

**Town of Redding  
OPEB Trust Board Regular Meeting Minutes  
Monday, 2/26/2024  
6:00PM via Zoom**

*Filed subject to approval.*

**Present:**

- Jenifer Wyss, Chair
- Roger Van Ausdal, Vice Chair
- Ward Mazzucco
- Jamie Barickman
- Robert Dean
- Karen Gifford

**Also Present:**

- Jim Sanders, Finance Director
- Wes Higgins, Treasurer
- Kate Pizzi, Fiducient Advisors
- Richard Carey, Fiducient Advisors
- Members of the Public

Chair Wyss called the meeting to order at **6:02PM**.

- 1. To Approve the Minutes of the Monday, 11/27/2023 OPEB Trust Board Regular Meeting.**

**Motion:**

**Ms. Gifford made a motion to approve the minutes of the Monday, 11/27/2023 OPEB Trust Board Regular Meeting. Mr. Mazzucco seconded the motion. The vote was unanimous, and the motion carried.**

- 2. Public Comment.**

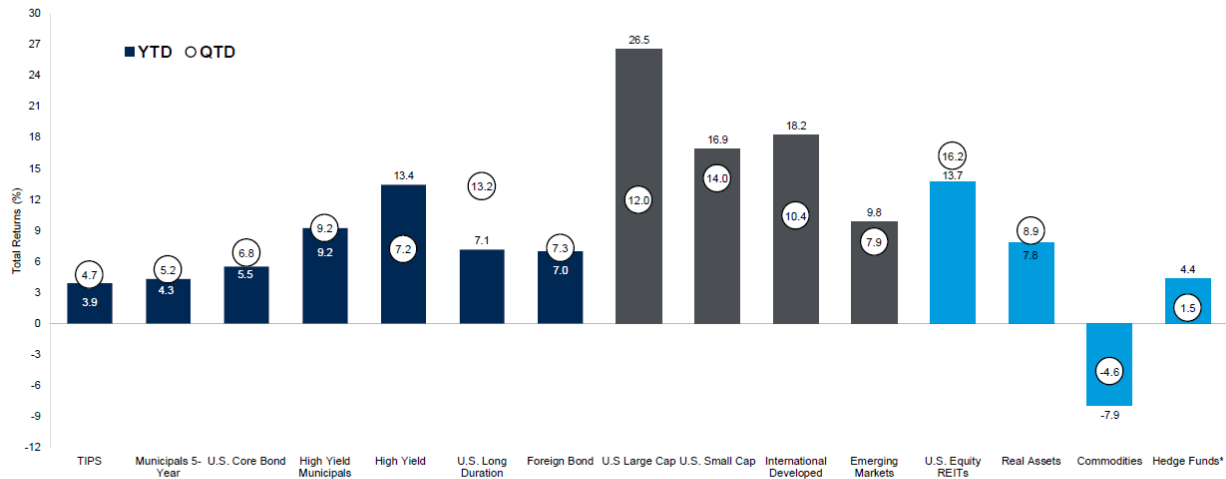
Chair Wyss opened the floor to Public Comment. There was no Public Comment.

- 3. Fiducient Advisors Quarterly Oversight Review.**

Kate Pizzi and Richard Carey of Fiducient Advisors presented the Quarterly Oversight Review to the OPEB Trust Board.

Mr. Carey discussed the various Asset Class Returns for Quarter 4 2023 and Calendar Year 2023 (see below for details).

## Asset Class Returns



Source: Morningstar Direct. As of December 31, 2023. \*Hedge fund returns as of November 30, 2023.

### Fixed Income (4Q)

+ It was a strong quarter for fixed income as interest rates continued to move lower and the Federal Reserve's tone became more dovish on moderating inflation. The year-to-date return for the Bloomberg Agg moved into positive territory.

+ The high yield market was a standout for both the quarter and the year. Investor appetite for riskier segments of fixed income persist as corporate fundamentals remain favorable.

