STATE OF CONNECTICUT

STATE EMPLOYEES RETIREMENT COMMISSION

INVESTMENT SUBCOMMITTEE MEETING

DECEMBER 4, 2023 MEETING
HELD VIA ZOOM
CONVENED AT 9:03 a.m.

Present (via Zoom):

Peter Adomeit, Chairman
Michael Bailey, Trustee
John Disette, Trustee
Brian Hill, Trustee
David Krayeski, Trustee
Karen Nolen, Trustee
Robert Helfand
Benjamin Sedrowski
Tom Woodruff
Margaret Haering
Agnes Gajowiak
Nicole Wagner
Frank Picarelli
Joe Fein
Dan Evans
Michael McCann
Scott Mann
Tony Camp
Vanessa Vargas Guijarro
Cindy Cieslak, Rose Kallor LLP

TRANSCRIPTIONIST: Karin A. Empson

(Proceedings commenced at 9:03 a.m.)

CHAIRMAN ADOMEIT: Okay. All right, Cindy. We have a quorum?

MS. CIESLAK: Yes.

CHAIRMAN ADOMEIT: Yeah. Are you ready to read off the attendance?

MS. CIESLAK: Once you call the meeting to order, I will.

CHAIRMAN ADOMEIT: I will. I just called the meeting to order, Item 1 on the agenda. Okay.

MS. CIESLAK: Good morning, everyone. This is Cindy Cieslak. We have the following individuals present this morning, in no particular order: Chairman Peter Adomeit, Trustee David Krayeski, Trustee Michael Bailey, Trustee Brian Hill, Trustee Karen Nolen, Trustee John Disette. From the State of Connecticut, we have Thomas Woodruff, Ben Sedrowski, Robert Helfand, Nicole Wagner, and Agnes Gajowiak. Also present, we have Scott Mann, Tony Camp, Joe Fein, Michael McCann, Vanessa Vargas Guijarro, Dan Evans, Frank Picarelli. And also from the State of Connecticut, we have Peggy Haering. And I'm Cindy Cieslak, General Counsel for the Retirement Commission.

Thank you.

CHAIRMAN ADOMEIT: Okay, thank you, Cindy.

MS. CIESLAK: Did I miss anyone? I didn't miss anyone; right? Okay.

CHAIRMAN ADOMEIT: Okay, new business, plan statistics, Empower. Please proceed.

MR. McCANN: All right. Good morning. Can everyone hear me okay?

CHAIRMAN ADOMEIT: Yeah. Your name is, for the record?

MR. McCANN: Yeah, Michael McCann, for the record.

CHAIRMAN ADOMEIT: Thank you.

MR. McCANN: Hope everyone had a great Thanksgiving, everyone's rapidly preparing for the holidays and the new year ahead. What we want to do today is spend a few moments going over key statistics. I'm joined by Joe Fein on our investments team, Scott Mann, who leads our dedicated retirement specialists, and then also Dan Evans, whom you all know is our client services manager.

So before I dive into the key statistics that we wanted to share today and trying to be pithy on those, the plan health overall is in a great, great spot right now. Thought I'd just spend a couple of minutes and just give you an update as we continue to work towards the migration of the Connecticut plans onto the Empower recordkeeping platform. So, as all of you know, that is slotted to happen in the first quarter of next year, currently scheduled for the first weekend into March. We'll know definitively that date as we get into the early part of next year.

You're going to be the last wave of all of the Heritage Prudential plans that go along to the Empower recordkeeping platform. So we're over halfway through that project, and in fact, just a couple of weeks ago, finished off what we affectionately refer to as Wave 3.2 here at Empower. That, we think, is the largest type of wave that we - had been done in the industry, where on that wave, we did over 96 billion dollars in assets, 1,400 total clients, and 1.4 million dollars - or 1.4 million participants, I should say.

So that was successfully completed about a month ago at this point in time. And it allows us to now shift and focus towards the next wave, which the State of Connecticut plans are on. So myself and Dan Evans and Joe and Scott Mann have been working closely with staff on all aspects of the migration, and the soon-to-be rollout in terms of connecting with your participants on the action steps that they'll need to -- to take place to register their account on the Empower platform, how they can get training on the new app, on the new website, and all of those many things once that actual migration takes place.

So I know that it's been a common theme to talk about how we move through the migration, and we'll definitely have a lot more to share the next time that we meet, but just wanted to make sure that I have spent a little bit of time this morning to just share that baseline update.

And before I go into plan statistics, definitely want to open it up to any questions that you might have.

MS. HAERING: Yeah, this is Peggy Haering. I have one question. Are there any new cybersecurity protocols that will result from this transition?

MR. McCANN: Yeah, great question, Peggy. You know, since the Prudential to the Empower sale went through on April 1st of 2022, you've all been already enjoying the new cybersecurity not only guarantee, but cybersecurity policy of Empower. So that will just continue to be in place as it has been since the sale has gone through. So definitely happy to just continue to share that detail with you at any point, but something maybe on one of the upcoming staff meetings, we can go into more detail on if you would like us to.

MS. HAERING: Yeah, I think that would be a good idea.

MR. McCANN: Oh, sure. Okay. Yeah, we'll make that as a takeaway and follow up with Agnes on that and can further discuss as needed.

Any other questions? All right. Well, in the interest of time, let's see if I can appropriately get our technology to work today, and let me know if everyone can see my screen.

