STATE OF CONNECTICUT

STATE EMPLOYEES RETIREMENT COMMISSION

INVESTMENT SUBCOMMITTEE MEETING

MARCH 12, 2024 MEETING
HELD VIA ZOOM
CONVENED AT 10:02 a.m.

Present:

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

TRANSCRIPTIONIST: Karin A. Empson

(Proceedings commenced at 10:02 a.m.)

CHAIRMAN ADOMEIT: Okay. This is the meeting of the Investment Subcommittee of the Connecticut State Employees Retirement Commission.

And, Cindy, do you have the attendance of the members of the Commission, please?

MS. CIESLAK: Sure. Good morning. This is Cindy Cieslak. Present this morning, we have Chairman Peter Adomeit, Trustee Karen Nolen, Trustee Brian Hill, Trustee Michael Bailey. From the State of Connecticut, we have Tom Woodruff, Robert Helfand, Ben Sedrowski, Nicole Wagner, and Agnes Gajowiak. Also present—

CHAIRMAN ADOMEIT: Okay.

MS. CIESLAK: Do you want me to identify the others present?

CHAIRMAN ADOMEIT: Yeah. Please do, yeah.

MS. CIESLAK: Okay. This is Cindy Cieslak. Also present are Scott Mann, Vanessa Vargas Guijarro, Michael McCann, Frank Picarelli, Rob Luciani, Dave Evans, and Joe Fein.

MR. PICARELLI: (Inaudible) Rob.

CHAIRMAN ADOMEIT: Okay.

MS. CIESLAK: I'm sorry, did I - this is Cindy. Did I miss someone?

DR. WOODRUFF: (Inaudible) Robert.

MR. LUCIANI: (Inaudible)

CHAIRMAN ADOMEIT: Peter Adomeit here. Are we ready to proceed then, Cindy?

MS. CIESLAK: (No audible response)

CHAIRMAN ADOMEIT: Okay. Tom Woodruff. Who is going to be doing the presentation today?

DR. WOODRUFF: I assume it will be Empower and Frank.

MR. PICARELLI: (Inaudible)

CHAIRMAN ADOMEIT: Okay. Thank you.

MR. McCANN: All right. This is - yeah, this Mike McCann with Empower, and we're happy to get things started today. I'm joined today with the leader of our government team, Rob Luciani; along with Scott Mann, who leads your dedicated service team; Joe Fein; and then also Dan Evans, the client service manager.

So for our meeting today, what I'd like to do is share some updates on the migration for the Connecticut plans from the Heritage Prudential recordkeeping platform over to the Empower platform. I'll share some high-level updates on that, ask Rob to share some perspective from a senior leader perspective on how the overall migration is going, and then we can dig into a couple of the pertinent slides in the report. And then I'd be happy to answer any questions that you might have along the way.

So again, Mike McCann with Empower. So the migration was completed last week. So last week, on Tuesday, we went live on the Empower recordkeeping platform. So all four of the Connecticut plans, the 457, the 403(b), the ARP Plan, and then the Tier IV Plan, went live on the Empower system. That happened on March 5th. Really happy to share that it went live on schedule as planned. All the assets have mapped over correctly. All the assets are in the right investments, the right money source, and all participant indicative data has loaded, and participants have begun to register their accounts on the Empower platforms.

Most importantly, the first thing that you look for after data integrity after a migration is participants are able to then also transact as normal. So we're seeing everything look really well in terms of how exchanges are flowing through the system, allocation changes, deferral changes, as participants want to make any beneficiary changes, and then also distributions as well.

In addition to that, late last week was the first payroll load for the 457, 403(b), the ARP Plan, the Tier IV, and we're working through that process right now, the 457 and the 403(b). And I believe that the Tier IV has already posted, and I believe that the ARP will fully post tonight. So that's a huge additional milestone in terms of just the first time you're going through that process on the new system as well, just figuring out and making sure all of the files are carrying over the right way, they're being interpreted the right way, and being cared for the right way.

And it goes without saying, we want to make sure that we especially thank the partnership of Agnes, Nicole, and Bert, and everyone at OSC on all the tremendous work and partnership, not only preparing for all aspects of the migration, but now that we're live, just working through just all of those first unknowns that you go through when you're first going through everything for the first time on the new system.

So with that, that's kind of the big high-level in terms of just the actual migration itself. I would like to turn it over to my leader, Rob Luciano, to just share some perspective from his angle.