+ Long duration, the most interest rate sensitive fixed income sector, posted a double digit gain in the quarter.

### Equity (4Q)

+ Equity markets were widely positive in the fourth quarter. The "risk-on" environment was fueled by the prospect that the "higher for longer" environment may moderate in 2024. U.S. small cap was a particular benefactor and was a standout in the quarter.

+ Developed non-U.S. had a double digit return in the quarter. Europe was particularly strong and a falling U.S. dollar was an added benefit.

+ Emerging markets equity produced a positive return but lagged developed regions. China continues to be a drag on the segment.

### Real Asset / Alternatives (4Q)

+ REITs were one of the top performing areas in the quarter, benefiting from the sharp decline in interest rates.

- Commodities were weak in the fourth quarter and ended the year as one of the few asset classes in negative territory. Falling commodity prices were the primary source of weakness.

+ Hedge funds (reported on a month lag) posted a modest return for the first two months of the quarter. Relative value strategies were a top segment in the period.

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See disclosures for list of indices representing each asset class. Past performance does not indicate future performance and there is a possibility of a loss. Indices cannot be invested in directly.

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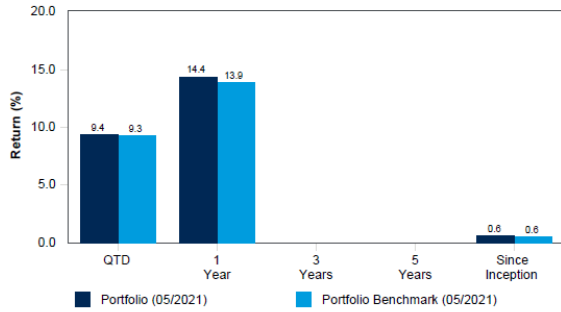
Mr. Carey continued by discussing the Town of Redding's OPEB Trust performance (see below for the Portfolio Dashboard).

## Portfolio Dashboard

Redding OPEB\*

As of December 31, 2023

### Historical Performance



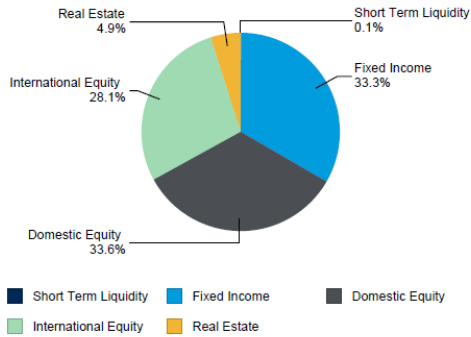
### Summary of Cash Flows

|                        | QTD       | YTD       | Since Inception |
|------------------------|-----------|-----------|-----------------|
| <b>Redding OPEB*</b>   |           |           |                 |
| Beginning Market Value | 1,275,984 | 954,791   | 500,000         |
| Net Contributions      | 50,000    | 325,000   | 900,000         |
| Gain/Loss              | 126,897   | 173,090   | 52,882          |
| Ending Market Value    | 1,452,882 | 1,452,882 | 1,452,882       |

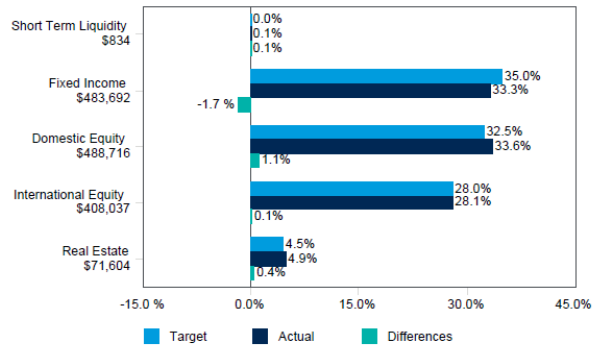
### Current Benchmark Composition

| From Date | To Date | Composition   |
|-----------|---------|---|
| 04/2023   | Present | 3.00% BImbg. U.S. TIPS, 10.00% BImbg. 1-3 Govt, 22.00% BImbg. U.S. Aggregate, 24.50% S&P 500, 8.00% Russell 2000 Index, 18.50% MSCI EAFE (Net), 9.50% MSCI Emerging Markets (Price), 4.50% MSCI U.S. REIT Index (Net) |

