STATE OF CONNECTICUT

STATE EMPLOYEES RETIREMENT COMMISSION

INVESTMENT SUBCOMMITTEE SPECIAL MEETING

JUNE 5, 2023 MEETING
HELD VIA ZOOM
CONVENED AT 9:36 a.m.

Present:

Peter Adomeit, Chairman
Michael Bailey, Trustee
David Krayeski, Trustee,
Karen Nolen, Trustee
Robert Helfand, Retirement Services Division
Tom Woodruff
Margaret (Peggy) Haering
Tim Grove
Vanessa Vargas Guijarro
Frank Picarelli
Joe Fein
Tony Camp
Don Evans
William O'Reilly
Michael McCann
Nicole Wagner
Agnes Gajowiak
Cindy Cieslak, Rose Kallor LLP

TRANSCRIPTIONIST: Karin A. Empson

(Proceedings commenced at 9:36 a.m.)

MR. GROVE: Good morning.

MS. CIESLAK: Good morning. Tim, can I get your last name?

MR. GROVE: Sure. It's Tim Grove, G-R-O-V-E.

MS. CIESLAK: Thank you.

MR. GROVE: And I'm with their Stable Value Group, Empower.

MR. PICARELLI: Good morning.

MS. CIESLAK: Good morning.

CHAIRMAN ADOMEIT: Good morning, everyone.

DR. WOODRUFF: Hello, Frank.

MR. PICARELLI: How are you? We met the challenge of the day.

MS. HAERING: Hello.

UNIDENTIFIED SPEAKER: Good morning.

UNIDENTIFIED SPEAKER: Good morning.

CHAIRMAN ADOMEIT: Good morning.

MR. PICARELLI: Good morning.

MS. CIESLAK: So there are a lot of people in the waiting room. I'm going to let them all in. And I will - Peter, I don't care if you want to do attendance or if Peggy wants to do attendance, or I can do my best to do attendance.

CHAIRMAN ADOMEIT: You want to try the attendance?

MS. HAERING: Yeah, hold on. So all right. I'm Peggy Haering. I'm the departing member of the team. I'll be leaving effective the end of this meeting.

So if – Tim, I didn't get your last name again. What was that?

MR. GROVE: Grove, G-R-O-V-E.

MS. HAERING: Okay. He's with Empower. We have Peter Adomeit, David Krayeski, Bert Helfand, Tom Woodruff, Vanessa Vargas from Segal, Frank Picarelli from Segal, Michael Bailey from UCONN, Joe Fein from Empower, Don Evans from Empower, Tony Camp from Voya, Michael McCann from Empower, Nicole Wagner from the Retirement Services Division, Agnes – I can't pronounce your last name.

MS. GAJOWIAK: Gajowiak.

MS. HAERING: Gajowiak, okay, from the Retirement Services Division. William O'Reilly, you are with Empower?

MR. O'REILLY: Yes.

MS. HAERING: Or Voya? Okay.

MR. O'REILLY: No, Empower.

MS. HAERING: Okay. Karen Nolen, OPM; Walker Phillips, I'm sorry, I don't know who you're with.

MR. PHILLIPS: This meeting is open to the public; correct?

MS. HAERING: Oh, okay, that's fine. I just didn't recognize your name. That's why I was - Walker Phillips. And I think that's everyone. William O'Reilly. Yeah, that's everyone.

MS. CIESLAK: Peggy, this is Cindy Cieslak, General Counsel to the Retirement Commission from Rose Kallor.

MS. HAERING: Nice to see you in person. Okay, with that, I think we can get the meeting started.

CHAIRMAN ADOMEIT: Okay.

MS. HAERING: First up will be - will be (inaudible) and I'm going to mute myself right now.

DR. WOODRUFF: Peggy? Since we do have one person from the public—

MS. HAERING: Uh-huh.

DR. WOODRUFF: --I guess we should ask for public comment first, and then move on.

MS. HAERING: We could. We could do that.

CHAIRMAN ADOMEIT: We don't normally do that.

DR. WOODRUFF: You don't?

CHAIRMAN ADOMEIT: No, we're not—

DR. WOODRUFF: I've never done it either, but we've never had a public member attend this meeting. So—

CHAIRMAN ADOMEIT: No. The meeting is controlled by us, and the members are simply here to observe.

DR. WOODRUFF: Okay, that's fine.

MS. HAERING: Perfect. Okay. So first up on the agenda would be the Segal Report.

MR. PICARELLI: We were wondering today, if we have a lot to accomplish, the one thing that we also have done was to search for the Allspring large cap growth fund, whether or not it would be more applicable to start with that than quickly go through the performance report, and then turn it over to the rest of the agenda. Or if you want to start with the report, we could go either way.

MS. HAERING: Fine.

DR. WOODRUFF: Just get your initial search report first, I guess, and then go to the broader.

MR. PICARELLI: Okay. So why don't we get that up on the screen, and Vanessa will go through our findings.

MS. VARGAS: I can't share my screen. It says it's disabled. So if someone could give me access to share the screen, I'd be happy to share the materials.

MS. CIESLAK: Give me a second.

MS. VARGAS: Yep.

MS. CIESLAK: Vanessa, you should be able to share the screen now.

MS. VARGAS: Can you all see my screen? Maybe someone gives me a thumbs up.

MS. HAERING: Yeah.

MS. VARGAS: Okay. So this is the search report. And as Frank was saying, the search report is really to replace the Allspring that was the mandate given at the last quarter meeting to review other options in the active large cap group area. So I'm going to start with just the search parameters. So we looked at all large cap growth in the universe, and we picked three candidates for comparison of the whole universe. And the universe is over - you know, over fifty really ones that are recommended in the large cap growth area.

I'm going to go quickly to just a comparison of the three funds. So the three funds for comparison to Allspring are firms that have been established for a long time. As you can see, one firm, Harbor, Harbor is self-advised by Jennison Associates, and Jennison Associates is owned by Prudential Financial. T. Rowe Price has – it's a public company that has an eight-percent employee ownership, and William Blair is a company that's a hundred-percent employee owned. And you can see here that of the three of them, T. Rowe Price is the largest in terms assets under management.

So this is the first page that has a summary of information about the funds. I've highlighted on the top, particularly the expenses, the active, because as you know, active is more expensive than passive. So Allspring is what you have right now, and Allspring has a fee of 65 basis points. So when we're comparing it for the search is you have Harbor, which has a fee of 59 basis points; T. Rowe Price large cap growth with a fee of 56 basis points; and William Blair with a fee of large cap growth.

We've included the TIAA-CREF that you currently have in the lineup, but that is the passive options. So that's what you see five basis points for TIAA, which is significantly more inexpensive because that's passive. And just to make sure that the public understands, so passive is just a replication of the index, versus active, your managers are actually picking stocks and selecting stocks within the universal large cap growth stocks.

So in terms of characteristics for the funds, Allspring, the perm portfolio has about 68 companies that they select to be part of that fund. The other three options that we're comparing here also have a small number of stocks. So 56 for Harbor; T. Rowe Price owns 77 stocks; William Blair owns 33 stocks in terms of the index. The index has 509 potential large cap growth companies.

MR. PICARELLI: Just let me comment here.

MS. VARGAS: Yep.

MR. PICARELLI: What we originally were doing in active large cap growth - and I guess, when Tom was reviewing it, you know, we were looking at the TIAA index fund, and she's saying, oh, it sounds cheap. You know, when we always chatted about, you know, maybe this is a category we consolidate and just offer an index in the large cap growth space.

So what we also wanted to do today was look at another index fund to compare that with the TIAA fund. So this wasn't really designed as a search to do an index fund, but as more as to help us come to a path on where we want to end up in this category. So right now, keep in mind that the TIAA fund is the fund that we use in the GoalMaker model, and the Allspring fund has over 500 million dollars in assets. So it represents a very large asset class.

I think this fund, if we should ever pull out, may wipe Allspring out in this particular category. So they're very sensitive to us as a client because of the assets that we have under management.

So, the original focus, let's look at active, you know, offer the participants a choice in that category. If they wanted it active, we have one on the menu, and one an indexing approach. And there's a little difference between the TIAA index product and the Fidelity product. But it goes to show as a good frame.

So that's just to set the parameters on how we got these funds in the mix. Okay.

MS. VARGAS: So in this slide, and I'm going to apologize because it's actually a very busy slide, so I'm going to do my best to explain it. You kind of see down here on the market capitalization side, what is the capitalization of the companies that the funds, all of them, are actually picking. And you can see how, you know, there's a number of things, particularly Harbor and T. Rowe, that do concentrate on the giant side of the market capitalization for the companies that they are picking.

And then on the right-hand side, you see relative sectors exposure versus the large cap growth. I’ve highlighted communicate – the technology sector just because it’s a large sector within the large cap growth category. So you will see that Allspring, Harbor and William Blair actually hasn’t had an underweight to the asset class compared to the benchmark.

The large cap growth benchmark, while T. Rowe Price has an overweighted, and you will see that also that Fidelity and TIAA, because those are passive strategies, tend to be sector neutral. So you really don’t see them overweighing or underweighing any particular sector because of their sector neutrality while trying to match the index.

So what we did here on this slide is we ran correlation. So when Frank was just saying that, you know, we give the participants the choice of an active in the lineup, well, when you have large cap growth, you tend to pair it with the large cap value categories. So we wanted to see, of the funds that we had included in the search, which ones correlated or were uncorrelated to the American Funds Mutual Company, which is your growth value option in the lineup right now, and this is Number 5 right here. So when we look at that, we compare Allspring has - you know, Allspring versus American Funds have a negative correlation of 0.1. And Harbor has a negative correlation of almost 0.7. T. Rowe Price has a negative correlation of 0.3. And then William Blair has a positive correlation of 0.07, so almost no correlation in there.

