

A regular meeting of the Pension Committee was held on Thursday, February 8, 2024, at 8:56 a.m. in the Administration Conference Room at Town Hall, 500 Poplar View Parkway.

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

Staff present were Cornita Patrick, Shanda Ford, and Kristie Diamond.

Also present were Pension Attorney Frank Carney, Susan Fletcher, and Ryan Miller of First Horizon Bank. Lawrence Watts and Danielle Winegardner of Nyhart joined the meeting virtually.

Approval of Minutes

Motion by Mr. Taylor, seconded by Mr. Carpenter, to approve the meeting minutes on November 9, 2023.

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

Citizen's Comments

There were no citizen's comments.

Election of Chairman and Vice Chairman

Mr. Burke stated that the current Chairman and Vice-Chairman were himself and Mr. Carpenter and asked if the board would like to make any new nominations or nominate those current members.

Motion by Mayor Joyner, seconded by Ms. Wells, to approve Mr. Burke as Chairman and Mr. Carpenter as Vice Chairman.

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

Contract Approval with Nyhart for Actuarial Services on the Defined Benefit Pension Plan

Ms. Wells gave a brief introduction to explain that the actuary for the Town's Pension and OPEB Plan had retired from Ellis Ward, bringing the Town to a point to replace Ellis and Ward. She stated that Nyhart had submitted a proposal to the Town for those services.

Ms. Wells turned the meeting over to Mr. Watts from Nyhart, who briefly summarized his expertise in governmental services and the services provided by Nyhart. He stated that Nyhart launched as a small family company, grew to a regional presence, and now operates nationwide. Mr. Watts explained the recent alignment with Ascensus, LLC. at the end of 2019, which

provided a more corporate structure, allowing an Information Technology (IT) infrastructure and a legal presence.

Mr. Watts reviewed the proposed contract terms and an example benefit statement with the committee. Mr. Watts thanked the committee for their time and asked if there were any questions.

Mayor Joyner asked Mr. Watts to give the committee an update on the IT security and safeguards that would be put in place to protect the Town from a data breach. Mr. Watts stated that Nyhart had high-level corporate IT security, plus a secure data portal for clients to transmit. He further assured Mayor Joyner that Nyhart had never been part of a data breach.

Ms. Wells stated that the board reports showed the fee schedule of a three-year proposed contract of thirty-nine (39) months. The Ellis and Ward contract would expire at the end of March 2024, and the new contract with Nyhart would begin April 1, 2024, and go through June 30, 2025, having three twelve (12) month renewals.

Mr. Ellis had comments about the excellent pricing structure and the quality of the contract.

Ms. Wells explained how the services were obtained from Nyhart. She stated there are few options for these services, and Nyhart already had the contract for the OPEB Plan, which was approved a year ago. Mr. Wells said they also provided services for the Health Trust for the Town.

Motioned by Mr. Ellis, seconded by Mr. Carpenter, to recommend approval of a thirty-nine (39) month professional services contract beginning April 1, 2024, for actuary services for the Town of Collierville's Defined Benefit Pension Plan with Nyhart to the Board of Mayor and Aldermen (BMA).

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

Ms. Wells stated there will be a transition review from Nyhart once the contract is signed and after the BMA approval on February 12, 2024. Then, there is a thirty-day (30) contract placement and transition. Ms. Wells noted that an update would be made before the next pension meeting in May.

Approval of Revision to the Town Defined Benefit Pension Plan Funding Policy

Ms. Wells explained that when the plan was first established in 2015, a clause stated that it would be calculated using the frozen initial liability actuarial cost method. As the plan and participants changed, so did the approach to that calculation. Ms. Wells stated that the State reviewed the Town, and the 2015 language was still reflected in the policy. The policy needed to be updated to reflect the actual entry age normal actuarial cost method.

Mr. Ellis explained that the entry-age normal actuarial cost method meant a little more conservative and a more standard cost method.

Mr. Carney explained that the Pension committee must first adopt the policy, then approved by the governing body (the BMA), and then sent to the Comptroller's office for approval. He stated that the Comptroller's office sends a letter approving the process, which is the final stage.

A brief discussion ensued on the formula and percentage used by the State to fund the plan.