Rob?

MR. LUCIANI: All right, Mike, thanks. This is Rob Luciani from Empower. I was formerly part of Pru and now a part of Empower. And coming over to Empower, I'm happy to say that I was able to take my entire team over and pretty much fully intact. So there's a lot of folks that are familiar; many are familiar with me. I've been involved with the State's plan since it joined Prudential many years ago.

I have a position in Empower that is – we are segmented at Empower, so I served a few different markets before. I excelled into just government here at Empower, so I'm very happy with that.

So what I wanted to do a few minutes is give a little bit of a background on the overall migration as well as a little bit of a picture of Empower in the past year. So if you look at the migration, as Mike mentioned, this last weekend was our final migration. So it's great for me to be able to say that, from the defined contribution plan perspective, we are done. We are off the old computer system at Prudential. We have moved all of our clients onto these.

So this last weekend, we moved 2,800 clients, 4.1 million participants, and about 310 billion dollars' worth – I'm sorry; that's the total. For this last weekend, it was 580 clients, 1.1 million participants, and 90 billion in assets. That was just last weekend. This was the final wave. We had basically, that I counted, around six different waves. Now overall though - and many say that this is probably the largest migration of a business that was ever done in kind of the defined contribution world.

So it was 2,800 clients were moved, 4.1 million participants, and 310 billion dollars in assets, overwhelmingly positive. I mean, clearly, as Mike said, there are still things that are new to clients, so there's lots of stuff that will be the first time some clients are doing. So we're not claiming that this is just all done yet. What we're saying is from a nuts-and-bolts data perspective, we're perfect. We footed out to the point-zero-zero-zero-zero - I forget how far zeros out we go. Everything footed; everything was accurate; data came over. We're still working on some items for sure, individual clients, to make sure that everything is perfect. But overwhelmingly, we do call it a success, for sure, at this point.

And as you know, one of the important parts of being successful in the recordkeeping business is having scale. So this now puts Empower solidly in the role of where we have scale, perfectly, which is one of our challenges that we didn't have at Prudential.

Also over these last two years, the Prudential acquisition gave to Empower, over these two years, they added 190 new capabilities to their web platform, things that Prudential did that now Empower is (inaudible). And that took about 400,000 hours of development. And through that, I'm happy to say that ninety percent of all of Prudential clients were retained.

The deal was originally struck with hopes of being at about the eighty-three-percent level. We're at ninety-percent level. And in government, I'm happy to say that we're at ninety-nine percent. We've retained ninety-nine percent of our government clients through two years' worth of uncertainty, and we know things were uneasy at times and through all the migration. So we're pretty pleased with that.

But we're also pleased with, at the same time, you look at this last year, we had record sales growth. So as a firm, we're still continuing to operate on all cylinders beyond just the acquisition, you know, from Prudential. So we had 4,000 new plans come on board at Empower, 300 in government alone. Our nearest competitor is, on average, maybe 80 clients a year. We took on 300 last year and while we've maintained a ninety-eight percent or almost ninety-nine percent retention also on our organic business at Empower.

And we've also retained our ninety-nine-point-nine percent accuracy of transactions. That's something that Empower has been proud of. And also a net promotor score, and that's the - for those who are not familiar with it, that's a pretty hard bar to kind of achieve. A net promotor score is you need to have your clients give you an eight, nine or ten likely-to-recommend. We received a score of 79 last year when 50 is considered world class.

So, you know, one of the things we just want to say is that while we were doing the transition, really we're keeping an eye on the business, which we feel is also comforting to those folks that are coming into and becoming part of, you know, the Empower world, you know, post-migration.

Our call center has achieved ninety-nine percent first call resolution, seventy-five percent of the calls answered in five seconds. We also rolled out SECURE Act 2.0, the first part of it, last year, which alone cost us about 65 million dollars. So we think that's another example, when you think about how, you know, being - having scale and how important it is in recordkeeping. We had another firm actually call us and give us their retirement business because they couldn't update for SECURE 2.0. So it's where we think scale is really coming into play.

So I just wanted to kind of mention a few of those items. I'll be here obviously to answer any questions. But coming also in 2024, we're putting in a new workflow system; we're adding new DEDI data enhancement. So if you can give us more data about diverse populations, you know, in your plan, we can then report those back out too. That's a new service that we will be providing next year. And the workflow especially we're pretty excited about. And we have new items coming into our plan sponsor center, and some things to look forward to that we will be reporting out more pretty shortly.