So typically what we want to see here, the lower the correlation is, that means that the funds, the American Funds versus any of the other funds actually are working against each other, and that's what you want to see; right? When value does better, growth should not do better, and when growth does better, value should not do better. And so they are very simply uncorrelated to each other.

And then I'm going to come up and show you some performance. So because the page is so full of data and characteristics, I highlighted a few data. So the data is through March. March was actually a very strong performance quarter for growth. So the growth markets - actually the US equity market was dominated by large cap growth this quarter. And it particularly was dominated by a few technology companies.

So for this past quarter, most recent quarter, Allspring was up 12.6 percent, and the benchmark was also up 14.4 percent. You will see that both the passive indices, Fidelity and TIAA, were up in the 14 percent range. We will see Harbor up 18 percent, T. Rowe up 16 percent, and William Blair up almost 12 percent.

Let me just stop to see if anyone has questions before I go on.

MR. PICARELLI: So really through the end of May, the Russell growth was up 20.7 percent, and I think the Allspring fund up through the end of May was 15.6. So this year, it's ranking about 57. And the Allspring has been on a watchlist since the first quarter of '22. That's why we bring it up for review after 12 months.

So, you know, the big thing is maybe you want to make a comment is the six largest weights to the benchmark is Apple, Microsoft, Amazon, Tesla, which controls about 40 percent of the Russell large cap growth index. So it's been responsible for 78 percent of the returns. So that, you know - that was the story in '21.

MS. VARGAS: Yeah.

MR. PICARELLI: And so we had two good quarters, but we're seeing, you know, this side, you know, turn around.

MS. VARGAS: Well, I will say, so 2022 was probably one of the worst years for large cap growth. So a lot of the large cap growth active managers underperformed significantly. And I think that it had to do because the, you know, technology did not perform. Technology and communication sector companies, which are the dominating sectors of growth, did not perform as well. And I think that it precludes me to say that over the last ten years, passive has performed better than active in large cap growth. So that is a fact.

What I've done here is - and I want to show you calendar-year performance next. But what I've done here is I kind of highlighted so you could see kind of like best performing funds in the different trailing periods. So you can see based on through March, you know, Harbor was the best one for the quarter. Allspring was the better one for the one-year. That means that they lost less than their competitors last year.

And then over the three, five, seven, and ten years, William Blair on the active side is the manager that has performed better than the peer groups, meaning the other active options, not versus the benchmark. That was what I was trying to highlight here.

And now—

DR. WOODRUFF: Vanessa?

MS. VARGAS: Yep, mm-hmm?

DR. WOODRUFF: So for those of you who might know the historical reference, I'll channel my inner Charlie Casella here. And none of these funds, none of the actively managed funds, outperformed the index or the index funds in any time period that's shown here. So I think it's a little - I'm just questioning whether the premise that in this - we've done this before in the committee when Charlie pointed out a small cap value of the active managers rarely beat the index.

I'm wondering if we're finding that to be true of this category as well.

MR. PICARELLI: And the difference too is the cost of the funds.

MS. VARGAS: So can I say just one comment? Can I say one comment? So when you're looking at it on a trailing basis, it really - the ending point makes a big difference in terms of the calculation of the trailing basis. I think that you have to at least look at it also on a calendar-year basis. So on a calendar-year basis, there are years where, yes, passive outperforms the active managers, particularly on difficult years, like last year for example, but you will find other years where active can also outperform.

And I'll give you an example. So if you look at 2021, right here highlighted, your passive was 27 percent; William Blair did outperform. So there are some active that do outperform. The manager that you had did not. So Allspring did not outperform, but William Blair, for example, did outperform. If you look at 2020, Harbor, for example, did outperform the benchmark with 54 percent.

You know, 2019 was a year where actually almost all the returns were - you know, Harbor, William Blair actually made about the same. And the index - 2018 is a year where you also see here that William Blair also outperformed versus the index by 0.2 positive, and T. Rowe Price also, 2.2 positive. And Allspring was positive in a difficult year like 2018. Well, the index were all – were negative.

So I think it's a year-by-year basis is all what I'm trying to say. When you look at a trailing, the ending point in the calculation and when the time period of the course that roll off make a difference. So you kind of have to compare them also on a calendar-year by calendar-year basis and say, is it more – you know, is it more times in a ten-year period; is it nine times out of ten or eight times or seven times out of ten where the index is outperforming? But if that's not the case, it's just, you know, some funds do underperform. And I do - I do agree that the Allspring fund that you've had in the portfolio has continuously underperformed the index.

DR. WOODRUFF: Then I guess we should look at, you know, if you invest money over a period of time, which gives you the most at the end of the period. Is that a fair thing to look at?

MS. VARGAS: Yes. Yes. Yes.

MR. PICARELLI: (Inaudible)

MS. VARGAS: So I would do kind of like a growth of a dollar. So if you invest in - you know, you put all of the funds at the same time, let's say starting your money ten years ago at the same time, which ones - you know, which ones outperformed, which ones had more money afterwards at the end, yes.

DR. WOODRUFF: Okay.

MS. VARGAS: Yes, I agree.

So this is the investment growth similar to what we were just saying. Now, it goes all way back to the inception of all of them, which is back in 2016. So I'm going to try to make this a little bit bigger so it's a little bit easier - sorry, hold on. I have (inaudible). So it's a little bit easier to see.

So when we look at here towards the end, so you can see here that because growth, the benchmark, passive has done better. These two are basically Fidelity and TIAA. Right?

DR. WOODRUFF: Mm-hmm.

MS. VARGAS: And then right – the next one right underneath is T. Rowe Price. The next one right below it is Allspring. No, I'm sorry; it's Harbor, Harbor. Harbor is here. Allspring is down here. So Allspring, compared to your passive, yeah, have not been able to keep up in the benchmark, right, because Allspring, it's down here, versus TIAA that you have currently; it's up here.

You can't see the red one because the green is kind of like on top of it. And I'm trying to – can you see it now that I made it a little bit larger?

So then with that, let me just look at tracking error. So when we look at statistics like tracking error, you'll see here that, especially over the five- and the ten-year, you know, Allspring has – and I'm going to make this a little bit bigger so everyone can see it better – you'll see that – you know, so this blue one is Allspring. That has a tracking error of about 3.8 percent. And then higher tracking error are the other high growth managers at –

you know, no tracking error again from the passive. These are the passive managers.

And for Sharpe, which is down here, they all have actually a positive Sharpe ratio, so meaning, you know, a better return for the unit of risk that they're taking, the managers are taking. And the better one, again, passive because they're able to meet the benchmark; right? Meaning, the TIAA; the red is TIAA.

And then this is upside and downside capture, meaning can the managers capture the downside.

CHAIRMAN ADOMEIT: Excuse me. You made it too small.

MS. VARGAS: Oh, I'm sorry. I'll make it bigger. Sorry.

CHAIRMAN ADOMEIT: Yeah, thank you.

MS. VARGAS: Yep. Hold on; there you go. I just want to make sure you can see both. Is that better? Yes? Okay.

Okay. So this is - on this side, we're showing you downside capture, meaning, you know, if it's in 100 percent, meaning it returns about the same as the benchmark, and we know that Fidelity and TIAA will because they're passive. If it's a little bit over 100 percent, we want it to be as close as possible to the 100 because that means that it doesn't capture too much of the downside when a manager is going down in terms of return.

So Allspring, over the three years, Allspring is the one that captures the least of the downside, meaning that it would lose less than the benchmark and protect a little bit more than any of the other active managers. Like Harbor, T. Rowe, and William Blair will actually be drawing a little bit more than the index in terms of performance.

On the upside, we want it to be actually over 100 percent; right? Because if it's over 100 percent, that means it's capturing more than what the index is capturing in terms of performance. So you'll see here, Allspring actually is under the 100 percent and Harbor is actually the manager that is over the 100 percent. You don't see William Blair and you don't see T. Rowe because of performance. So the time period as a performance are not there for those managers when we make it up (inaudible).

MR. PICARELLI: So when the markets are down, Harbor takes the bigger hit.

MS. VARGAS: Right.

MR. PICARELLI: And when the markets go up, Harbor gets a little 2.8 more than the benchmark over that three- and five-year period.

MS. VARGAS: Mm-hmm. And this is just showing you risk and return. And, you know, typically what we'll say is active managers will have more risk than passive managers. So it is not surprising that the numbers that you see here, down here for Harbor, T. Rowe, and William Blair tends to be a little bit on the higher side, especially over the last three years. Once we look at it, you know, closer to ten years, you know, because of the length of time that you can see, you will see that, you know, the numbers tend to be a little bit closer in terms of risk.

But I will say that in general, your active managers will have more risk than your passive managers and that's because they are – you know, they're investing in less companies. They don't have the ability of diversifying their stocks over the 500 companies that are in the index. They're choosing out of those 500 stocks, you know, 50, 30 companies, depending on what their style is, to say these are the stocks that we believe are going to grow the most over the long term. And that means that you're adding more – you know, more risk to a portfolio.

DR. WOODRUFF: Vanesa?

MS. VARGAS: Yes.

DR. WOODRUFF: Vanessa, when you showed us the chart of accumulation over a long period of time—

MS. VARGAS: Mm-hmm.

