STATE OF CONNECTICUT

STATE EMPLOYEES RETIREMENT COMMISSION

INVESTMENT SUBCOMMITTEE

DATE: DECEMBER 2, 2024

HELD VIA ZOOM

CONVENED AT 10:00 A.M.

Present (Via Zoom):

Trustees Participating:

Michael Bailey
John Disette
Brian Hill
David Krayeski
Karen Nolen

Other Participants:

Peter Adomeit, Chairman Retirement Commission
Ben Sedrowski, Planning Specialist, Retirement Services Division
Michael Schneider, Retirement Services Division
Agnes Gajowiak, Retirement Services Division
Thomas Woodruff, Healthcare Policy and Benefit Division
Cindy Cieslak, Rose Kallor, General Counsel to the Commission

Joe Fein

Michael McCann, Segal

Frank Picarelli, Segal

Dan Evans, Empower

(Proceedings commenced at 10:03 a.m.)

CHAIRPERSON ADOMEIT: This is a meeting of the Investment Subcommittee of the State Employees Retirement Commission, being held remotely using Zoom technology.

Do you have the attendance, please Cindy?

MS. CIESLAK: Good morning, this is Cindy Cieslak. Present today we have Chairman Peter Adomeit, Trustee, Michael Bailey, Trustee John Disette, Trustee Karen Nolen, Trustee David Krayeski, Trustee Brian Hill. From the Office of the State Comptroller Retirement Services Division, Robert Helfand, Ben Sedrowski, Michael Schneider, Tom Woodruff and Agnes Gajowiak. Also present we have Joe Fein, Michael McCann, Frank Picarelli, and I'm Cindy Cieslak, General Counsel from Rose Kallor.

CHAIRPERSON ADOMEIT: Thank you. New business. Third quarter performance review. Segal?

MR. PICARELLI: Good morning, how are you? I can't believe the year is coming, we only have a few more weeks to go, but all and all, you're going to see some very favorable returns, and I'll update the committee.

I've gotten performance year-to-date as of last Wednesday. So, with that, Mike, you're going to be popping up my report? Hello, Mike?

MR. MCCANN: Yep. Let me make sure I can pull it up here, Frank. Can you see it?

MR. PICARELLI: Very good. So we're here to look at

the performance of the funds as of September 30th, the third quarter, and if you could see, Michael, if you could quickly go to page 4, we get a nice look at the numbers to see where we are quarter and year-to-date. But that 1 year number is really exciting where you could see that the S&P over a one year period came in at 36%. So this quarter -- good results. The only shift here is that value did better than growth. So this was kind of a reversion the second period, but overall growth is very strong, 24.55% value at 16.88. So there's where you see all of the equity markets, small growth doing at 8.41. So just to give you a flavor, as of November 22, the Russell 3000 is coming in at 27%. We got four more weeks to go, so hopefully that trend will continue. Of Growth Company's, large growth are averaging 30.5% year-to-date, as of November 22, the S&P 27%, growth 30.8, as I mentioned, value coming in at 21% and small caps are averaging 16%. And the international markets are at 10%.

There you see the sectors, and as we go when we look at the actively managed funds, you know, the big player is in the international -- is in the large cap growth space with IT, and you could see, look what that's contributed on the 1 year side coming in at 52.68%.

So the only negative returns for the quarter was energy. We saw the feds adjust the interest rates during the fourth quarter. And Michael, if you could just quickly move on

to the International Equity Markets, and then you can see, again, good strong consistent numbers across the Euro Zone, Japan, and then when you take the world and back out the US, you're averaging 13%.

On the next page, on emerging markets, we've been seeing a trend in emerging markets on the upside, and this is a good return in the emerging markets where they came in at 8.72, so they led the charge there in respect to the overall European International overall markets.

On page 8 is the fixed income indices. And then you can see the broad bond index was up for the quarter, 5.2%. On a year-to-date basis at 4.45, so we're seeing that reversion now. We're a pretty good balance between equities being strong and the fixed incomes coming back up. Then really the high yield was the hard sector, the more risk spectrum of the bond markets at 8% coming in at 15.74. So over three years, the bond world has generated a -1.39. Over five years, basically flat. So the equity markets, that trend would continue in '24 as we've seen in prior years.

