SOUTH CENTRAL CONNECTICUT REGIONAL WATER AUTHORITY

PENSION & BENEFIT COMMITTEE

JULY 25, 2024

MEETING TRANSCRIPTION

[PENSION & BENEFIT COMMITTEE MEETING STARTS AT 12:31 P.M.]

Catherine:

All right, the first item on the agenda is the approval of the minutes of the April 25th, 2024 meeting. Is there a motion to approve the minutes?

Kevin:

So moved.

Mario:

Second.

Catherine:

Second, moved and seconded. Any discussion? Seeing none, all in favor, signify by saying aye.

Committee members:

Aye.

Catherine:

It's unanimous. Okay, is Steve, here?

Stephen:

Yes. Can you hear me okay?

Catherine:

I can. The next item is the quarterly performance and I'm going to turn the agenda over to Steve for a few minutes.

Stephen:

Thank you, Catherine. Yes, I understand where you have a limited time slot today. So what I thought I'd do, unless you disagree, and can everyone hear me okay?

David:

Yes.

Stephen:

Okay, great. Is just speak extremely briefly, one minute about what's going on in the markets and then get right into the results from the quarter and the various time periods, and then any other questions you may have, and I think we can do that in 15 minutes or so. And then I think Joe's going through the 401k separately, if I'm not mistaken.

Joe:

Correct.

Catherine:

Yes.

Stephen:

Okay. Does that sound okay?

Catherine:

Perfect.

Stephen:

Okay, let's do it. I don't need the slides, necessarily. Instead, we can jump right to the asset allocation section, but what I can tell you is the market's been running up a bit. The second quarter was not as robust as the first, but it was still positive. July was very robust and it's having a little bit of a correction over the last, call it week or so. It's really a correction of the big names but it's also a revaluation of the small and midcap names, so it's actually hurting the pension less than the headline news would lead you to believe. We're actually still positive for the month of July in a fairly healthy manner, so that's good news. That's because we have more diversity than just the S and P. We have some small and midcap and we have a slight orientation towards value, which has been holding up much better than growth.

That being said, the headline number is still 21 times earnings, but we think it's very healthy to see this market broadening into smaller midcap and value names and a little bit away from just the big seven outstanding tech companies, but still, the market has been very dominated, as you all know, by the tech name. So that's a quick summary of what's going on in the market. We think it's overdue, expected, and we're a bit ahead of it as far as portfolio positioning. So that's the good news.

The bond market's relatively flat for the year so far, still, after earning 6% last year following the '22 down year in the bond in stock market. So that's the good news from last year. This year it's flat, but we still fully expect that the bond return should be about the coupon yield, which would give us between probably about a five and a half to 6% rate from the bond set of things, which would be very helpful especially versus what we've been able to get over the last few years.

That last market comment would be the next Federal Reserve meeting is September 18th. Wall Street's predicting 90 plus percent odds now, probability of a rate cut at that meeting. It's been a very long time since we've seen a rate cut. Indeed, we've only seen rate increases since '22, so it's been quite a while given that we're halfway to '25 at this point. So we do think there'll be a quarter point rate cut at that meeting very possibly and probably a second quarter point rate cut in the second half of the year, later in the year, and then as much as a full point next calendar year. That's the good news. The bad news is markets tend to run up anticipating these things and the results after a rate cut aren't always positive. They can be sideways, frankly.

So it's a contrary to popular belief, the rate cut in our view is very, probably very possibly and probably very heavily priced in the market already, and we actually think that's why you're starting to see a little selling in those strong names at the moment. It's temporary, I'm sure. So any questions on that? You're probably smiling because I never do the market review that quickly.