CHAIRMAN ADOMEIT: So far, so good.

MS. HAERING: Mm-hmm.

UNIDENTIFIED SPEAKER: Yes.

MR. McCANN: Okay. So we're going to start on Slide 5, which is the overall plan demographics for the plan in total. And as you can see here at the end of September—

CHAIRMAN ADOMEIT: Excuse me. Can you make it a little bit bigger?

MR. McCANN: Uh, let me see if I can do that. Is that better?

CHAIRMAN ADOMEIT: Yeah, yeah, yeah. I can see it now. Thank you.

MR. McCANN: Okay, perfect. All right. So as of at the end of September 30, for the first time, we've crossed the 80,000-total-participant barrier when we talk about all of the plans combined. So that's definitely a big milestone.

In terms of average participant balance, still very healthy at over 85,000, but you can see from the prior quarter, where the market dropped a little bit in Q3, that the average participant balance came down a little bit. And then total plan assets also came down a little bit from Q2 to Q3, just shy of 6.9 billion. And then you can see the expense account across all four plans at just north of half-a-million dollars right here.

I'd like to next move to Slide 10. Can everyone see that?

CHAIRMAN ADOMEIT: Yeah.

MR. McCANN: Slide 10 is a good example – and this just focusing – in the interest of time, I'm only going to focus on just the 457 plan. But this also – we have this breakdown on the following slide for all the other three plans as well. But this gives a good breakdown for the net activity by age category. So you can see just the different distributions in terms of total participant balances in the different age cohorts, and then the total contributions, and rollovers in, cash distributions, rollover out.

The net activity is one thing that I want to point out. For the 457 plan, the net activity for the quarter was negative-25-million. And then I also looked at the ARP plan, which was negative-6.2, and the 403(b), which was negative-8.7-million. Most large plans, especially with your demographic of having so many participants in that over-age-55 category, you typically see that most plans have a negative net activity when you talk about money coming in versus money going out.

So I don't think that that's anything to be overly alarmed at. That's been a trend that has been part of these plans for the past couple of years. But it's just something to pay attention to if we see any larger spikes. Again, I know that we always focus and we provide monthly reporting on rollover out and where these rollovers are going, but that's the biggest driver in terms of a net activity there. So I wanted to make sure that I pointed that out.

On Slide - move to Slide 16 next. All right, Slide 16 shows activity by funds, and this is across all four of your plans combined. The funds that are highlighted in bold, those are the funds comprised in GoalMaker. And then you can see the total balance in each fund, the percent invested in each fund, and the number of participants in each fund, and then most importantly, the participants that are using a sole investment. The key callout here is that for the Connecticut Stable Value Fund, 2.2 billion dollars in assets across all four plans comprising about 32 percent of total assets, you can see that overwhelmingly over 73,000 participants have some part of their money in this. So 73,000 out of 80,000 total participants have some of their money in the Connecticut Stable Value Fund. And then you can see participants using it as a sole investment, that's about, you know, just north of 10,000.

I know, Peggy, you're laughing.

MS. HAERING: I know.

MR. McCANN: That used to be - I mean, it's a good-news story though. A few years ago, that was over 14,000.

MS. HAERING: (Inaudible)

MR. McCANN: So we've done a lot of targeted communication there about asset allocation, diversification. So that number has continued to come down. But (inaudible).

DR. WOODRUFF: And we were averaging almost 40 percent of the total being in stable value.

MR. McCANN: Absolutely, Dr. Woodruff. Yeah, a couple years ago, 40 percent of all plan assets were in stable value as well.

DR. WOODRUFF: Sorry, that was Tom Woodruff who made that comment.

MR. McCANN: Next, going to go to Slide 18. So Slide 18, just the big callout here, so last quarter, 83,000 in dollars - 83 million dollars in total assets were contributed to the plan. Last quarter, it was 72 million. So it was a net negative of 11 million in total contributions. However, I went back and looked, and for the prior quarters, it was much more of around the 72-million range.

So we had a spike in Q2, so Q3 went back to more of the trendline from the past couple of quarters. So it's just something that was interesting to me. I'm not sure if anyone on this call would have any ideas why it spiked so much in Q2, but then kind of dropped back more to that trendline in Q3. So I just wanted to make sure that I pointed that out. Then for Q3, it just went right back down to where it was in Q1.

I'm not sure if there was perhaps like an extra payroll, just the way the calendar fell in the second quarter. I just wanted to make sure I pointed that out.

Slides 19 and 21, I'm going to hit it - this is the newest feature that the Connecticut plans had than a couple of years, which was the contribution accelerator feature in the 457 plan and the 403(b) plan. So for those of you that are newer or remember, is when this feature was added a couple of years ago, it allowed participants, if they wanted to, to enroll in what we call contribution accelerator to, on an annual basis, have their contributions automatically increased.

And what was key about this is, for the Connecticut plans, all contributions are done by dollar amount. So participants can choose, you know, how much they want - they can either take the standard default, or they can choose a larger dollar amount or a lower dollar amount, for those contributions to go in. And we are starting to - you know, as we see each quarter going by, more and more participants are choosing to enroll in that service.