So we have a lot to cover. I'm going to move on. I just wanted to give you a flavor of where we're trending and good numbers and our funds did well.

The next section is our defined contribution market update, and I think we were in a pretty good position the way we allocate our fees and everything ready to move. I think the big thing is with the Roth, now that you have the super Roth catch up that you guys are going to be implementing, so there's really not a need for me to spend any time in this particular section. Empower will be covering that in more detail.

Moving on now, Mike, to page 28. Let's just see where we are with respect to our plan activity. And that's a tough number to read on there, you have a lot of information, but at the end of September, you're at 4.6 billion. We had a 197 million and change in investments. We're continuing to have a trend of negative cash flow where 76 million came out for disbursements and 49 came in for cash. So about 20 some-odd million in negative cash flow, but everything from period to period balances. So the 457 is at 4.6 billion, your asset allocation is consistent, nothing new to report there. We did monitor your cash flow with Tony Camp, and, you know, we're still getting that negative cash flow in that stable value fund. But at the end of the day, it's a healthy fund. We have 1.3 billion in assets representing 30% of the contribution. And then the next big fund is your Vanguard large cap index at 14% of your assets, and then a lot of this diversification is all attributable to the goal maker model.

So there's where we stand with the 457 plan. Our plan expenses are pretty much in line. On page 34 we just did -- I just did an analysis. I'm working with John Herrington and Agnes and Tom, and I think we're going to be in a position, Mike, to move to the lower share class on the JP Morgan Fund. I think we have sufficient enough money in our reserve to move to the zero revenue sharing version, which would bring it down to 65 basis points. So we'll eliminate that one fund, basically paying the freight of our program. When I did my preliminary calculations, we have about a 153 million dollars in total assets. You take your fee of 2.85 out of that, which is 43 million and change. When you look at the total revenue it generates, when you add up all of the revenue sharing across all of the plans, 153 million, so we generate a 153, we have to pay you 2.85, we have about 90 -- 109,000 left to go into the reserve, and on the reserve, well, currently we have over 800,000 in it, so I think that'll give us sufficient enough funding so that would be a good thing to do. I'll be discussing this and going over it with John in more detail, and more will come back. So that's the good news. I'm happy about that, and we'll get that thing off our plate this year. Okay? Thank you.

We're on page 34. I'm going to quickly jump -- any questions on that? I can move on, if not, to the 403B Plan, which is on page 35. I use the page numbers on the bottom, and we have 1.2 billion in assets, the withdrawals 31 million compared to about 12 million going in. The plan for the quarter had a net investment growth of approximately 56 million dollars. And again, your asset allocations, everything has been basically, no major change from period to period. And all of that is illustrated for you on the next several pages.

We move to the 401A Plan. And the 401A Plan has 2.3 billion in assets. Cash flow is not as bad, 22 million coming out for disbursements, 22 going in. So it's about a 7 million negative cash flow on just the disbursements and inflows. And again, very good quarterly performance of 110 million and change as the gains for the quarter. And again, everything with respect to the revenue sharing will now all be clean. Everybody will be paying zero or the cheapest share class, and we don't have to worry about that one fund being an eyesore on the lineup. It was a good solution, but we were able, as the plan grew, to take a little advantage of -- following that trend. So all good across the line.

We'll talk a little about the Stable Value Fund on page 56. And then you could see the returns, the blended rates for all of the managers is coming in at 3.03, so we saw little steady increase. The separate accounts is at 2.82, and the Guaranteed Fund is doing strong. It had a good quarter, and that number is illustrated on page 57, where you could see the Prudential Credit Rate is at 3.25 and all of the others that you saw on the prior page. So the General Account is stepping up and responding to the rate environment, the lower the rates helps that book to market differential, and we've been doing well with the general account over the last two quarters.

So you see the Net Crediting Rate now from October to

December, our last quarter, we're going to be coming in at 3.22, pretty much consistent. And the Prudential, again, is projected at 3.225.

Okay, all of the book to markets, the asset allocations are in line with the policy statement, credit rating, all of the underlying holding. Really nothing to report. Mike, if you could go to page 62.

