

A regular meeting of the Pension Committee was held on Thursday, February 9, 2023, 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, Bill Burke, Valesa Wells and Stan Joyner.

Staff present was Molly Mehner, Shanda Ford, Kristie Diamond and Lynn Carmack.

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

### **Town Administrator's Designee of Membership**

Ms. Mehner advised that Bill Burke will be the Town Administrator's duly designated representative, to serve on the Pension and OPEB Committee.

### **Approval of Minutes**

Motion by Ms. Wells, seconded by Mr. Carpenter, to approve the minutes of the November 10 2022, meeting.

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

### **Election of Chairman and Vice Chairman**

Mayor Joyner nominated Bill Burke as Chairman and Preston Carpenter as Vice Chairman of the Pension and OPEB Committee.

Motion by Mr. Taylor, seconded by Ms. Wells, that Bill Burke will serve as Chairman and Preston Carpenter will serve as Vice Chairman.

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

### **Adoption of Resolution Approving Authorized Signatories for the Defined Benefit Pension Plan**

The Pension Committee includes persons who are authorized to initiate and execute certain transactions on behalf of the Plan. From time to time, the members of the committee may change and require updates to authorized signatories.

With the retirements of James Lewellen, Jay Jeffries, and Mark Krock, new members have been added to the Pension Committee. Those members, specifically Molly Mehner, William Burke, and Valesa Wells, are being added as authorized signatories on behalf of the Pension Committee.

Motion by Ms. Wells, seconded by Mr. Carpenter, to approve updates to authorized signatories for the Town of Collierville Defined Benefit Pension Plan.

ROLL CALL: Carpenter – yes, Taylor – yes, Burke – 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 is put out quarterly by Chief Investment Officer, Jerry Laurain, as of 12/31/22.

*Economic Growth* – has been a slowing economy indication and it will continue this year. As a result, it has been red since May through December.

*Market Trend* – looks at how the S&P 500 has performed in any given month relative to the previous 12-month average. Because 2022 was such a bad year, this went red after March all the way through December.

*Monetary Conditions* – is what the Fed and government are doing with making monetary conditions more favorable or less favorable. The Fed raised rates considerably this past year, starting out with zero interest rate policy and increasing rates all the way up to 4.5%. That tightening made things less favorable and is why it has flashed red the entire year.

*Investor Sentiment* – is a factor that had been red for a long time because of a 10-year bull market. When investor sentiment is greedy, that is a negative and that is why it would typically be red. A transition early last year and in the middle of the year, from being greedy to being cautious to being downright scared. The market bottomed in the middle of the year and that is why it switched to green. Then, purchasing picked back up, despite the fact that the market closed out down -18%. It closed out in a range of investors being cautious and slightly pessimistic, and that is why it is flashing yellow.

*Valuations* – is another factor that has been red for a very long time. As a result of people being risk on, PE ratios of the S&P 500 had been very high. The historical average is roughly 16%. The high was 32.95% in May 2021. The year 2022 closed out the year at 18.19%. This is still above the historical average of 16%. That is why this is yellow. Had it gone below 16%, it would have switched to green.

*Economic Forecast:* This is put out quarterly (as of January 31, 2023) by Chief Economist, Chris Low.

*GDP (gross domestic product)* – growth of the U.S. economy. The first 2 quarters were negative; the second 2 quarters were positive; and overall, for the year, Chris thinks that once the numbers are finalized, will be around 1.2% growth for the year.

For this year, speaking to the slowing economic outlook, Chris predicts two significantly down quarters. The second and third quarter, overall, are going to bring the year down to roughly -0.6%.

Lastly, 2024, he sees that as a positive year, again going to 1.4%.

*Unemployment Rate* – Q3 is 3.5%; Chris' projection was 3.6% and it came in a 3.5%. The last reading that just came out is 3.4%. He does see that picking up this year because of layoffs with the slowing economy. Chris predicts closing out 2023 around 5.0% and closing out 2024 around 4.9%.

*Core PCE (Personal Consumption Expenditures)* – is the preferred metric by the Fed of inflation. It strips out energy and food prices because they feel that is too volatile.

Mr. Ryan noted that most people like to talk about CPI because they think that energy and food prices are very relevant these days. CPI is 8.3% ending Q3; 7.1% was the projection for Q4 (came in at 6.5%); Chris is projecting a considerable movement downward in inflation ending 2023 at 3.9% CPI and in 2024, around 3.1%. Inflation has been going down considerably since June and that should continue as a result of the economy slowing and also the Fed continuing to raise rates.