For example, in the 457 plan, you've now got 6.6 percent of all 457 participants in contribution accelerator. That equates to 1,676. Typically what you see, and this is something that we're continuing to watch, is like each quarter that the number of participants in it continues to increase. Typically over time of about, you know, a five-year period, when you're adding a feature like this as an opt-in, meaning the participant has to take action, you typically settle at around 10 percent of all participants after about five years we'll get in that type of a tool.

So that's something that I think that should kind of be like our guiding light. And then at any time, with both the 457 and 403(b), if the board would ever feel that they would want to turn that from an opt-in where the participants have to take that action, you always have the ability to - as a board, to change that to an opt-out, meaning that the participants would be automatically be set up for contribution accelerator unless they decided to opt-out.

And then historically, what you would expect as a board is whenever you put an opt-out feature in, about 90 participants will stay in it and only 10 percent will opt out. So that's just something, again, as a board, just for your knowledge and consideration, that's always something that you can choose to do in the future as well.

MS. HAERING: Yeah. This is Peggy Haering. We don't - we have a state wage law that doesn't allow us to do that. And the only automatic features that we can add are only applicable for our RISA plans. So that's the problem.

MR. McCANN: That's a big problem.

MS. HAERING: We'd need a statutory change to do these.

MR. McCANN: I remember that now, Peggy, that you mention it.

MS. HAERING: Yeah.

MR. McCANN: Yeah, just wanted to make sure I pointed it out, and just in case the thinking there with the law has ever, you know, been considered to be changed there to allow a little bit more leniency there.

MS. HEARING: Yeah.

MR. McCANN: All right. And then, let's see, let's go to Slide 23 next. All right, this is a plan summary. And this again is looking at only the 457 plan, and you have the same thing built on the following slides for the other plans as well. But I really like this chart as it shows the last four quarters combined and just gives good key metrics in terms of total participant balances, the differences in flow, distribution, market value, gain or loss in each quarter depending - driven on how the market is performing.

So we can definitely see the pullback here in the third quarter, the average participant balances by plan, the participation rate. What's great to see is the participation rate in all of your plans continues to have a nice healthy trajectory of increasing, and that's very true also for GoalMaker. So as we monitor quarter-over-quarter, the participation rate in GoalMaker for your plans continues to increase, the number of participants utilizing GoalMaker continues to increase.

We're also on a nice healthy trendline. The number of participants in one fund continues a nice healthy pace here too. And then we also track the number of distributions, number of loans. In terms of loans, that's always a significant headwind you're looking for. The trendline on loans, new loans and on loans outstanding, are remaining consistent, slight uptick in the overall average loan balance, but no real material spike there in terms of the number of new loans.

What I'd like to do now is turn it over to Scott Mann, and I'd like for Scott to spend a couple of minutes sharing some updates, what him and his team of dedicated retirement education counselors have been up to in connecting with your participants throughout the state.

Scott, are you out there?

MR. MANN: Thank you, Mike. Can you hear me?

MR. McCANN: Hear you perfectly, buddy. Go ahead.

MR. MANN: This is Scott Mann. As you can see by the numbers, they have increased since the last quarter, and they've actually been increasing every quarter since the beginning of the year. In addition to the numbers that you do see on the screen, some additional stuff that we are doing out in the field are, for the third quarter, we conducted 23 virtual webinars, had over 500 people in attendance, which is actually really good, especially given that those are the summer months. And those topics included Tier IV overview, how do I enroll in the 547, 403(b) plan, market volatility, deferring lump sum from final paycheck, and also three-year catchups.

The dedicated counselors also conducted 29 onsite new-hire orientations across various departments across the state, and that had over 450 people in attendance as well. So what we also did is, when we do get the new-hire list from the state, those that had emails on file, we will additionally send them an email welcoming in an electronic enrollment form. And we've come to find that that actually works out really well for those people we can't get in front of, and we've actually had a 35-percent enrollment rate just in the third quarter by utilizing that.

So we're just going to keep continuing doing that and obviously still work with the major agencies: DOC for their family nights; state police, we actually just conducted their academy training last week; and I believe DRS will be coming up with some stuff in January as well that we'll be attending.

So that's my third-quarter highlights, if anyone has any questions.

MR. McCANN: All right. Thanks, Scott.

MR. MANN: Yep.

MR. McCANN: But I know we tried to be respectful with this meeting only scheduled for an hour. So with that, that wraps up Empower's update for today, unless there's any questions for us.

All right, I'm going to turn it over then to Frank. And, Frank, I know we connected beforehand. I'm going to see if I could share your report here. And just let me know which page number you'd like me to go to.

MR. PICARELLI: Let's start at Page 2. Thank you, Mike.

MR. McCANN: Yep.

MR. PICARELLI: And I'm Frank—

CHAIRMAN ADOMEIT: This is Frank Picarelli.

MR. PICARELLI: Frank Picarelli from Segal Marco, Investment Consultant. And I see a lot of new names today, new committee members. I welcome them. So this is the first time I have an opportunity to meet with you.

Well, I can't believe the year is gone, the calendar year. We've got three more weeks to go. And it looks like, all in all, I'll bring you up with numbers through December. The equity markets are doing well for the calendar year '23. We didn't have such a great equity market or fixed-income market in the fourth quarter, and it's been primarily - third quarter, excuse me, driven by the whole theme of the year with inflation, inflation rates, the raising of interest rates, when interest rates are going to be cooling down, all of those things, the global aspect of what's transparent in the economy.