Here is our line up. The good news is everybody is consistent with their style. At the last meeting, as soon as we got up on the call, I had an alert, but it wasn't for our fund. We have the TCW Metwest Fund, and I was looking at that fund because there was a manager change, and that person is going to be transitioned out the end of the year. So I was just doing preparatory work and maybe looking at other alternatives for our active growth fund. But all and all the performance is tracking good at this stage, so I'm not concerned about it. I was just getting ready with alternatives, 'cause I know that takes some time for you guys.

So when you look to the next page, it's our Watch List. And on the Watch List, the JP Morgan is out there, but we have an improved 1 year performance, it's ranking 36. The 3 year out performs the benchmark. It's really on the watch list for the three and the five year periods. So we'll take a look at that, but it's tracking well now.

And then the Metwest, really no action at this stage.

We'll go over the numbers, but I just wanted to make that note for our report that we were just watching it for managerial retirement that was going to happen at the end of the year.

Michael, if you could just move to page 64, and here's where we roll everything up. You get to see the numbers and the trend will continue. Really, it's nice to look at the 1 year number. Here you can see the Empower Guaranteed Fund at 3.1. The JP Morgan Intermediate Aggregate, which is part of our separate account fund, is tracking well across the board. The Voya products are in line, the Core Plus coming in at 13.2 versus 11.6, so we're all pretty good with the way we have structured our Stable Value Fund. So when you roll it all up and you compare it to the Ulcer Index, we're right on board over a 3 year period, 2.4 to 2.53, so we're in a pretty good place there.

In our Bond Funds, we have the Calvert, which is a Social Responded Mandate, we have the Metwest and we have the Vanguard. And it's interesting to hear, because we always look at indexing and see how our index products do, when you look at the Vanguard total bond index, when you see that 80 rank and 78, disregard that, because the tracking era on the bond fund is the expense ratio, which is four basis points. That peer ranking includes active managed funds. So when you look at the Calvert fund, which does have restrictions because of the social mandate, it's ranking 7, so we're paying 53 to get 0.2 over a 3

year basis. The Metwest fund is coming in at a -1.8 versus a -1.4 and a -1.5, but it did track well on a year-to-date and 1 year and very good 5, 7 and 10 years. So we were slightly going off. It was on borderline watch list, but, again, it ranked 7 and is tracking very well to its peer groups.

So the Vanguard Index, if you just paid four basis points, you're doing pretty well in that, you know, you're coming in at 11.4, the index is 11.6, so the difference is the expense ratio, and the peer groups are actively or at 12 basis points. So when you have 3 and 38 compared to 4, you know, they always say in this particular category, this is the one category to keep the active management. But I just wanted to point that out to you. We're well diversified. We have the active, we have the Vanguard Fund and we have our Social Responsive Fund. And in addition to that, we have all of the bond funds under the hood with respect to that separate account that's created under the Voya structure. So all pretty good stuff on the first page.

The next page, the American Mutual Fund, which is your large value, you know, over three years, it's right up there in the top 25 percentile. Your TI-CREF Equities and Social Responsive are all in line. The TI Pref Growth Fund, which we moved to, you know, you got 42.2% It's right online with the index, and the peer groups did 41. So the actively guys, the index did better on the 1 year.

Now, we look at our JP Morgan Fund, and JP had a good

quarter, it ranked 16, year-to-date she came in at 14. So we didn't track as well as the index, but we beat actively pure managed funds at 13. So on a 1 year basis, it's coming in at 28%. And so you could see the 3 year numbers is off 8.3 o 8.7, so it's at 63, but good strong results, and then pretty good numbers on the 5 year side tracks very closely to the benchmark 10.2 to 10.3. So that's why we flag it out there for those numbers. So we have a tough bogy. We want our fund to blow the socks off all categories. But now we're going to move to a cheaper share class. It's going to go from 75 to 65. The Vanguard mid cap index, the TRO Price Fund right online is where we like to see all of our funds, ranking the top 25 percentile. The Vanguard explorer small growth is ranking well on the 3 year side, and it's a little below the indices and peer groups for the current year. And that's all applicable to more of the quality issues of the portfolio.