Motioned by Mr. Ellis, seconded by Mr. Taylor, to recommend approval of Resolution 2024-05 to amend the Funding Policy for the Town of Collierville, Tennessee Defined Benefit Pension Plan by the Board of Mayor and Aldermen.

ROLL CALL: Carpenter – yes, Ellis – yes, Burke – yes, Taylor – yes, Wells – yes, Mayor 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 started with the Five Factor Framework, stating there was not too much change; three of the five factors remained the same in the quarter.

Economic Growth stated the same, continuing to show red, because the weekly leading indicators continue to show a slowing economy.

Market Trend looks at the S&P 500 and how it compares to its 12-month moving average. It was green for several months, then in October, it changed to yellow due to the market dropping 10% two months of the year just shy of 16%.

Monetary Conditions remained the same and red due to restrictive monetary policies. The last time we saw the Fed do anything with rates was on July 26, and then it held steady after that.

Investor Sentiment remains cautiously optimistic due to the less aggressive Fed, which is why it remains yellow through the quarter.

Valuations look at the price, earnings ratios, and embedded sales expectations. This went down due to the market pulling back and starting to back up again, moving along the five- and ten-year moving averages for the PE ratios of the S&P 500.

Mr. Miller pointed out that Chief Investment Officer Jerry Laurain had announced his retirement, and his replacement would be Tracy Bell with the First Horizon Equity Strategy Team.

Economic Forecast (as of January 5, 2024)

GDP growth – Chris Low, First Horizon Chief Economist, predicted an overall growth rate of 2.5% for 2024 and 2.6% for 2025.

Unemployment rate – Chris’ projection for 2024 is 3.9% for 2024 and picks up in 2025, ending the year at 4.1% under 5%, which is considered full employment by the Fed.

Core PCE (Personal Consumption Expenditures) – the Fed's preferred metric for inflation because it strips out energy and food prices that tend to be more volatile. The Fed’s target is to hit 2%. Chris is projecting 2.0% in 2024 and 2.4% in 2025.

CPI (Consumer Price Index) – headline inflation heard more about in the news. Chris is projecting 2.7% in 2024 and 3.3% in 2025.

Federal funds rate – have been at 5.50% since July of 2023. Once Core PCE hits below 2%, the Fed would be comfortable with cutting rates. Chris is projecting three more cuts ending in 2025 at 4.00%

Recession risk – Chris is projecting a 20% probability of recession over the next 12 months and a 40% probability over the next 24 months.

Callan Periodic Table of Investment Returns – gives you an idea of how different investment styles have performed from July 1, 2023, to June 30, 2024, and the importance of diversification. For fiscal YTD, the best performer was Real Estate at 8.54%, and the worst performer was U.S. Fixed Income at 3.37%.

IPS Guideline & Capital Market Assumptions (as of 12/31/23)

Mr. Miller said there have been no changes since the last meeting in November. The overall expectation is a 60/40 allocation like this portfolio to annualize at 5.81% over a ten plus year period.

Market Value & Performance (as of 12/31/23)

Total Fund – October was down -1.93%; November was up 6.57%; December was up 3.90%; Q2 was up 8.58%; FYTD was 5.61% all net of fees; 5 years is 8.37%; 10 years is 6.26%; and Inception (16 years) is 6.11%.

Ms. Fletcher gave updated numbers through February 7, 2024; January was up 0.54%; February MTD was 1.06%; QTD to 1.61%; and FYTD to 7.31%.

Asset Allocation (as of 12/31/2023)

Mr. Miller said this is the breakdown in allocations of the portfolio relative to targets, and it is rebalanced at the end of each quarter. He stated it is very close to the target, only off by 11 basis points.

Mr. Miller pointed out the Variance column for Fixed Income with the Short-Term Bond at 5.65 over the target and the Intermediate-Term Bond down at -5.57. This is a result of an Intermediate-Term Bond Fund in the portfolio being sold. The Director of Investment Research is looking for an appropriate replacement, so the Ultra Short Bond Fund is a temporary placeholder.

Mr. Miller stated that a year ago, the Intermediate-Term Bond was at 55%, and the Short-Term Bonds were at 45%, and it could be flipped now or wait until the next meeting in May.

A brief discussion ensued on whether or not to change the Bond percentages.