I'll pause there for any questions.

MR. PICARELLI: Frank Picarelli for Segal Marco. One of the questions that I have is, you know, GoalMaker is a proprietary product of Prudential, and I know that Empower, in their current book of business doesn't work with that product.

Will this be something that is only going to be available for the old Prudential book of business, and is this going to be something that's going to be a major commitment under the Empower platform?

MR. LUCIANI: (Inaudible)

MR. PICARELLI: (Inaudible) your recordkeeping (inaudible) I understand consolidation of different platforms and the efficiencies around that. That's our concern, number one.

MR. LUCIANI: Yeah. So, I didn't hear you fully, but I think - I mean, GoalMaker is absolutely - that's one of those items that we mentioned about new capabilities that were added to Empower's platform. The neat thing about it - and I'm a little bit close to this because actually I developed GoalMaker; I was in product prevention (phonetic). And what was cool was there were some things that we couldn't get done at Prudential that we were able to actually do when we moved to the Empower platform.

So as you probably know, we changed from, you know, going through a date range instead of just a time (inaudible). So things that we wanted to do at Prudential that we just couldn't get the bandwidth to get done, and we actually did that in the migration over to Empower.

So that - you know, what's on the platform today, we're committed to for our branch of clients that have it, that we're going to - that it's there and it's going to be kept up to date. And it's part of, you know, the capabilities that Empower now has for the branch of clients that came over. It was one of those items that we had to do.

DR. WOODRUFF: This is Tom Woodruff. Following up on Frank's question, so do you own GoalMaker now, or are you, in a sense, licensing it from Prudential? It sounds like you must own it because you've been able to modify some of its functionality.

MR. LUCIANI: Yeah. I think Joe is trying to speak, but I'll answer this for sure, Dr. Woodruff. Yes. GoalMaker was a big - there's a number of things that (inaudible).

CHAIRMAN ADOMEIT: This is Rob Luciani.

MR. LUCIANI: I'm sorry. Rob Luciani. Sorry.

There are a number of items that were acquired from Prudential. You know, obviously the business would be the stable value part of the company, our products, services. So GoalMaker is included in that, all of our separate account capabilities, all of our people. And so there were a lot of things that were acquired as part of the Prudential business.

It was not just the, hey, we want your

clients kind of a deal. This was truly a, we want your clients, your capabilities, your stable value was a crown - you know, it was a jewel in the crown of Prudential. That came over intact to Empower as well.

DR. WOODRUFF: Okay.

MR. PICARELLI: Thank you for that clarification.

MR. LUCIANI: (Inaudible)

MR. McCANN: All right. Any other migration-related questions?

CHAIRMAN ADOMEIT: That's Michael McCann.

MR. McCANN: So, yes, this is Michael McCann. And I would like to now shift to going over a few of the slides from our report to wrap up our section for today. So let me see if I am successful in sharing my screen.

All right. Can everyone see my screen?

CHAIRMAN ADOMEIT: I can. Peter Adomeit.

MS. GAJOWIAK: Yes.

MR. McCANN: All right. So let's start on Slide 5 of the presentation.

CHAIRMAN ADOMEIT: Can you make it bigger? Can you make the—

MR. McCANN: Let me see if I can expand it. Does that help?

CHAIRMAN ADOMEIT: Ah, yes. Thank you.

MR. McCANN: All right. So Slide 5, I've got multiple screens here. So my presentation is on another screen, so don't think that I've got bad eye contact if I'm looking away from you right now.

So on Slide 5, this is the overall demographic summary for all four of the Connecticut plans. As you can see, last quarter, we went over 80,000 total participants across all four plans for the first time. We ended the year continuing on that upwards streak. We're now over 81,500 participants. The plan now has a total account balance of 7.4 billion. We've got just over half-a-million dollars in the overall expense account, and the average participant balance now across all of the plans is over 90,000 dollars. So continued healthy momentum across all four of the plans.

DR. WOODRUFF: This is Tom Woodruff. Just a comment.

MR. McCANN: Yeah.

DR. WOODRUFF: This takes us back to where we were before the big retirement cycle—

MR. McCANN: Correct.

DR. WOODRUFF: --in terms of assets. More smaller accounts, but in terms of assets, we're back where we were prior to the big retirement cycle.