The next page is we have the American Funds Euro Pacific, and if you look at the American Euro Pacific, you could see that on the year-to-date, it's coming in at 13%. So we beat the peer groups of similar managed funds at 12.7. This fund always had a bias towards growth investment. The portfolio went through a significant reallocation of the position in Russia during the Ukrainian war. It missed some of the run recently that happened towards the end of September on the stimulus in China. So we're -- I spoke with the portfolio managers prior to the meeting, and everything is being basically projected to get more in line for the current year numbers. So it's on the watch list because of those long term numbers. But if you go to page 69, you see the year by year of the American funds, Euro Pacific, is that on that page? Where is that fund? Yeah, it's on the top. You can see -- I'm sorry. It's on page 71. So you can see where the '23, '22, and '21 were the periods where the fund under performed. This fund, if you recall, had a high allocation to emerging markets when emerging markets was on the downside, so it lowered its position in emerging markets. Now emerging markets are coming back, and that's helping the fund. But outside of those three years, when you look at the fund from '20 all the way to 2014, over that span, so over a 10 year period, the '23, '22 and '21 were the weakest periods, and that was all applicable to the international exposure, and the repivoting of its positions in the Russian markets.

So it's a good fund, quality fund. They did have a manager change on the fund, but that fund is structured with a team approach. So it's being transitioned with its team of replacement managers, so everything came out pretty much positive from the (inaudible) Company's Research on that manager, which was done a few weeks ago. So hopefully we'll see an improvement the way things are trending, and we'll get one of those years all off, which will affect maybe the 5 year numbers.

So I went through this fast. I know Mike has a lot to cover. I think we're in pretty good shape with all of our funds, the structure, and really no action with respect to the lineup at this stage. Questions? All right. I'll turn it over to you, Cindy -- Peter.

CHAIRPERSON ADOMEIT: Thank you.

MR. MCCANN: All right. Are you guys ready for Empower to give our update for the quarter? All right.

Well, first and foremost, again, for the recording, my name's Mike McCann with Empower, joined today with Joe Fein. Just in case you were curious, the phone number on, that's Dan Evans. He was having some technical issues, so he's joining via phone. He's also on the Empower team. Scott Mahon, who normally joined these calls, just happy to share that he is on paternity leave. He just became a father just before Thanksgiving. So Scott is probably getting no sleep, but adjusting to fatherhood and baby's healthy, mom's healthy, and I know Scott's just ecstatic to be a dad, so he'll be with us on the next meeting.

Can everyone see my screen okay? All right. So for our update today, I'll try to keep it pretty high level, hit the key points, and then any questions that you guys have, please jump right in.

What I want to start off with is on slide 4, this just shows total plan assets amongst all four of the plans. The key thing to point out on this is, is that you're now in terms of total plan assets among all four plans, you're over 8.2 billion. That's up from 7.9 billion the last time that we met. And, the Connecticut plans have hit a significant milestone in terms of participants. You've cracked 100,000 total participants across all four plans for the first time. So that's a huge milestone. I know we talked about that at the last meeting, that we were on pace to do that, and we have hit that mark.

So in terms of total plan assets, again, all four plans, 8.2 billion. You've got the split here on page 4, active participants with the balance you're just over 78,000 and then participants that are separated from service with the balance in the plan a little bit north of 22,000, but that's how that split works. Page 5. Hold on a second, I apologize there. Page 6. This is looking at just the 457 Plan. 457 plan, 4.5 billion in assets, just north of 42,000 participants. You have the same split here in terms of active participants, about 28,000 separated participants at about 13,900. On page 7, again, this is also just looking at just the 457 Plan. The average balance in the 457 Plan is north of 100,000 dollars, at about a 106,000 dollars. That's very good against the Empower State Plan benchmark of where we see for state plans, the average benchmark for the average account balance is about 75,000. And then I won't go into much detail 'cause Frank hit it, but we've got the asset allocation detail here, and I will hit one of the goal maker slides later that'll make that come more to life. On page 9 we've got the same breakdown. I'll go through these quickly 'cause Frank hit on these as well. In the ARP plan we're 2.3 billion in total assets and about 18,000 participants. On page 12, for the 403B plan, we're north of a billion dollars. We hit -- we cracked that a couple of quarters back. We're now at 1.2 billion in the 403B plan, and that's pretty significant when you think that there's only 8,200 folks in there. So you've got a lot of folks with very high account balances in this plan. And then the Tier 4 plan, the newest plan, that plan keeps chugging along where, you know, we're now north of a 133 million dollars, but we've got 31,000 folks in there. So, you know, this has really been the secret sauce in growing additional enrollments into the 457 plan. We've got a really great targeted communication campaign that we do with the folks when they get into this plan of - because remember, with the Tier 4, four, it's just a 1% employer contribution and a 1% employee contribution. So we're then actively reaching out to those folks around, you know, do you need to do additional supplemental savings, and we've had a lot of good success at then driving also enrollment into the 457 plan as well.

