

A regular meeting of the Pension Committee was held on Thursday, May 12, 2022, at 9:00 a.m. in the Administration Conference Room at Town Hall, 500 Poplar View Parkway.

The following members were present: Preston Carpenter, Charles Taylor, Valesa Wells and Stan Joyner.

Staff present was James Lewellen, Cindy Greer, Shanda Ford, Kristie Diamond and Town Clerk Lynn Carmack.

Also present was Pension Attorney Elizabeth Friary, and Susan Fletcher and Ryan Miller of First Horizon Bank.

Approval of Minutes

Motion by Mr. Carpenter, seconded by Mayor Joyner, to approve the minutes of the February 10, 2022, meeting.

ROLL CALL: Carpenter – yes, Taylor – yes, Wells – yes, Joyner – yes. Motion approved.

Review of the Quarterly Investment Performance of the Collierville Defined Benefit Pension Plan by Financial Advisors - First Horizon Bank (Ryan Miller and Susan Fletcher)

FIVE FACTOR FRAMEWORK: this was created by CIO, Jerry Laurain and gives a brief snapshot of what has been going on as of 03/31/22.

Economic Growth – In January, the weekly leading indicators were flashing green, so that was positive. In February, it turned red briefly and then indicators went back to positive again in March and it went back to green.

Market Trend – This trend takes the 12-month moving average of the S&P 500.

In January, it was still doing well and above its average. In February, there was a big pull back and it went below its 12-month moving average; in March, it went back above its 12-month moving average again, and is flashing green.

Monetary Conditions – Have been red for awhile now because the Fed had been indicating that they would be raising interest rates to fight inflation and also shrinking their balance sheet. No change there, still flashing red.

Investor Sentiment – These have been flashing red for an extended period of time because of the level of greed there. When the market started pulling back in February and March, it turned to yellow (not so greedy).

Valuations – This takes a look at what the S&P 500 PE ratio is. This has been red for a long time.

ECONOMIC FORECAST: This is the Economic Forecast put out every 2 to 4 months by Chief Economist, Chris Low. Chris distributed this updated forecast on May 6, 2022.

GDP Growth: This is the growth of the U.S. economy. The economy is basically slowing. Chris is projecting that the year will end roughly flat to slightly down overall. He sees it picking back up next year.

Unemployment Rate: Currently, unemployment is at a 50-year low. It should remain in that low range of 3.6% to 4.6% over the next 2 years.

Core PCE (personal consumption expenditures): This is the Fed's preferred measurement of inflation.

Core PCE should be peaking sometime soon. The consumer price index numbers that came out May 11 were at 8.3%; expectation had been 8.1%.

Chris is forecasting that we will see peaking in the next couple of months and then watch it go down; Q4 is at 4.7% and the end of 2023 is 2.3%.

Federal Funds Rate: This year started out in the zero to 25 basis point range. Because of a couple of hikes, it is at 75 basis points now. Chris is thinking that by the year end 2022, it will be around 2.75%. Chris is projecting that the Fed funds rate will stay at 2.75% through Q1 and then start going down in the subsequent quarters thereafter and ending the year around 2%.

Recession Risk: Chris is pegging recession at 50% probability for the next 12 months and 65% for the next 24 months.

CALLAN PERIODIC TABLE OF INVESTMENT RETURNS: explains the monthly returns over the past 12 months for the various sub asset classes. Emphasizes the importance of diversification within an investment portfolio.

Nothing is consistently the best or consistently the worst; which, is why it is important to have a diversified investment portfolio.

IPS GUIDELINES & CAPITAL MARKET ASSUMPTIONS: this displays allocation targets, the acceptable ranges of variance from those targets and the expected rates of return as of 03/31/22.

Total fixed income shows the expected 10-year return has gone from 0.49% to 0.73%.

Total equity and real estate show the expected annualized rate of return has gone from 3.38% to 3.66%.

Overall, the total expected return went from 3.87% to 4.40%.

MARKET VALUE AND PERFORMANCE (as of 03/31/22): this is the performance of the Plan.

January and February were both negative months. March was a fairly positive month, but overall, it is still down for the quarter, down -5.59%.

Mr. Miller pointed out that during 3Q, it was not just equities that were down. With interest rates going up and the bond markets pulling back considerably, fixed income was down -4.66% and equities were down -6.35%.

The FYTD was -2.59%; 1 year was 1.76%; 3 year was 9.59%; 5 year. is 8.42; 10 year. is 7.83; and since inception (14 years, 9 months) is 6.61%. This beats the blended benchmark at 3 year, 5 year, 10 year, and since inception.

It was a negative start to the year, but still outperforming and still positive.

ASSET ALLOCATION: this page details the dollar and percentage amount of each asset class and sub asset class as of 03/31/22.

The target is 60% equity and 40% fixed income.

Mr. Miller stated the fixed income allocation was 25 basis points higher than the target.

HOLDINGS AND PERFORMANCE: helps detail the performance of the individual underlying holdings in the portfolio as of 03/31/2022.

Fixed Income Funds:

The 10-year treasury has been on the rise. In the first 3 months of the year, it went up about 55%. That had a negative impact on the valuation of these bonds. As a result, all of the bonds were negative in 3Q.

