A regular meeting of the Pension Committee was held on Thursday, August 13, 2020 at 9:00 a.m. in the Administration Conference Room at Town Hall, 500 Poplar View Parkway.

The following members were present: Jay Jeffries, Mark Krock, Gregory Reichert and Stan Joyner. Absent was Preston Carpenter.

Staff present was Town Administrator James Lewellen, Shanda Ford and Town Clerk Lynn Carmack. Also present was Susan Fletcher and Ryan Miller of First Horizon Bank and Pension Attorney Frank Carney.

Because of the impact of the COVID-19 pandemic, First Horizon Bank financial advisors, Pension Attorney and Pension Committee member, Gregory Reichert, connected to the meeting via Skype.

Approval of Minutes

Motion by Mayor Joyner, seconded by Mr. Krock, to approve the minutes of the June 4, 2020 meeting.

ROLL CALL: Jeffries – yes, Krock – abstain, Reichert – 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 was created by CIO, Jerry Laurain and gives a brief snapshot of what has been going on as of 6/30/2020.

Economic Growth – Economic Growth experienced a significant downturn in March, and that economic pullback continued through the second quarter. As a result, this signal flashed red through the end of June.

Market Trend – The S&P500 Index closed out the months of May and June above its 12-month moving average, thanks to the strong market rally. This signal flashed green for those months.

Monetary Conditions – As a result of the Fed's loosening of credit, extensions of stimulus to consumers and businesses, and the vow to calm economic and market turmoil through needed asset purchases, this signal flashed green from March through the end of June.

Investor Sentiment – Given the change in investor appetite from greed to fear in late February and March, the signal switched to yellow and remained yellow through the end of June.

Valuations – Despite the decrease in equity appetite and the presence of fear, valuations (measured by the P/E ratio of the S&P500) remain high relative to the historical average. This signal has continued to flash red through the end of June.

ECONOMIC FORECAST: This is the Economic Forecast put out every 2 to 4 months by Chief Economist, Chris Low. Chris distributed this updated forecast on August 7.

GDP Growth: Chris is forecasting Q3 GDP growth to come in around 14.4% as the economy improves from people going back to work and retail stores and service providers seeing patrons return.

Chris sees that the economic improvement will continue during Q4, and he projects GDP growth to come in at approximately 3.1%.

Overall, Chris's projection is for GDP growth for 2020 to average out to -5.1%.

Chis believes the economy will be back on track to normalcy in 2021, with a projected GDP Growth of 3.4%.

Unemployment Rate: Chris is forecasting that the unemployment rate for Q3 will fall to 9.5%, as businesses reopen and people go back to work. This is a significant improvement from the record high of roughly 14.7% seen in April.

Chris sees the unemployment rate continuing to drop in every quarter going forward for the next 2 years.

Overall, Chris projects unemployment averaging out to 8.7% for 2020 and 7.2% for 2021.

Mayor Joyner asked if Chris is taking into consideration the status of the COVID-19 pandemic in these projections.

Mr. Miller stated that Chris is taking into consideration an improvement in the COVID situation going down, while at the same time, the economy continuing to reopen.

Core PCE (personal consumption expenditures): Chris sees inflation continuing to trend down to zero percent by the end of this year; this is a result of higher than average unemployment which causes lower consumer demand.

Chris sees inflation actually going slightly negative in Q1 of next year.

Overall, he is projecting that inflation will average out to less than 2% for the next 2 years. Chris feels that with the economy just coming out of recession, the Fed's ability to generate meaningful inflation lies 7-10 years in the future.

Federal Funds Rate: The Fed Funds Rate is still in the 0 to 25 basis point range. It is likely that the relatively high unemployment and lower consumer demand will keep interest rates at or near zero for at least the next two years and likely near the lower bound for the next 7+ years, as the economy gradually moves back towards full employment.

Recession Risk: Chris pegs the probability of a recession in the next 12 to 24 months at 60%. We are coming out of a recession now but there is still a chance of a double dip if the economy starts to weaken again.

CALLAN PERIODIC TABLE OF INVESTMENT RETURNS: explains the monthly returns over the past 12 months for the various sub asset classes. Emphasizes the importance of diversification within an investment portfolio.

No one or two sub asset classes consistently outperform the others all the time; therefore, it is important to have exposure to multiple. Diversification has also proven over time to reduce volatility within portfolios.

The leading sub asset classes for fiscal year to date ending 6/30/2020 were U.S. Fixed Income and Large Cap Equity. They were up 8.7% and 7.5% respectively.

The biggest laggards were Small Cap Equity, which was down 6.6% and Real Estate, which was down 16.26%.

IPS GUIDELINES & CAPITAL MARKET ASSUMPTIONS: this displays allocation targets, the acceptable ranges of variants from those targets and the expected rates of return.

This portfolio is targeting a 40% allocation to Fixed-income and a 60% allocation to Equities. The expected return assumptions have not changed since the last time the Committee met.

The return assumptions for Fixed-income and Equities are still 1.25% and 4.25% respectively, overall resulting in a total long-term return assumption of 5.5% for the entire portfolio.

These are long-term expectations with a 10 plus year time horizon.

