Town of Simsbury

933 HOPMEADOW STREET SIMSBURY, CONNECTICUT 06070

Retirement Plan Sub-Committee
Regular Meeting Minutes

Tuesday, February 7, 2023 at 8:00 a.m.
Via Zoom video conference

I. Call to Order

The meeting was called to order at 8:01 a.m. by Derek Peterson. Sub-Committee members Sean Askham, Tom Potter, Bert Helfand, Todd Burrick were present. Melissa Appleby, Deputy Town Manager, was present from Town staff. Chris Kachmar and Tyler Polk were present for Fiducient Advisors. Others in attendance included Board of Finance member Lisa Heavner.

II. Review of Minutes

a) December 5, 2022

The minutes of December 5, 2022 were approved as presented by consensus.

III. Pensions Plans & OPEB Trust Fourth Quarter 2022 Performance Reviews and Fiduciary Governance Update

Mr. Kachmar stated that the totality of 2022 was difficult for capital markets as previously discussed centered on the fed rate hike campaign and the potential effects that might have on the broader economy. There was a measure of relief in the Fourth Quarter, year to date things have been pretty constructive for both equities and fixed income. They did run the pension portfolios through the asset allocation framework with the benefit of their new capital market assumptions which will be discussed later. Asset class returns were discussed, the fourth quarter numbers are positive returns across almost the entirety of the investing spectrum. International developed equities by a long measure were the best performers in the fourth quarter up over 17% and outpacing everything.

2023 big picture themes were discussed including persistent volatility, moderating inflation and bear market bottom. Inflation is falling but still above the long-standing targets that the Fed has. 2023 allocation updates were discussed. In fixed income, there was drawdown of the dynamic bond and a little uptick in core U.S. bonds. Not wholesale changes in global equities but a little bit of a press from the system and model outcomes to small and midcap in the U.S. One thing that makes them resist making wholesale changes to allocations is that the downdraft was so uniform last year in the capital markets, it doesn't seem like an opportune time due to volatility to make wholesale changes to asset allocation and portfolio. The 2023-2042 Twenty Year Outlook was discussed, most notably the fixed income returns have gone up fair dramatically year over year. Mr. Kachmar stated that their recommendation to the Committee would be to just stay the course on the high level mix they have currently as highlighted in the target weights and let markets settle in. On the Frontier Analysis, he stated that structure that the Town has in place is optimal from a risk return perspective. Eight percent is the expected return on a go forward basis over the 20-year forecast period. He also stated that the Milliman return assumptions are higher compared to the Town's year over year although it is probably not a time in the cycle right now to make wholesale changes to allocations.

Allocations in place today align within range and there are no issues from an allocation perspective. From a return standpoint, it was a challenging year but there is a measure of recovery certainly on an absolute sense for the plans in the fourth quarter up about in line with the broad markets. The portfolios all had nice stabilizing return quarters, up six and a half percent. Although, the numbers for January were not provided, equities were up north of eight percent and bonds up three percent in the month of January alone. There are no recommendations on allocations at this time. Blackrock strategic income opportunities was elevated to discuss. One of the lead portfolio managers on that strategy is retiring, the research team is spending time with the Blackrock complex on this transition.

On the OPEB trust, the portfolio is running over the long haul in line with broad markets. Mr. Kachmar stated that their intention is to maybe begin, now that they are at 20 million dollars of invested assets, to fold in some active management where they think there is better incremental return opportunity. This would be in areas such as fixed income and maybe small cap in the U.S. or perhaps they could look at a mixing and matching but keep tethered to a meaningful amount of indexing to control costs. Ms. Heavner stated that she doesn't disagree on international and the fixed assets makes sense. Manager Performance was discussed. Mr. Kachmar stated that you don't see a manger that outperforms all the time. Over the benefit of time and the entirety of a return cycle, the manager can be up to task and generate some extra return for the higher fees they are paying. He stated there are meaningful amounts in indexing in the program with Vanguard Institutional index for over 20% of the portfolios. He also stated he believes there's a place for both indexing and active investment programs.

IV. Defined Contribution Plans Fourth Quarter 2022 Performance Reviews and Fiduciary Governance Update

Mr. Polk stated that this quarter for the define contribution space (with respect to the governance aspect) is a practice and policy focused quarter. He stated the Secure 2.0 Act passed in mid-December, which includes 92 provisions that do impact the define contribution space. The first mandatory provision is required minimum distributions which is effective as of 12/31/22. The RMD beginning as will expand to age 73 and to age 75 in 2033. The penalty for not withdrawing the full amount of an EMD will decrease from 50% to 25% with a further reduction to 10% for taxpayers who correct the error in a timely manner. The next mandatory provision is Roth Catch-Up Contributions will is effective after 12/31/23. Increase in Catch-Up Contributions is effective after 12/31/24, which allows ages 60-63 to make additional catch-up contributions. The mandatory Long-Term Part-Time Workers provision is effective after 12/31/24, which reduces the years of service required for part-time workers to become eligible to contribute from 3 years to 2 years. The optional provisions were discussed being;

Student Loan Matching Contributions, Rothification of Employer Matching, Emergency Savings Account and Withdrawals for Emergency Expenses. The Department of Labor's Final Rule (11/22/22) on ESG and Proxy Voting was discussed. Mr. Polk stated that the defined contribution space is getting targeted with litigation and the recent U.S. Supreme Court class action lawsuit was discussed along with the plan sponsor takeaways. The balances on the Asset Allocations were discussed, stating they are down from that high at the early part of the year up to about 13 points from the third quarter. There is still a big portion in the plus fund which is the protection of principal fund, the next highest is the SP 500. The T. Rowe Price Retirement funds (still run by Wyatt Lee) over the past 24 months or so they had an increase in equity exposure in their glide paths. Longer term over the 3-, 5- and 10-year, T. Rowe price funds continue to be the top decile performing fund. Mr. Polk stated they do have all the funds on maintain.

V. Adjourn

Mr. Peterson made a motion to adjourn the meeting at 8:59 a.m. Mr. Askham seconded the motion, and it passed unanimously.

Respectfully submitted,
Heather Taylor
Committee Clerk