DR. WOODRUFF: --did you – I believe in the handouts, you also had the actual numbers. You know, for a hundred dollars or a hundred thousand dollars, what it would be under each fund option at the end of the period.

MS. VARGAS: Let me see. It wasn’t on this one.

DR. WOODRUFF: Yeah, it was (inaudible).

MS. VARGAS: Yeah, right here in the bottom. Hold on.

DR. WOODRUFF: Oh, in the bottom, okay.

MS. VARGAS: Let me just make it – yeah, it’s in the bottom. Let me make it bigger. Hold on.

DR. WOODRUFF: Okay. So – yeah.

MS. VARGAS: Here it is.

DR. WOODRUFF: So let’s say – well, let’s assume the hundred is a hundred thousand dollars; right?

MS. VARGAS: Mm-hmm.

DR. WOODRUFF: Then at the end of the period, look at – under the different funds. So with Allspring, our current one, it would be – have risen to two-fifteen-thousand; right?

MS. VARGAS: Two-fifteen, correct.

DR. WOODRUFF: Harbor, two-hundred-and-forty-four-point-five-thousand. T. Rowe Price, two-forty-four.

MS. VARGAS: T. Rowe, two-fifteen.

DR. WOODRUFF: TIAA CREF, two-sixteen. William Blair, two-fifty-two.

MS. VARGAS: Mm-hmm.

DR. WOODRUFF: And where's Fidelity?

MS. VARGAS: Right here, two-sixty-one.

DR. WOODRUFF: Two-sixty-one. Yeah.

MS. VARGAS: Yeah.

DR. WOODRUFF: So I mean, that's a huge difference; right?

MS. VARGAS: Yeah, we weren't—

MR. PICARELLI: Plus—

MS. VARGAS: I'm sorry, Frank. Go ahead.

MR. PICARELLI: Plus the difference in the cost. That's where, you know, that helps the indexing too. The actively managed fund, you're paying 60 basis points, compared to four basis points for indexing. So—

DR. WOODRUFF: Right. (Inaudible) it's really the net result, right, that counts.

MR. PICARELLI: The net. And the end of the rainbow, you got more in those index funds; right? If you—

DR. WOODRUFF: Yeah.

MR. PICARELLI: --you know, the investment strategy is a long-term horizon, you can sit back; you understand, I want growth; you go to the menu; we have a growth option; happens to be an index; but over longevity, over the long haul, yeah, you do have periods where the active managers did better; right? And then when the markets are down, you wind up losing it, where the index, because of the diversification, you know, it's a more leveling. That's the way to look at it.

MS. VARGAS: Well, I would also say that we've just ended a time period where inflation was quite low in the US and worldwide, and interests rates were quite low. So we are also in a new kind of environment than we were in the last 15, 20 years. So managers, you know, I think going forward, you know, we believe, you know, growth had dominated in terms of performance going back in time.

I think going forwards, we just have to be – you know, we think that managers have to be a little bit more picky in terms of the stocks that they pick because there's just going to be some winners and there's going to be some losers because the environment is quite different than where we've been in the last 20 years, and that's in general across asset classes.

DR. WOODRUFF: Okay.

MS. VARGAS: Let me stop sharing so we can discuss just, you know, where people - where everyone is in terms of, you know, if they - in terms of making a decision.

MR. PICARELLI: On a positive note, we did, in this category, have a good solution with an index and an active.

DR. WOODRUFF: Right.

MR. PICARELLI: So if participants understood that difference, we gave them the choice to do that. Right?

DR. WOODRUFF: Right.

MR. PICARELLI: And then it all comes down to a philosophical thing on how you want your lineup. You know, do you want to have less? But if you - this is a deferred comp, it's a supplemental, one would argue you'd want to give the opportunities. Maybe there's the short-term guy that's moving in and out, and he wants to make money and he sees something that's hot, and he looks at the underlying security that's in one of these mutual funds, that they're saying, gee, there's only 50 or 60 and these are their top ten holdings, we know that the index is comprised of the big guys. When the big guys go down, if they don't have that - when they go up, they don't have that exposure; they're not going to ride as high. And the index is the index.

So, you know, clearly indexing over the longer term, you're going to have more at the end of your rainbow. The actively fund, you've got to be a participant and, you know, actively look at it, and, you know, maneuver around it. So it's a choice.

DR. WOODRUFF: So the question is, for the population we're serving, which do we favor; right?

MR. PICARELLI: Yeah.

DR. WOODRUFF: And, I mean, you're right that, in the past, we've tried to pursue a philosophy of both passive and active when it made sense. And the question - and we've made a decision back when you did the small cap value search, we had the similar type of results, even worse than what we're seeing here, where largely the passive funds or index funds did better than the actively managed funds for the periods we were looking at.

MR. PICARELLI: Yeah. And in small caps, there's more of a risk. It is really—

DR. WOODRUFF: Yeah, it's more of a risk. So the question is are we in an era now with the large cap that's somewhat similar where the managers really don't have - you know, may not have the best strategies, and do we want to favor speculators over long-term investors, I guess.

MR. PICARELLI: Well said. That's the million-dollar answer.

MS. HAERING: Right.

DR. WOODRUFF: Well, it's really a question, but it's (inaudible) for the committee.

MS. HAERING: I mean, to me, I think - I'm sorry. Am I on mute?

DR. WOODRUFF: No, you're good. I can hear you.

MR. PICARELLI: You're (inaudible).

MS. HAERING: Oh.

DR. WOODRUFF: You're visually muted, but not—

MS. HAERING: Yeah. I mean, I don't see any reason to choose any of these active managers right now. I just don't. I think I'd be inclined to just get rid of Allspring and wait and see. You know, there may be an opportunity in the future to add an active plan - or an active option, but right now, I just don't see the benefit of it.

MR. FEIN: I think it’s important to remember that calendar-year return slide Vanessa was displaying prior and the fact that – and let’s remember that adage: past performance does not guarantee future results. So certainly, we’ve been in an environment where passive favors active, but there are clearly times when active can outperform passive. Just because we haven’t seen it for the past 10 or 15 years, just think about what’s happened with interest rates. We haven’t seen this environment in over 40 years.

So you never know when that environment can shift. And you’ve had both active and passive in this asset category for so long, it may not be the right time to make the change.

MR. PICARELLI: (Inaudible) keep maintaining too.

DR. WOODRUFF: The problem is we have the worst one in the second - as an alternative.

MR. PICARELLI: And you always want to replace it with something that’s going to be, you know, strong.

DR. WOODRUFF: What do other members of the committee think?

CHAIRMAN ADOMEIT: In full disclosure, I’m in

TIAA-CREF personally.

DR. WOODRUFF: Well, I'm in GoalMaker, so I'm in it also.

MR. KRAYESKI: This is David Krayeski. I guess when we're talking about providing options, and we've had individuals deciding to step out of what we have available to go to private investment companies or whatever, having options available for folks that perhaps would encourage them to keep their funds within our system, I think would be the most perhaps competitive stance to have versus limiting our options.

So that's just my thoughts on that.

DR. WOODRUFF: Yeah, and to your point, we do - for GoalMaker, which is for the people who really want to be completely passive, want to let the thing move, that GoalMaker is invested in the index fund. So that's for the long-term investor. So that's a good point.

MR. PICARELLI: Yeah.

MR. BAILEY: So this is Michael Bailey. And I somewhat agree with Dave. Tom, your comments about GoalMaker, we've seen people jumping out of GoalMaker.

DR. WOODRUFF: Mm-hmm.

MR. BAILEY: So, you know, given the option available, I think it is a more prudent decision at this point. Now, if we can - if you want to do something different to one of the other passive groups, passive options, you know, because it is the worst performing one that we have, I don't know if that's an option for us to do now as well.

DR. WOODRUFF: You mean to look at one of the active managers that—

MR. BAILEY: One of the different active managers, yeah.

DR. WOODRUFF: Yeah, yeah, good. Yeah.

MR. PICARELLI: We do have a lot of indexing in our plan, Tom.

DR. WOODRUFF: I know.

MR. PICARELLI: We have the cores. We have the small, you know, in the mid - in the large, mid and small. We have it in real estate. We have it in the - no, we don't have it in the - well, we have CREF International Equity, yeah, excuse me. And we have our bond index. So, you know, large cap is large cap in the bigger capitalization. I think participants kind of understand that.

How much money, the guys at Pru? We have five-hundred million dollars in the Allspring. How much is in TIAA-CREF when you added all TIAA-CREF? Do you guys have that number?

MR. McCANN: Yeah, give me a second, Frank.

MR. PICARELLI: And is TIAA-CREF the best index fund in that category if we would've have went with an index?

MR. FEIN: There's actually less money in TIAA than there is in Allspring.

MR. McCANN: Yep. Yeah, Allspring's got five-sixty-four million; TIAA has four-seventy-three million.

DR. WOODRUFF: I think that is historical. You know, that when we did all of the consolidation, I think that category inherited a big transfer.

MR. FEIN: That's exactly right, Tom.

DR. WOODRUFF: Yeah.

MR. PICARELLI: I think you had a big Fidelity fund in there (inaudible).

DR. WOODRUFF: Yeah.

MR. McCANN: Also too, while the committee is debating this, I just wanted to also make sure. GoalMaker was referenced earlier, and actually the trendline for GoalMaker continues to show the assets, number of participants, and participation rate continues to climb each quarter. And there was a bit of a dip in newly enrolled participants choosing GoalMaker late last year, but that has fully recovered as well.