### Portfolio Allocation



### Actual vs. Target Allocations



\*Performance has been adjusted systematically to account for Fiduciant Advisors' fee.

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Mr. Carey and Ms. Pizzi confirmed that the current Asset Allocation is close to the targeted allocations (see below for details).

## Asset Allocation

Redding OPEB\*

As of December 31, 2023

|  | Asset Allocation (\$) | Asset Allocation (%) | Target Allocation (%) | Differences (%) |
|--|-----------------------|----------------------|-----------------------|-----------------|
| <b>Redding OPEB*</b>                           | <b>1,452,882</b>      | <b>100.0</b>         | <b>100.0</b>          | <b>0.0</b>      |
| <b>Short Term Liquidity</b>                    | <b>834</b>            | <b>0.1</b>           | <b>0.0</b>            | <b>0.1</b>      |
| Cash   | 834                   | 0.1                  | 0.0                   | 0.1             |
| <b>Fixed Income</b>                            | <b>483,692</b>        | <b>33.3</b>          | <b>35.0</b>           | <b>-1.7</b>     |
| Schwab Treasury Inflation Protected Secs Index | 40,714                | 2.8                  | 3.0                   | -0.2            |
| Schwab Short-Term Bond Index                   | 134,140               | 9.2                  | 10.0                  | -0.8            |
| Schwab US Aggregate Bond Index                 | 308,838               | 21.3                 | 22.0                  | -0.7            |
| <b>Domestic Equity</b>                         | <b>488,716</b>        | <b>33.6</b>          | <b>32.5</b>           | <b>1.1</b>      |
| Schwab S&P 500 Index                           | 361,691               | 24.9                 | 24.5                  | 0.4             |
| Vanguard Extended Market Index Adm             | 127,025               | 8.7                  | 8.0                   | 0.7             |
| <b>International Equity</b>                    | <b>408,037</b>        | <b>28.1</b>          | <b>28.0</b>           | <b>0.1</b>      |
| Schwab International Index                     | 273,218               | 18.8                 | 18.5                  | 0.3             |
| Vanguard Emerging Markets Stock Adm            | 134,819               | 9.3                  | 9.5                   | -0.2            |
| <b>Real Estate</b>                             | <b>71,604</b>         | <b>4.9</b>           | <b>4.5</b>            | <b>0.4</b>      |
| Vanguard Real Estate Index Fund Adm            | 71,604                | 4.9                  | 4.5                   | 0.4             |

Ms. Pizzi stated that the OPEB Trust Board should prepare for volatility in the market instead of attempting to predict shifts in various asset classes (see below for a Ten-Year Outlook). Ms. Pizzi discussed this Ten-Year Outlook.