But when we got those inflation numbers earlier, in around November, the markets really kind of responded well. So the key thing on this chart is really looking at that one-year number where you can see that the world equities were up 22, the U.S. at 20.5, international's big turnaround over a one-year at

25 percent. And then you can see emerging markets, been up and down - it's been a challenge – at 11 percent. And then the bond world, pretty much, you know, coming in at flat over a one-year basis.

If you move to Page 4, it is, you know, the core indices. And this is the first kind of quarter I've ever seen growth and value being almost dead heat in terms of the negative-3.15, negative-3.13. But you can see how strong large cap growth did at 25 percent year-to-date, and that's all attributable to basically the valuations that occurred with the Big Seven that comprise a big chunk of that index, the Facebooks, the Amazons, artificial intelligence, Tesla, all those big companies that are big play in the growth sector and in the S&P 500, where their values did very well on a year-to-date basis.

With respect to small growth, you can see that small growth was down 7.32, value was down almost three percent, but on a year-to-date basis, up 5.24 and down on small value, and the international markets at 7 and 11.

Just to bring you up to date, through December 1st, large cap companies are coming in at 35 percent year-to-date through December. So you've got three more weeks to go. Let's see if that trend continues. Large value companies are hovering around six percent; the S&P at 21 percent; small caps growth are returning six percent as of December 1. Value companies are at two percent. And then the international emerging markets, international is about 12-and-a-half percent, and emerging markets is projecting about six percent. And then the bond world is up a positive-1.6-percent.

So, you know, we should see that good numbers come with our fourth quarter report. But again, the philosophy that we have in having an investment in every market capitalization, every style, you know, provides that diversification, which is supported by GoalMaker. In stable value, we've been averaging the last two quarters, when we blend all of our stable value managers, are about 2.67 percent, and we're right on track with the Hueler index that you see there.

Mike, moving along, if there's no questions, if you could flip to Page 9. And this is always an important chart to show, you know, the sectors, what sectors did well. Of course, all of our active managers for that added value of the expense ratio, they play more or less in different sectors.

So key to this is, you know, we have that J.P. Morgan fund, didn't do well because it didn't have some energy exposure, and lo and behold, energy on the quarter was up 12 percent, on the one-year side, it came in at 30 percent. And then you could see IT was down for the quarter, but on the one-year side, was up 41 percent. Telecom back strong at 38 percent. So the – really materials was down, discretionary spending was down, things like that. But really, you could see even the real estate was down a negative-8.9 for the quarter.

So energy and IT were the hot ones to be, and then hopefully they picked the best in those categories. I just wanted to point that out.

Emerging markets and international markets, the next several pages, same basic theme. I don't want to spend a lot more on the charts, but basically, you know, you have a good picture on where we are with respect to the market indices.

In Tab 2, we have our defined contribution update. We talked a lot during the year about Secure Act. The big thing to note is that for 2024, your catchup contributions for employee deferrals goes from twenty-three-five up 500 dollars to 23,000 dollars. The catchup for age 50 and up remained the same at 7,500. So they were announced a few weeks ago. I just wanted to give you a quick update on that.

So more and more, you know, we've been following things as they occur. The key thing is, you know, to be real transparent with respect to our fees, and I think we've done, through this last contract, a very good job in managing fees and expenses. So I'm not going to spend a lot of issues on that.

We've got behind us the litigations that you can see, and most of those litigations were primarily in the area of fees and fees' transparencies, et cetera. So just a quick update, good reading, a lot of literature there for you.

Moving into Tab 3, Page 44, is our plan activity, and I'd just like to look at this first page. On Page 44 is the totals. And you can see that the 457 plan is coming close to hitting four billion dollars. That's huge. So, you know, we didn't have positive growth in the experience for the quarter. The overall composite with the asset allocation across the participants had 102,000-dollar - 102-million-dollar loss in investment experience.

The withdrawal activity, you can see that, or the cashflow activity, is 42 million dollars goes in and 67 million dollars comes out in cashflow. So a lot of disbursements. We're going to be talking a little later with Tony on the liquidity issues related to the buffer and seeing how that's impacting stable value, because the cashflow, new money coming into the stable value, bonds withdrawing in the stable value fund, help us with the rising rate in interest as that new money gets invested at higher yields. So that's a critical thing. But really in good shape with your 457 plan, everything pretty much consistent. So you're up to almost four billion dollars.

Your good point on Page 46, as noted, for governmental plans, you know, the industry average is well up in the high thirties, 38, 40. And you can see that the 457 plan is only at 33 percent. So that's good diversification, good exposure. The TIAA-CREF growth fund that we consolidated a lot of assets into is up to 7.5. Your index - this is on Page 45 - represents 13 percent of the assets, so people just traditionally go in that. And you can see things that'll be cleaned up with respect to the final consolidation. That Allspring money went away on September 12th. It's a date I'll aways remember.

But with all of that, you know, we checked the asset levels. We did a study to see - or on the mutual fund side if we would ever have that situation again, and I think we're in a very good position. I also validated if there was any lower expense ratio with TIAA-CREF now that they have all of this wonderful money, but right now, we're at the lowest share class, and so that's been confirmed. So good story there, your asset allocation. A lot of this with the diversification is attributable to the GoalMaker asset allocation models.