MS. HAERING: Right.

MR. McCANN: I just wanted to make sure I clarified that for everybody.

MR. PICARELLI: And the dog confirms it too.

MS. HAERING: Well, there's my dog.

DR. WOODRUFF: So I don't know where the committee wants to go, but do you want to go back and look at the actively managed ones to see, if you were to make a choice, what you would recommend?

MS. VARGAS: Do you want me to share the screen? Give me a minute.

MR. PICARELLI: Yeah, pop that back up.

MS. VARGAS: Give me one minute. All right. Okay, is it sharing?

MR. PICARELLI: Yep.

MS. VARGAS: Yes? Okay. So I just brought you back to the performance, the calendar year performance. So if you asked us for what would be our recommendations just on an active, it would be to replace Allspring with William Blair. It's a five-basis-points reduction in fees from 65 to 60, but also William Blair is the most conservative in terms of standard deviation of the active managers, meaning it has the most standard deviation of the active managers.

And also it has the higher Sharpe ratio of the active managers, meaning – you know, which, you know, means it’s a good choice in terms of active for you all.

MR. PICARELLI: Can you go back to that page, Vanessa, where we have the number of holdings and the PE?

MS. VARGAS: Yeah. Right here.

MR. PICARELLI: Yeah, hold that. So on this page, what it is telling us is that William Blair is in its benchmark; it’s at 60. What’s the Morning Star rating on that? I got it cut off on my screen.

MS. VARGAS: It’s three. It’s going to be three. It’s going to be three across. So Morning Star rating is only on performance. It does not include any meetings or any (inaudible) from any – a Morning Star analyst. All they do is (inaudible) performance, make sure that there’s no change in portfolio managers and things like that.

So for all active managers in large cap growth, they’re going to all be three stars.

MR. PICARELLI: Okay. The key thing that stands out on that bottom one is 33 stocks.

MS. VARGAS: Mm-hmm. It is the most concentrated of the options, yes.

MR. PICARELLI: And the PE ratio, which we want higher, they buy more expensive stocks.

MS. VARGAS: Thirty-three.

MR. PICARELLI: So they're picking at 33.

MS. VARGAS: Mm-hmm.

MR. PICARELLI: So that page - you know, every time you pick a fund, you never hit a hundred percent in all of the categories.

Flip to the next page, the next chart. In terms of capitalization, where is Blair? It's mega cap 51?

MS. VARGAS: It's 50 percent mega cap, 35 percent large, and 13 percent mid.

MR. PICARELLI: Okay. Well, on the sector—

MS. VARGAS: (Inaudible)

MR. PICARELLI: Okay. On the sector - go to the one with the numbers, not this page, the next one.

MS. VARGAS: Okay.

MR. PICARELLI: Slide this up. Okay. This is interesting. Now, this is a big category where IT is big, and William Blair is what?

MS. VARGAS: Thirty-three, 34 percent. So it has an underweight to technology compared to the benchmark. The benchmark is 42. They have 34. So it's an underweight.

MR. PICARELLI: Okay. And then telecom, they're eight.

MS. VARGAS: Mm-hmm.

MR. PICARELLI: To seven.

MS. VARGAS: To seven.

MR. PICARELLI: They've got a little energy. What's the financials on this, their financial heading?

MS. VARGAS: Eleven. Eleven.

MR. PICARELLI: So they like financials. And healthcare, they're pretty much even.

MS. VARGAS: Mm-hmm.

MR. PICARELLI: Discretionary, they were a little on the high side. So that's why you probably see the rebounding on that, 17. Let's go see the upside/downside capture again.

MS. VARGAS: Sorry.

MR. PICARELLI: There you go. One up. Okay.

MS. VARGAS: I'm trying to make it bigger.

MR. PICARELLI: So when the markets are booming or going down - when the markets go down, they go down all of it plus 4.8 percent. So they're second to T. Rowe, second to Harbor. So they're better than the other guys.

And then on the five-year side, good; they're the lowest amongst the other three guys. And when the markets are up, Harbor goes good.

MS. VARGAS: We don't have it here because of the performing - the history.

MR. PICARELLI: For the long-term, yeah. Those are the tickers of those share classes.

MS. VARGAS: Yeah.

MR. PICARELLI: So the one down thing that I see on this fund is the 33 holdings.

MS. VARGAS: Mm-hmm.

MR. PICARELLI: Joe, any of your comments to add?

MR. FEIN: No, only the growth in dollars, that growth in investment.

MS. VARGAS: Yep.

MR. FEIN: They have the highest among the actives.

MR. PICARELLI: That's a good point.

MS. VARGAS: Yeah.

MR. PICARELLI: Those 33 stocks are doing good. They turn them over.

So William Blair, alongside TIAA, we stay at status quo. You know, when we go do screens, we go to the universe. We look at all of the funds in that category; we go through our screens, research, talks to the managers. And at the end of the day - we've been doing this across the country on a lot of our funds. You know, most of our plans, but you're not in this category, have the American Growth Fund of America, and that thing has been struggling. It doesn't even look like a large cap growth. It's more of tracking the index. And the Contra, those were predominantly in our - majority of our plans.

So, you know, everyone's been particularly struggling. This fund had its good, bad years. It's been up and down, Allspring. But Allspring offers the mega cap exposure. And then that was basically it. I know when we go to collective - if we ever get collective trusts, we could probably do much better in this category in terms of expense ratios, if that happens with the 403(b)'s.

MS. VARGAS: Oh, yeah. Mm-hmm.

MR. PICARELLI: TIAA would be a hard fund to—

MS. HAERING: The overall size of this fund -

MS. VARGAS: I'm sorry, Peggy. Can you repeat that question?

MS. HAERING: Yeah. What is the overall size of the William Blair fund?

MR. PICARELLI: It's somewhere in the charts.

MS. VARGAS: One-point-four billion for this share class.

MS. HAERING: Mm-hmm.

DR. WOODRUFF: And overall?

MS. VARGAS: Oh, overall? Let me think. Overall, it's a couple billion. It's probably closer to ten.

MS. HAERING: Mm-hmm.

DR. WOODRUFF: Okay.

MS. HAERING: And how does that compare to the other active funds?

MS. VARGAS: The other funds, so when you look at the shared classes, you know, the Harbor has the most; it's 23.

MS. HAERING: Mm-hmm.

MS. VARGAS: Three-point-two billion for T. Rowe. And as I just said, 1.4 billion for William Blair. In terms of size of all three, of all three funds, all three funds are in the multiple billion dollars.

MS. HAERING: Mm-hmm.

MS. VARGAS: In terms of strategy, when you combine separate accounts to make both bonds and mutual funds because they're not as small firms and they're not—

MS. HAERING: Right.

MS. VARGAS: --a hundred percent dedicated to just this one form.

MS. HAERING: Yeah.

MS. VARGAS: Neither of the three funds are. I wouldn't consider them boutique, you know. I would say that of the three, the one that would be considered the most boutique, meaning the lower assets, is William Blair just because it's a smaller firm. It's a hundred percent employee. And as a total, they only offer large cap growth, small cap growth, mid cap growth in terms of their offerings. So and as a firm, they have 61 billion dollars in assets.

MR. PICARELLI: Good point, Vanessa.

DR. WOODRUFF: So what should that mean to us?

MS. VARGAS: Well, it's - if they have their - they have their interests aligned; right? They're a hundred percent owned by themselves. So, you know, they make money when their funds make money and they're able to produce returns. Otherwise, they don't make money as a firm. So you want that alignment of employees owning the firm, and not a big mega cap, you know, company, or, you know, when it's in the public, a public company, where you see all of the layoffs and things like that going on. So this is a smaller firm from that perspective.

But, I mean, 61 billion is not tiny.

MR. PICARELLI: And then you have the option, since Allspring's turning around the index, is to wait, leave it alone for a while, continue the same path.

MS. VARGAS: Oh, you mean - but you know that they're not - they haven't been performing for a long time; right?

MR. PICARELLI: Yeah, it could be just basically the functionality of the markets—

MS. HAERING: Right.

MR. PICARELLI: --where they get their draw.

So Tom answered the question that the reason why the majority of the money or people are in the active is it's the past. They kind of never made a move out of there.

DR. WOODRUFF: Yeah.

MR. PICARELLI: They - right? They defaulted and they just kept (inaudible).

DR. WOODRUFF: Yes. Yeah, they inherited the previous allocations.

MS. HAERING: But what was Allspring before?

MR. PICARELLI: Wells Fargo.

MS. HAERING: Okay.

MR. PICARELLI: And I always said to you, Allspring was going to do good in the spring and it did.

MS. HAERING: As soon as they changed their names, they went downhill.

MR. PICARELLI: I got to tell you, when they changed and they needed proxy, they were begging.

MS. HAERING: Yeah.

MR. PICARELLI: I mean, this was going to be a major draw on them, this company.

MS. HAERING: Right. But, you know, I remember that one firm that made a bad bet on CSX and we held onto them and then we got rid of them and they shot up.

MR. PICARELLI: Well, it looks good that we got two in the category that we had the index on there all this while; right? The index fund is in GoalMaker. And it's a philosophical thing, if the committee, in terms of your structure, you know, want to be in more of a passive approach, so be it, and you have the one option in the category. Or if you want to give the choice - well, if we're going to go with an active, we've going to replace what we've got with an alternative.

Whether participants understand that when they go into it, you know, they pick funds; they look at a chart; they see the performance and the fund is hot that year; they go into that; they look at expense ratio; they look at all of the parameters of the funds. So indexing is really the long-term lower cost, and at the end of the rainbow, extra dollars there, whereas the active managers, depends on your ins and outs.