It was decided to hold steady and keep an eye on the over weigh to short term income and if something changed Mr. Miller would contact the board with suggestions.

Holdings & Performance (as of 12/31/23)

Fixed Income Funds – watched inflation go down, helping the stock and bond market during the quarter. This helped the Feds signal the end of further rate hikes and the potential for cut rates in 2024. Yields dropped considerably. The two-year treasury dropped 15.7 and the ten-year 15.2. The aggregate index was up 6.82% for the quarter and the YTD to 5.3%. In the Q2, everything was positive. The Fidelity Conservative Income Bond is the placeholder talked about in the Asset Allocations, and The Western Asset Core Plus Bond fund is being removed.

Corporate Bonds – all had positive results. Everything was up, ranging from 1.53% to as high as 7.53% returns for those individual bonds.

The last individual bond is the Taxable Muni Bond, which was up as well over 2.6%.

Certificates of Deposit – all three were up, ranging from 8 basis points to 1.86 basis points.

Mr. Miller stated that YTD, the best performers for the sector, were high-yield corporate bonds, up 13.4%, and Treasury Inflation-Protected Services (TIPS), up 3.9%, which was the worst. Corporate Investment Grade Bonds were the best performers during the quarter, up 8.5%, and Cash was the worst at 1.4% but still up.

Common Stock – Overall up 10.32% and YTD up 19.06%

Mr. Miller noted that iShares US Real Estate ETF shares were sold out and added those shares to American Tower Corp.

The worst performers were Exxon, down 14%; Chevron, down 10%; and Unum Group, down 7.3%.

The best performers were American Tower Corp, up 33.3%, Target, up 30%, and Allstate Corp, up 26%.

Domestic Equity Funds – all funds were up Large-Cap, Mid-Cap, and Growth and Value.

The winner for the quarter was Small-Cap Value, up 15.26%. The loser was Large-Cap Value, up 9.5%. YTD Large-Cap Growth was the overall winner, up 42.7%. The lowest performer was Large-Cap Value up 11.46%.

Mr. Miller noted that Growth outperformed Value by 31%.

The worst performers for the quarter were consumer staples (up 5.5%), health care (up 6.4%), and utilities (up 8.6%).

The best performers for the quarter were real estate (up 19%), tech (up 18%), and financials (up 14%).

The YTD losers were utilities (down 7%), consumer staples (down 1%), and energy down half a percent. The winners were tech (up 56%), communication services (up over 53%), and consumer discretionary (up just shy of 40%) – these three lead the sector so far and continue to be leading for positive performance. The S&P is up 4.7%.

International Equity Funds

In Q2, ClearBridge International was over 11%, and Hartford International was up just shy of 8.4%.

Cash was up 1.32% for the quarter.

Ms. Fletcher pointed out in the change column a few of the fund conversions. She stated the advisor group reached out to the fund company and reached an agreement to move to a different share class that had a lower expense ratio by a few basis points.

Historical Summary and Expense Summary (12/31/23)

Ms. Fletcher stated that at the end of the quarter, contributions were around \$1.4 million, distributions net total was about \$468,000, and other disbursements were \$95,000. She stated the investment gains for the quarter were \$8,371,467. The total market value was \$106,781,292, bringing the portfolio back up to over \$100 million.

The cash management account had a money market gain of over \$10,000 and finished the quarter with \$933,270. The funds were moved out due to pension payments at the beginning of the month, and the contributions came in just after the end of December for additional funds.

Recent numbers through 02/07/24 – January was 0.54%; Feb MTD was 1.06%; QTD was 1.61%; and FYTD was 7.31%.

Expense Summary (as of 12/31/23)

The Mutual Fund Weighted Expenses dropped by 1 basis point. The other expenses are in line with where they have been before. The YTD expenses are 15 basis points and 32 basis points for six months of the year. The expenses are holding well.


Mr. Ellis asked how often the ten-year projections are updated. Mr. Miller and Ms. Fletcher responded every year and should be available by the May meeting.

Ms. Fletcher stated in terms of dollars, with the 7.31% YTD, the total was \$107,614,612 as of 2/07/2024.

Adjournment

Motion by Mr. Taylor, seconded by Mr. Carpenter, to adjourn the meeting at 9:57 a.m.

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


Chairman


Town Clerk