Let's jump right into the authority plans. So the salary and union plans should be up on the screen right now and I think everyone has their own iPads or laptops, right? So if you look in the box in the upper right, I think it's easier than the pie chart itself. We're currently 59% in equity. That equity is divided strategically about three quarters US, and a quarter international. I'll jump to the bottom. If you look at the bottom of the box on the right, if you look at the Russell 3000 right now, just the market as published every day, it's 20% in value or dividend yield [inaudible 00:07:15] stocks, it's 43% almost, in growth or mainly tech and biotech type names. Not exclusively, but mainly, and that's where those magnificent seven tech names fall into place, and Tesla. I throw that in there with them. And the remainder in core.

Your portfolio is positioned a little bit differently. We're at closer to 30% in growth in the very bottom right of that book. So that's a substantial amount less in the growth names and that's caused a little drag at some times, but at the moment it's actually quite the opposite. It's doing what it should be doing in a more down market for the growth name, it's giving us some ballast, and some of that underweight in growth has gone to core end value or dividend yielding stocks. So we have about a 7% overweight dividend yielding and the remainder in core, if that all makes sense. It gives a portfolio close to the same returns that you see in an upward growth market but with dampened volatility, which we think is useful in times like we're in, literally, over the last few weeks and that's been working literally beautifully so far this month. Not to be short-term focused at all, but there is a little bit short-term to it because avoiding losses is a big part to getting long-term gains to the degree that we can.

If we jump to the next slide, what are we over and underweight at the moment? The main under and overweights, they haven't really changed. We have very little, no exposure to global bonds at the moment. That's the minus 3% in the right-hand column. The yields are better in the US at the moment unless you went to emerging markets, which we're not wanting to do right now for risk reasons, and we have very light exposure to alternatives, very light, and that underweight is primarily onto the bond market, with a little bit of it going to US equities at the moment, but primarily to the bond market, and we're obviously underweight in cash because we're getting a better yield from some short-term bonds.

So if we jump ahead again please, the VEBA plan is a little bit different, right? It is same general thesis. I won't read you all the numbers time, but there's $10 million in 8,000 at the end of the quarter, 59% equity, and the value growth tilt is in a similar manner, as is the domestic and foreign exposure. The difference here is this, well they're pretty close, actually.

If we jump ahead again, the over and underweights are virtually identical. No non-US bonds at the moment. Very light alternatives at the moment with an overweight to bonds and an overweight to domestic equity.

We jump ahead again, investment results. Here, you have the second quarter upper center. This is just April, may and June and these are the various pools of money you see in the upper left salaried union, VEBA, I think most of you're used to this by now. And then we have the matrix trust accounts, salaried Union VEBA, those are where the benefits go from and where the deposits often come into, started at 86,131,119, 90 days prior. You had net withdrawals of $481,000. Those are all out of matrix, if you notice.

We had $93,000 move to the Morgan Stanley investment accounts during the quarter gives you a simple bottom line, net invested corpus if you will [inaudible 00:10:39]. The 85,650 ended at 86,349, so just under a 700,000 [inaudible 00:10:47] quarter, 0.83% net, 0.92 gross. That obviously, for that 90 day period, does not keep up with the actuary rate of return. Might get a little tougher during that timeframe. The two mid benchmarks are 147 and minus 0.99, so it's closer to the upper of the two bench center points, but a little bit below the upper of more or less where we'd expect it to be for that timeframe.

We jump out a little further and things change quite a bit. The first six months of the year are strong, the funds combined and they're very parallel as you can see in the upper right, the returns of our identical, not virtually. So 373,000 in benefit payments paid out for the first six months of the year. Net of deposits, that's an important point there, that's net. Transfers net at zero. So basically, it's simple accounting, it's $373,000 less than the starting value from a withdrawal perspective, which makes your net invested to 81,774. The plans, the three combined, had 86,000,349 at the end of the period for almost a $4.6 million gain, 5.68% net.

That's a six-month return, not a yearly return, 586 gross. Obviously for that time period, the actuaries need to see 338 or like to see 338. And your market benchmarks, again, the midpoint of the market cap weighted is 644, that was flying ahead with the tech names. The midpoint of the strategic use of weighted S&P is 288 and obviously you're towards the higher end of those two, which is nice to see. I would actually, it's a little closer than I would've expected given the tech broadness. That's what's changed during the, its current quarter, is that benchmarks are reversed themselves but the plans trudging ahead through the headwind at the moment.