MS. HAERING: Right.

MR. PICARELLI: And we do – we offer a lot of indexing. We cover pretty much our population.

MS. HAERING: Right.

DR. WOODRUFF: So other committee members, Peter, Michael, anyone else, any thoughts?

CHAIRMAN ADOMEIT: Yeah, I'm in favor of the indexing in the long haul.

DR. WOODRUFF: Yeah.

MR. BAILEY: Is that straight indexing, getting rid of the active?

MS. HAERING: Well—

MR. PICARELLI: Yeah, that's one option.

MR. BAILEY: Just that one option?

MR. PICARELLI: Yeah. In other words, we would eliminate Allspring as—

MR. BAILEY: Yeah, right.

MR. PICARELLI: --I'm sorry, whatever large cap active in that category, just have the TIAA-CREF fund.

MS. HAERING: Right, but we started out with Growth Fund of America and then we replaced that.

MR. PICARELLI: (Inaudible)

MS. HAERING: Huh?

MR. PICARELLI: Good thing we got out of that fund. That fund has been struggling.

MS. HAERING: Two-thousand-twelve, we replaced Growth Fund of America. I'm just looking back at an old large cap fund.

MR. PICARELLI: Right now, the manager benchmarks it to the S&P 500 index.

MS. HAERING: Yeah.

MR. PICARELLI: So that was good.

MS. HAERING: No. I mean, let's face it. We've had - we haven't had a great - and then we went to T - yeah. We never went to T. Rowe, but that was one of the—

MR. PICARELLI: You know, the question is active is the risk, and indexing is a long-term leveling.

MS. HAERING: Right.

DR. WOODRUFF: Yeah, historically, this has just been a problem category. That's all. You know, we've had to make a number of changes.

MR. PICARELLI: Yeah.

MR. BAILEY: Well, if you think that's the case, then we go to indexing.

DR. WOODRUFF: Yeah.

MR. BAILEY: I think there needs to be a change. I think the performance has shown that.

DR. WOODRUFF: Yeah.

MR. BAILEY: We either go to indexing, or we put another active in. It looks like William Blair is the one that we're kind of siding with.

MS. HAERING: Right. Right.

MR. PICARELLI: If we go active; right?

MR. BAILEY: Right. I say this new environment is kind of tricky. I say we go indexing.

DR. WOODRUFF: Yeah. That was my concern too, that since the last - the new environment may not favor large cap.

MS. HAERING: Right. I'm looking back to 2012. We selected Wells Fargo.

MR. PICARELLI: Oh, that's been there since 2012?

MS. HAERING: Yeah. Yeah.

MR. PICARELLI: And then it was American Fund. And that was probably all the right reasons to get out of American Funds because it was getting so large.

MS. HAERING: Right. Right.

MR. PICARELLI: Then we had some good - we had a couple of bad years with Wells Fargo.

MS. HAERING: Yeah. So—

MR. PICARELLI: It’s the path of least resistance; right? You can’t be - you know you’re indexing; you’re going to - you’re following the broad indices. You’re not betting on the active manager.

MS. HAERING: So we mapped people from American - you know, the American Fund to Wells Fargo, and now, we’d be mapping them all to an index fund. And I don’t know whether we get many complaints or not.

MR. KRAYESKI: Just a quick question. When we map people in that regard, what type of education do we do about that that doesn’t look like a prospectus where we’re—

MS. HAERING: Well, we just say - you know, we give an announcement and say we’re getting rid of this fund.

MR. KRAYESKI: Mm-hmm.

MS. HAERING: And if you don’t do anything with your - what’s invested in that fund, they’ll be transferred to the following investment option. So that’s what we—

DR. WOODRUFF: But they have the choice to make other allocations (inaudible).

MS. HAERING: Right.

MR. KRAYESKI: Just in terms of, is there, besides, you know, the very, very detailed granular discussion of the new fund, is there something educational in terms of similarities or any of those types of things? I'm just thinking of folks—

DR. WOODRUFF: Yeah.

MR. KRAYESKI: --decide to make an outward move with a change like that. That's my only concern.

DR. WOODRUFF: Michael, could you speak to that in terms of material that you've prepared for similar situations?

MR. McCANN: Well, as part of any fund change, we would work with you to, you know, make sure we were educating participants on why we were doing it. In addition to that, there's many communications on our website that speak to asset allocation, the education on investment categories and classes.

I think that gets to the heart of what you were looking for. Let me know if I'm off base there.

DR. WOODRUFF: No.

MR. McCANN: In addition, we've got Scott Mann's team, the dedicated team of seven reps that they live and breathe that every day, meeting with your participants.

MR. KRAYESKI: Okay.

MR. PICARELLI: Communications goes to everybody in the plan; right?

MR. McCANN: When a fund change is made? Absolutely, Frank, yep.

MR. KRAYESKI: All right. Thank you.

MR. McCANN: Yep.

DR. WOODRUFF: So are we at the point where we need a resolution, or what, or more discussion, what?

CHAIRMAN ADOMEIT: Well, we need a motion on the table and we can discuss it and then vote on it.

DR. WOODRUFF: Yeah. Okay.

CHAIRMAN ADOMEIT: So what's the motion?

DR. WOODRUFF: I guess one motion - there could be several, I guess. But one motion would be to adopt a transfer of funds from the Allspring, discontinue Allspring, and place it in the TIAA-CREF index fund.

CHAIRMAN ADOMEIT: Okay. That's motion number one. Is there any discussion?

MS. HAERING: Well—

CHAIRMAN ADOMEIT: No discussion?

MS. HAERING: I'm wondering whether motion number two would be should we do nothing for some period of time to see—

MR. PICARELLI: That's an option for you.

MS. HAERING: --whether, you know, given that we are in a somewhat different environment perhaps could wait.

CHAIRMAN ADOMEIT: Restate that. I'm not understanding it.

MS. HAERING: Pardon?

CHAIRMAN ADOMEIT: I didn't understand what -what your intent there. What are you saying?

MS. HAERING: Well, don't make a change at this point, don't make any change.

CHAIRMAN ADOMEIT: Oh, okay.

MS. HAERING: If the concern is, oh, something might happen in this category that active management might be a benefit, perhaps we should hold off a bit before making a change.

CHAIRMAN ADOMEIT: Well, then you would vote it down. In other words, the motion on the table is to adopt a transfer—

MS. HAERING: Right.

CHAIRMAN ADOMEIT: --from Allspring and place in TIAA-CREF. And if you're opposed to that, you vote no. If you're in favor, you vote yes, it seems to me.

MR. PICARELLI: Well, wouldn't there be a vote—

CHAIRMAN ADOMEIT: Does that make sense?

MR. PICARELLI: Yeah, that makes sense. Wouldn't it be a motion, one, to replace - is to make a decision to maintain two funds, an active and a core? And then if you make that decision, then you know, you know, you're going to map everything to TIAA. And if you're going to maintain two funds, you're going to go with the William Blair fund.

So it's are we going to maintain two investment strategies in the large cap growth category, actively managed fund and a passively managed fund; right? So I think our decision, what I'm hearing, you know, is that we're going to offer just indexing, and as such, it gets mapped, and off we go. If we're going to offer both categories, then we make the decision to either retain Allspring, do nothing, or we select one of the funds, which is we're leaning towards William Blair.

So it's a complicated thing unless you don't have to address the active and the passive in your motion.

CHAIRMAN ADOMEIT: We can go down that road, deciding whether to maintain two funds, active player and passive TIAA-CREF, just see how the vote goes.

MR. PICARELLI: Yeah.

CHAIRMAN ADOMEIT: Okay. We have a motion on the table to that effect, I believe. Okay, all right. All in favor, raise your hand or say aye.

MR. PICARELLI: To maintain two funds, yea or nay.

CHAIRMAN ADOMEIT: To maintain two funds. All in favor of maintaining two funds, vote aye by - or raise your hand. One?

MR. KRAYESKI: One.

CHAIRMAN ADOMEIT: One.

MS. CIESLAK: Mr. Chairman?

CHAIRMAN ADOMEIT: Opposed, nay. Yes.

MS. CIESLAK: Mr. Chairman, this is Cindy Cieslak. If the vote is not unanimous, because we are recording virtually and it’s not an in-person meeting, it does need to be a roll call vote.

CHAIRMAN ADOMEIT: Okay. We’ll call the roll call.

DR. WOODRUFF: Who has the roll call? Who has the roll?

CHAIRMAN ADOMEIT: Do you want to call it, Cindy?

DR. WOODRUFF: Yeah.

MS. CIESLAK: Sure. Give me one second. So out of the trustees present, I'll go in alphabetical order. Michael Bailey?

MR. BAILEY: Nay.

MS. CIESLAK: David Krayeski?

MR. KRAYESKI: Yes.

MS. CIESLAK: Karen Nolen? Karen, it looks like you were unmuted, now you're muted, but we didn't hear your vote, or at least, I didn't. It looks like you're unmuted, but we're not hearing anything.

MS. NOLEN: Nay. How about now?

MS. CIESLAK: There you go. Thank you. We heard you. Thank you.

MS. NOLEN: Sorry.

CHAIRMAN ADOMEIT: There's your vote, no.

MS. NOLEN: Mm-hmm.

MS. CIESLAK: I believe those are the three trustees present. Did I miss any trustees? Okay. Over to you, Chairman.