*Federal funds rate* – went from zero to 4.5% in 2022. So far this year, at the one meeting on February 1, 2023, the Fed chose to raise rates by 25 basis points, so it is now at 4.75%. Chris' projection on January 13, 2023, is that Q1 will end at 5.25%. He was projecting a high of 6.00% for 2023. He is now thinking it may be more like 5.25% to 5.50%. The gist is fed funds rates are considerably higher than they have been in a long time and will remain high until the first quarter of 2024, where they will start cutting rates and then continue to do so through the end of next year.

*Recession Risk* – Chris' projection for a recession over the next 12 months is 70% and 75% over the next 24 months.

Mr. Ryan said the economy is slowing, the unemployment rate is going up, inflation is still too high (but it is going down), and Fed rates are probably going to go up a little more and stay put through the end of this year.

Callan Periodic Table of Investment Returns – show how different styles perform month to month or year to year and how the investment strategy is to have a diversified portfolio and not put all of your eggs into one basket.

*IPS Guidelines & Capital Market Assumptions as of 12/31/22:*

This has not changed since the committee last met. The projection for the fixed income portion at 40% of the portfolio is 73 basis points (roughly three-quarters of a percent) annualized rate of return over the next 10+ years.

Equities piece, with 60% equity exposure, is 3.66%. Collectively, the projection is an annualized rate of return of 4.40%.

*Market Value & Performance as of 12/31/22:*

October and November were both very good months, returning 4.52% and 5.30% each; December was down -2.95%; 2Q is up 6.82%; FYTD is 1.45%; 1 year is -13.74%; 3-year, 5 year and 10 year, all positive and since inception (15 years, 6 months) returning 5.66%. The 3-year, 5 year, 10 year and since inception, are all beating the blended benchmarks.

Ms. Fletcher gave more recent numbers (through February 8): January is up 4.82%, February is -0.04%, bringing the QTD to 4.78% and FYTD to 6.3%.

Upon a question from Mr. Taylor, Ms. Fletcher advised that the total balance, as of February 8, is \$97,135,822.

*Asset Allocation as of 12/31/22:*

This looks at the different sub asset class targets and the variance. On the fixed income portion (targeting 40% fixed income), and, based upon what the committee wanted to do at the last meeting, was to step down the intermediate bond exposure and step up the short-term bond exposure. The percentage portion of 21.81% for short term and the target is 16.00%, is a variance of 5.81% from the exact target.

The equities piece (60%) has a variance (-0.04), after the rebalancing at the end of the quarter and everything is very close to target.

*Holdings & Performance as of 12/31/22:*

Fixed income funds – with the exception of one, these are corporate bond focused. All the returns in Q2 are positive, ranging from 0.94% to 3.53%. During the quarter, there was a tightening of credit spreads, which means that the difference in yield between a government (treasury) bond and a corporate bond has the same maturity. The spread between them contracted and when you see spreads contract, that is a signal that the expectation of market conditions is less risky. The corporate bonds did a bit better than treasuries as a result. Intermediate term bonds did better than short term.

Corporate bonds – are very similar to the funds themselves, they all had a good quarter. Not a single one was negative. There is one taxable Muni bond that was positive as well.

Certificates of Deposit – there are 5 of them and they are similar to bonds. CDs did considerably better, ranging from a half-percent to three-quarters of a percent positive for the quarter.

*Common Stock* – there are quite a few of them in the portfolio. This is part of the First Horizon Advisors large cap core portfolios. For the quarter, it was up 12.64% and its bogey is the S&P 500, which is positive as well (7.56%). Good outperformance there.

For the calendar year, it is still negative (-10.25%), but it was again beating the S&P 500.

The worst performers for the quarter were: Alphabet (-8.03%), Apple (-6.410%) and Advance Auto Parts (-5.11%)

The best performers for the quarter were: Gilead (40.35%), Oracle (34.14%) and Omnicom (30.18%).

The worst performers for the year were: Alphabet (-39.00%), eBay (-36.00%) and Capital One (-35.00%)

The best performers for the year were: Unum (73.00%) McKesson (52.00%) and Merck (45.00%).

Mr. Miller advised there were a few changes made. He explained that an equity research team makes the investment decisions on this portfolio, and they determined that it was appropriate to sell out of a few stocks and buy some replacements.

