

A regular meeting of the Pension Committee was held on Thursday, May 11, 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 and Stan Joyner. Absent was Valesa Wells.

Staff present was Molly Mehner, Shanda Ford, Kristie Diamond and 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. Taylor, seconded by Mr. Carpenter, to approve the minutes of the February 9, 2023, meeting.

ROLL CALL: Carpenter – yes, Taylor – yes, Burke – 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)

Mr. Miller discussed the Five Factor Framework, stating that Economic Growth has been red for awhile due to the leading economic index continuing its' decline.

Market Trend looks at how the S&P 500 ends a month and then compares it to the previous 12-month moving average. It was red last year for quite a while as the market went down. In January, the market was up, February was down and in March it was up. The market beat its 12-month moving average for two out of the three months, so the indicator switched to green in March.

Monetary Conditions have remained tight as the Fed has continued to raise rates. Last year ended at 4.5%, after starting from zero in March and going upward. There were two rate increases in the first quarter of this year, 25 basis points each. The Fed funds rate is now 5.00% and that continued tightening kept this signal red.

Investor Sentiment has seen investor optimism and confidence increase in the first quarter of the year. That increased risk taking is why it switched from yellow to red.

Valuations look at the P/E ratio and the S&P 500. It has been red for quite awhile as valuations seemed a bit too high. This switched to yellow throughout last year as the market went down. It has remained yellow for the first quarter of this year, mainly because while the PE ratios go down relative to the historical numbers, they are still not below the historical number of 16.

Next, Mr. Miller touched on highlights of the Economic Forecast, as of January 13, 2023.

GDP (gross domestic product) indicating growth of the U.S. economy. In 2023, the expectation is that we are going to see a slight contraction of the economy, overall, for this year (-0.6%).

The unemployment rate was roughly 3.5% to 3.6% at year end. The expectation of Chris Lowe is that this will hit about 5.0% by the end of this year. There have already been layoffs in the tech space, in the manufacturing space and the investment banking space. He thinks that will continue.

CPI (consumer price index) inflation in the economy ended 2022 at 6.5% and has been moving downward. The expectation is that this year will end around 3.9%. The Fed is looking for this to be 2.0%

The Federal funds rate ended Q4 at 4.50%. Chris had projected Q1 would be 5.25%. The idea is that there will be one or two increases of 25 basis points each. There is also the possibility that the Fed will hold from here, with no more cuts or rate increases. The gist is that likely Fed funds will remain fairly high through the end of this year.

Chris is projecting considerable cuts next year (in 2024), ending the year around 3.50%.

The Callan Periodic Table of Investment Returns covers the FYTD, starting in July 2022 through March 2023. The top best performer over those 9 months has been developed equity (excluding the U.S.) at 13.97%. The worst performer was real estate, down -4.79%.

Next, Mr. Miller moved on to IPS Guidelines & Capital Market Assumptions, as of 03/31/23.

The fixed income for 2022 was 72 basis points projected annualized rate of return for 40% fixed income over 10 years. For 2023, it is 1.57%. That is an increase of 85 basis points, which is very significant.

In 2022, the assumption for equity was 3.66% and in 2023 it is 4.25%, an increase of 59 basis points. The total annualized rate of return that is assumed for the next 10 years is 5.82% versus 4.38%, an increase of 1.44%.

Mr. Miller pointed out that the 10-year annualized rate of return for this portfolio has been 6.35%.

Market Value & Performance, as of 03/31/23:

Two out of the three months were very good for the quarter. January was up 4.82%; February was down -2.18%; March was up 1.79%; 3Q was 4.38%; FYTD was 5.89%; 1 year was -4.64%; 3 year is 9.59%; 5 year is 5.61%; 10 year is 6.35%; and since inception (15 years, 9 months) is 5.85%. The last 5-year, 10-year and since inception periods, have beat the blended benchmark.

For FYTD, fixed income contributed about 89 basis points, but it was the equities that contributed 9.24%. The money market chipped in 2.51%.

Asset Allocation, as of 03/31/23:

This looks at how the portfolio is aligned with the target weightings. This is rebalanced quarterly. It is in line with the 60/40 allocation. Everything is well within range and in good shape.

Upon a question from Mr. Taylor, Mr. Miller answered that he is comfortable keeping the short-term bond and intermediate-term bond evenly split.

Holdings & Performance, as of 03/31/23:

Ms. Fletcher advised that a new column has been added to the report showing the change in positions (removed and added) that have been made in 3Q.

Mr. Miller stated that all six of the funds in the Fixed Income Funds were positive for the quarter. Investor expectations of further rate increases dwindled. As a result of that, yields went down, values of bonds went up and that helped contribute to positive returns for all of those.

Mr. Miller said that Vanguard Short-term Inflation Protected Fund was removed from the fixed income funds.

In total, there are twenty-three Corporate Bonds and one Taxable Muni Bond. Twenty of the twenty-three were positive for the quarter.

Certificates of Deposit were all positive for the quarter as well.

The Common Stock portion has roughly 50 to 52 stocks at any given time. The overall performance of this portfolio was up 5.03% during the quarter.