MR. McCANN: Yep. Yeah, both helped out with what the market did in fourth quarter, and then adding the new accounts. But you're right, we're back up to about almost our – around our all-time high in terms of total overall assets.

The next slide I wanted to reference is Slide 10. And in the interest of time, this is just looking at just the 457 Plan. But it gives you an idea of just the net activity by age group. I always really like looking at this breakout across all of the plans just in terms of the different age cohorts, what you see in terms of the total balances, especially the average contribution rate per pay, the net activity in terms of positive or negative.

As you would expect, in the older populations, you have more negative activity as those people are separating from service and deciding whether or not to stay in plan or roll money out, take distributions. The total participants in each of the different stages, again, all good, healthy information here across all of your plans.

On Page 16, I won't hit on this hard because I know Frank typically does this in his update. But this is showing the utilization by fund at a combined plan level across all of your plans. The funds that are highlighted in bold represent those funds that are in GoalMaker, where you can see the total balance in each of the funds, the percent invested, the total number of participants utilizing the fund.

And then I know the one thing that I always like to call out from time to time, the participants that use an investment as a sole investment, the Connecticut Stable Value Fund. That does continue to trend down nicely, believe it or not. We're still above 10,000, but a couple of years ago, that was over 14,000. So the overall outreach in terms of continued GoalMaker adoption is working, along with some of the participant communication that we've specifically done to that population to bring that number significantly down because I know that was a big focus for us over the prior years.

On Pages 19 and 21, I want to hit on the - one of the latest features that we added to the plan a couple of years ago was the addition of contribution accelerators in the 457 and the 403(b) Plan. We now have just under 1,800 participants utilizing contribution accelerator in the 457. That's up about another 130 from third quarter to fourth quarter. So that is a feature that's continuing to get more and more usage as each quarter continues on.

And the same thing applies in the 403(b), where it's not used as much, but it's still continuing an upward trend where we now have 208 participants utilizing that feature in the 403(b). That's up from 193 participants that were utilizing it in the third quarter.

I'm now going to move to Slide 23. This is an overall plan summary slide. And we have this same slide built for all four of your plans. Again, in the interest of time, I'll just focus on just the 457. What I really like about this plan summary slide is that it goes back over the last four quarters and just shows you how, you know, things have changed. What I really like is the trend here in total participant balances where you can see in the third quarter of twenty - actually, sorry; I am misspeaking.

This is not quarter over quarter. This is month over month for the last four months, where you can see how much the balances have changed based on market fluctuations. So in September, we ended the month with 3.8 million. If we recall, October was a little bit of a pullback. It dropped to 3.8, but then November and December were much healthier, and you could see the uptick.

The participation rating continues on a nice upward trend, along with - every time that you see like the overall balances lift because of the variable markets, we expect the corresponding - the percentage assets in stable value to slightly come down, and we see that trend as well from November and December as compared to October.

Distribution activity, and the number of new loans, all in the trend line of what we historically see month over month for these plans.

MR. PICARELLI: Question, Frank Picarelli.

MR. McCANN: Yeah.

MR. PICARELLI: Is it possible on these reports to kind of distill participation rate, average account balance, how our numbers compare to the other universe of Empower government plans?

MR. McCANN: Yeah, that's a great callout, Frank. And it's actually one of the things I wanted to reference for the next Investment Subcommittee meeting when we reconnect in June. When we reconnect in June, it will be the first quarterly cycle that we go through on the Empower platform for reporting. So when I come back to you in June, I'm going to share with you for the first time our new quarterly report format that'll have a lot of these insights.

But leveraging, Frank, to your point, the full chassis of the Empower - in the Empower reporting program, that'll more properly reflect Empower's governmental book of business for those plan comparison points. So I think that will be a nice lift that everyone enjoys when I come back to share that at the June meeting. That's a great callout.

If I look again - and we'll mix it up on this next topic I want to hit. We'll look at the 403(b) Plan. We have all of these slides built on an individual plan level as well for GoalMaker. And the theme across all of your plans here is very consistent as well where you would look back - this is looking at a quarterly viewpoint over the last four quarters. You can see the healthy growth in terms of GoalMaker usage in terms of plan assets, the number of participants utilizing the GoalMaker program.

For the 403(b) plan in particular, over 70 percent in the fourth quarter of newly enrolled participants chose to just enroll in the GoalMaker service, so all very healthy trends there. Just shifting back up really quickly to the ARP Plan, you see similar statistics there. And the same thing with the 457 Plan as well.