CHAIRMAN ADOMEIT: I'm a trustee, but I don't vote unless there's a tie.

DR. WOODRUFF: So for this resolution, since we're talking about the 403(b) and the deferred comp as well, the OSC gets a vote also. We could just get one collective vote, or we could—

CHAIRMAN ADOMEIT: I'm not following you. We just voted down the motion to keep two funds, active and passive.

DR. WOODRUFF: Yes. What I - all I - and I agree with that by the way. So I'm not disagreeing.

CHAIRMAN ADOMEIT: The next one, Tom, should be to adopt a transfer of Allspring and place in TIAA-CREF.

DR. WOODRUFF: (Inaudible) I was just making a point—

MR. FEIN: That should be the next vote.

MR. PICARELLI: That's the next vote.

MS. HAERING: Right.

MR. FEIN: I mean, that's pretty much where we're going.

MS. HAERING: All right.

CHAIRMAN ADOMEIT: All right. So that's the motion, to adopt and transfer from Allspring and place in TIAA-CREF. Any further discussion?

MS. CIESLAK: Mr. Chairman?

CHAIRMAN ADOMEIT: Yeah.

MS. CIESLAK: I don't think there's been a motion nor a second on that. It's - I think been suggested.

CHAIRMAN ADOMEIT: Okay, we need a motion, okay.

MR. BAILEY: So moved, Bailey.

CHAIRMAN ADOMEIT: Bailey. Is there a second?

MS. NOLEN: Second.

CHAIRMAN ADOMEIT: Thank you.

MS. NOLEN: Oh, you heard me? Okay.

CHAIRMAN ADOMEIT: Any further discussion? Hearing none, all in favor, say aye or raise your hand.

MR. BAILEY: Bailey, yes.

MS. NOLEN: Aye. Aye.

CHAIRMAN ADOMEIT: Opposed, nay or raise your hand.

MS. HAERING: I'm confused.

CHAIRMAN ADOMEIT: It's unanimous. The ayes have it. Okay. So that's our recommendation.

DR. WOODRUFF: All right. And we'll make the same - if the Retirement Division is in agreement, I don't know who is - we'll also make that recommendation to the Comptroller for the 403(b) and 457.

MR. HELFAND: The Retirement Division has no objection.

DR. WOODRUFF: Okay, good.

CHAIRMAN ADOMEIT: All right. Okay. Is there any further business?

MR. PICARELLI: Well, that's why I wanted to get this done. I knew it was going to take a long time.

DR. WOODRUFF: Since this has kind of been a very important and detailed deep dive, I think maybe the next topic, instead of doing the overall performance reports, would be the discussion of the stable value fund, if we have time. Otherwise, we could put off stable value to the next meeting.

MR. McCANN: Yeah, Dr. Woodruff, would you like us to start on that? We've put together some thoughts on that that we could start that conversation off with, if that's where the committee would like to go.

DR. WOODRUFF: The context is that at the last meeting, we were discussing how to deal with the cash flow issues in the stable value fund, and whether we should discuss either new allocations to the managers or something to do with the liquidity fund.

Is that a fair statement, Michael?

MR. McCANN: That's what I recall as well, yep.

DR. WOODRUFF: Yeah.

CHAIRMAN ADOMEIT: Do we have - excuse me. Do we have the data on this? Which of these pieces of paper that I have in front of me has the data?

MS. HAERING: Look at the one, the Voya piece has some of the information on the stable value fund. It's the one with the orange. It was sent on Saturday, I believe.

CHAIRMAN ADOMEIT: (Inaudible) third.

MS. HAERING: Yes.

CHAIRMAN ADOMEIT: Yeah, got it.

DR. WOODRUFF: And, Michael, will you have some presentation slides as well?

MR. McCANN: Yeah. We just have talking points that we wanted to leverage today. So we're prepared to speak to that, or whatever format you want to go, whether you'd rather have us go first or Tony.

DR. WOODRUFF: Okay.

MS. HAERING: I think Tony should go first, and then Mike can let us know, you know, what your perspective is.

MR. McCANN: Sure.

MS. HAERING: Cindy, could you give Tony Camp control so he can share his slide?

MR. PICARELLI: But to begin with, we did make adjustments to the buffer accounts.

MS. HAERING: Right. Right.

DR. WOODRUFF: Yes, we did.

MR. PICARELLI: And the other thing is, my only comment in my report was to indicate that the cash flow to the stable value fund is still running substantially in a negative position. Right?

MS. HAERING: Right. Yeah. But Tony has updated it since May.

MR. CAMP: Yes. Good morning, everybody. Can everybody hear me?

DR. WOODRUFF: Yeah.

MS. HAERING: Yeah.

MR. CAMP: Yeah. This is Tony Camp from Voya. Some information on the stable value fund. Sorry I was a little late, but I wanted to capture the end of May data because, you know, there is some information there that I think would - we should look at. But—

So here’s the snapshot of the fund at the end of May. You can see the allocations to the four components are pretty much right on target because we did do a rebalance at the end of April. You can see the Voya Core Plus at 35; the Prudential or Empower GLTF again at 35 percent of the assets; JP Morgan at 20; and the Core Intermediate, which is, you know, serving as the buffer, around 10 percent. It’s actually a little bit less.

And this is about at 2.26 billion. It's about 40 million less than it was at the beginning of this year. So kind of net, including all cash flow, you know, interest earned, it's down about 40 million or so. So this is the crediting rate for the period you are in right now. Participants are getting 2.52 percent, which is a pretty decent rate across all four of the plans. Everything is blended. GLTF at 2.20. The separate account blend at 2.72 percent. You can see the individual crediting rates of the buckets, the separate account 903, the buffer, you know, at zero percent, very challenged by the cash flow profile over the last six to nine months, but overall, a fairly strong rate, you know, and blended with the GLTF at 2.52 percent. We are going to use the 5/31 data to calculate the next quarter's crediting rate. We should be getting that out in about a week and a half or so for review.

So on the revision to the buffer, there was an amendment to how we administer the buffer, and this is this particular bucket, the separate account 903 Intermediate/Agg. Prior, the minimum was six percent and the max was 15. There was a change enacted to skinny down the cap and floor to a nine percent minimum and a 12 percent max. So we don't really have a – it looks like we're not going to hit the 12 percent, but I'm going to update you on where we sit as far as going to the nine percent again.

So on the - shortly after the 4/24 authorization and change to the buffer cap and floor, we went ahead and rebalanced at the end of April, and these were the transactions within the four components. The Voya Core Plus funded about 33 million out of the assets in that account into the buffer account, and JP Morgan with about eight-and-a-half, and the general account, about twelve-and-a-half million. So that all went into the buffer to be used to fund the net negative cash flow.

So where do we sit at the end of May? We're about 12 million away from a new rebalancing. So it's about 0.6 percent. So we've got another 12 million or so to go before we rebalance yet again. And that was one of the objectives of skinnying down this buffer is to, you know, more frequent rebalancing so we have enough money in this buffer to fund the withdrawals.

So just to give you a flavor for what 12 million is, net cash flow in May, from my calculations, was negative 8.2 million. So it's about a little bit—

You know, based on May, I wanted to ask Michael, was there a GoalMaker rebalance during May?

MR. McCANN: I believe that's right. Dan, is that – Dan Evans is on the line too. Dan, is that – was May the GoalMaker rebalance month?

MR. EVANS: No, it would have been April.

MR. McCANN: April, late April.

MR. EVANS: And we'll do another one this month. I'll get the data on that though. I think maybe around the week of the 19th at some time. But I'll get a date on that.

MR. CAMP: Okay. So if I were looking at numbers - and I apologize for all these numbers, but I'm kind of a numbers person - this is the—

CHAIRMAN ADOMEIT: Excuse me. Can you make the numbers a little bit bigger, please?

MR. CAMP: Sure, I can do that.

CHAIRMAN ADOMEIT: Ah, perfect. Thank you.

MR. CAMP: Okay, yep, yep. Thank you. You're welcome.

So this is the fund sitting at the end of May, the end of 2022. So you're down about 40 million or so. So that - you know, that reflects all the net, you know, cash flow activity plus interest earned. And on the right-hand side, what I wanted to show was just the net cash flow. This is just cash flow, nothing – you know, no investment earnings or anything else, but just pure net cash flow.

So you're down about 61 million year-to-date through May 31. All of 2022, that number was about 51.5 million. And then 2022 (sic), you know, it seems like many, many years ago, but down about five million. So, that's kind of the difference in the profile.

So that's (inaudible).

MR. HELFAND: That should say 2021; right?

MR. CAMP: Sorry. Yeah, that's correct. Sorry. That is - should be - I can change it right now. There we go.

So let's do some observations in stable value, and I'll be quick here. The yield curve is really a lot of the cause in what's happening with stable value funds. You know, the Fed's aggressive actions to combat inflation have really inverted the yield curve. The short end of the yield curve has, you know, really skyrocketed, you know, in comparison to the long end of the curve. And the result of that is money market funds, you know, CD's, brokered CD's have a significant yield advantage over most stable value fund crediting rates.

Even though your rate is two-and-a-half percent, which is a pretty strong crediting rate, you know, there are brokered CD's out there in the high fours, you know, five percent, that, you know, are being shown to participants, you know, mainly retirees and separated from service, by advisors, you know, to try to get them to move out of the plan.

So the cash flows, really the contributions have declined a little bit. Interfund transfers, you know, I mean, specifically involving stable value, really negligible. It's really not having any type of an effect on cash flow. It's just distributions. So that's really what the problem is.