## 2024-2033 Ten-Year Outlook

|                            |   | 2024   | 2023           | Y / Y Change |       |
|----------------------------|---|--|----------------|--------------|-------|
| Fixed Income               | The Federal Reserve continued its battle with inflation in 2023 and the market began to believe the rhetoric of "higher for longer". Yields rose across much of fixed income, improving forward long-term return assumptions.   | U.S. Bonds   | 5.7%           | 5.0%         | 0.6%  |
|                            | Credit, specifically high yield, was one of the best performing fixed income asset classes in 2023. 2024 projections rose solely based on higher Treasury rates as spreads (the additional yield above Treasuries) fell over the year.  | TIPS   | 5.2%           | 4.6%         | 0.6%  |
|                            |   | Dynamic Bonds <sup>1</sup>   | 6.5%           | 5.6%         | 0.9%  |
|                            | Municipal bond forecasts rose as well based on higher rates, but so did interest rate risk given the structure of the market.   | High Yield Bonds   | 7.7%           | 7.1%         | 0.6%  |
|                            |   | Global Bonds   | 5.6%           | 5.1%         | 0.5%  |
|                            |   | Muni Bond <sup>2</sup>   | 6.3%           | 5.8%         | 0.5%  |
|                            | Muni High Yield <sup>2</sup>  | 10.2%  | 9.9%           | 0.3%         |       |
| Global Equity              | U.S. equity forecasts are nearly flat year over year driven by higher valuations and very modest earnings growth for 2023. International forecasts fell on a similar accord, but to a larger degree also driven by higher anticipated volatility outside of the U.S. Valuations outside the U.S. remain below their 20-year averages while U.S. valuations remain above 20-year averages. | U.S. All Cap   | 6.5%           | 6.7%         | -0.2% |
|                            |   | Intl Developed Equity  | 8.2%           | 8.9%         | -0.7% |
|                            |   | Emerging Markets   | 10.1%          | 10.8%        | -0.7% |
| Real Assets & Alternatives | Real assets broadly struggled to keep up with equity markets as inflation fell throughout 2023. On the backs of lower prices and inflation remaining elevated, forecasts across real asset categories rose.   | Real Estate  | 7.0%           | 6.4%         | 0.6%  |
|                            |   | Broad Real Assets <sup>3</sup>   | 7.5%           | 6.8%         | 0.7%  |
|                            | Marketable alternatives forecasts benefited from higher base rates of returns earned in Treasuries and higher expected volatility within and across asset classes.  | Marketable Alts  | 8.4%           | 8.1%         | 0.3%  |
|                            |   | Private Equity forecasts are largely flat year over year based on the offsetting factors of improving private equity valuations and more modest earnings growth outlook. | Private Equity | 9.5%         | 9.7%  |

1) Dynamic bonds are a blend of 33% Cash, 33% Corp HY, and 34% Global Bonds. 2) Tax Equivalent yield based on highest marginal Federal tax rate (37%). 3) Broad Real Assets is 20% REITS, 20% Global Infrastructure, 20% Commodities, 20% US Bonds, 15% Corp High Yield, 5% TIPS. Outputs and opinions are as of the date referenced and are subject to change based on market or economic conditions. Information is intended for general information purposes only and does not represent any specific investment recommendation. Please consult with your advisor, attorney and accountant, as appropriate, regarding specific advice. There is no guarantee that any of these expectations will become actual results. For additional information on forecast methodologies, please speak with your advisor. Please see Index Proxy Summary slide at the end of this presentation for summary of indices used to represent each asset class. Past performance does not indicate future performance and there is a possibility of a loss. Please see the Frontier Engineer Hypothetical Performance Disclosures at the end of the presentation for additional information.

Ms. Pizzi discussed various implications that could result from this ten-year outlook (see below for details).