The 457 Plan as well, we're actually now up to 42 percent participation rate in GoalMaker, and for the last quarter, 86.8 percent of your participants that were newly enrolled went into the GoalMaker service. So continued great trends there, and I expect that to continue as we move onto the Empower recordkeeping platform in conjunction with the great work that Scott Mann and his team continue to do day in and day out on this program.

With that, I would like to now turn to Slide 47 and actually give the floor to Scott for a couple of minutes to just speak about the great work that his on-site counsellors use day in and day out with your participants.

Scott?

MR. PICARELLI: Frank Picarelli. Before you flip it over, I have another question.

MR. McCANN: Oh, yeah. Go ahead, Frank.

MR. PICARELLI: Could we get some history on the cashflow of the stable value? Where, as we know, a few months ago, we had the issue with the negative cashflow in our buffer accounts. So it would be nice to see how are we doing with respect to cashflow activity in our stable value fund.

MR. McCANN: Yep. Yeah, we can definitely do that. I can get you over the last month's report right after this meeting is over that shows the net activity not only by stable value, but all of the funds across each plan and across the program in total, Frank. So I'll send that report over.

MR. PICARELLI: Have we been running in the negative, the stable (inaudible)?

MR. McCANN: Yeah, typically the trendline is holding. That's why we – we just recently did work with Tony Camp. We did a rebalance of the Connecticut Stable Value. But the trendline – and like we mentioned, when we looked at this really hard last year, Connecticut is not unique. A lot of mature government plans are running either really close to or a slight negative in terms of overall net activity, as like the older populations have retired.

So that is a consistent trendline that we continue to see, absolutely.

MR. PICARELLI: Hmm. Yeah, we'd like (inaudible) see that (inaudible).

MR. McCANN: Yeah, I'll share that data as soon as I get done presenting here and I'll email that over to the group.

MR. PICARELLI: Thank you.

MR. McCANN: Yep.

MR. MANN: Thanks (inaudible). This is Scott

Mann from Empower. As you can see on the slide, quarter over quarter, we're actually doing better than all the previous quarters. So what we've been doing is we conducted 32 virtual webinars in fourth quarter with over 700 people in attendance from every topic including Tier IV, lump sum vacation, sick time deferral, market volatility, deference of your final paycheck, vacay and sick time.

We also conducted 35 new hire orientations just in the fourth quarter in person with such agencies as DOC, judicial. We just got into EDS, DCF, DOL, so major locations across the state, UCONN as well. What I did is I also calculated all of the rollovers. So for the year, we actually did 498 rollovers into the plans with over 17 million dollars.

And then I also looked at last year's enrollment in GoalMaker and we're a thousand over that this year. So last year, there was 3,008 enrollments in GoalMaker; this year, there was actually 4,030. So that's actually a positive trend in that direction as well.

Other than that, we're just going to keep continuing doing that, especially with the new website engaging participants, getting them to register, and getting them enrolled in a plan, getting in front of as many Tier IV people as we can as well to show them the options with the plans.

So if anyone has any questions for me, I can certainly pause there.

MR. McCANN: Thanks, Scott. The last slide that I'd like to just show today and before we turn it over to Frank, again - this is Mike McCann with Empower speaking - is to end on just the GoalMaker performance, which is on Page 49 of the report. And I won't hit this in heavy detail. But if you look at, across conservative, moderate, and aggressive for the different years to retirement compared to the overall target date trendline, your GoalMaker portfolios do continue to perform really well compared to the benchmark.

And again, just with the move-over to the Empower recordkeeping platform, it's important to know that Morningstar is still the chassis behind your GoalMaker portfolios. So we're still leveraging that same asset allocation model that Morningstar provided before migration. We're still leveraging that in this post-migration on the Empower platform as well.

So with that, that concludes the update Empower wanted to share today. I'll ask again to see if there's any further questions. Or with that, I can turn it over to Frank for his update.

MR. PICARELLI: All right. Frank Picarelli, if you forget my name. And joining me is Vanessa Vargas today. We're going to go over your year-end report, which is, you know, a good snapshot of what transpired for the year. And then where we came back from last year where the markets were down over 20 percent to coming back this year in '23 to over 26 percent. So all the things, all the discussion related to inflation, the interest rate environment, global tensions all played out for this year.

