WARWICK RETIREMENT SYSTEM
WARWICK CITY HALL, 3275 POST ROAD
WARWICK, RI 02886

RETIREMENT BOARD MEETING

March 22, 2023

The Retirement Board Meeting of March 22, 2023, was held in person at the City of Warwick Lower Level Conference Room, 3275 Post Road, Warwick, RI.

MEMBERS PRESENT:

Peder Schaefer	August Cote	Neal DuPuis
Scott Lajoie	Steven Rotondo	Timothy Howe
Alfred Marciano		

MEMBERS NOT PRESENT:

Jeanne Muto-Kyle, Walter Hartley, Brian Dunckley, Joseph Cavanaugh

ALSO IN ATTENDANCE: Patricia Channell, Anthony Tranghese, Lynn Costa, Michael Ursillo.

1. **The meeting was called to order at 3:34 PM**.

2. **Minutes of the Previous Meeting 12/21/2022.**

Open minutes of the Retirement Board of December 21, 2022, were presented to the board for approval.

MOTION: Scott Lajoie

To approve the Retirement Board meeting minutes of September 21, 2022, after suggested edits were made.

Seconded by Peder Schaefer and approved unanimously by the Board Members present. Of note, Timothy Howe was not present for this vote.

3. **Closed Minutes from September 21, 2022**

Minutes of the closed meeting of the Retirement Board September 21, 2022, were presented to the board for approval.

MOTION: August Cote

To approve the Closed Meeting Minutes of the Retirement Board Meeting of September 21, 2022.

Seconded by Neal DuPuis and approved unanimously by the Board Members present with the exception of Timothy Howe, who was not present for the vote.

4. **<u>Presentation of Actuarial Valuation Report of the Warwick Municipal Employees Retirement Plan as of 7/1/2022, by Joe Newton of GRS</u>.**

Joe stated that they use 5 year smoothing in their calculations and the results of that show the plan has been quite stable from year to year. There are some remaining deferred losses as of today that will either have to be made up in the future in returns or would eventually make their way when contributions increase.

Otherwise, liabilities came in about 0.1% of expected. There were 317 active employees as of 7/1/2021, and as of 7/1/2022, there were 349 employees. That represents a 10% increase. We can expect the dollar amount of contributions to go up by more than the year before.

Last year's determination of City contributions was $8.07 million, and this year's (7/1/2022), was $8.53 million. About $100,000 of that was because of the investment performance and headcount change.

Joe went over the amortization policy and how they are paying off these unfunded liabilities. The remaining balance as of 7/1/2022, is $44.8 million. In 20 years, the fund will be fully funded.

The short-term projection, 5-6 years, assumes all assumptions are met, including earning 6.9% return from today's smoothed value of assets, by 2028, and the fund should be pretty close to 90% funded. Our unfunded liability will be about half of what it is now. After the fund gets to the point where the contributions drop, there is an opportunity to reassess as a Board and see if we are still comfortable with the 6.9%. That would be the time to really assess it and if any changes need to be made, they should be made then without it making a big impact.

Peder spoke of Joe's presentation at the City Council meeting on Monday night regarding the police, fire and municipal plans regarding the OPEB study. Peder is hopeful that they will come up with a long term funding plan for our post-employment health insurance liabilities for MUNI, police and fire.

Joe also indicated that it would be the recommendation of GRS that there would be no COLA this year for the municipal retirees.

5. **<u>Quarterly performance report</u>**.

Tony recommended some changes to the asset allocation. Tony said we are keeping the overall risk profile, but because the investment world has changed over the calendar year of 2022, there are some subtle tweaks that he feels make sense. He recommends changing a manager, Rothschild, a small-cap value manager.

In the past two weeks, Silicon Valley Bank filed for bankruptcy. Our direct exposure to any of the banks that filed for bankruptcy is very minimal. SVB is 0.05% of the S&P 500 index before the crisis. Indirect exposure, maybe a little bit more. Markets are much more volatile today; the FED raised rates 25 basis points during our meeting, which is what was expected. Tony thinks we are at or very close to the top of the rate hiking cycle.

Last year the leadership went away from big tech names, we saw rates increase, we saw big tech names sell off. With that, value stocks did well, the last 3 weeks the big tech names did really well.

