We're suggesting at the moment we believe taking a relatively conservative investment on a two year piece of paper is worth getting the 3.5% because by the time that gets to 4% we'll have already earned through a good piece of the maturity of that bond. It is absolutely taken into account though. And if I own a short bond, I'll keep going. If I own a short bond, we're not super concerned about its value on any given quarter because I know ultimately it's going to mature in a relative near term as opposed to we're not buying 10 year bonds.

Suzanne:

Thank you, Steve.

Stephen:

Let's jump forward. Thank you. I love that question. I get a little excited in times like this, not in a bad way, but it's depressing on one hand as you look day to day, but there's opportunities here too, right? We see healthcare being cheap now. Energy's cheap. Even tech. Tech's only trading at 3% above it's 20 year average. It was trading at 30 and 40% above. 3% above it's 20 year average. It's almost normally priced again. I'm not saying go run and buy tech tomorrow, but that feels a lot better than knowingly overpaying for it, right? It feels a lot better to see pharmaceuticals 9, 10% below their 20 year average. To see materials 15% below their 20 year average. A lot of things have come down to earth. There's still sectors of the market expensive, but you know what? No longer is tech way above. So it's opportunity. That's why I was excited if you were making that one time investment, even if it's a million dollars and 84 million, it matters if we can invest that while we're down.

Stephen:

So here's the first quarter. You see the various entities across the left. Started the quarter at 84,006,953. Had withdrawals during the quarter of 918,604, benefit payments basically out of matrix trust. We transferred some money down to matrix trust to fund those accounts. So those net zero from an entity perspective. So your net invested simple math is 83,088. Pretty rough quarter. A 78,998,000 at the end of the quarter. A $4 million loss for the quarter. 4.91% net of cost. 4.83 gross of costs. Benchmarks nicely, not to the actuary rate. So the primary goal of this fund is the actual rate of return. The summary term, which be 1.69 for the quarter. So clearly a down quarter. You're not going to make that. But the main investment benchmark was down 5.31. So it's nice to see gross [inaudible 02:07:38] net being above that main benchmark for this timeframe. So painful, no doubt. It's down more than that today. It's early in the quarter yet. We'll see what happens, but we still think there'll be more downside volatility in equities. Probably less to no downside volatility on bonds from here, for the short run, at least, meaning three to six months. Instead the Fed catches up to where the market's already at.

Suzanne:

So can we talk about, well, the next slide is the fiscal year to date. So if not a lot changes in the next quarter, what are the implications for us? Do they not change because the actuarial stamp has been put on it and our additional contribution will be nonetheless an additive? Or do we have any concern of turning in a less than benchmark met performance for the fiscal year?

Stephen:

I'll answer the part I can answer and Rochelle, I think is going to have to answer the organizational part. So the actuary has just ran their numbers and that was through 12/31. So this will not change that actuary report till next year, till this calendar year is over. Rochelle, I think you could speak to how it, sorry if I'm putting on your spot, but how it works on your...

Jeff Bauer:

I can answer it for Rochelle, as well. So if you remember Jeff Lighter's report that we're using an actuarial value, which is a smoothing value. So let's say we fast forward to the end of '22 and you're still down, it'll have some impact, but the fact that we're smoothing the assets on a three year basis for returns, it will dampen the impact if you had say a 5 or 7 or 10% loss for the year.

Stephen:

Right, no doubt.

Rochelle:

Let me just talk about the fiscal year end. So for the fiscal year end, if the asset value is down significantly, it will impact the liability that we have here.

Jeff Bauer:

Right, for accounting purposes. Right.

Rochelle:

Yes.

Suzanne:

And for potential credit rating impact, if it does one year I doubt it will, but it's always a risk. And so hence, Jeff, the benefit of smoothing.

Jeff Bauer:

Right.

Stephen:

For the actuarial but not the fiscal year, right? It's likely, at this point, I can't guarantee anything in this world, right? But I think it's likely that you have a down fiscal year, right. We're at April 28th now and we're down more than what's presented here through March 31st. So it's highly likely that you're down by the end of May.

Jeff Bauer:

Right.

Stephen:

Let me word that differently. I think highly unlikely that you're up. Could you be flat? Yep.

Jeff Bauer:

You know, so much better.

Alan:

Worth it.

Suzanne:

And so Steve, what might be worth just spending two minutes on and then we probably do need to wrap up, is that we've always pursued this very diverse portfolio to manage risk and have non-correlated performance so that da, da, da, da. So how does this happen in this year? Is it still the asset allocation that keeps it too susceptible to equities and down market? Is it that the non-correlated assets are not doing what they usually do in the efficient market?

Stephen:

Bingo on that. Cause typically you get a down equity market, you may have an up bond market. These are being driven for the same reasons. Like I said earlier, I've done this exact role for 30 years. I've never been in a world where bonds are down 9%, stocks are down 9%. That's not how the world normally works or down 7 and 7, whatever the number is in a given day. That actually the diversification, this most simplistic diversification between stocks and bonds is broken this year. You could be all stocks, all bonds and your returns exactly the same. The simplistic diversification between U.S. and foreign is broken this year. They're both down 12, 13%. The simplistic diversification that the one place for diversification is mattered this year is, are the bonds shorter than the benchmarks. That's helped and you are shorter. And that's actually the slight edge that you have here. Are the equities more dividend oriented or more tech.

Stephen:

And that's helped because we did not get overweight in tech. We kept reeling that back. We've been reeling it back for years now. But those are the only two diversification factors in liquid portfolios that have really mattered this year. Duration of fixed income and type of equity, domestically, dividend yielding, or value versus growth. But yeah, in a way, the correlation has gone out the window. And it almost always goes out the window in a steep, rapid decline. And then it regains footing. Like obviously I look at it every day. In the last 5 to 10 days, 5 to 7 days, I'm going to say the correlation is back between stocks and bonds. So you're seeing bonds gain footing. You're seeing stocks still degradate on average. But it went out the window for the first four months of this year. I would agree with your comment there.