Now, we're going to move to slide 18. This shows cash flow across all of the plans. As Frank mentioned, we do have negative cash flow. I know that that's something that we've talked a lot about in the past. That is nothing that's unordinary for plans of this size, especially with the aging populations, the baby boomers, that we see that with a lot of our other state plans as well. So you do fall into the norm there. I know that we did analysis with Frank about the impacts of the stable value and making sure we're working closely with Tony to absorb that. But I just wanted to make sure I hit on that. Any questions at all on the cash flow?

Page 19, this shows participant balances and again, this is across all four of the plans combined. But I think that this shows just a couple of things. It shows both active and separated at different account balance intervals going all the way over to those folks all the way with balances over 250,000, but it also shows that -- what stands out to me, and part of it's driven by the Tier 4 plan, but also it shows that you've got a lot of new people coming into the plans that are going to be the lifeblood as like, the days, weeks and years go on from here. Fifty percent of all participants in the plan have a balance below $25,000. So that's something that we need to make sure that we're recognizing. Well, we've got a lot of huge balances of folks that are at different life intervals, perhaps those late stage intervals, and we're definitely working with those folks on the benefits of staying in plan, making sure they understand all other options when they do separate from service. You've also got good healthy statistics in terms of a younger population coming into the plan that we need to get enrolled, properly educate them about the benefits of asset allocation, proper deferral rates, so that one day, when they do get much further in their career, they're going to have one of these large account balances as well.

On page 21, this starts the goal maker section. And again, in the interest of time, I won't hit all of the plans, but I'll use the 457 plan as an example that you see here on slide 21. The goal maker participation rate for the 457 plan is all the way up to 43% of all participants are participating in goal maker in the 457 plan, and that represents just under 20% of all of the assets in the 457 plan. You can see in the pie chart here in the upper right hand corner, how participants are choosing which goal maker model they want to go into, whether it's moderate, conservative, or aggressive. And then you can see the trend line here in terms of participants and total assets, where for this quarter we cracked 900 million dollars in goal maker assets in the 457 for the first time, and we're just under 18,500 participants. This is also nice with, you know, one of the new slides that we brought over since coming over to the Empower platform. It also shows on the next page this, again, it's looking at the 457 plan, but we have this in here for all of the plans, just the differences in terms of participants on the top chart, assets on the bottom chart, but the different age bands of how old the participant is and what they're choosing in terms of their goal maker strategy and whether they're also active or in terminated status. So, again, really good details there. To no surprise, when you get to some of the older quadrants of participants, you won't see as many folks in goal maker as you would because, you know, those folks, a lot of those folks, goal maker was not an option when they were in the plan, so that's like that other group that we've consistently reached out to over the years where you've got a lot of folks still using just the stable value fund as their sole investment. So at your direction, we've also done targeted campaigns to those folks over the years and slowly brought that number down in terms of the folks that are using that as a sole investment option.

And then this slide here, I think is also nice to look at, too. And I know Frank hit on this a little bit, but this just shows you in terms of goal maker assets versus non goal maker assets, the asset allocation and the amount of money in each fund and how that's used. The biggest being, like I mentioned on the previous slide, in terms of stable value for folks for the assets not in goal maker, you've got 1.1 billion dollars sitting in stable value, which may or may not be right for those participants, that's why we do those ongoing campaigns, just to educate those folks that are choosing that as an option.

All right. Let's move over to the Contribution Activity Report for the third for the third quarter.

DR. WOODRUFF: Yeah. Just one quick question on goal maker.

MR. MCCANN: Yeah.