We jump ahead further to the fiscal year, I believe is next. So here's an important number for your books, very important and a very strong number, too, for your books. 76,000,352 was the beginning value June one of the prior year. $974,000 in net payments out, that's net of deposits. A $23,000 negative credit that Alan might be able to help me with, where that went, and I'll give you a minute, Alan, I'll keep going. 75,354 is thus your invested capital. Same ending value. Oh no, sorry, it's not the same ending value. It's a different timeframe. 85,000,550 at the end of the fiscal year. So a $10.2 million gain during the fiscal year, 13.58% net 1398 gross. That obviously is almost two years as far as the actuaries are concerned. So that was a nice catch-up from the '22 time period.

Your market benchmarks are 1529 on the market cap weighted, and 1251 on the equal weighted so relatively between the two of them, which again, not surprising given the exposures that we have and given the fact that the tech only names ruled the whole market, for all practical purposes during that timeframe. We continue forward.

Alan:

Steve, just quickly on that $23,000. It was the May 31st ending date, there was a transfer from Matrix Trust to Morgan Stanley on May 31st. That didn't actually arrive at Morgan Stanley until June 1st, so that's why there was that one day of delay in that $23,000 transfer that's showing there. But that evened out as soon as we hit June 1st, as you can see on this page.

Stephen:

Thank you, Alan. I do recall that now, I had discussed that internally because I questioned it when the report was done. So does that make sense to folks? It was just funds in transfer on the exact closing date. So if that page were audited by your auditors, it would look show as funds in transfers all.

Last 12 months. Maybe I won't read all the numbers because I know we're tight on time here and it goes quickly. Last 12 months, so that's June to June, if you will. So July 1 until June 30th, the dollar gain was 8,000,564, and 1113 net return, 1152 gross. Again, well ahead of what the actuaries need at 675. Mid points are 1290 on the market cap weighted, an 814 on the equal weighted so much closer to the market cap weighted over that timeframe. We go up to three years and here's where you see '22 still causing some angst, I guess, would be the word. So over three years the trailer returns positive, now it's 5,000,823 it had been negative, because '22 was a rough year in both stocks and bonds. 238 net and 275 gross. So obviously, the three-year number does not meet the actual three year return of 675. It is nicely above, not surprising because we had a down market and we tend to be very durable managers in a down market. You're ahead of both the 237 and 102 both midpoint.

You go out to five years and you start to see some normalization occurring. I think it's just interesting to look at, five years ago there was 66,000,307 in the various funds added together. They've been withdrawals of 2.1 million over that timeframe. That's net of [inaudible 00:16:01], so you're actually in a net withdrawal a mode over the last five years, which is just an interesting side point, meaning, we know this, but the funds getting contributions but on a net basis, it's actually spending down more of a pension than it's receiving. 64,000,144 is, thus, your invested capital. The ending value is the 86,349. So 22 million in gains over the five-year period, 610 net, 648 gross, not quite the 675 that the actuaries need. But again at the higher end of the benchmarking, which is 554 midpoint of the equal weighted and 688 midpoint of the market cap weight.

And then we go a little further still, and we have a longer timeframe this time, eight years. Again, interesting to see, eight years ago, 45,000,532. Now we're on an eight-year basis. So this goes all the way back to June of '16, and I don't know that we've shown an eight-year number before. I think we had just since inception I think, but we've hit eight years. We're actually, I think we were getting eight and a half even. 5,564,079. So over eight years, early on, you were making net deposits, meaning deposits that the authority was making were larger than the withdrawals that were being made for benefit payments. And that switched over the last five years. So your net invested corpus from eight years ago, 51 million. 86, same ending value. So 35,000,002 and a quarter in dollar gain, 691 net, 731 gross.Virtually four basis points from the 675 goal and market bench being almost at the upper of the mid-points. The mid-points is 636 and 745 because those also even out over time, right? All of a sudden the gap between the benchmarks is lower.