The worst positions were Advance Auto Parts (-20.84%), MetLife (-19.37%), and Allstate (-17.72).

The best positions were Fortinet (36.23%), Apple (27.41%), and Alphabet (17.57%).

The following position changes were removed in Common Stock: Advance Auto Parts, Citigroup Inc., eBay Inc., Northrop Grumman Corp, Sherwin-Williams Co., and Tyson Foods Inc.

The following position changes were added in Common Stock: Akami Technologies Inc., Bank of New York Mellon Corp., McDonalds Corp., Microsoft Corp., Proctor & Gamble Co., Starbucks Corp., Synopsys Inc., and Waste Management Inc.

Mr. Miller pointed out that the position changes were made at the end of the quarter during rebalancing.

In the Domestic Equity Funds, all but one fund was positive for the quarter. Vanguard High Dividend Yield was down -1.79%.

The best and worst styles overall for domestic equities is large growth (14.4%).

The worst performer and the only negative performer overall for sub asset classes was small value down 70 basis points.

The worst sectors for the quarter were financials (-5.3%), energy (-4.9%) and healthcare (-3.5%).

The best sectors were information technology (21%), communication services (17.9%) and consumer discretionary (15.6%).

In the International Equity Funds, ClearBridge (10.41%) and JHancock (7.22%) were both up.

Ms. Fletcher gave a more recent performance for this portfolio: April was up 0.81%; May was up 0.67% and FYTD is 6.03%.

Historical and Expense Summary, as of 03/31/23:

Ms. Fletcher stated that the market value of the Pension Plan is at \$97,588,734 and is a nice increase from the last quarter end.

The cash management portion of the account tends to stay stable depending on cash flows, etc.

The usual contributions came in and disbursements continue to be in line. Market Value finished the end of the quarter at \$623,446.

Regarding expenses, every quarter is roughly the same except for some actuarial expenses, but again, continue to be in line.

The average expense ratio in mutual funds comes in at 8 basis points, other fees are 6 basis points, with a total of 7 basis points. For the quarter, it is 15 basis points and for the FYTD 46 basis points.

There were no questions or comments.

Renewal of Contract with First Horizon National Corporation (Presentation by: Bill Burke, Director of Human Resources)

The purpose of this agenda item is to approve a contract for financial advisor and trust administration services for the Town of Collierville Defined Benefit Pension Plan with First Horizon National Corporation.

As trustee, First Horizon keeps a record of all assets in the Pension and OPEB accounts, collects all dividends and interest income, makes cash distributions to retired employees and others, and sends appropriate tax forms to retired employees on an annual basis. As financial advisor, First Horizon assists the Pension/OPEB Committee in adhering to adopted investment policies and provides quarterly reports of investment returns and updates to the Pension/OPEB Committee.

The contract does not specify a contract duration period but states the agreement may be terminated at any time by either party with a 30 day advance written notice. However, the Town has elected to formally renew these contracts on an annual basis.

The fee to provide both financial advisory and trust administration services is based on a percentage of total investment value of the Pension portfolio and will not change. The Pension portfolio value as of March 31, 2023 was \$97,405,707 and the fees paid through Q3 (July 2022 – March 2023) were \$182,903. The fees are paid directly from the Pension account after staff reconciliation and approval.

Motion by Mr. Taylor, seconded by Mayor Joyner, to recommend renewal of the Professional Services Agreement for financial advisory and trust administration Services for the Town of Collierville's Defined Benefit Pension Plan with First Horizon National Corporation to the Board of Mayor and Aldermen.

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

Actuarial Services (Defined Benefit Pension Plan) Contract Renewal with Ellis & Ward Consulting Group, Inc. (Presentation by: Bill Burke, Director of Human Resources)

The purpose of this agenda item is to approve the renewal of a one-year contract for actuarial services with Ellis & Ward Consulting Group, Inc., for the Town of Collierville's Defined Benefit Pension Plan.

Ellis & Ward Consulting Group, Inc. has provided actuarial services for the Town of Collierville Pension Plan since 2012. They have consistently performed these services timely and provided additional support when requested.

The professional services provided by Ellis & Ward Consulting Group, Inc. includes annual actuarial valuations of the plan, providing GASB calculations, and providing annual employee (active) benefit statements. The proposed term is from July 1, 2023 through December 31, 2023.


Mr. Ellis has provided timely and satisfactory actuarial services for the Town's Defined Benefit Pension Plan throughout the current contract period. The Town plans to issue a Request for Statement of Qualifications ("RFSOQ") from qualified service providers for actuarial services moving forward.

Motion by Mr. Carpenter, seconded by Mayor Joyner, to recommend the renewal of a professional services contract (July 1, 2023 – December 31, 2023) for actuary services for the Town of Collierville Defined Benefit Pension Plan with Ellis & Ward Consulting Group, Inc. to the Board of Mayor and Aldermen.


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

Adjournment

There being no further business, the meeting was declared adjourned at 9:30 a.m.



Chairman



Town Clerk