The next chart is good to see where new money is going. So even though we have 33 percent in stable value, stable value on an ongoing basis gets 21 percent. This is on Page 47. So you can see that our participants are going into the international funds. They are investing in all of the various funds that we have in the lineup. So that's a good chart to show the differential.

With respect to the number of participants in funds, clearly stable value, on Page 48, we have 36,000 participants have a balance in that stable value fund. And it's a good chart to give you some good statistics on utilization of the funds. And then we also show the number of one-funders. So we've got 6,000 - on Page 48 - 6,000 participants are one-hundred-percent in the stable value fund. So a lot of that has to do with the retirees, and stable value has been always a popular fund through the years with your plan and like all governmental plans.

Your expenses, on Page 50, is managed nice and tight. We have all of the lowest share classes that we could possibly give our participants. We only have that one fund, that trigger-some revenue sharing, is that J.P. Morgan, which is the lowest share class, and it gives us 10 basis points in revenue. So that theme has just been consistent throughout the year.

Moving quickly to Page 51, you can see the 403(b) plan is one billion dollars. The good thing here is that your cash activity, your cashflow, 20 million came out, 11 went in. So again, a negative cashflow. Your fees is the – you know, represents the managed-account types of portfolios that we have. The balance summary, 30 percent stable value, very much traditional, on the next several pages.

So we're just going to just jump to the plan activity for the 401(a) plan on Page 58. It has 1.8 billion dollars and cashflow at only 6 million and change; 20 went in, 26 came out. And again, you can see that, for the quarter, because of those equity losses in the third quarter, that that overall experience lost 54 million dollars for the overall pot.

And then your asset allocation, again, here on the 401(a), you only have 28 percent in stable value. And then TIAA-CREF, the equity index, is up at

13.7 percent. A lot of that has to do with the history of the (a) plan.

So real good numbers all across, consistency. Tier IV, where are we with the Tier IV plan? On Page 65, it's 79 million dollars. And again, we had positive cashflow in the Tier IV plan, 6.6 million going in, 430,000 coming out in disbursements. The Tier IV has nine percent, 9.8 percent, a big amount of money in the American Mutual Fund, 9.3, right, and then the Vanguard fund having 10 percent of the asset allocation.

So those are all of the components of this program. You know, we keep everything consistent with all of the types of funds and the mutual funds that we offer all of the plan participants.

Moving on to Page 72, 73, and 74 is really all of the summaries related to your fixed income, and what we're seeing is the net crediting rates from all of the managers. If you go to Page 74, is where we are now for October through December. You can see that when we roll up all of our individual managers, we are one point below where we were the prior quarter. So we went from 2.67 - I'm sorry, 2.68 to 2.67.

And there you can see the Voya Core Plus at 3.02. The net crediting rate for the intermediary/agg, 0.25; J.P. Morgan, 2.72. So that separate account structure came in about 2.75. And when you look at those bond numbers, you know, we really came in positive for the overall separate account. Prudential was at 2.60. So when we roll all those wonderful things up, we've got a rate of 2.67. We're ahead of the Hueler index tracking for large institutional business.

On Page 75 is the asset allocation on where the money is, but this is after the rebalancing. You can see that Prudential holds almost 40 percent of the assets, the Core Plus has 32, the J.P. Morgan about 20, and that intermediate/aggregate had 8.4.

The next several pages, we just look at the credit quality, the history of the funds, which we've been tracking and making sure, you know, the insurance companies that provide the guarantees, you know, are able to meet those commitments. So no issues there, everything has been pretty much consistency with the quality and what we have in the portfolio.

On Page 77 is our menu, and from our—

DR. WOODRUFF: Frank, before you go to that – this is Tom Woodruff. Just a question on the credit interest rate. Is the reason that we're not seeing an uptick in the interest rate credited primarily the cashflow?

MR. PICARELLI: That's exactly right. That's why we're not experiencing the benefits of that. And I think Tony's on the line. He's going to go through that. He has some analysis showing where we are with the cashflow activity.

So we've been running negative to the tune of about 10, 12 million dollars the last quarter, I believe. So we'll look at that in a couple of minutes.

DR. WOODRUFF: Okay.

MR. PICARELLI: That's primarily the driver of it, yes. Okay?

DR. WOODRUFF: Okay.

MR. PICARELLI: So watch – we're on the menu. Like I was saying, nobody's moved out of their style box or their mandate, no major organizational changes, et cetera. We consolidated things in that large cap growth fund, so where we are. So that's been holding us below the line, is some additional asset classes that we have.

So we've had some good diversifications within our bond, having active management, inflation link, and active management in that category to complement our stable value fund too. So no changes to report there.

On Page 79—

MS. HAERING: Wait. Frank, hold on just one – this is Peggy Haering. We put the J.P. Morgan mid cap value on the watchlist.

MR. PICARELLI: Yes.

MS. HAERING: Is it still on the watchlist?

MR. PICARELLI: Yes. I'm going to go through that now.

Moving to Page 79, when we look at our watchlist criteria, and we have tough bogie; we want our funds to be the benchmark and its peer groups over the three- and the five-year periods. So at 3/31, we had it out there for watchlist, and we'll look at that in a minute and see how it's doing. It does track well against its index, but it's not doing as well against its peer groups of similar types of funds.

So overall, with all of that activity in the market, just to say we had the one fund during the year, it's a good story, (inaudible) most plans, that's a tough criteria to kind of hit all of those categories.