Just the one thing I wanted to mention is that I just heard the other day that the House has passed the bill permitting CITs and 403 plans and it's now with the Senate. I'm not looking forward to that because I think we learned about collective trust when we went through our Allspring situation. So that's something that we'll look at, be proactive in how that can enhance our program. For sure, we'll be taking a look at that. So right now, that's with the Senate. Okay.

Before I turn it over to Vanessa, I just want to point out on Page 4, where you can see all of the - next page, one more - the key indices, how the growth, the large cap growth, was so strong, and how this really kind of all fell into play by what we're hearing the phrase, the magnificent seven. Those are all of the big companies, the Apples, the Microsofts, et cetera, who really made a major contribution to that indices.

Information technology was up 24; artificial intelligence, 25; Microsoft, 58 percent; Apple was up 48 percent contributing to that. Communications, such as Facebook and Google, contribute over 190 percent into those numbers. And in discretionaries, companies like Amazon and Tesla, you know, all really played out. So really that large cap growth really stood out.

And you can see that interest-rate-sensitive sectors, knowing that the interest rate was going to be pulling back, you can see how real estate was up 18 percent; information technology was up almost 58 percent for the period. And also very good numbers with respect to consumer discretionaries. So when we go back and we want to know what's going on with J.P. Morgan and all of our mutual funds, this all basically impacts things.

So I want to let Vanessa, you know, comment this, and she focuses more on the funds. And I'll talk a little more on administration of the plan.

Vanessa, anything to add? Hello?

MS. VARGAS GUIJARRO: (No audible response)

MR. PICARELLI: Okay. I think we might have lost Vanessa. She’s driving the show here. Hello?

CHAIRMAN ADOMEIT: Is there any more comments? Peter Adomeit.

MR. PICARELLI: Well, let me go back then because I think Vanessa got turned off. We look at the international markets on Page 5 of the report. Her sound is not working, okay. So we finally silenced Vanessa.

International equities, on Page 5, you can see the world, if you take out the U.S., was up almost 18 percent. Europe developed was up 19 percent, U.K. at 14 percent, Japan at 20 percent, and real good numbers on a year-to-date basis. We can see the one-year numbers on emerging markets where the emerging markets came in on a one-year basis at 9.83. Over that three-year period, emerging markets were negative. You know, we saw an impact of that the last two years, how it played out on the American EuroPacific Fund.

On Page 8, Vanessa, is the U.S. fixed income. And you can see that on a three-year basis, the bond world was down a negative-three-point-one, but the broad bond market finished the year strong. As you know, last year we had both equities and bonds in negative territory. Investment grade was eight percent, and then high-yield was nearly the winner there, the lowest spectrum of the bond market. But all of that helped with respect to our bond funds when we take a look at that in a minute.

So I'm going to move on. The next section of our book is our defined contribution legislative update. The one thing I just recently heard is how they passed on the SECURE 2.0 provision for domestic abuse, that you could get a withdrawal, a tax-free withdrawal. You know, you have to go through the process of disclosing it, I guess. Empower has procedures to go about doing that.

But it was the first I heard of it. It's sad to hear that, you know, we have something in our law that allows for distributions under those circumstances in defined contribution plans. I don't know if you guys want to add anything to that or if that's something we need to do anything with in terms of amendments, et cetera, the domestic abuse provision in the SECURE 2.0.

Mike, any comments on that?

MR. McCANN: No. I mean, I just think all things – with all things SECURE-2.0 related, we can just continue those conversations within our ongoing administrative meeting. And, you know, whatever provisions that we want to implement, we've got a good process in place to do that. I would just continue leveraging that forum for that, unless anyone has any specific other questions.

MR. PICARELLI: Okay.

MR. HERRINGTON: This is John Herrington. I don't have any questions, but I think what we would always be interested in is hearing what some of your other clients are doing. I think that we want to kind of get a sense of what the emerging trends are.

MR. McCANN: Yeah, most definitely. I would say in regards to—

CHAIRMAN ADOMEIT: Michael McCann.

MR. McCANN: Oh, sorry, Peter.

CHAIRMAN ADOMEIT: That's all right.

MR. McCANN: Michael McCann with Empower. I would say at a high level, John, what we're seeing for most of our plans is, for SECURE 2.0, the provision course that are more automated in nature, those are quickly being adopted. The ones that are optional, I've seen more of a let's wait and test and see what's specific to our participant base versus a rapid I want to quickly adopt these, to more of kind of like a wait-and-see type approach.