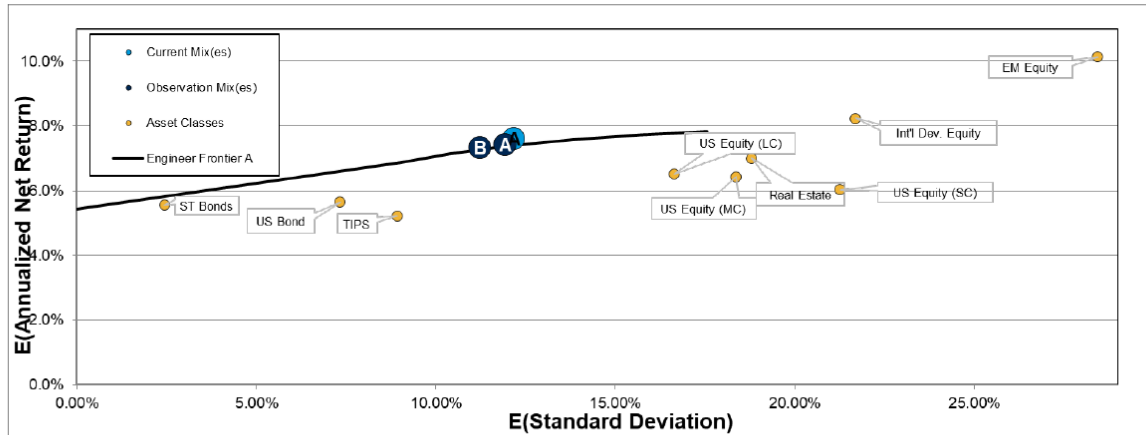
### Portfolio Implications

- Our 10-year return forecasts show increased opportunity across fixed income and real assets with a modest reduction in equity return expectations.
  - *This makes for one of the more attractive risk-adjusted returns for fixed income relative to equity we have seen in several years.*
- We believe range-bound inflation opens multiple paths to lower rates, creating opportunities for tailwinds in fixed income and more rate-sensitive assets.
- Narrow market leadership in U.S. equities creates fragility within, and opportunity outside of, U.S. technology stocks.
  - *Exposure to large cap U.S. equity remains appropriate, but we also believe long-term investors will benefit from exposure to U.S. small and mid capitalization and non-U.S. stocks.*
- The most predicted recession in history has not yet come to pass. We believe investor mindsets should shift from **predict** to **prepare**, as risks remain acute and market timing futile.
  - *The best way to prepare for uncertainty is by building a well-diversified portfolio.*

Ms. Pizzi discussed the overall annualized net return of the portfolio and potential allocation shifts for Calendar Year 2024 (see below for details).

### Frontier Engineer® Analysis

| 1/31/2024           | Asset Allocation |        |             |          |      |         |                |                |                |                   |           |             |                   | Forecasts             |                        |                             |                       | Past (1/88-1/24)      |  |
|---------------------|------------------|--------|-------------|----------|------|---------|----------------|----------------|----------------|-------------------|-----------|-------------|-------------------|-----------------------|------------------------|-----------------------------|-----------------------|-----------------------|--|
|                     | Fixed Income     | Equity | Real Assets | ST Bonds | TIPS | US Bond | US Equity (LC) | US Equity (MC) | US Equity (SC) | Int'l Dev. Equity | EM Equity | Real Estate | Annualized Return | Annualized Volatility | Normal 100 Year Flood* | Non-Normal 100 Year Flood** | Annualized Net Return | Annualized Volatility |  |
| Current Mix (A)     | 35%              | 61%    | 5%          | 10%      | 3%   | 22%     | 22%            | 6.5%           | 4%             | 18.5%             | 9.5%      | 4.5%        | 7.58%             | 12.18%                | -20%                   | -26%                        | 8.1%                  | 10.1%                 |  |
| Proposed (A)        | 35%              | 61%    | 5%          | 10%      |      | 25%     | 25%            | 7.5%           | 5%             | 16.0%             | 7%        | 4.5%        | 7.41%             | 11.93%                | -20%                   | -25%                        | 8.2%                  | 10.0%                 |  |
| Proposed +2% FI (B) | 40%              | 56%    | 4%          | 10%      |      | 30%     | 23%            | 7%             | 4.5%           | 15%               | 6.5%      | 4%          | 7.32%             | 11.23%                | -18%                   | -23%                        | 8.0%                  | 9.3%                  |  |