And I believe we have one more timeframe. Yep. So since inception timeframe, December of 15, and this has been our static, so we added the eighth year instead of the seventh year because we have it. But we'll always be keeping the December of '15 start date. And it's interesting to look at this, at least I think so, I hope you do. 41,000,761 8 years ago, eight and a half, actually. 8,000,062. So again, in those early years ,at least working with us, there were net contributions. But as the population ages a bit and as pensioners come online a bit, meaning they retire and are collecting a pension paycheck, then that has rolled a bit that the contributions are, the withdrawal are now greater than the contributions at least have been in recent times.

So your net invested since the beginning is, thus, 49,000,824. The same ending value, the 86,349. So the dollar gain is 36,000,525, it's 685 net of costs at 725 gross of costs. So it benchmarks, again, at the high end of the ranges and it does benchmark above the 675 goal, right between the original goal of seven and that goal of 675. So for the, since inceptions for the eight and a half year period, you actually should be an R at the goal, literally right at it within 10 basis points above the current, which has been in place for quite a while at this point. I'd have to look and see how long it's been in place. That's a long time. So it'd be nice to exceed that goal and if we haven't continue with a positive year, this will keep climbing.

We are in a place where we do think valuations may be a bit extended on the growth side of things and thus, we have a little more orientation towards value. We have a bit more orientation to the average stock, not just the largest stocks in the indices. So you should see us have nice outperformance as the market broadens out, also. We're seeing it in spades at the moment as you can tell.

I think what's after [inaudible 00:19:53] ? I think that's what I want [inaudible 00:19:57] leaving Joe exactly 12 minutes, I think Does any questions, comments? It was a good period. It's a solid period. Frankly, all the periods other than the three-year period, at the moment, are solid. And I think the most exciting or positive news is the, since inception returns are where they need to be from an actuarial perspective. So the funded status of the plan, is other factors there obviously, when Angel comes on, but the funded status of the plan should be strong at the moment.

Catherine:

So my takeaway is that our asset allocation is working because we're making the money that we need to make in order to meet our obligations, the liability side. Anybody have any questions on the payments?

Suzanne:

I do, but I'm sensitive to time so I have a bunch of questions. I don't think they [inaudible 00:20:43] have the answers, but.

Catherine:

We have 12 minutes more.

Suzanne:

Well we also have another.

Catherine:

Okay.

Suzanne:

So I'll sit tight, but the one question I do have that I think should get answered is the trend of paying out more than depositing. So I just want to know if that trend is going to continue to expand, and what does that do to the demand on performance of the assets that exist?

Stephen:

I can answer that at a high level, I think, if you want, but I'm not the actuary. That being said.

Catherine:

To me it makes sense that because it's almost like an insurance runoff.

Suzanne:

Well I'm not saying that we shouldn't be having that trend happening. I'm saying that trend is happening. Is it going to expand because it's a close fund and if so, what does the demand on the performance of the portfolio, meaning in the remaining portfolio?

Stephen:

I believe I'll take this much without acting like the actuary because technically and is it going to expand, we should be asking the actuaries. Our understanding from way back and from looking at it annually, the actuary says yes it will expand and it was premeditated that it would expand at least eight and a half years ago when we came on the scene. But it's actually interesting to actually see it happening.

What would its effect on that portfolio be? So that's an interesting one. Annually, we look at the liability stream, as you know, that meaning the benefit payments that are due. And as those numbers come forward, as bigger numbers come towards us as each year rolls by, it should, and would likely, have an impact on the portfolio and on the expected rates of return at some point, because as we need more and fix to make larger payments as the years roll off, I guess I said the comment, you would logically have more in fixed as the liabilities come forward. But we've got the portfolio positioned as it should be for the moment, assuming equities are the long-term asset, 10 year or more liabilities and we're using fixed, we're using high quality fixed income in the first five years and then somewhat hybrid for the second five years. But yes, as the years turn on, the math we do behind the scenes with the actual report every year would logically change the mix of the portfolio.