I don't know if, Dan, you would add anything else from your perspective, but that's what I'm seeing.

MR. EVANS: Dan Evans from Empower. Yeah, I agree with that, Mike. I haven't seen anything different outside of that. So I agree.

MR. PICARELLI: Well, it's not something we advertise too, but it's something you need to be aware of, you know, if that issue occurs and it comes across John's desk, how - you know, the best way to handle that if it should - if the situation should ever - a request come to them for that.

Okay. All right. I'm going to move on to the next section - Frank Picarelli - in our report, which is the plan administration. If we just go quickly to Page 27 and just take a look and see the health of our plan in terms of assets and how we're doing.

On the 457 Plan, we're up to 4.2 billion in total assets. We had a total investment gain of almost 310 million dollars. Our total cashflow for what went in, in terms of contributions versus the withdrawals, was 85 and came out in 47, almost a 40 million negative cashflow. On the top, you can see the withdrawals coming out of stable value, which is a big number, 45 million dollars on the 457 Plan. You know, your asset allocations on the next several pages, very consistent from period to period, no major changes.

If you move, Vanessa, to Page 34 is your 403(b) Plan. Your 403(b) has 1.1 billion with 86 million dollars in gains. Cashflow, 15 in, 23 out, negative cashflow. (Inaudible)

Yes?

DR. WOODRUFF: Yeah, this is Tom Woodruff. Could you make the slide a little bigger? I can't really read your numbers. Thank you.

MR. PICARELLI: Okay. Yeah, 1.1 billion, I mentioned, and 86 million dollars in investment gains. And then again, negative cashflow, 23 to 15, and the trend continuing with respect to stable value of 12 million dollars coming out of the plan.

The next several pages is your allocations, your charts, how everything basically lines up. And again, it's been very consistent for a number of years, no major changes. A lot has to do with the allocation within the GoalMaker models on how our fund utilization is.

On Page 41 is your 401(a) Plan. And your 401(a) has two million, a hundred and sixty - I'm sorry, two billion, a hundred and sixty-three million in investment gains. And the cashflow was dead even;

23 came in, 23.3, and 23.1 came out in terms of cashflow activity on the 401(a) Plan. And then again, asset allocations, we reconcile all that data et cetera in line.

Your Tier IV Plan, which is on Page 48, is 96 million dollars. And you can see, the cashflow was eight million, 8.5, only 611,000 coming out. And there's the activity from period to period. Again, stable value in this plan has a lower allocation of 9.6. The majority of the money is in the Vanguard S&P 500 Index. That's the big differential. But again, all of your activity from period to period, your expenses, your net funding, is all in line to the program.

When we get to Page 56, we start to talk about our Stable Value Fund. Then on Page 57, you can see that as of December 31st, our crediting rate, when we rolled up all of the plans and the managers, was up at 2.67. For this quarter, January 1, we got a bump up to 2.91, so that's nice. You can see where the underlying investment managers on that bottom chart, the Core Plus at 3.20, that buffer at 0.25, J.P. Morgan at 2.72, and then the blend of those managers contribute 2.75, and Prudential contributing 2.60.

On the next page is the new money, where we are. I just mentioned that, 2.91, which is a really good rate. I'm going to show you on another chart how that stacks up to the Euler index.

On 59, we track your allocations with the rebalancing, and then you can see that cash buffer is 60.6 percent overall. The Voya Core Plus is at 34, J.P. Morgan, and then the Empower at 38.7. So that's pretty much in line with the changes that we made. We look at the investment structure, as I pointed out, with your guarantees around your general account products with Empower, and no changes there.

On Page 62 is our menu. And we're happy to report that nothing was flagged by our research team in terms of any major changes with respect to the organizations. We just have one fund, the J.P. Morgan Midcap Value Fund, that will be on watchlist now for one year at the end of this quarter. So when we do the March report sometime in May, we'll take a look at that and compare it to some other options.

But at the end of the day, you know, we have a tough bogie. We want our mutual fund to be its peer groups over that three- and five-year period, and J.P. Morgan is kind of isolated into two bad years that affect those rolling numbers. So we'll look at that more closely in a couple of minutes again.

Vanessa, if you could move to Page 64. And this is a real good chart to show you where you are with your Stable Value Fund, where we show all of the managers, what they did for the year. And, you know, you look at three-year numbers, how we ranked. You know, the J.P. Morgan was a negative-one-point-six. That index was down a negative-two-point-one. The Voya, a negative-one-point-eight, the index down a negative-two-point-one. And then the Core Plus, a negative-two-point-eight compared to a negative-three-point-three.