Suzanne:

Anything else on the performance of the different programs and timeframes?

Stephen:

Let's jump a couple pages forward. I'll leave you with this. And while we're jumping forward, let's go to the six year number. Just to show you because this is what matters, right? So this matters to Jeff. This matters to the funded status. This is a journey. This is not a sprint by any. So here's the six year return, which is the longest full year time period we have. It's 8.10% a year for the last six years. So I think that's good perspective. That includes the bad market. We've at this point, been through several rough markets together. This not the roughest, I don't believe. But a rough one. And you're still up 8.10 a year since six years ago. So the goal was 7 for part of that time. And it's been 6.75 for a more recent part of that time.

Stephen:

It's still working. And there'll be times where it might not work. We might dip below the 6.75, but we'll lift above it again especially with rates going up. One final thought to remember. The asset allocation, the portfolio is not random by any stretch of the imagination. It's somewhat liability driven or heavily. We look at liabilities you have for the next five years, they go to bonds. We look at liabilities that you have between 6 and 10 years, they go to some bonds, probably more aggressive bonds. And we begin to hit equities by the 9th and 10th year. And we look at the liabilities that you have beyond 10 years and those go to equities. It happens to end up looking like a fairly typical balanced portfolio in many ways, but it wasn't arrived at by saying let's just have a typical balanced portfolio. It's arrived at by saying, what do these funds owe out in the near term?

Stephen:

What do these funds owe in the intermediate term? And what do they owe out in the long term? And that over time will work, right? Because those 11 plus year assets belong in equities. Equities do very well over decades. Those shorter term assets belong in individual shorter term bonds. And that's where they are. So I think you can be comfortable that regardless of the market, the mix is based on your tranches of need of liability. Not on anything random whatsoever from the work that Jeff does. Frankly, Jeff's firm, Angel, provides us that every year and we re-look at it. Alan does that work for us. We look at what Angel puts in. We look at what you owe out next year, the year after, the year after. And we tranche the money such that they will be available for benefit payments when they're needed.

Suzanne:

And then lastly, is there anything you want to mention on cost containment for asset management?

Stephen:

I have a whole section, but I think in the interest of time, it's about the same as it's been. The place we're adding some traction is when we buy those individual bonds, it brings the cost down. As the portfolio shrank a little, that brings the cost up a little per unit. We did increase the cost in one place because we're getting better performance. So we had a Goldman Sachs equal weighted index that was nine basis points. We had bought it because it was cheaper than the Invesco index. And after owning it for a while, we said, "This is silly. We're saving a few basis points, but we are losing return." So we switched back to the Invesco index and we're happy we did that because that's been additive net of fees.

Stephen:

So some places maybe like we're going from 20 basis points to nine to save money thinking were relatively similar. Knowing there was a little difference. We let back up and said, "We've squeezed too hard in that spot. And let's go back to what we know and like, even though it's 12 basis points more expensive." So that did to go on during this timeframe. And we're happy we did it because it's held up better. I'd rather give it justice, frankly. I thought today was important to give ESG it's time because we've had to delay it a few times. Why don't we shelf the detailed fee discussion until the next meeting again, but we have it all prepared and ready to go.

Suzanne:

Okay. That's fine with me. Okay. So unless there's anything else from the board or from our investment managers, we'll be ready to move on to the committee work plan. Anything else, Steve, in closing?

Stephen:

Alan? Anything that I've left out that, I think you're out there.

Alan:

Yeah. I am here, Steve. No, no. I think that was very comprehensive.

Stephen:

Very cool. Well, thank you very much, everyone. I'm sorry. Go ahead.

David:

Just a quick question. Are you the Steve Kellerher that Barons rated one of the top 100 managers?

Stephen:

Yes we are. The group is, it's not me. It's the group, but yes. Thank you. We're very honored and happy obviously to receive that award. So thank you.

Suzanne:

Congratulations.

Stephen:

That one really is that will be a lifetime desire to get that one and we just got it. So it's humbling and it feels good all at the same time.

Suzanne:

Good for you. Yeah. Well thanks very much for being here, Alan, Joe, Steve. Appreciate your time and attention to our portfolio. I know it's not going to be an easy time for us. Drawdowns are always difficult and we appreciate you paying attention to ways to mitigate that and continue to buoy our portfolios.

Stephen:

Right. Much appreciated. Thank you all. Enjoy the rest of your day.

Suzanne:

Yep. And thank you again.

Alan:

You thank you, Jeff.

Stephen:

We'll get through bumps like we have before.

Jeff Bauer:

You're welcome. Thank you. Take care.

Suzanne:

Take care everyone.

Suzanne:

Moving on to item number seven is the committee print work for you? So we are completing April of 2022. July, we meet on the items listed above and first time we take a look at the 401k annual update. It'll be a nice opportunity to get more acquainted with that piece of the puzzle. October, back to quarterly investment. January, back to quarterly investment. And what we'll also do if either in July or October talk, reflect on ESG and what we want to talk about potentially going forward and all the way out to May of 2023, discuss the potential addition year end contribution after looking again at all the things that we just looked at just now in this April meeting. Any questions on the work plan? Pretty consistent year to year. All right, with that, I would gladly turn over the committee work back to the main authority.

David:

I'll move we adjourn and reconvene.

Suzanne:

Thank you, second?

Kevin:

Second.

Suzanne:

All those in favor?

Group:

Aye.

[PENSION & BENEFIT COMMITTEE MEETING ADJOURNS AT 2:47 PM]