Catherine:

Can I just add a couple things, Steven? So I know we provide you the end of each fiscal year, we actually get from the actuary their and that projection is built into how they do the arc and all that. And then Steve, though, to your point, currently my understanding is you're using the projections which are projections that do show increasing benefit payments in [inaudible 00:23:43] the near term until they drop off, which [inaudible 00:23:47], and that the asset allocation is based on those projections.

Stephen:

That's all correct. I agree with all of that. So it hasn't, yet, had a dramatic impact on the asset allocation. And I'll overlay that with one more thing. And once a year we also provide you with the forward-looking market forecast and again, they are forecast, so they're as good as that is and that is still positioned that, at the moment, the last look, the 675 seems rational, the asset allocation is dictated by those liabilities. And the 675, when we say it seems rational, it comes from the asset allocation, which comes from the actuary report. So yes to all of that.

But over time, my point was based on the question, over time it would be logical that the asset location would potentially get more conservative, and thus, the rate of return assumption might have to also do the same, but not yet.

Suzanne:

Right. Understood. I think it would serve the committee well if you and Rochelle and Steve took a look at the future, tried to figure out how this is going to play itself out and whether the asset, not the asset allocation, the rate of return has to be reduced. Having said that, is there an opportunity because even though the liabilities are bigger, they're predictable in a shorter period of time? Can you take some of that longer money and put into equities to help portfolio? It's an interesting question. Just think it through from a longer point of view.

Stephen:

Suzanne, I didn't hear the last part of that. Could you take some equities and do what? I missed that last part.

Suzanne:

It's not important, it's just I think you should just think about it and project.

Stephen:

Yes, we can do that. We will do that with the actuaries, and they do give us the liability stream out Alan, how long? Forever, basically. There's no forever, but it's to the last life in the plan has been paid.

Suzanne:

That may be fortuitous for us, but.

Stephen:

Yes, absolutely.

Catherine:

Any other questions or comments? Let's move on to the 401k.

Stephen:

Thank you very much everyone, enjoy the rest of your summer.

Catherine:

Thank you.

Stephen:

I'll listen to Joe too, but.

Joe:

Okay, thank you. Can everyone hear me okay?

Catherine:

Yes.

Joe:

Excellent. I have three high level updates that I wanted to offer to the board this afternoon. Starting with your plan assets, just giving you an overview of what the asset allocation looks like and then the underlying funds that are in the lineup. So same format that you saw from us at this time last year, showing you on the stable value and bond funds that you have a little over nine and a half million spread across those three funds. In the middle of the page, you still have the JP Morgan Smart Retirement target date funds. They have a little over 11 million in assets. And I should have started with, there have been no changes to the investment lineup over the past year. So, it's the same lineup that you had at this time last year. On the bottom of the page, you can see you have just under $5 million in assets in the risk-based asset allocation funds that are offered by MFS.

Looking at the equity funds both domestic and foreign, and we lay out the domestic equity funds in the manner you may be accustomed to seeing from Morningstar and their style boxes. So you see have a very well-rounded and diversified equity menu with a little over $33 million invested in your domestic equity funds, and then you have a developed market international and emerging market international fund on the bottom of the page that have just under three and a half million in those. And at the very bottom of the page, you can see your plan assets as of June 30th sitting pretty close to 62 and a half million dollars. So definitely some nice growth in the plan assets over the course of the last year.

Skipping over because the prior slide is the exact same as last year where we show you the services that we offer to your plan. For the purpose of this update today, wanted to provide the board with an update of what we have worked on collectively, both us, as your advisors and your management team that oversees the plan, what we've worked on for the last 12 months since the last update. So starting in the upper left and moving clockwise around the page. Your members of your 401k committee, I'll say they were subject to fiduciary training. It's something that we do periodically every few years or so, we update our curriculum just to make sure that everyone is up to speed on best practices, what fiduciary responsibilities are. We are aware that you're not an ERISA governed plan, but we do all of our work as if you were. So your plan is being held to the highest standards there.