So on Page 80 is the rollup of all of your funds. I think the first chart is a real good illustration of what's going on with your individual managers within the stable value fund. You can see all their returns. So if you look at that three-year column, Prudential is right on track; J.P. Morgan, below, 3.1 to a negative-3.7; Voya, negative-three to a negative-3.7; Core Plus, negative-four to a negative-five.

So when you roll that all up, we're at 2.4 to 2.1 of the major stable value indices. So that's a good illustration of what's going on with respect to your stable value.

In terms of your bond fund, your Calvert fund, good numbers. You know, when you see those ranks of 10, seven, and eight, and five over the seven-year period, good numbers. MetWest, you know, part of that is the investment quality play and the duration hurt that portfolio over the short term, but you can see over the five-year and the seven-year, good numbers. So that's just the quality and the duration where the most recent one-year numbers are not in track.

On the big Vanguard index, again, disregard the ranking numbers on all of the index, the tracking errors, the expense ratio. So it's doing what it should be doing, tracking the index, nothing alarming there. The Vanguard inflation protection fund, you know, it tracks well over the three- and the five-year period. You know, you root for inflation with that fund. It works – but you can see that over the one-year, it did 1.0, and the U.S. Treasury K TIPS at 1.2. So that differential is primarily the expense ratio of the fund, the differential.

In your large cap value, you know, we were out of favor in the quarter and the one-year. That affects the three-year number. But again, a very strong performance over the longer term, the five, seven, and 10. The recent underperformance is really value; there's been a little shift away from that, as we've seen with these statistical numbers, and the quality and the issues within that portfolio. So the value should come back; that should start to track well.

Your TIAA-CREF equity index, your Choice fund, the Vanguard index doing online. The TIAA-CREF large cap growth, that's the new one that we've got everything consolidated. And you can see the beauty of that in tracking that index and how it does compared to large cap active funds where we're ranking 11, seven, and eight. So we did something good there by clearing that up.

Your J.P. Morgan fund, on Page 82, is on the watchlist. And again, it's on the watchlist – if you look at the three-year number, it tracks well to the

Russell mid cap index; it beats it. It did 12.3 to 11, but it didn't do well compared to the peer groups. So it gets a rank of 72. And on the five-year side, it tracks right on target with the index. So it has a very close tracking correlation to the index. The fund had a very good posture in a couple of years, but its conservative approach and posture led to underperformance in periods where we had some cyclical rotation.

So, you know, it's there, according to the index, but again, we've got to watch it. We will continue to monitor the fund, and then as what our processes and procedures are, after one full calendar quarter - you know, four consecutive quarters, we then do a deep dive and compare it to other similar funds in that category.

So when you look at the one year-by-year on Page 84, you look at this fund in 19 - I'm sorry, in 2022, the J.P. Morgan - where is it? Is it on that page?

MR. McCANN: Probably Page 85 or six.

MR. PICARELLI: Page 86, 86, I'm sorry. You can see in '22, it did a negative-eight and the index did 12. So last year, it did pretty good compared to the index. In '21, another good year, it did 30 percent. In 2020, didn't do well, was the year that it was down. And then a very good consistent 2019, 2018, 2017; 2016 was out of favor, did 14 compared to 20 in '16. So really those two bad years over a 10-year period. And that's what you paid for, the active management, and, you know, how they deviate, and not having that energy exposure all come into play. So I think that's a good chart to show that, you know, how it goes from '22 all the way through 2013.

Flipping back, Mike, to where we were with our funds, we were – we got through – we were on Page 86. Your T. Rowe Price mid cap growth fund did 32 percent, didn't have that great a year, had a good quarter, you can see, but basically good numbers on the overall. On the T. Rowe Price fund – what page is that on? I think I had a page missing in my book; I'm sorry. No, that's back – that's on Page 82.

MS. HAERING: Eight-two.

MR. PICARELLI: Ah, 82.

MS. HAERING: Oh, okay.

MR. PICARELLI: I'm sorry. You can see good one-, three-, five-year numbers. On a year-to-date basis, it's ranking well at 48. It was off for the quarter, but again, good year-to-date one-, three-, and five-year numbers. The CREF fund, good. The Vanguard

Explorer, good numbers, consistent numbers all across all periods, which is a good thing for your small cap growth.

Your International TIAA fund tracking well across all periods. The American EuroPacific is getting back in line. We've talked about this fund. It's over the five, seven, and 10, good strong records. The American EuroPacific was the emerging market exposure. It peeled back a lot of its holding in Russia. Again, we don't see any issues with the American EuroPacific, and the long-term numbers are very strong.

So I think that's beginning to balance out. Year-to-date, we're tracking 6.6, the index at 7.1. And the peer groups, you can see the numbers there.

MS. HAERING: Mm-hmm.

MR. PICARELLI: And then we're all-in-all good, even with real estate fund, tracking well. It's been a tough sector, as you can see, but you can see real good numbers over the five-, seven-, and 10-year for that. Even the Vanguard, the differential there is primarily the expense ratio. So it's tracking, you know, the index of that REIT index.

So I went through it quickly and tried to stay within our half-hour time restraint. I know you want to get to Tony, but just the one fund on the watchlist, nothing to be concerned of.

MS. HAERING: Yeah. Frank, this is Peggy Haering. I have one question. Would it be possible to add to this report the number of funds in the peer group?

