

A regular meeting of the Pension Committee was held on Thursday, May 9, 2024, at 8:57 a.m. in the Administration Conference Room at Town Hall, 500 Poplar View Parkway.

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

Staff present were Shanda Ford and Kristie Diamond.

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

Approval of Minutes

Motion by Mayor Joyner, seconded by Ms. Wells, to approve the meeting minutes on February 8, 2024.

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

Citizen Comments

There were no citizen comments.

Renewal of Contract with First Horizon National Corporation

Ms. Wells stated the contract with First Horizon was standard, with no contract term. She explained the Pension Committee annually reviewed the contract to ensure the products and services provided were satisfactory. Then, the contract would be presented to the Board of Mayor and Alderman for final approval.

Motioned by Mr. Carpenter, 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, Burke – yes, Wells – yes, Mayor Joyner – yes.
Motion approved.

Ms. Fletcher and Mr. Miller thanked the committee for their continued support of First Horizon.

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 much change from last quarter.

Economic Growth based on the growth rate of weekly indicators was positive. These indicators improved during the quarter, changing from red to yellow and remaining yellow throughout March.

Market Trend the S&P 500 returned more than 10.5% in the first quarter of the calendar year and remained green.

Monetary Conditions remained the same and red due to the Fed's continuing tight monetary policies.

Investor Sentiment market psychology changed from yellow to red due to the market taking off and the environmental risk. Therefore, being more cautious and switched to red.

Valuations look at the S&P 500's PE ratios relative to its five and ten-year averages, which remain the same. The PE ratios were above the historical averages but lower than expected in the past summer and, therefore, remained yellow.

Economic Forecast (as of April 5, 2024)

GDP growth - Chris Low, First Horizon Chief Economist, predicted an overall growth rate of 3.1% for 2024, 3.1% for 2024 and 2.7% for 2025. These were above trend returns relative to the ten-year average before COVID-19, which was 2.3%.

Unemployment Rate - was just below 4% at the end of Q2 and remains low with an ending year projection of 4.1% and staying low through the end of next year at 4.2%. Anything under 5% is considered full employment by the Feds.

CPI (Consumer Price Index) remains in the low 3% range. There have been no dramatic spikes after the last three CPI releases, keeping it in the 3.2% to 3.3% range.

Federal funds rate - the question remains when the Fed will cut and by how much. The market is factoring in two cuts and is likely to see zero to two cuts for this year and one cut within the fourth quarter, which is to be determined by the CPI number coming in on the 15th, which will be highly watched. As of April 5th, Chris is forecasting two cuts this year and two more next year, but overall, not going down more than 1%.

Ms. Fletcher explained after the Fed meeting, Chris Low pointed out some things happening in the economy that are hard to track and not reflected in the statistics. One is buy now and pay later scenarios, which are not reported to consumer credit agencies for necessary items like groceries. The other is immigration and its effect on the labor statistics.

Recession risk - Chris has lowered the probability since the last release, with a 15% probability of recession over the next 12 months and a 30% 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 Large Cap Equity at 19.44%, and the worst was Global Ex-U.S. Fixed Income at 1.49%.

IPS Guideline & Capital Market Assumptions (as of 03/31/24)

Mr. Miller stated Fixed Income assumptions had increased and Equities had decreased. The overall expectation for the investment portfolio is an overall return of 1.71% for the fixed, up from 1.56%, with an overall increase of 15 basis points. The equity sub-asset classes have lower expectations, with an overall weighted portfolio decrease from 4.25% to 4.06%, a drop of 19 basis points overall, and a net four basis points decrease of 5.81% to 5.77% over the next ten years.

Mr. Miller pointed out having more exposure to Short-Term Fixed-Income holdings over-weighted Short-Term Fixed Income while the rates have been higher. He stated changing at some point from operating under more traditional Intermediate Fixed Income to Short-Term Fixed Income would make the expectations higher with a net no change.

Market Value & Performance (as of 03/31/24)

Total Fund - was excellent in the quarter, with positive results for all three months (January, February, and March). The Q3 return was 5.35% net of fees; FYTD was 11.25%, 5 years was 7.51%, 10 years was 6.58%, and Inception (16 years, 9 months) was 6.35%.

Ms. Fletcher gave updated numbers through May 8, 2024: April came in at -2.93%; May MTD was 2.02%; QTD was -0.97%; and FYTD was 10.17%.