\*The expected one in a hundred worst case calendar year return based on normally distributed capital market assumptions. Greater losses are possible (1% expected likelihood).  
 \*\*The expected one in a hundred worst case calendar year return based on non-normally distributed capital market assumptions (factoring in skewness & kurtosis). Greater losses are possible (1% expected likelihood).  
 Historical Returns and Risk Metrics for each Mix represent back-tested calculations developed with the benefit of hindsight. Return calculations use an asset-weighted methodology based on the target asset allocation of each mix and the total return of index proxies used to represent each asset class and are net of fees. Historical returns are hypothetical and do not represent returns earned by a client. It is not possible to invest in an index. Please see the Frontier Engineer Hypothetical Performance Disclosures at the end of the presentation for additional information, including index proxies used to represent each asset class. Please ask for a copy of Fiduciant Advisors' white paper titled 10-Year Capital Market Forecasts. Past performance does not indicate future performance and it is possible to lose money when investing. Please refer to the Capital Markets Assumptions Slide for the hypothetical alpha and hypothetical fee inputs used in the calculation methodology.

Ms. Pizzi continued in greater detail on this next slide on what the 2024 Target Allocation should look like (see below for details).

## Recommended Changes

| Town of Redding OPEB Pension Plan<br>2023 versus 2024 Target Allocation |                        |                        |
|---|------------------------|------------------------|
| Investment  | 2023 Target Allocation | 2024 Target Allocation |
| <i>Cash</i>   |                        |                        |
| Cash  | 0.0%                   | 0.0%                   |
| <i>Fixed Income</i>   |                        |                        |
| Schwab Treasury Inflation Protected Sec Index                           | 3.0%                   | 0.0%                   |
| Schwab Short Term Bond Index  | 10.0%                  | 10.0%                  |
| Schwab US Aggregate Bond Index  | 22.0%                  | 25.0%                  |
| <i>Domestic Equity</i>  |                        |                        |
| Schwab S&P 500 Index Fund   | 24.5%                  | 28.0%                  |
| Vanguard Extended Market Index  | 8.0%                   | 9.5%                   |
| <i>International Equity</i>   |                        |                        |
| Schwab International Index  | 18.5%                  | 16.0%                  |
| Vanguard Emerging Markets Stock Adm                                     | 9.5%                   | 7.0%                   |
| <i>Real Assets</i>  |                        |                        |
| Vanguard Real Estate Fund Adm   | 4.5%                   | 4.5%                   |
| <b>Investment Portfolio Total</b>                                       | <b>100.0%</b>          | <b>100.0%</b>          |

Chair Wyss asked Ms. Pizzi to clarify the differences between Proposals A & B as shown in the Frontier Engineer Analysis. Ms. Pizzi stated that by increasing the allocation for Fixed Income, the overall return will decrease but volatility decreases. Proposal A has a higher return but increased volatility. Discussion followed.

#### 4. Discussion and Possible Action: Re-allocation of Investments.

##### Motion:

**Mr. Mazzucco made a motion to adopt the 2024 Target Allocation as shown on the “Recommended Changes” slide and to amend the Investment Policy Statement to reflect these target allocations. Ms. Gifford seconded the motion.**

**See below for the 2024 Target Allocations:**

## Recommended Changes

| Town of Redding OPEB Pension Plan<br>2023 versus 2024 Target Allocation |                        |                        |
|---|------------------------|------------------------|
| Investment  | 2023 Target Allocation | 2024 Target Allocation |
| <i>Cash</i>   |                        |                        |
| Cash  | 0.0%                   | 0.0%                   |
| <i>Fixed Income</i>   |                        |                        |
| Schwab Treasury Inflation Protected Sec Index                           | 3.0%                   | 0.0%                   |
| Schwab Short Term Bond Index  | 10.0%                  | 10.0%                  |
| Schwab US Aggregate Bond Index  | 22.0%                  | 25.0%                  |
| <i>Domestic Equity</i>  |                        |                        |
| Schwab S&P 500 Index Fund   | 24.5%                  | 28.0%                  |
| Vanguard Extended Market Index  | 8.0%                   | 9.5%                   |
| <i>International Equity</i>   |                        |                        |
| Schwab International Index  | 18.5%                  | 16.0%                  |
| Vanguard Emerging Markets Stock Adm                                     | 9.5%                   | 7.0%                   |
| <i>Real Assets</i>  |                        |                        |
| Vanguard Real Estate Fund Adm   | 4.5%                   | 4.5%                   |
| <b>Investment Portfolio Total</b>                                       | <b>100.0%</b>          | <b>100.0%</b>          |

The vote was unanimous, and the motion carried.