MR. PICARELLI: Oh, sure. We can have that—

MS. HAERING: You know, I think that might be more meaningful so that, you know, if somebody says somebody is 96 and there happen to be 700 funds in that group, it might be useful to just add that in.

MR. PICARELLI: Yeah, there's literally thousands of funds in those peer groups.

MS. HAERING: Right. But it might be good to know the size of the peer group.

MR. PICARELLI: Noted. With that, I conclude my section. If there's any questions.

Joe, do you have anything to add? You're happy about the returns, the final lineup?

MR. FEIN: Absolutely, Frank. Great job as always. I couldn't agree more on that J.P. Morgan fund.

CHAIRMAN ADOMEIT: That's Joe Fein speaking.

MR. FEIN: Thank you, Peter. Yeah, hopefully when we look at the fourth quarter, it will improve, because energy stocks are down, so I've noticed this fund's ranking is much better for the quarter so far. We'll see what happens.

MR. PICARELLI: Yeah, the numbers doing good in the fourth quarter.

DR. WOODRUFF: Yeah, Frank, I wanted to follow up on that. So we did well against benchmarks, but a lot of the numbers were still negative for the third quarter.

CHAIRMAN ADOMEIT: Tom Woodruff speaking.

DR. WOODRUFF: Yeah, this is Tom Woodruff. So the question is, do you see a lot of turnaround in the fourth quarter for most of these funds?

MR. PICARELLI: Yes, yes. Yeah, we're going to see a good year-end quarter, and a lot of that will be cleared up, even for this particular fund, the J.P. Morgan, if things continue to trend. At the start of the meeting when I ran through these numbers, where we were at December 1, I think so. So we'll see how it plays out.

Active management is active management, as we know.

CHAIRMAN ADOMEIT: Okay. Who is next?

MR. CAMP: Good morning. This is Tony Camp from Voya. And I do have some slides that I'd like to share so - oh, thank you. So I'm just going to - let's see. Can you see my slides?

MS. HAERING: Mm-hmm.

MR. CAMP: Great, thank you. Good morning, everybody. It'll be very brief. I see it's 9:55. So I'm going to concentrate on the information you probably haven't seen. You've seen this before in a couple of different forms from Michael and Frank's presentation, but there are four buckets to the Connecticut Stable Value Fund. There's a Voya bucket invested in Core Plus with 35 percent of the assets, the Prudential General Account at 35 percent, the J.P. Morgan Sleeve (phonetic) with 20 percent, and an Intermediate Core, which serves as the buffer. So that's been like that for a while.

Move to the next slide, this is - again, has been gone over before, current rate, 267 - 2.67 percent. We are, in about two weeks, going to be finished calculating the rate for the first quarter of next year. I do not have that information yet.

Moving to some action that was taken earlier in the year in regards to the Connecticut Stable Value Fund, the buffer cap and floor was amended to be a little more responsive to the negative cashflow. It was moved to - the caps and floors were moved tighter so that the rebalancing would happen more quickly, and in fact, we did two rebalancings. The first was shortly after the policy was approved and implemented, and that put about 53 million into the buffer. We did another buffer replenishment on August 18th for about 37 million.

And we're on track to do yet another buffer replenishment. I don't have the dollar amount yet, but we're going to calculate that and notify the managers of yet another buffer. The buffer needs to be replenished according to the targets and that's to reflection of the cashflow, which has been consistently negative.

Observations, nothing has really changed since the last time we spoke. Yield curve is still inverted - and I have a great slide I'm going to show you coming up - meaning short rates are higher than long-term rates. The cashflow is again negative. I haven't seen Michael's last detailed report, but from what I saw on his reports that he did share, the contributions declined slightly. Interfund transfers are really not the issue. It's just the distributions, not only out of the stable value fund, but out of the plan, and these are – and this is across the industry, not only for your plans.

The market-to-book ratio of the Connecticut Stable Value Fund continued to decrease in the summer due to Fed actions, but a little bit of hope in the – there's a November rally in rates, which may improve the market-to-book ratio. Don't have that data quite yet, but a little glimmer of hope.

So here's the cashflow, which is – I think it shows a good picture of what's happening this year. This is through November 30th, about 170 million net out of the Connecticut Stable Value Fund. You can see the complete opposite of the 2020 COVID year and, you know, not in line with any other years, but pretty much in line with the industry. So this is something that's happening across all of stable value.

And here is the breakdown, and let me move this up. I know, Peter, I want to make it so that you can see it.

CHAIRMAN ADOMEIT: Thank you.

MR. CAMP: I'll preempt your comments. So, yeah, this year has been – you know, there's been some, you know, under 10 million, and October wasn't bad, but November seems to be another heavy month of, you know, withdrawals. So not a lot of change, and this is what is really going to cause the next rebalancing. So we'll get that implemented probably, you know, later this week.

So here is an interesting slide I threw in, and this is – I'm trying to get this a little larger. But this is direct from Bloomberg. You know, I asked our folks who have access to this, let's, you know, look at the yield curve. This is the U.S. Treasury yield curve starting, you know, one-month securities going out to 30 years. What has changed this year? So bear with me. The orange is on 6/30. The solid line is the latest information on the yield curve. And then the square, or what looks as dots, is the 12/31 in '22.