For the quarter, those removed are ManpowerGroup Inc., Cognizant Technology Solutions Corp, Eastman Chemical Company, Meta Platforms Inc., Walgreens Boots Alliance Inc., Baker Hughes Co. and Intel Corp. and T. Rowe Price Emerging Markets Stock I.

Those added are Adobe Inc, Campbell Soup Company, Chevron Corporation, Electronic Arts Inc, Fortinet Inc, Lockheed Martin Corp, and Sherwin-Williams Co.

*Domestic Equity Funds* – it was a great quarter for the stock markets, and that is why you see Q2 up, with the exception of one, which is the Vanguard Growth Index (down 15 basis points).

The best for the quarter was large value (12.4%) and the worst was large growth (2.2%). The best for the year was large value (-7.6%) and the worst was large growth (-29.00%).

*International Equity Funds (international and developed)* – the 2 funds were up 15.39% and 12.33% respectively. Overall, for the year, they were still down about -14.00% but international and developed were still better than domestic equities, which was down -18.00%.

Mr. Ryan pointed out other changes in the portfolio. Late in the year, the investment committee decided to no longer have exposure to emerging markets. The risk return has not been there, and the value proposition has not paid off, so the committee ended up getting out of that and redistributing it across the other styles in the equity portfolio.

The money market is building roughly 4.00% these days. That was the only thing that was up last year (1.50%).

Ms. Fletcher referred to the line for cash in the report, which is unusual. She said the situation there was that there were some trades that were done over the end of the year, where it was traded in 2022 but settled in 2023. This report is done on a trade date basis, so it appears that there is cash, but from an actual cash basis, those were trades that settled in 2023.

*Historical Summary as of 12/31/22:*

Ms. Fletcher said that this looks at the cash flow of the account as a whole. This is a consolidated report of what occurred during the plan for the quarter.

Contributions came in, there were distributions for the quarter, which includes the periodic payments, as well as any lump sums, shows the net of just over half a million.

The other disbursements would cover expenses, trustee fees, attorney fees, actuary fees, and audit fees.

The gain in the portfolio for the quarter is \$5,829,285; as of the end of the year, the plan is sitting at \$93,321,560. It is a nice increase from the prior quarter of over \$6 million dollars.

The cash management account receives all of the contributions, makes all of the disbursements, pays all of the expenses. As there are excess funds available in the cash management, it is moved to the investment account on a quarterly basis. At this point, the funding continues to move from the cash management to the investment account, which is a good thing.

The contributions and distributions hit this account (\$5,829,285); \$200,000 was moved to the investment account at the end of the year for Mr. Ryan to allocate among the investments. There was a gain of \$6,631 (money market interest) so that is a nice positive.

At the end of the quarter, money market value was \$619,540. That is right before a cycle of payments on the first of January.

Ms. Fletcher repeated more recent numbers as of last night (2/8): QTD the amount of the investment gain is \$4,433,803; market value is \$97,135,822; January gain is 4.82%; February is down -.04%; QTD is 4.78% and FYTD is 6.3%.

*Expense Summary as of 12/31/22:*

Expenses paid are \$57,697 (includes investment management and custody, market value fee and brokerage/SEC fees).

Other expenses (actuarial, benefit payment fees and legal fees) are \$31,961. The total for the quarter is \$89,658.

The weighted expense ratio is 8 basis points for the quarter and 16 basis points for FYTD. The other expenses paid are 4 basis points, for a total of 20 basis points. Expenses are in line as they been for the year.

*Update concerning the acquisition of First Horizon by TD Bank:*

Ms. Fletcher advised they are still hoping for an approval to happen by mid-April or so. There is a mandatory 15 day waiting period after that. She said any changes that would impact

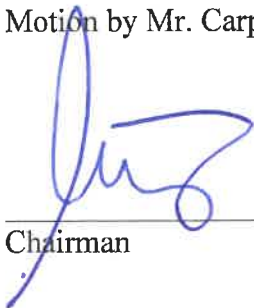
administration of the plan will be communicated, but they are expecting a seamless transition at this point.

Mr. Ryan said they are excited and ready for it to happen.

Ms. Fletcher said at the next meeting, they could be TD Bank at that point.

**Adjournment**

Motion by Mr. Carpenter, seconded by Ms. Wells, to adjourn the Pension Committee.



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Chairman



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Town Clerk