And how does it affect stable value funds? So when you have interest rates increasing, what happens is your bond portfolios that are backing your stable value fund lose value. You know, you get an unrealized loss on those particular securities. So the market-to-book ratio declines.

Just in May, you know, perhaps a little bit with the debt ceiling and, you know, what the Fed is going to do in the future, the three-month US Treasury increased 42 basis points. That's just in May. The ten-year increased 20 basis points, further inverting the yield curve. And I think the one-month US Treasury increased over 90 basis points. You know, that's probably something more to do with the debt ceiling. But rates continue to move up.

So looking at your fund, your participant behavior is really on par with other stable value funds. The distributions are not uncommon in a lot of the plans that I have responsibility for, at least the stable value piece. You know, as the record keeper, we actually look at detail on cash flow as well, and your particular participant behavior is not abnormal.

So one thing that we—

MR. McCANN: Tony, we would echo that as well, just to add to that. Completely agree.

MR. CAMP: Thank you. What you have as maybe a little bit of a help is you don't have a money market option - I believe you don't - or a brokerage option. And we see in some plans that, even though there's what's called an equity wash stopping participants from moving direct from the stable value fund to these options, you know, you don't have that situation. But in other plans, we have seen movement to money market and maybe a little bit to brokerage options.

So your cash flow, you know, you have a mature plan with a lot of older and retired - you know, retirees in the plan. So in April of 2023, and this is looking at Michael's spreadsheet data, the Connecticut stable value fund paid out 50 percent of the April distributions, and that was 37 million dollars alone.

Your interfund transfers are actually a little bit positive, but, you know, there's just a, you know, eight - I don't know if I'm reading the data correctly, Michael, but 816 terminations in April and 180 rollovers. That's a lot of activity.

And then the year-to-date, the rollovers, you know, of 130 million and 812 participants. So, you know, that's pretty much the - you know, the - pretty much the cause of, you know, a lot of the negative cash flow is, you know, rollovers and terminations and these distributions.

So my last slide is just I'm curious to look at, you know, Treasury rates over time, and this goes back to 2012. You've got the two-year, five-year and the ten-year Treasury rate. And, you know, is your state - you know, State of Connecticut net crediting rate pretty much tracking? You know, you don't track exactly where Treasury rates go because, you know, you don't invest in all US treasuries, but it gives you a good flavor of, you know, where rates are heading, where yields are, and your stable value fund should be kind of tracking where rates are.

And you can see here, you know, kind of a more steady, you know, not really moving all that much. You know, rates dip down, and starting in 2018 or so, down to 2020, bottoming out. And, you know, you move down, you know, slightly, and then rates are starting to move up, and, you know, your rate is starting to kind of move in the right direction. So overall, you know, not a bad profile, you know, from this aspect.

So I don’t have any more prepared slides. Again, I just wanted to update as of the end of May, kind of, you know, what has been happening, you know, what we did with the buffer; we did the rebalance; and kind of where the fund sits.

MR. PICARELLI: Tony, have you done any work to see whether or not the buffer account weakened and modified the duration of the portfolio?

MR. CAMP: We’re – there’s a duration, a cap and a floor. I believe the duration has to be within a half a year of the benchmark duration. But, you know, that could be amended. You know, we can take - the investment guidelines are found in the four stable value contracts. And those contracts can be amended with mutual consent. So we can, you know, amend the guidelines to be shorter.

So there are – you know, right now, that looks like it could be an attractive - you know, especially if you went into short treasuries. But for the long-term, you know, we’re in a situation now where we're, you know, not quite sure how long this inverted yield curve is going to last. You know, it's really - there's a lot of schools of thought on, you know, if there's going to be a recession; when is the Fed - you know, are they going to skip their rate rise next time; what are they going to do, you know, the time after that and the time after that, you know; when are rates going to do down?

Nobody knows. So if you make a move, you know, very similar to your last discussion, you know, it's very hard to make changes in strategy based on, you know, where you are currently. And you really don't know where you're going to be going because, you know, nobody can predict anything that's going to happen into the future. So it's a tough call to go shorter. Because if you went shorter right now, and, you know, rates rally, you know, say in three months—

MR. PICARELLI: Yeah.

MR. CAMP: --three, six months or so, you're going to miss out on the capital gain, you know, the - right now, you have an unrealized loss in the portfolio. So if you went shorter, you curtail the ability to make up that unrealized loss with an unrealized gain as rates decline.

MR. PICARELLI: (Inaudible)

MR. CAMP: So sorry for the longwinded answer, but it's—

MR. PICARELLI: That was good.

MR. CAMP: --this is not - this is not easy stuff.

MR. PICARELLI: We were bantering that the last time around. That's why.

MR. CAMP: Yeah. Yeah. So the cash flow is, you know, maybe we got lucky in May - I'll make this bigger - only 8.3 million. You know, there's - you know, we've been talking about this situation. Again, it's not only, you know, the stable value fund for Connecticut. It's, you know, across the board. You know, at some point, the pool of, you know, retirees and separated employees, you know, it's shrinking.

You know, at some point, you know, it may be all the participants that would entertain, you know, moving, you know, out of the plan, you know, just to - you know, for one reason or another, you know, maybe that pool is going to shrink, and maybe this net cash flow number, you know, won't be as, you know, strong as it has been in the past, you know, 18 months or so, or six months, six to 12.

But again, hard to predict. You know, I don't know if the Empower folks on the line have any kind of a feel for, you know, how many participants are left in the situation or—

MR. McCANN: Yeah.

MR. CAMP: --ear to the ground talking to participants, you know, what - you know, why they're moving and, you know, where they're going and—

MR. McCANN: Yeah, thanks, Tony. So I'll answer that, and then I'll turn it over to Bill O'Reilly to just share a few thoughts that we have around participant cash flow.

You know, in terms of the demographics of the Connecticut plan, completely agree with Tony. And I think that's probably the biggest headwind that we face. I mean, if you just look at all of the assets that are in the four Connecticut DC plans, 82 percent of all fund assets are maintained by people over the age of fifty. So that's just a significant headwind that these plans face. Not to say that, like to Tony's point, a lot of other public sector plans are in similar positions, but that's over - that weighting of 82 percent of all assets for people fifty and over, that is a little bit more unique to the situation that Connecticut is in.

So what I would say in general, before I hand it over to Bill to make some comments on the stable value is, is that we have a lot of great tools and services that we offer to participants today to try to make sure that when they separate from service, they know that they do not have to roll over if they don't want to. They can stay in-plan. They can get a true apples-to-apples comparison of what these plans offer versus what that broker may be offering when they go and, you know, meet with him or they get fliers attached to their cars or they get things in the mail inviting them to come for a consultation.

To no surprise, we're doing all of our reporting on rollover out. It's the usual heavy hitters where we see where those assets are going right now, the Schwabs, the Fidelitys, the Vanguards, the TIAA's of the world. So the only other thing that I would say before I turn it over to Bill to make some comments is that as we are getting ready to migrate over to the Empower record-keeping platform.

When this conversation came up earlier this year, we shared some of the tools and features that Empower helps to make available that can really help participants that are getting bombarded by those brokers. And those participants, they say they just truly want someone to help them make an advisory decision on where they put their money. We have those types of tools and services that we can put in-plan that might help those participants so you see like a stemming of the tides where, you know, maybe over the course of time, if those services would get implemented, you see more of those assets stay in-plan versus continuing to go out to the brokerage firms that we report out on every month through this report.

So with that, I'll turn it over to Bill. And I also want to make sure Bill highlights what our second half GLTF rate will be for the second half of 2023.

So, Bill, I'll give you the floor.

MR. O'REILLY: Yeah, okay. Thanks. I think I'll just start off and probably echo some of what Tony was saying in terms of our experience. We have about a 110-billion-dollar block right now of stable value assets under management. We would say it's a pretty similar experience in general across most plans that you are going to see withdrawals right now.

You know, it's very typical from a long-term perspective even to have a participant population that's older. You know, this plan is a little bit higher than, you know, the average we might see, but, you know, having, you know, over age fifty be more than 50, 60 percent of, you know, the demographic in the stable fund is quite common. There definitely are some rollovers in other plans where that population is moving, you know, and taking advantage, you know, outside the plan, you know, higher CD rates, money market rates.

Completely agree with Tony in that it's quite a common thing that we're seeing with the alure of, you know, money market above four, four-and-a-half higher in some cases. One of the key things from an educational standpoint, and it's part of almost daily conversations that we have with consultants, is that you really have to view stable value for the long run, just as you guys were talking about in the prior conversation of what is the long-term role of the asset class.

And we try to educate on the returns of stable value over the long-term versus money market, versus treasuries. You get the return of an intermediate bond portfolio, and when you stack that up against, you know, the investment of say a lump sum over time in money market versus stable value, the asset class is clearly outperforming money market in the long run.

And so it could be quite dangerous, I think, for a participant to roll money out and go to money market in an unusual yield curve inversion environment. And the curves invert and then they revert back pretty quick. You know, we saw all that happen last time in 2006. You know, but once you've rolled your money out of the plan, you know, you're out of the plan; you don't have that immediate ability to transfer within the plan at a fully protected book value rate; and now you're outside of the plan and in a lower money market return or CD. So I think it's, you know, important to understand that long-term role.