DR. WOODRUFF: There had been some discussion that was raised by Empower about maybe discontinuing Goal Maker.

MR. MCCANN: Oh, absolutely --

DR. WOODRUFF: Has that been shelved now --

MR. MCCANN: No. We're absolutely -- no talk at all about discontinuing goal maker. That will -- we're absolutely committed to stand behind that product and continue offering that product.

DR. WOODRUFF: Terrific.

MR. MCCANN: Were definitely not going to get rid of goal maker. Yeah.

DR. WOODRUFF: Okay, good.

MR. MCCANN: Yeah, definitely. I want to make sure I put that to rest. That's definitely not going to occur, Dr. Woodruff.

DR. WOODRUFF: Okay, great.

MR. MCCANN: For contribution activity, this again, I think is a nice new chart. We didn't get into this level of detail when we were on the Prudential platform. This just shows the contribution activity. I have it broken out by month, and it just shows the different types of the contribution activity. This, again, is looking at a view across all of the plans, but just shows what's coming in before tax and Roth and employer contributions as well. So it's just, again, a nice view that you can see as a board member of all the different types of money coming into the plan and what's kind of driving that. So that's something that I think is nice to look at as well.

And then we have the distribution activity. This, again, is going back from March of this year all the way up through the end of the third quarter and just shows the different types of withdrawal activity. To no surprise, the leader in that is the separation of service folks that are separating from service. And this specific slide does not go into the level of detail, but we also produce a report on a monthly basis and send that over that breaks out the rollover piece of that separation of activity and what the top firms are for where that rollover activity is going.

And then the last slide that I have in terms of comments, and then I'll open it up to any questions. This is just loan activity. Loan activity is very consistent, so the trend line on loans has been consistent now for a couple of years in terms of about the percent that you see in terms of loans, the activity that you see. So I think it's always good in terms of a planned health item, do you see that consistent threshold in terms of loan versus, like, if you -- it's all a big spike, that might be an underlying issue that might be something that we need to do either more education on or perhaps is like a leading indicator of a lot of stress that your participants are under. But the loan activity has been consistent now for a couple of years, so I just wanted to point that out. That's another sign of, I think, good overall plan health. And we try to do a lot of education around that when participants first come to us on loan, like loans and withdrawals is always in the top three for questions into our call center. So, that's one of the top reasons why participants are always calling in. So you're always trying to do that education on, do you really need that loan, and if so, what are the ramifications of that? We're always trying to provide that education there. So I went through that pretty quickly today, but I didn't want to overdo any of the comments that Frank made. I want to make sure that I continue to sing the praises of Burt, Agnes and Nicole, the tremendous partnership we have with them. I know we're getting ready later this month to do a big payroll upgrade that they've been shepherding on their end, but I think we're going to bring additional efficiencies to their team and our team. So there's a tremendous amount of work going in there. I just want to make sure that I sing their appraise as well for the partnership of all the work that we've put in this summer from migration to now to get the plans operating nice and efficiently, and I think we're close to BAU, back to where we were pre-migration. But that wraps up and Empower's comments for today unless there's any questions.

I think the last thing that I would just say is that,

you know, whenever you guys do decide to formally move ahead with lowering the share class of the JP Morgan Fund, just let us know. We'll then partner with you on finding a good time of when we want to schedule that change to occur, partner closely with Burt, Agnes and Nicole on the participant communication to make sure participants are aware of the cost savings and the share class change as well.

So that'll wrap up our comments. Everyone have great Thanksgiving and are looking forward to the holidays.

CHAIRPERSON ADOMEIT: Thank you, Mr. McCann. Thank you, Mr. Picarelli. Any further questions? We need a motion to adjourn?

MR. DISETTE: I'll make that motion to adjourn.

CHAIRPERSON ADOMEIT: Okay.

MR. BAILEY: Bailey will second.

CHAIRPERSON ADOMEIT: All in favor say aye or raise your hand. It's very unanimous. Thank you all very much.

CERTIFICATE

I certify that this document is a true and accurate description of the proceedings obtained from the recorded meeting of the State of Connecticut State Employees Retirement Commission, Investment Subcommittee on December 2, 2024 to the best of my ability.

Wendy Malitsky

Wendy Malitsky