For the past 5-6 years when the rates were low, there was no alternative to stocks – savings account were offering low interest, bond portfolios were not yielding much and the only place to invest was equity markets. Now the world is changing; rates jumped up, the 10 year treasury started last year at 1.5% and exceed 4% at one point during the year. Banks have to lend at a higher rate. Going forward, you can invest in fixed income. You can go to your bank and make a deposit and get 3-4% yield. Now there is an alternative and you have to think about that when you build your portfolio.

Inflation is expected to continue to moderate. Equity and bond markets have gone up over the last 30 days. In terms of asset allocation, they use modeling software and put assumptions in there. Assumptions are returns for broad asset classes, risk levels for broad asset classes and how those asset classes move together.

Tony recommends that we keep the risk profile the same but make some adjustments “under the hood” moving around some asset classes. The proposed portfolio keeps the fixed income target allocation the same, US equities goes up 0.5%, international equities goes down 0.5%. Under the hood, there are some more meaningful moves. In the fixed income, we are reducing Blackrock Strategic Income from 8 to 5% and redeploying that across some of the other pieces of the portfolio. The reason is last year we increased the Blackrock funding to 8% because rates were really low and they were expected to rise, and that worked out really well. Because things played out the way they did, they feel the right move is to move about 3% out of that and redeploying it to IR&M and to Loomis Sayles, which are longer duration and move away from Blackrock, which is short duration. Within equities, really subtle moves, moving slightly away from large cap and redeploying that to small cap, about 1.5 to 2% allocation and then within international just peeling off a little bit of international and moving up to US, 0.5%. The biggest move is within the duration exposure in the fixed income portfolio and a little bit of movement in down cap in small cap. It may not play out in this quarter or next quarter, but we think over the next few years, it will prove beneficial to the portfolio.

We are not advocating to increase the fixed income weight, despite what was said about the rates, but Tony feels this is something we should talk more about over the coming quarters and years.

Tony shared a surge report with information on a couple of managers. Rothschild is being acquired, and there will be substantial change to the portfolio management team, which leaves Tony uncomfortable. We do not know how they will structure their portfolio team, and Tony feels strongly that we should step away from them and replace them with another manager that is in that same asset class, small cap value. Al Marciano asked why Tony is so uncomfortable. He responded that it is a dramatic change to the team they know. Rothschild’s performance has been up and down over the past couple of years, after a pretty long period of strong performance. Once the transition occurs, some of the investors are not going to be retained. Tony feels that is something we should watch from the side lines.

The three small cap value managers, Hotchkis & Wiley, WCM and Shapiro are managers that they know well, they have done due diligence on them; Tony knows of other clients that use these managers. Hotchkis & Wiley and WCM are both California based; Shapiro is down in Atlanta. Three managers in the same asset class, but do things in very different ways. Hotckhis & Wiley are the most value oriented of the three and tends to down market path a little bit more, so they will have a bigger weight in the smaller space of small cap than the other two. Over time, Tony likes that a lot as a value add, especially as a match with the other 2 small cap managers, Westfield and Jennison.

Hotchkis & Wiley is the recommended fund, although all three are managers that they think very highly of. The other part that they like is their fees are dramatically lower than where we are today, 0.53 basis points, the most value oriented.

In the Return Standard deviation and Peer Group Comparisons, Hotchkis & Wiley, for the most part, are ahead of the Russell 2000 Value in Annual Returns, Calendar Year Returns and Volatility percentage.

The Market Cap Allocation – In comparing Hotchkis & Wiley Small Cap to Westfield small/mid cap and Jennison small cap managers, they all have different exposure – all three managers have different names, no overlapping. – Sector allocation - They have more in financials, than Jennison and Westfield. Jennison and Westfield have more in Healthcare than Hotchkis & Wiley. Hotchkis & Wiley have more in financials and less in technology, but more than Westfield. There are diversification benefits from a structure perspective. Hotchkis & Wiley is the proposal for the small cap manager.

Motion: Peder Schaefer

To accept Tony's recommendation and move the funds to Hotchkis & Wiley and also the reallocation of funds as described on page 15 of the quarterly report, as a small cap value replacement for Rothschild.

Seconded by and Scott Lajoie and approved unanimously by all board members present.

