Old Saybrook Pension and Benefits Board Meeting
Thursday, January 25, 2024
8:30 a.m.
First-floor Conference Room, Town Hall – Hybrid Meeting
To access the audio from this meeting, please use the following link:
https://youtu.be/4Pmx3QuwCEo

Meeting Minutes

Attendees

Members Present:
Darrell Pataska
Carl Fortuna, First Selectman
Susan Quish
Rowena Moffett
Paul Tracey
Loraine Cortese-Costa
David Sparrow

Others Present:
Lee Ann Palladino, Finance Director & Pension Plan Administrator
Janet Vinciguerra, Pension Board Liaison
Kevin Nichols, Morgan Stanley Investment Advisor
Rebecca Lilly, Morgan Stanley Investment Advisor
Andrea Brundrett, Administrator
Barbara Labriola, Town Treasurer

Absent:

Welcome and Public Comment

The meeting was called to order at 8:29 a.m. by Mr. Pataska. No members of the public were present.

Approval of the Minutes

The minutes of the November 30th, 2024, meeting of the board was reviewed. A motion was made by Mr. Pataska and seconded by Ms. Quish to approve the minutes. The motion passed unanimously.

Pension Liaison Report

Ms. Vinciguerra reported that for the December gross payroll the town had 97 retirees with a gross monthly payroll of $155,720.95, with no new retirees. The Fire Department has 38 retirees for a gross monthly payroll of $14,612.26, this includes past Chief Clark Maxson with 27 years of service. There is a total of 39 participants with one QDRO spouse.

For the January gross payroll, the town has 99 retirees with a gross monthly payroll of $158,289.06. This includes James Therrien and Larry Smith and an additional QDRO spouse for a total of 100 participants. The Fire Department has 38 retirees for a gross monthly payroll of $14,612.26, with no changes from December. There is a total of 39 participants with one QDRO spouse.

Pending retirements include Julie Pendleton, Director of Operations, Facilities & Finance at the BOE, who will retire on February 1, 2024 with 20.5 years of service. Unfortunately, Richard Peterson passed away on January 11, 2024. He retired from the town on November 1, 2011, with 26.5 years of service with the Department of Public Works. He also retired from the Fire Department on October 1, 2024 with 36 years of service.

As of January 19th, the defined benefit plan has 45 contributing town employees, 22 contributing BOE employees. The defined contribution plan has 44 town employees and 21 BOE employees. 85% of DC participants elected the optional town match.

Investment Advisor Report – Morgan Stanley

Mr. Nichols started by reviewing the Wealth Management Perspectives, stating that throughout 2023 there was positive GDP growth, low unemployment, and positive EPS growth. Because of the belief that the federal reserve will be cutting rates in 2024, this led to better market results toward the end of 2023. When looking at YTD market results, Mr. Nichols pointed out that China was the only market down by 15%, while the rest of the global economy was doing well. The Magnificent Seven is doing very well, being up 73.1% last year with a 20% change in earnings and 45% change in their multiple. And although the top 10 positions in the S&P are at all-time highs, we are still in a rolling bear market. With these changes the S&P 500 Index gets more concentrated. Mr. Nichols explained that when the top 10 positions get over 25% of the total market cap, this signals a change in leadership or that a correction may be coming. Morgan Stanley feels that this is a risk to the index, with the shares above 35% relative to the index. Mr. Nichols continued, when there is a large dispersion between growth and value it doesn’t typically last long. The portfolio is positioned more towards value, but there is still growth with the portfolio up 5.27% YTD. The IPS has a benchmark of 5.79% so the portfolio is only behind the benchmark by 50 basis points.

Mr. Nichols then went over the Equity Risk Premium, showing the S&P 500 Index at 102.1 basis points and the S&P 500 Info Tech Index at 169.6 basis points. The portfolio is in the S&P 500 Equal-Weighted Index which is at 426.7 basis points. This results in higher return for more risk in the equity market rather than being in the bond market. When referencing the Fed Fund Futures Mr. Nichols said they are expecting up to six rate cuts this year, this is based on what the Traders believe. This will depend on where inflation and unemployment are throughout 2024. The consensus on Wall Street says the S&P 500 Index Earnings and Multiples will hit all-time highs in 2024. Mr. Pataska asked, with the upcoming election, what is Morgan Stanley recommending we should do to prepare for market changes. Mr. Nichols said the market seems to be preparing for another Trump presidency. He continued, if Republicans are voted in, they would be decreasing tax rates for corporations which would create a larger deficit and force the Federal Reserve to cut interest rates. This would cause inflation to stay high. If Democrats are voted in there would not be a lot of change in the market and they would continue to work on the deficit with interest rates remaining high. Overall, it is hard to tell at this time until the nominations are made. Ms. Palladino mentioned that higher rates are better for the pension plan because of the discount rate and cash flow. Mr. Fortuna added that the interest made on cash reserves has increased significantly. So, to prepare for the upcoming year and possible rate cuts, is there a model Morgan Stanley can prepare that shows how much the pension plan is earning on cash flow, to prevent them from having to sell stocks and still make the $600,000 growth projection. Mr. Nichols said that is something they can add to the cash flow report for April. The model will show what different cash levels are and how that affects the cash flow going in and out of the pension plan. Mr. Fortuna also asked, with the earnings and multiples at all time highs and interest rates going down, what happens to the "cash on the sidelines"? Mr. Nichols explained that typically when there is cash on the sidelines it's not earning anything and needed to be deployed somewhere. With interest rates between 4-5% right now, it doesn't necessarily mean those funds need to go to stocks. There's a possibility the sideline funds could go to bonds to lock in the current interest rates.

