March 14, 2018

The Pension Committee met on Wednesday, March 14, 2018 in the Board Room, 625 St. Joseph Street, New Orleans, LA. The meeting convened at 9:00 A.M.

Present:
Director Joseph Peychaud, Chairman
Director Ralph Johnson
Ms. Chante` Powell
Director Poco Sloss
Director Lewis Stirling
Mr. Christopher Bergeron
Mr. Marvin Russell
Mr. John Wilson

Also in attendance: Mr. Octave Francis, III and Stephen Daste of FFC Capital Management; Mr. Mike Conefry of Conefry & Company; Ms. Janice Leaumont of Capital One; and the following Sewerage & Water Board staff - Ms. Marcie Edwards, Interim Executive Director; Ms. Sharon Judkins, Deputy Director – Administration; Ms. Sonji Skipper, Human Resources; Mr. James Thompson, Office of Special Counsel; and Dr. Tim Viezer, Chief Investment Officer.

ACTION ITEMS:

1. Letter to Retirees

EXECUTIVE SESSION:

2. Disability Application

PRESENTATION ITEMS:

3. Chief Investment Officer presentation
4. Conefry & Company actuarial presentation
5. FFC Capital Management presentation

Chairman Joseph Peychaud began the meeting by asking for a motion to move into executive session to consider a disability retirement application. Mr. John Wilson moved to enter into executive session and Mr. Marvin Russell seconded the motion. The motion carried and the Committee entered executive session. Upon re-entering the public meeting, Mr. James Thompson reminded the Committee that pursuant to R-140-2017, Trustees who joined the Board after December 1, 2017 were required to have five hours of training before they could vote on any item before the Board or Pension Committee. Dr. Tim Viezer later explained that this resolution was based upon law that applied to most other Louisiana public pension plans. The required training was covered in meetings with Mr. Thompson and Dr. Viezer and attendance in the actuary's presentations to the Pension Committee. Director Eileen Gleason had met those requirements and meetings were being scheduled with Directors Poco Sloss and Lewis Stirling. Chairman Peychaud called for a motion and Director Ralph Johnson made a motion to approve the matter discussed in executive session. Mr. John Wilson seconded and the motion carried.

Chairman Peychaud asked if the Committee had read and understood the update letter to retirees. This letter was carrying out a duty listed in the CFA Code of Conduct for Members of a Pension Scheme Governing Body to communicate. Directors Sloss and Sterling asked questions about the calculation of the cost of living adjustment reported in the letter. Hearing no other questions or comments, Chairman Peychaud requested and received a motion to recommend approval of the retiree update letter to the Board of Trustees. A second was offered and the motion carried.

Dr. Viezer focused on the action plan for the Pension Committee. He provided a context of the upcoming decisions and a "sketch" of a funding policy recommendation. Dr. Viezer noted that the Government Finance Officers Association best practice suggests that a 15-year, closed amortization should be adopted and that the actuary – Mr. Mike Conefry supported the idea. Dr. Viezer believed that this offered a "win-win" situation: accelerating the elimination of the unfunded liability, but similar to paying off a mortgage sooner would produce savings for the plan sponsor – the water utility. However, this proposal had to be placed in the context of the water utility's budget and stress tested to understand the probabilities and impacts of that decision. The asset-liability study will be the Committee's tool for investigating the impacts and probabilities of various funding and investment policies.

Mr. Conefry began his presentation by noting that the purpose of the actuarial valuation is to determine the level of contributions. He explained that the normal cost was the cost of benefits that accrued in the current year and the "catch-up" for benefits accrued but currently not covered by assets is the unfunded liability. Eliminating the unfunded liability is achieved by amortizing payments. Mr. Conefry presented two extreme amortizations: a 10-year closed amortization and a 30-year open amortization. In a 10-year closed amortization, at the end of the first year, there were only nine years of payments left. Under a 30-year open amortization, after the first year of payments, there would be still 30 years of payments left. Mr. Conefry presented a hypothetical example given a starting unfunded liability of $64.9 million with a base level of $5.0 million a year in contributions. The 10-year closed amortization would require paying an additional $3.9 million a year for ten years (for a total of $8.9 million) and at the end of 10 years the pension would be 100% funded. That would compare paying $5.0 million a year almost forever. At the end of 30 years, there would still be $47.0 million in unfunded liabilities. The "savings" of faster amortization over 30 years would be $61 million and the elimination of the unfunded liability rather than still having $47 million unfunded.