Mr. Miller noted that any bond that was shorter duration, that would be maturing sooner, fared better than those that matured farther out. Anything that matures farther out is more negatively impacted when interest rates go up.

Corporate Bonds:

Mr. Miller said it is a similar situation here; all negative in 3Q. Those maturing sooner fared better than those that mature farther out.

Taxable Muni Bonds:

All were negative in Q3 except for one positive.

Certificates of Deposit:

These were all negative except for one. Just like with bonds, the interest rates rising affected their valuations.

Common Stock Funds:

Mr. Miller said there was a big pull back in everything; the S&P was down -4.6%; large caps, mid caps, small caps, all pulled back.

The 3 worst portfolio performers for the quarter were Home Depot (down -27.4%), NXP Semiconductors (down -18.35%) and Gilead Sciences (down -17.12%).

The 3 best portfolio performers were Unum Group (up 29.62%), McKesson (up 23.34%) and AbbVie (up 20.87%).

Mr. Miller said that changes were made to the individual stock lineup during the quarter:

Sold: Truist, Perrigo, Illinois Tool Works, Energy Select SPDR ETF, Valero Energy, Fiserv, Ecolab, Comcast, Disney, AT&T, Amerisource Bergen, Ameriprise Financial, Best Buy, and Biogen.

Purchased: Verizon, Accenture, Chubb, Baker Hughes, Omnicom Group, Regeneron Pharmaceuticals, Johnson & Johnson, Masco Corp, Merck, Citigroup, Eastman Chemical, Exxon, Meta Platforms, and Advance Auto Parts.

Ms. Fletcher added that the portfolio is better positioned for the contraction phase of the market cycle than previously.

Domestic Equity Funds:

Mr. Miller said the trend continues. In Q3, six of the eight equity funds were negative for the quarter.

International Equity Funds:

Mr. Miller said this is both the emerging as well as the more established. He pointed out that the more established, ClearBridge and JHancock, were worse than the T Rowe Emerging Markets fund in the first quarter. That is not the case now.

Goldman Sachs money market fund is making 2 basis points. It keeps going up.

HISTORICAL SUMMARY: this shows the historical summary of the entire Pension Plan as of 03/31/2022.

Ms. Fletcher said the cumulative balance account shows a total of \$101,363,025.

Ms. Fletcher stated that the cash management portion of the account, at the end of the quarter, shows \$502,784. Benefits are paid on the first of the month, so quite a bit of that was eaten up by benefits on the first of the month.

Ms. Fletcher said the investment account shows, as of 03/31/2022, a total of \$100,860,241.

Ms. Fletcher gave recent numbers. April was down -5.14%; May was down -2.88% and FYTD was down -10.27%.

Brief discussion ensued regarding interest rates and recession risks.

Other Business

Mr. Lewellen advised that because of labor shortages, the Town asked Pension Attorney, Frank Carney, to put together a resolution to amend the Pension Plan. Currently, once you retire from the Town, you cannot come back to work for the Town without freezing your pension benefits.

The last few years, the Town has lost a lot of its institutional knowledge to people who have retired (such as water and utility operations). These employees have said they would be glad to come and help out on a part time basis.

This resolution amends the Pension Plan to say that retirees can work a maximum of 30 hours a week. After 30 hours you qualify for benefits. But, as long as you do not qualify for benefits, you can work for the Town on a part time basis and it would not affect the Town retirement benefits.

Mr. Carney drafted the resolution to say that if the employee exceeds the number of hours (30) that qualifies them for benefits, their pension would automatically be frozen.

Mr. Lewellen stated, for example, that it is hard to get licensed utility operators. The proposed amendment would allow the Town to bring back some former employees to drive for the Town on a short-term basis.

Mr. Lewellen added that the Town is looking to hire retired police officers for court two days a week. Instead of pulling a commissioned police officer off the street, part time retired police officers could work the two days a week in court. So, the purpose of proposed resolution is to allow the Town to hire back retirees without changing their retirement.

Brief discussion ensued.

Motion by Mr. Taylor, seconded by Mr. Carpenter, to approve passage of Resolution 2022-18, a resolution to amend the Town of Collierville Defined Benefit Pension Plan as amended and restated July 1, 2015.

ROLL CALL: Carpenter – yes, Taylor – yes, Wells – yes, Joyner – yes. Motion approved.

Mayor Joyner pointed out that there is a vacancy on the Pension Committee, since Jay Jeffries retired. He suggested having someone from HR to fill this vacancy.

Mr. Lewellen asked Shanda Ford if she would be willing to serve.

Ms. Ford said that she would until a new HR Director is onboard.

Motion by Mayor Joyner, seconded by Mr. Carpenter, to appoint Shanda Ford as a member of the Pension Committee.

**The Board recognized Shanda Ford as replacing Jay Jeffries, as the staff attending the meeting and assisting the Committee.

ROLL CALL: Carpenter – yes, Taylor – yes, Wells – yes, Joyner – yes. Motion approved.

Adjournment

There being no further business, the meeting was declared adjourned at 9:50 a.m.


Chairman


Town Clerk