Mr. Nichols then reviewed the report for the town pension which shows a total balance of $27,269,245. At the end of 2023 the plan was up 5.75%, as of 1/24/24 it was up 5.27%. The projected income summary for the next 12 months is $693,402. In terms of allocation, the plan is underweight in cash and US Large Cap; overweight in US Mid Cap and US Small Cap which has done very well. He continued, the plan is overweight in International Emerging Markets and short-term bonds. Funds were moved into intermediate maturities, which Mr. Nichols said is something to continue to consider moving more funds into with interest rates where they are. The plan is also underweight in high yield bonds. Mr. Pataksa asked Mr. Nichols to explain why the return on the IPS has not hit the benchmark in the last 5 years. Mr. Nichols explained that being underweight in US Large Cap has had a negative impact on the plan in 2023, which wasn't the case in 2022. The strategy that the plan is in is lower volatility, which protected the downside but created lag in the upside. Being more cash flow and bond oriented has protected the portfolio, but has given up opportunity cost with stocks increasing in 2023. He continued, if they had not allocated more to bonds over the last year the pension portfolio would have made more since stocks did better. Mr. Pataska also asked why the plan is overweight in Emerging Markets with it underperforming and should we reallocate funds from Emerging Markets. Mr. Nichols explained that there is a disconnect between commodities being at all-time highs but Emerging Markets are not, when Emerging Markets consist of commodity driven economies. Another disconnect Morgan Stanley is seeing is with the Magnificent 7 being up significantly when the materials used for their products come from emerging market economies, but emerging markets are not seeing those benefits. Mr. Nichols continued that 36% of the portfolio is in US stocks and 23% of the portfolio is in international and Emerging Markets. Morgan Stanley's advice is to leave the allocation with Emerging Markets as in at this time. He added that for the next meeting they will do additional research for Emerging Markets and their possibility for returns. Mr. Tracey questioned the US Large Cap, with the narrow rally of the Magnificent 7 does it makes sense to anticipate a rotation into value. Mr. Nichols said yes and that they've allocated more towards Aristotle for this reason.

Ms. Lilly then reviewed the 401a & 457b DC Plan quarterly reports. The 401a had a beginning balance of $1,315,970.33 as of 10/1/23 and an ending balance of $1,570,514.29 as of 12/31/23. The 457b had a beginning balance of $3,853,792.58 as of 10/1/23 and an ending balance of $4,213,426.56 as of 12/31/23. Ms. Lilly continued, the 401a has 64 participants with 100% participation, and an average contribution of 5% among participants. The 457b has 100 eligible participants with 80 contributing, for a participation rate of 80% and an average contribution of 4.56% among participants. She then went over the asset allocation with 41.73% of assets in Target Date Funds, which is based on where participants are choosing to allocate their funds based on their life cycle. The Fixed Rate account has an allocation of 15.73% which make sense with the current rate environment. And the Large Cap account holds 21.62% of the asset allocation.

Ms. Lilly went over the more detailed reports from their partners, Greystone Reporting and said they would like to bring in their partners to introduce themselves at a future meeting. She discussed the Morningstar Style Boxes which shows a breakdown of strategies for Large, Mid, and Small Cap allocations. Mr. Pataska said he prefers to receive just the summary from of the Greystone reports and isn't sure he would want the partners to come in for a meeting, as to not cross the line of the board recommending options to participants. Ms. Palladino added that they are required to have at least an annual review with the fiduciary and that they need to make sure the allocation is robust enough to meet any of the needs of the participants who invest in the DC plan. Mr. Nichols said Morgan Stanley has to have the information provided for their compliance department, which is why the quarterly reviews are so in depth. He clarified that the report isn't about recommending allocations, it's about fulfilling the fiduciary duties of Morgan Stanley and the Pension Board. Mr. Nichols then referenced the Morningstar Ratings by Funds which are mostly in 3-to-5-star funds and the Morningstar Ratings by Assets are mostly in 5-star funds. This shows they are choosing the right funds to offer based on the participant needs. He then went over the Funds on Watch Status report, which shows different funds they are keeping an eye on for possible replacement and why they would want to replace them. One they are thinking about replacing is Western Asset Core Plus Bond Fund, which has $54,000 in it. The 3- and 5-year Peer Group Rank for this fund is very low and they will look into a higher ranked bond fund that can be offered. Ms. Lilly then clarified that Greystone Consulting solely provides the analytics for the funds that are being offered to the eligible participants, Morgan Stanely will then make the decision to replace an underperforming fund and present that information to the board.

Plan Administrator's Report

Ms. Palladino reported that Becky Seilman will be attending the March meeting and will be going over the actuary numbers in detail. Ms. Palladino shared the ADC holds $844,000 for this fiscal year. The baseline for next year is $758,000. She added that with Carl's negotiations the employees will pay a higher contribution, which brings the baseline to $753,000. Factors that effected this number are employees retiring and turnover at the Police Department, as well as investments contributing at a lower rate. For the Fire Department, the analysis went from $175,000 to $194,000 based on the cost-of-living adjustment.

Old Business

No old business

New Business

Mr. Fortuna reported that this is Mr. Sparrows last meeting.

Mr. Pataska made a **motion** to adjourn seconded by Mr. Tracey, all were in favor and the meeting adjourned at 9:41 a.m.

Respectfully submitted,

Andrea Brundrett, Recording Secretary

The next meeting will be Thursday, February 22, 2024, at 8:30 a.m. by hybrid meeting format in the Town Hall, first-floor conference room.