### 5. Discussion and Possible Action: January 2024 Schwab Investment Statement.

**Motion:**

**Mr. Mazzucco made a motion to accept the January 2024 Schwab Investment Statement. Ms. Gifford seconded the motion. The vote was unanimous, and the motion carried.**

### 6. Discussion: FY24 Quarterly Contribution to Trust Fund.

Jim Sanders, Finance Director of the Town of Redding, explained to the OPEB Trust Board that at each OPEB Trust Board meeting, the Board should confirm that the quarterly contribution schedule and amounts are appropriate.

The OPEB Trust Board agreed that the quarterly contribution of \$50,000.00 should be maintained. This is the 3<sup>rd</sup> of 4 installments in FY 2024.

### 7. Discussion and Possible Action: FY25 Trust Fund Contribution Budget.

Chair Wyss opened the floor to Mr. Sanders.

Mr. Sanders explained that there is an ADEC (Actuarially Determined Employer Contribution) for the OPEB Trust that is an annualized estimate of what is needed to properly fund the OPEB liabilities. See below for the calculation of this number.

## Executive Summary



|  | July 1, 2022 | July 1, 2020 |
|--|--------------|--------------|
| <b>Number of members</b>                                   |              |              |
| Active members   | 191          | 177          |
| Retired members and dependents                             | <u>12</u>    | <u>13</u>    |
| Total  | 203          | 190          |
| <b>Covered employee payroll</b>                            | 14,649,163   | 13,698,629   |
| <b>Average plan salary</b>                                 | 76,697       | 77,393       |
| <b>Actuarial present value of future benefits</b>          | 3,992,352    | 5,510,044    |
| <b>Actuarial accrued liability</b>                         | 2,950,988    | 3,389,462    |
| <b>Plan assets</b>   |              |              |
| Market value of assets                                     | 875,697      | 0            |
| Actuarial value of assets                                  | 990,779      | 0            |
| <b>Unfunded accrued liability</b>                          | 1,960,209    | 3,389,462    |
| <b>Funded ratio</b>  | 33.6%        | 0.0%         |
| <b>Actuarially determined employer contribution (ADEC)</b> |              |              |
| Fiscal year ending   | 2024         | 2022         |
| ADEC   | 285,902      | 337,902      |
| Fiscal year ending   | 2025         | 2023         |
| ADEC   | 291,178      | 345,992      |



The Town of Redding receives credit for expenditures made outside of the OPEB Trust totaling \$100k. This reduces the necessary ADEC to approximately \$200k.

Like FY 2024, it is recommended that the Town of Redding contributes \$200k to the OPEB Trust to continue to adequately grow the Trust.

### Motion:

**Mr. Barickman made a motion to recommend to the Board of Selectmen to include \$200,000 in the FY 2024-2025 operating budget to fund the ADEC contribution, subject to Board of Finance approval. Mr. Mazzucco seconded the motion. The vote was unanimous, and the motion carried.**

### 8. Other Business.

Chair Wyss opened the floor to Other Business. There was no Other Business to discuss.

### 9. Public Comment.

Chair Wyss opened the floor to Public Comment. There was no Public Comment.



**Motion:**

**Mr. Barickman made a motion to adjourn the meeting. Ms. Gifford seconded the motion. The vote was unanimous, and the motion carried.**

The meeting was adjourned at **6:48PM.**

*Submitted by,  
Zachary Smith*