Mr. Sloss inquired about the calculation of the 7.0% interest rate in the example. Mr. Conefry answered it was a conservative estimate of the return earned by the current asset allocation. Ms. Marcie Edwards added that this "discount rate" had important impacts on cash flows and budgets. Mr. Stirling asked if there was a statutory amortization period. Mr. Conefry answered no. Dr. Viezer noted that the Government Finance Officers Association best practice was 10-20 years. Mr. Conefry added that the intuition of that period was the average future working years of existing workers and the average remaining life span of current retirees. Mr. Marvin Russell asked what happened to contributions once the unfunded liability was eliminated. The answer was that contributions would then only be for "normal cost" (current year accrued benefits).

Mr. Octave Francis reviewed the economy in 2017 and market returns across asset classes over recent time periods. He noted in particular that the style factor of value underperformed the growth factor in large cap stocks (13.66% versus 30.21%) last year. The pension fund underperformed its policy index by 111 bps in 2017 (11.65% versus 12.76%), but the fund has outperformed over the past 3-, 5-, 7-, and 10-year periods. The fund has outperformed by an annualized 36 bps over the past 15 years for which data was available and in 9 of those 15 years (a 60% batting average). The fixed income composite outperformed last year but the main contributor to the year's underperformance was the equity portfolio which earned 18.28% versus its benchmark of 22.14%. Mr. Francis also noted that the passive large cap growth fund underperformed by 48 bps in 2017, in part by the timing of cash balances in the account. He reviewed the asset allocation and noted that as of December 31, 2017 the fund was in compliance with the asset allocation policy.

Mr. Ralph Johnson noted that New South had underperformed by 513 bps in 2017 and over the longer term periods. He asked whether there were any steps that needed to be taken by this manager. Mr. Francis answered he was not recommending a call to action. New South was suffering due to its value style but has done well in the past. Dr. Viezer added that Mr. Johnson was entirely correct in noting the impact of New South's underperformance, but agreed with Mr. Francis. Dr. Viezer said he made a measured decision to focus on the strategic decisions of the asset-liability study and allow time for the value style to rebound. One outcome of the study would be a new asset allocation. When that decision was made later in the year, New South's role in the portfolio could be evaluated in the context of the investment philosophy, asset allocation, and Board's risk appetite.

Mr. Francis finally reviewed the fund's risk-adjusted performance and noted that over the past ten years, the ratio of return to risk was favorable but over the past 3-5 years, greater returns were earned by taking greater risk. That said, the fund captured 99% of the upside of the market but only 95% of the downside.

Chairman Peychaud also asked about the communication tasks he had requested. Dr. Viezer answered that in addition to the retiree letter and intranet page for the Employees' Retirement System, three "rank and file" meetings had been conducted at St. Joseph, Carrollton, and Central Yard. Dr. Viezer thanked Mr. Wilson for setting up the meetings which were attended by the employee and retiree Trustees and Director Eileen Gleason. Dr. Viezer also noted that Ms. Chante Powell and Mr. Wilson had written articles for the Pipeliner employee newsletter.

INFORMATION ITEMS:

Information item(s) 6 through 15 were received.

6. Government Finance Officers Association, "Best Practice: Core Elements of a Pension Funding Policy," 2013.
7. Government Finance Officers Association, "Best Practice: Sustainable Funding Practices of Defined Benefit Pension Plans," 2009.
8. Callan LLC, "Last Year Was Unusual, Not Last Week," 2018.
9. Conefry & Company, Analysis, March 2018.
10. Conefry & Company, "[S&WB ERS] 2017 Actuarial Valuation," May 24, 2017.
11. Conefry & Company, "[S&WB ERS] Historical Funded Ratios."
12. Conefry & Company, "Deferred Retirement Option Plan."
13. Conefry & Company, "[S&WB ERS] DROP/Retirement Eligibility Durations."
14. LAMP, "[S&WB ERS] DROP Summary Statement," December 31, 2017.
15. FFC Capital Management, "Quarterly Performance Report," December 31, 2017.

ADJOURNMENT:

There being no further business to come before the Pension Committee, the meeting adjourned at approximately 10:25 A.M.

Respectfully submitted,

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Joseph Peychaud, Vice Chair