So, you know, in terms of the rate environment, obviously really unusual. I think we're probably seeing the same thing, as I said as, you know, Tony had mentioned, doing the education on the asset class. I would say in terms of the overall stable value structure that you have, with the rebalance, everything is functioning as you designed it. As far as our piece with the guaranteed long-term funds, you know, part of that rebalancing - and Tony went through the numbers. And so for this call, you know, we just wanted to stress coming off the last conversations that the fund, from our perspective, you know, can continue to support that.

There was some conversation last time around pro rata and whether you want to have a buffer.

Certainly we see structures where there's no buffer and there's pro rata cash flows out of each underlying fund to cover participant draws, and our product is often used - you know, for the most part, it is used as a stand-alone fund to the tune of five, six million dollars in other plans, and it can support that.

So we just wanted to stress that, you know, either way, we can continue to support that. To Tony's comments around duration and the role of duration, it is tricky, you know, to make plays on duration because the rate environment can move against you pretty quick. And so you just want to pick, you know, what the overall duration profile is that you're comfortable with for the long run, and I think we have a theme of, you know, long on planning here and stick with it.

You know, when our fund was added in 2015, it was a little bit on the shorter end versus the other components. As of the third quarter on March 31, it was a three duration in the structure. Tends to be in and around that level three, three-and-a-half, and it's been quite rate-responsive. I wanted to point that out with this environment, our product resets every six months. So it was two-twenty for the first half, but we are seeing, you know, as we are just walking through, you know, the comments about great responsiveness and long run. With the portfolios, you know, rolling over and reinvesting at the higher rates, the second half rate is going to go from two-twenty to two-sixty.

So it is moving along. And this is another important point in the conversation that I have every day with consultants is the rate responsiveness. You know, these products, well, all of them, including the Voya pieces, will roll over. Within the few years really, they'll recover probably the vast percentage of market-to-book difference and move higher. So I think that's important when you're thinking about the asset class in total and the fund components within, you know, what that rate responsiveness looks like. And I think it's pretty good in this case to not have a side-by-side money market because, as Tony walked through, you know, that's just going to exacerbate withdrawals and it makes it harder for the funds to reinvest in a higher rate environment.

So to the extent that there's an ability to get additional flow, you know, into the stable value fund, you know, on top of its normal great responsiveness and portfolio rollover, you know, that money is going to roll over into a higher rate environment. So I think overall, those comments are pretty consistent with what Tony's firm is seeing versus what we're seeing.

But, you know, let me sum up there and see if there's questions.

MR. PICARELLI: So the way that cash flow is running, we'll only - we're not going to be able to support a buffer account going forward at the end of the day.

MR. O'REILLY: Well, I think you could. You know, this might be a little bit more frequent rebalancing to keep the buffer there. The alternative would be to just have a pro rata out of each fund, but the - you know, this - at the end of the day, it's the same effect really. So it's really what's your operational preference on that.

MR. PICARELLI: So we've got basically 160 million dollars in the buffer account. We could continue to draw that down to zero, and when that happens, then we go into a pro rata mode.

MR. O'REILLY: Yeah, because each piece is supporting the buffer pro rata anyway. So it's really just the matter of a timing mechanism there with that structure.

MR. PICARELLI: Yeah. So we'll always - then we're reliquidating the existing assets to fund the buffer.

MR. O'REILLY: (Inaudible) yeah.

MR. CAMP: So you're sitting about 216 million in the buffer account right now. And, you know, in May, about eight - you know, there's eight million dollars that came out of the funds. So you - you know, what's going to happen, Frank, is - you know, we used to wait until the buffer got to six percent versus nine percent to do a rebalance.

MR. PICARELLI: Of the portfolio.

MR. CAMP: Now, it's got to go only to nine percent of the total fund, and then there's going to be a rebalance from, you know, the other three buckets, you know, to get that ten percent back into, you know, the buffer. So what we designed, you know, this is temporary; I mean, this is not forever, or it could be forever.

MR. PICARELLI: Right.

MR. CAMP: You know, a way to make sure that the buffer has enough assets and the manager can manage that particular strategy without having, you know, a lot of stress on the underlying assets, because, you know, it's tough to manage a—

MR. PICARELLI: I was just talking, the worst scenario. You know, we have to try this out for a period of time.

MR. CAMP: Yeah. I think we're just – we're early days, and, you know, we're all very interested in what the cash flow is going to be, the profile is going to be, you know, from June on, not only in your plan, but in the rest of – you know, for all other plans in stable value.

MR. PICARELLI: So, Peggy, when you retire now, you've got to leave your money in the plan, especially (inaudible).

MS. HAERING: I had planned to. I had planned to.

MR. PICARELLI: You'll wipe us out. You'll wipe us out.

MS. HAERING: I'm going to put everything on red. Take it all out and putting it on red.

MR. CAMP: So, Bill, this is Tony. Can I tell our analysts to utilize the two-sixty rate for the calculation? We—

MR. O'REILLY: Yes. And the team was – this is kind of the normal time our team calculates the rate. Since we happened to have this call, I figured I'd announce it.

MR. CAMP: Okay.

MR. O'REILLY: But it will be the two-sixty, yeah.

MR. CAMP: That's good. Well, that – that'll hopefully increase the crediting rate, and the higher the crediting rate, you know, that's more ammunition against, you know, participants being lured, you know, out of the plan.

MR. O'REILLY: Right.

DR. WOODRUFF: Well, that's a bit of good news.

CHAIRMAN ADOMEIT: Yeah. So is the recommendation, we watch it and wait?

MR. PICARELLI: That's what I'm hearing.

DR. WOODRUFF: Yeah.

MS. HAERING: Yeah, I think that makes sense.

Tony, how close are we to needing to rebalance again though? You said we're at ten percent.

MR. CAMP: It's, I believe, about net negative cash flow of negative 12 million.

MS. HAERING: Mm-hmm.

MR. CAMP: Or – yeah. So we're – you're fairly close. You know, we did that on purpose because we didn't want the – you know, the buffer to be, you know, depleted.

MR. HAERING: Right.

So, Bert, what are the July retirement

numbers?

MR. HELFAND: I have not heard them. But retirements since last year have been down significantly.

MS. HAERING: Mm-hmm.

MR. HELFAND: I don't - and there's no longer an incentive to retire in July. So—

MS. HAERING: Okay.

CHAIRMAN ADOMEIT: So the decision is to make no decision, watch and wait. I don't believe we need a motion on that.

MS. HAERING: No.

CHAIRMAN ADOMEIT: It's simply continue what we've already approved.

MS. HAERING: Right.

DR. WOODRUFF: That's right.

CHAIRMAN ADOMEIT: I have laryngitis. You have to excuse my voice.

DR. WOODRUFF: No, I think that's right.

MS. HAERING: Yeah.

CHAIRMAN ADOMEIT: Okay. Have we wrapped it up, Tom?

DR. WOODRUFF: I think so. I don't think we will need to get into the individual fund performance report right now. I think we've accomplished a lot today.

MR. PICARELLI: You know, one comment on your existing fund. Overall, your lineup is doing very strong. You know, just had that one on the watch list, and we addressed that issue today. But everybody is doing pretty good.

DR. WOODRUFF: That's good. Well, thank you.

CHAIRMAN ADOMEIT: We are bumping into a motion to adjourn.

MR. PICARELLI: Thank you.

DR. WOODRUFF: I move. Need a second from the commission.

MR. BAILEY: Bailey, second.

MS. NOLEN: Second.

MS. HEARING: All right.

CHAIRMAN ADOMEIT: Okay. All in favor, say aye or raise your hand.

MR. PICARELLI: I just have one—

CHAIRMAN ADOMEIT: I'm sorry. Frank?

MR. PICARELLI: I just have one final thing. Peggy, now that you're leaving, who do we deal with here now—

MS. HAERING: Well, Agnes—

MR. PICARELLI: --you know, on the day-to-day stuff?

MS. HAERING: Yeah. Agnes will be responsible for trying to get the scheduling done. And—

MR. PICARELLI: Okay.

DR. WOODRUFF: And Bert and John will be participating in the committee.

MS. HAERING: Yeah.

MR. HELFAND: But God as well.

MR. PICARELLI: I don't think they're going to do as well as you, but, you know, they'll - they'll try.

MS. HAERING: Oh, well.

DR. WOODRUFF: And you'll still have me to kick around a little bit.

MS. HAERING: Exactly. We'll still have Tom. Okay.

CHAIRMAN ADOMEIT: So we can call the motion then.

MS. HAERING: We can.

CHAIRMAN ADOMEIT: All in favor, say aye or raise your hand.

MS. HEARING: Aye.

DR. WOODRUFF: Aye.

MS. NOLEN: Aye.

MS. HAERING: Aye. I'm raising my hand, but

I have no video. So—

CHAIRMAN ADOMEIT: Opposed, say nay or raise your hand. No opposed.

Thank you all very much. This has been very informative.

MS. HAERING: Okay. Bye.

DR. WOODRUFF: Thank you.

CHAIRMAN ADOMEIT: Thank you for sharing your expertise.

UNIDENTIFIED SPEAKER: Be well, all.

MS. HAERING: Bye-bye. Bye, everyone.

UNIDENTIFIED SPEAKER: Bye, Peggy.

MS. HAERING: Bye-bye.

MS. NOLEN: Yeah, bye, Peggy.

(Adjourned at 11:17 a.m.)

I, Karin A. Empson, do hereby certify that the preceding pages are an accurate transcription of the Connecticut State Employees Retirement Commission, Investment Subcommittee meeting held electronically via Zoom, conducted at 9:36 a.m. on June 5, 2023.

Karin A. Empson

Karin A. Empson

06/30/2023

Date