MARKET VALUE AND PERFORMANCE (as of 6/30 2020):

The portfolio was up in April, May, and June (7.70%, 3.76%, and 1.84%, respectively).

Overall, for the fiscal quarter, the portfolio was up 13.80%.

For the past 12 months (which is fiscal year to date), the portfolio was up 4.86%.

The past 3 and 5 year time periods have annualized at 6.36% and 5.90%, respectively.

And since inception (going back 13 years), the portfolio has outperformed the blended benchmark, annualizing returns at 5.95% vs 4.87%.

Mr. Miller reported more recent performance numbers for the portfolio, stating that July was up 3.57%; August was up 1.96%; and the new fiscal year to date performance is 5.6%.

ASSET ALLOCATION: this page details the dollar and percentage amount of each asset class and sub asset class as of 6/30/2020.

Total cash and fixed income was approximately $32.39 million at the end of the quarter, which represented a 39.81% share of the portfolio with a variance of 19 basis points *under* target.

The equities portion totaled approximately $48.96 million, representing 60.19% of the portfolio. Again, that translated to a variance of 19 basis points *over* target.

Given the ranges of variance that the portfolio is allowed to fluctuate within, the overall allocation stayed well within its limits and very close to target.

The total portfolio balance at the end of June was just over $81.35 million. That is roughly a $10 million increase since the end of March.

HOLDINGS AND PERFORMANCE: helps detail the performance of the individual underlying holdings in the portfolio for the last three months and the fiscal year to date.

Taxable Fixed-Income Funds

Each of these funds experienced healthy returns during the quarter, with almost all returning mid-single-digit performance.

Overall, for the quarter, these funds were up 5.14% (leading the YTD return to 6.27%).

There were no changes to the fixed-income manager lineup during the quarter.

Corporate Bonds

All experienced positive returns for the quarter as well, with a combined return of 7.39% (leading the fiscal YTD return to 7.52%).

Taxable Munis. and CDs

They all did well for the quarter, enjoying positive returns.

Overall, the Munis were up 1.10%, and the CDs gained 2.83%.

For the Fiscal YTD, the Munis and CDs were up 4.40% and 7.48%, respectively.

Common Stocks

They experienced a strong quarter as well.

Overall, the 50 stock composite returned approximately 19% vs 20.54% for its relative benchmark (the S&P500).

46 of the 50 stocks enjoyed positive returns (most of which were double digits).

There were no changes to the common stock portfolio for the quarter.

The Top 3 Detractors

Biogen (down about 15% based on their postponement of a regulatory filing for their Alzheimer's drug).

Walgreens Boots (down over 6% after citing that Covid-19 had hurt sales).

L3 Harris Technologies (down about 5.4% on Covid-related slowdowns in the aerospace and defense arenas).

The Top 3 Contributors

eBay (up over 75% from consumers at home making online purchases).

BestBuy (up over 53% as they have cut costs and become more strategic to compete with Amazon. Consumers working and playing from home certainly helped them as well).

Baker Hughes (up over 48% as energy prices recovered from the historic first quarter lows).

Domestic Equity Managers

Much like the individual common stocks in the portfolio, they had an outstanding quarter, with returns ranging from 12.5% to over 30%.

For the quarter, small caps and midcaps outperformed large caps; but large caps still led for the year by over 6% vs midcaps and by over 10% vs small caps.

Of the various styles, only Large Cap Growth and Midcap Growth were positive for the year (9.81% and 4.16% respectively through end of June).

There were no changes made to the domestic equity fund lineup during the quarter.

International and Emerging Markets Equity

These funds had a very nice quarter too.

Looking at International Markets first, measured by the MSCI EAFE Index, they were collectively up over 15% for the quarter.

Looking at Emerging Markets, measured by the MSCI Emerging Markets Index, they were collectively up more than 18% for the quarter.

Two changes were made to the International Funds lineup during the quarter:

Sold MFS International Value Fund as well as the Invesco Oppenheimer International Growth Fund.

Replaced them with the Clearbridge International Growth Fund and the John Hancock International Growth Fund.

So far, the new funds have both performed meaningfully better than the funds they replaced.

HISTORICAL SUMMARY: this shows the historical summary of the entire Pension Plan

Ms. Fletcher said that as of 06/30/2020, the value was $81,689,931.

CASH MANAGEMENT ACCOUNT:

Ms. Fletcher said that distributions were slightly under the contribution amount that came in, resulting in a difference of about $150,000, which was moved over into the investment account.

The net transfer of $150,000 for investment, with investment gain of $9,863,947, bringing the portfolio back up $81,351,418, with a return of 13.80.

Ms. Fletcher stated that to quantify, in terms of dollars, the gain for YTD mentioned earlier by Mr. Miller, that as of the close of last night (8/12), the investment portfolio was valued at $85,906,094.

EXPENSE SUMMARY:

Ms. Fletcher said numbers are running consistently from quarter to quarter; for FYTD, the mutual fund related expenses are at 32 basis points within the funds; for the other expenses, 29 basis points; and for the year, the expenses are at 61 basis points.

Mr. Jeffries said it is encouraging and nice to hear, after the enormous loss last quarter.

There were no other questions or comments.

Adjournment

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

Chairman

Town Clerk