And if you are aware of the massive piece of legislation that was passed, now a year and a half ago, secure 2.0, we pretty much touch on that topic every meeting because, and we will for probably the next five or six years, because there are incremental pieces of legislation that come online each year that are tied to that legislative package.

Upper right, plan management. We have and we are going to present to your committee next week when we get together to review the 401k plan. We have done very comprehensive, what's called RFI benchmarking, where we took your plan and all the services that Empower is offering to you and your participants and we shopped it out in the market. We have no intention of changing, but it's just putting the periscope up, looking at what's out there in the marketplace for other record keepers, services, costs, et cetera, to continue to ensure that your plan and the services that Empower offers and what they charge for those services remain competitive. So those results have not been shared with your 401k committee yet, but those will be presented when we get together next week.

From an investment advisory standpoint, we've obviously continued to do the monitoring work that we do on a regular basis with them. And then moving to the lower left, we have continued to offer the webinars. We do about 9 or 10 webinars per year that we offer to all of our retirement plan clients, your employees included, and then have on the agenda to offer both onsite and virtual meetings. This year's topic is going to be retirement readiness and then we're also offering one-on-one consultations. We've set up virtual office hours for people to sign up for a session.

We'll get into, sorry, two pages, if you would, get into some of the metrics and laid them out this year showing you the same information we showed you last year, including the year-over-year change. So total plan participants, so this is everyone who has a balance in your 401k plan, you have 387 individuals who, as of June 30th, maintain a balance in your 401k plan. That's 22 more than you had at this time last year. The active are those who are currently employed at RWA in the well services division. So that number is 315, which is 25 more than last year. And then non-active are those who are no longer employed by the organization, retirees for the most part, others that maybe are no longer with the organization but left their money in the plan, that number's 72, which is three fewer than what you had last year.

On the bottom, what we refer to as your plan participation metrics. So, you have 277 out of the 315 who are active employees making a salary deferral contribution to the plan, and that is an 85.5%

participation rate up from 84% the prior year. The average contribution rate, so of those 277 who are putting money into the plan, the average rate being contributed is just under 9%, basically flat from the year before.

As far as the webinars that we offer, you have had 52 unique employees participate in one or more of the webinars that we've delivered over the last 12 months. We have covered five topics during those nine webinars that were offered over the past 12 months to your employees. And then just to let you know, we haven't scheduled the exact dates yet, but working with your human resources team, we are targeting the fourth quarter of this year to offer, as I said, the retirement readiness training, as well as one-on-one consultations.

Just on average, we pretty consistently hear from about a dozen to 15 or 16 of your employees, not the same employees, but just basically, one or maybe two employees per month are they are proactively reaching out to us asking for help or have questions on their 401k plan that we assist them with. So I know I went over by about 90 seconds, but that's all I had to cover on the 401k. I will open it up to any questions the group may have.

Catherine:

I'm pleased to see the interest in working with employees, in terms of their retirement readiness. I think that is a great service and the committee and our consultant in that area. So, great. Any other questions or comments? I believe that is the last item on the agenda. Do I have a motion to adjourn?

David:

You mean reconvene as the Authority?

Catherine:

Yes, reconvene as the Authority.

Stephen:

Thank you again, everyone.

Joe:

Thank you.

Catherine:

Thank you very much.

Catherine:

Adjourn as the committee here and reconvene as the Authority. All in favor?

Committee members:

Aye.

Catherine:

No opposed? Okay, it was unanimous.

David:

All right.

Catherine:

It's back to your side. I appreciate your comments.

[PENSION & BENEFIT COMMITTEE MEETING ENDS AT 1:06 P.M.]