Mr. Miller stated so far for the quarter, the S&P, through the end of business yesterday, was down 1.28% from the pullback during April and May. He stated the YTD performance for the S&P was 8.66%, and bonds are based on the Bloomberg Aggregate Bond Index, which was down 44 basis points, making the YTD through the end of business yesterday -1.95%.

Asset Allocation (as of 03/31/24)

Mr. Miller said this is the breakdown of the portfolio's allocations relative to targets and is rebalanced at the end of each quarter. He stated there was a slight uptick in the S&P and stock market after the rebalancing, which explained the increased exposure of 15 basis points to equities, which is very common and well within range.

Mr. Miller pointed out a variance in Fixed Income of a little over 5% between Short-Term Bonds and Intermediate-Term Bonds due to the removal of the Western Core Fund Bond and its replacement with the placeholder Fidelity Conservative Bond Fund with an ultra-short duration. He stated there is no replacement at this time, and it may not be replaced, which will result in reshuffling the percentages of the current funds.

Holdings & Performance (as of 03/31/24)

Fixed Income Funds - three of the five were positive in the third quarter. The two negatives were the two Intermediate-Term Bond funds. This portfolio was still positive, considering the bond market was down 78 basis points overall.

Corporate Bonds – 17 out of the 18 were positive for the quarter.

Taxable Muni Bond - was flat, slightly down for the quarter.

Certificates of Deposit – both were up for the quarter at 1.20% and 1.16%.

Mr. Miller stated the Bond Funds, Corporate Bonds, Municipal Bonds, and CDs were all up 61 basis points overall compared to the aggregate index's 78 basis points.

Common Stock – overall, this portfolio was up 7.49% for the quarter.

Mr. Miller noted the changes which included adding Amazon, Broadcom, Inc., Costco Wholesale Corporation, Meta Platforms Inc., and TJX Companies Inc. and removing Campbell Soup Company, Omnicom Group Inc., Oracle Corporation, and Target Corp.

The best performers were Allstate Corp, up a little over 24%; Target, up 22%; and Merck & Co. Inc., up 21.5%.

The worst performers were Adobe Inc., down 15.4%; Apple Inc., down 10.8%; and Gilead Sciences Inc., down 8.63%.

Domestic Equity Funds—all funds were positive in the third quarter, with returns ranging from 6.12% to 10.91%. All funds were up double digits for FYTD.

The best performers were Large-Cap Growth, which was the overall winner, up 11.41%. The worst performer was Small-Cap Value, still positive up 2.9%.

International Equity Funds

Developed Equities funds did well, not as well as the U.S. funds, but still had a good quarter. MSCI, Inc. was up 4.93% for the quarter. Clearbridge International Growth IS was up just shy of 8%, and Hartford Value was up about 4.31%.

Money Market Fund returned 1.3% for the quarter, bringing the FYTD to 3.97%.

Historical Summary and Expense Summary (03/31/24)

Ms. Fletcher stated the cumulative market value at the end of the quarter was \$112,616,969 million. The cash management account had net contributions of \$224,131, and \$400,000 was moved to the investment account, leaving the quarter balance at \$690,963.

She stated on the investment account, the \$400,000 came back in and is included in for a healthy investment gain of \$5,677,984, bringing the total to \$111,926,006 with the quarterly return at 5.35% and FYTD at 11.25%

Recent numbers through May 8, 2024 – April was down 2.93%; May MTD was 2.02%; QTD was -0.97%; and FYTD was 10.17%. Investment gain in dollars was \$1,084,231, bringing the grand total to \$110,841,775.

Expense Summary (as of 03/31/24)

Ms. Fletcher stated the Mutual Fund expense ratio was eight (8) basis points for the quarter and 25 basis points FYTD. Trustee fees had six (6) basis points, and the other expenses were nominal, totaling seven (7) basis points, bringing the total to 21 basis points. Then, combining the 21 with the 25 basis points for three quarters, 46 basis points.

Ms. Fletcher noted the Morning Star Mutal Fund sheet was available if any board members would like a copy.


Mr. Miller asked if the board would like to remain overweight in the Short-Term Bond post-income or dial back to the original target of the Intermediate-Term Bond. Ms. Fletcher added this is in consideration of the fact rates will most likely be going down. Mr. Miller stated this was based on feeling comfortable that they would not see another rate increase.

The Board decided to hold as is for now and revisit this option at the next meeting in August.

Adjournment

Motion by Mr. Carpenter, seconded by Mayor Joyner, to adjourn the meeting at 9:31 a.m.

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


Chairman


Town Clerk