Tony went over the monthly update. The MUNI pension fund is up 3.6% quarter to date, benchmark is 3.2. In the fiscal year to date through February, the fund is up 5.6%. Tony feels we are on track to 6.9% return if it annualizes out. The fixed income so far this quarter and the fiscal year have out-performed the benchmark. Fixed income is up 0.9%, the index is up 0.3%. The fiscal YTD fixed income is down 1%, the index is down 2.5%. Within equities, our performance is right in line with the benchmark for the quarter thus far, 4.8 versus 4.9; Fiscal YTD 7.9 versus 7.8. T. Rowe Price large growth we would have hoped would have performed a bit better so far this fiscal year. They underperformed last year, but that was picked up by Westfield. Westfield has said that this is the kind of market they really do well in. Westfield so far this year QTD they are up 11.0, and the benchmark is 8.3, and for the FY about 4.5% of outperformance, 17.9 vs 13.2. The international mangers did pretty well, this quarter up 5.0, benchmark up 4.2, FY 8.1 vs 7.1. The inflation protection sleeve up 1 versus -1.6 QTD and for the FY up 9.3 vs 5.3. Across the board pretty strong performance out the collection of managers in exhibiting the diversification that we were hoping for. Fiscal YTD MUNI portfolio is up 5.5% and the benchmark is 4.9%.

6. **Retirement Applications**.

DATE OF RETIREMENT	RETIREE	YEARS OF SERVICE	TYPE OF PENSION	AMOUNT OF PENSION
1/1/2023	Russell King	5 years, 1 month (age 65)	Normal	$450.86

Motion: Scott Lajoie

To accept the retirement applications as submitted.

Seconded by Timothy Howe and approved unanimously by all board members present.

7. **Death benefits**.

There were three $8,000 Death Benefits paid out since the last Retirement Board Meeting of 9/20/2023. The total amount equaled **$24,000.**

8. **FIA Invoice (quarter ending 9/30/2022)**:

Retirement Board Meeting 12/21/2022			
PAID INVOICE:			
Fiducient Advisors			
Date	Invoice	Description	Amount
12/31/2022	96_12312022	Quarterly Invoice	$9,311.07

Motion: Scott Lajoie

To approve the FIA Invoice as presented.

Seconded by Peder Schaefer and approved unanimously by all board members present.

9. **Discussion of Pension Plan Administration**. This was for informational purposes only, and was deferred until the Retirement Board Meeting of June 21, 2023.

10. and 11: **Disability pension application and Boeing Litigation**.

We have 2 items on the agenda for the closed session. Could we have a motion to convene on both items at once and then go back into open session when concluded?

Motion: Neal Dupuis

To convene on both items during closed session.

Seconded by Timothy Howe and approved unanimously by all board members present.

Roll Call: August Cote – yes, Scott Lajoie – yes, Peder Schaefer – yes, Neal DuPuis – yes, Timothy Howe – yes, Alfred Marciano – yes, Steven Rotondo –yes.

Not present: Joseph Cavanaugh, Walter Hartley, Jeanne Muto-Kyle, Brian Dunckley.

That the Retirement Board Meeting of March 22, 2023, will go into closed session pursuant to the exception provision R.I.G.L. 42-46-5-(a)(1) of the Open Meetings Law regarding discussion of a disability pension.

The Retirement Board will remain in closed session pursuant to the exception provision R.I.G.L. 42-46-5-(a)(2) of the Open Meetings Law regarding discussion of litigation.

Motion: Peder Schaefer

To enter into closed session.

Seconded by August Cote and approved unanimously by all board members present.

Roll Call: August Cote – yes, Scott Lajoie – yes, Peder Schaefer – yes, Neal DuPuis – yes, Timothy Howe – yes, Alfred Marciano – yes, Steven Rotondo –yes.

REFER TO CLOSED SESSION MINUTES

Motion: Scott Lajoie

To seal the minutes of the closed session.

Seconded by Timothy Howe and approved unanimously by all board members present.

Roll call: Neal Dupuis – yes, August Cote – yes, Timothy Howe – yes, Scott Lajoie – yes, Alfred Marciano – yes, Steven Rotondo –yes, Peder Schaefer – yes.

During the closed session, a motion was approved to award a disability pension. The board approved the motion and sealed the minutes.

The Board remained in closed session for discussion of litigation. No vote was made; it was for informational purposes only.

Motion: Scott Lajoie

To adjourn the retirement board meeting of March 22, 2023.

Seconded by Steven Rotondo and approved and approved unanimously by all board members present.

Respectfully submitted,

Steven Rotondo
Secretary, Warwick Retirement Board