So when you roll this up, we're averaging about 2.3, and when you look at the universe of large institutional plans, we're tracking right online with that. So there's where we are with that.

If you look at your fixed income, we had some issues with MetWest earlier, but everything kind of aligned. And you can see that on the one-year basis, up at six percent, the three-year's, because of last year, was negative, but really good rankings for actively managed funds over the five, seven, and through the eight since inception. So that's a good story.

The index is indexing; nothing to report there. Inflation-protected bonds, doing along the line. And, you know, inflation, that's what it roots for. So in good periods - you know, it did 3.8 for the year. And then (inaudible) is just the expense ratio; tracking error is the expense ratio.

Our large cap value fund, we had a good quarter. Over the three years, we averaged – we were on average compared to our peer groups. But again, very good, strong on long-term numbers, and that just basically means the quality issues with respect to that.

We see our large cap stocks. We have the Vanguard Index. We have the CREF Equity Index Fund doing well. And then your large cap growth, where we did all that work this year, the TIAA CREF Fund did 42.6, so it mimicked that index at 42.7. So really good, strong numbers across the board. And I think, you know, we kind of exhausted that. At the end of the day, all seven companies all played into that index. They do well, the index is going to do well. So it's a challenge to active manage to get outside of that box. So that's a good number to report, kind of validates things.

J.P. Morgan, there you see, had a good quarter. And it came in at 12. The peers came in at 11. You could see that, on the one-year side, we just slightly underperformed the peers, 11.3 to 11.6. Five-years, we're averaging, again, right on the ballpark. It's that five-year number where we're very short, 11.1 to 11.2.

And, Vanessa, if you could go to Page 70, and this is a great chart when you look at the year by year, you know, how did the fund do when the market was down. And on the top of Page 70, the J.P. Morgan lost 8.1 and the index lost a negative-twelve, so (inaudible) peer groups, so we were average. So we had a good downside when the market was down. We didn't have that big of a loss.

And then on the '21, a good year; '20, it was off, and that was it, and then, you know, out to two-sixteen (sic). So really those two years, 2020 and two-sixteen. But we have the same situation, while we're on that page, when we look at the American EuroPacific Funds, I indicated to you that emerging markets struggled in '22. They realigned that portfolio. So in '22 and '21, two bad years, but when you look at the history of the fund, from 2022 to two-thirteen (sic), you know, it tracks very well amongst funds in that category.

So I'm not worried about J.P. Morgan, but, you know, we'll always look to enhance things. I'd love to get rid of that one fund, that revenue sharing. So, you know, maybe if CIT works in that space, all of the right reasons, and eliminate that Thomas, that's something that we could look at, if such a fund, a version, exists for that particular manager.

So at the end of the day, all good stories, all good numbers, you know, when you look at the one-year and go down that three-year column for all of our investments. So with that, I complete the investment review. I open it up to any questions. I covered it quickly, and I think we got a good taste for the growth, the size of our plans, and the potentials that we have here.

Questions? Sorry about that, Vanessa. Vanessa had our whole agenda planned for that.

CHAIRMAN ADOMEIT: Peter Adomeit. Vanessa texted us that her audio wasn't working.

MR. PICARELLI: Yeah, I think we have it all covered.

CHAIRMAN ADOMEIT: Peter Adomeit here. Is there any more discussion?

DR. WOODRUFF: This is Tom Woodruff. Just a quick question for Frank and also Empower. You're basically not asking the Committee to take any action, now; right? And then in the next meeting, you'll discuss the issue of the watchlist for the one fund, J.P. Morgan Fund; is that correct?

MR. PICARELLI: Correct.

DR. WOODRUFF: Okay.

CHAIRMAN ADOMEIT: Okay. Is there any more discussion? All right. Hearing none, then we need a motion to adjourn.

MR. HILL: So moved, Hill.

MR. BAILEY: Bailey, second.

CHAIRMAN ADOMEIT: All in favor, say aye or raise your hand. Unanimous; the ayes have it.

Thank you all very much for your—

DR. WOODRUFF: Thank you.

(Adjourned at 10:55 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 10:02 a.m. on March 12, 2024.

Karin A. Empson

Karin A. Empson

03/28/2024

Date