So at the beginning of the year, there is a yield curve inversion, meaning that short rates are higher than long-term rates. And as the year continued on - and you can see the orange is on 6/30 - short rates, you know, shot up, you know, considerably. Again, not a lot of change in the long end of the curve, but here we are on 11/30, and again, this is the – this line, you can see short rates still high, but long rates starting to kind of move up.

So very – you know, very – a huge amount of change in the yield curve this year. And, you know, a lot of the reason that you're seeing perhaps, you know, complaints about why can't, you know, your stable value fund keep up with money market rates, this is it right here. Because you can buy a one-, a three-, you know, a four-month treasury and you can get, you know, 5.40, which is, you know, phenomenal. It’s – you know, it’s – haven’t really seen any situation like this in the past that is sustained, but this is in kind of a nutshell as to, you know, what that arbitrage – you know, this is causing that arbitrage.

Okay, so moving on, I’ve just got some – I was told in regards to let’s talk about the performance. So this is performance by manager. And Frank already has gone through this, but each of the three managers that I have information on, even though these numbers look negative, because, you know, rates have gone up and these are market value returns, they are beating – this manager is beating its benchmark, and this happens to be the Voya Core Plus. By the quarter, 35 basis points year-to-date. This is through 9/30: 113; one-year, 102. So, you know, just not really any performance issue there.

And here is the second Voya bucket. Again, you’re going to see overperformance to the benchmark, which is what you’re looking for for this type of mandate. And here is J.P. Morgan. Again, they do have some overperformance to their benchmark, so not really an issue. It’s just, you know, rates have gone up and have caused, you know, negative returns for the underlying assets coupled with the negative cashflow has really put pressure on the fund, which again, it's no different from any other fund, but, you know, just kind of a different view.

The last slide I have, and I know we're kind of a little bit over time, is something I almost don't want to show you, but I'm kind of going out on a little bit of a limb here. We belong to the Stable Value Investment Association and they are the keepers of data for stable value funds and they keep data on several types of stable value funds, none of them are - which are your fund.

But I slotted your fund into one category of individually managed, and here's a look at, going back to the third quarter of '21, you know, how did your fund fare as far as crediting rate, duration, and market-to-book ratio with this Stable Value Investment Association weighted average. And, you know, I struggled to, you know, come up with anything because it's hard to compare stable value funds, but this is the best I could do.

And so from what I could see from the data, because your duration has been longer than, you know, the group of funds in this particular, you know, individually managed grouping, your duration has been, you know, longer consistently throughout. So your crediting rate, you have a pretty, you know – overperformance of crediting rate probably because of that duration. But as we get into the period where the Fed, you know, starts increasing the rates significantly, the longer duration probably has not been your friend and has caused you to have a crediting rate that's, you know, a little bit lower than the average.

You know, market-to-book is also kind of - probably be lower, you know, if we extend this out. But – so, you know, and actually right before this meeting, I was struggling whether I should show this or not, but I really don't have anything else to try to compare, you know, on a detailed basis, you know, from industry stats to show how you're doing. So this is kind of like your informal report card.

So overall, you've provided your investors with, you know, a premium in crediting rate over, you know, a pretty long period of time up until probably this period of time right now. And looking into the future, and, you know, we're all looking for signs of when the Fed is going to stop combatting inflation, you know, probably when – it looks like we're going to be –

you know, there's a lot of indicators that are looked at, but when the Fed eventually does, you know, cut short-term rates and go back to this really kind of wonky slide here, then, you know, you're going to see these short-term treasuries, you know, drop fairly quickly.

And, you know, what we all hope is the yield curve to move into, you know, a sloped yield curve where short-term rates are higher than long-term rates. You know, when that's going to happen and how quickly, you know, who knows. But, you know, that will be the correction point. When that happens, the participants will no longer have the arbitrage of, you know, buying short-term securities or money market funds that, you know, will beat your stable value fund rate.

So that concludes my slides.

MS. HAERING: Tony, have you shared this with us, or could you share it with us?

MR. CAMP: Sure, I'd be happy to.

MS. HAERING: Thanks.

MR. CAMP: Yep. Yep. Again, I struggled, and this duration average may be a little bit shorter, but for the Empower folks on the phone, you know, maybe Michael or Joe, I used a three-year duration as a bogie over this time period, and then I see on the latest report, it’s three-and-a-half years. So this duration number is probably a little bit short. So your duration is probably even a little bit longer than this.

But, yes, I’ll be happy to share.

MS. HAERING: Thanks.

CHAIRMAN ADOMEIT: Peter Adomeit here. Anything else, Tony Camp?

MR. CAMP: I am finished with my slides. Thank you.

CHAIRMAN ADOMEIT: Okay. Thank you.

Shall we move on to old business, if we’re through with new business, I assume? And, I guess, is there any old business? I don’t hear any.

So Item Number 4 on the agenda is adjournment.

MS. HAERING: All right.

CHAIRMAN ADOMEIT: We need a motion to adjourn, please?

DR. WOODRUFF: So moved.

MR. BAILEY: Bailey, second.

CHAIRMAN ADOMEIT: Okay, Woodruff made the motion. Bailey seconded. All in favor, say aye or raise your hand. Opposed, nay or raise your hand. It’s unanimous. The ayes have it.

Thank—

(Adjourned at 10:08 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 9:03 a.m. on December 4, 2023.

Karin A. Empson

Karin A. Empson

12/18/2023

Date