MINUTES OF THE MEETING
PAROCHIAL EMPLOYEES' RETIREMENT SYSTEM
BATON ROUGE, LOUISIANA
SEPTEMBER 13, 2022

The Board of Trustees met on the above date at the retirement system office, 7905 Wrenwood Boulevard. Chairman Terrie Rodrigue presided and called the meeting to order at 8:30 a.m. Ms. Dainna Tully, Administrative Director, gave the invocation. Chairman Rodrigue then asked Ms. Tully to call the roll. Members present in addition to those already named were: Ms. Kelly Fontenot, Mr. Phillip Bourgoyne, and Mr. Bruce Kelly and Senator Robert Mills. Members absent were: Ms. Julia Fisher-Cormier, Senator Robert Mills and Representative Phillip DeVillier. Also present was Mr. Chris Burke, Chief Investment Officer, Ms. Becky Fontenot, Assistant Director, Mr. Stephen Brouillette with Curran Actuarial, Mr. Keith Reynolds with Segal Marco Advisors, Ms. Denise Akers, Board attorney, and Mr. Joey David with the House Retirement Committee.

Chairman Rodrigue noted that the Board would take public comment at this time. No comments were made.

Chairman Rodrigue asked Mr. Burke to address the investment summary. The investment summary follows:

<u>Investment Recap – 2Q 2022</u>

Summary:
Global markets were sharply negative during the second quarter, as worries over inflation, slowing growth, and the Ukraine conflict negatively impacted most asset classes. Interestingly, since 1976, there have only been just four other occurrences where both stocks and bonds have fallen for two consecutive quarters. With three of the previous four periods resulting in recessions, the near-term outlook remains precarious. The PERSLA investment portfolio returned -9.0% for the second quarter, pushing year to date results to -13.3% through June. July was an improved month as better-than-expected earnings and the prospects for a slower pace of future interest rate hikes provided investors a short reprieve. August began much like July with positive momentum in markets but the anticipation of continued aggressive interest rate hikes sent equities and fixed income lower overall. The portfolio rebounded with the market in July, returning north of 4% but gave some of that back in August. Based on our internal estimates, the YTD return as of now is approximately - 11%.

CIO Insights:
The last three months have at least been consistent with recent trends. That's a nice way of saying the craziness is continuing! The news flow regarding markets, economic, and geo-politics has been fast and furious. Despite the headlines, July offered up a welcome reprieve for both the equity and the bond markets with both up significantly for the

month. It marked only the second positive month in 2022 for both stocks and bonds. That said the broader trend is still down for stocks. Add to the mix the widely anticipated FED rate hikes, slower earnings growth and a slowing economy, and the bounce we had in July brings to mind the Wall Street saying “dead cat bounce.” Basically it is defined as a rapid but short-lived recovery in prices after a sharp fall. Another perhaps not so graphic phrase to describe it would be a “sucker’s rally”. This implies that the market is just sucking folks in at higher prices only to set a new cycle low in the near future. Or we could just call it a “bear market rally.” Give Wall Street credit; at least it is full of creative and colorful ways of describing market moves!

Some quick updates on “office” action rather than market action. We funded a significant portion (about 70%) of our Aksia commitment during July and August. Ultimately the “fund of one” Aksia is customizing for PERSLA will be invested in 15-18 different hedge fund managers. In conjunction with kicking off our investment with Aksia, they coordinated a due diligence trip that I made along with our consultant, Keith Reynolds of Segal, to NYC at the end of July. In the course of three days, we met with ten of our proposed hedge fund managers in the NYC area. The meetings were designed as an introduction to each hedge fund’s investment strategy and/or key personnel. One of the biggest takeaways for me (aside from the variety of investment strategies and creativity of the people I met with) was the incredible investment in technology these firms have made. Clearly technology is moving from the background of the investment process to the front. Technology is not just making the process easier or more efficient, but rather it’s becoming integral to the process. Artificial intelligence, machine learning, natural language processing, and data scraping are not just distant dreams or reserved for sci-fi only. They are a reality and happening within the confines of our portfolio.

While in NYC, Keith and I also spent time with Stone Harbor (EM Debt) and Golden Tree (Multi-Sector Fixed Income). As we have discussed, we are in the process of evaluating our EM debt strategy with our Segal team and will have recommendations for the board at this meeting. The thirteenth and final meeting in NYC was with about a dozen of the Aksia team in their offices. It was very nice to meet folks in person that only existed on a computer screen prior to these meetings. We have some of the best and brightest folks in the industry working within our portfolio.

Additional Market Observations

U.S. stocks continued to accelerate their losses during the quarter, broadly falling into bear market terrain and delivering the worst first-half year returns since 1970. The S&P 500 Index dropped 16.5% for the second quarter and 20.0% for the first six months of 2022. Growth underperformed value across the market cap spectrum, as increases in the cost of capital and discount rates weighed on earnings expectations. Small cap stocks slightly underperformed large cap as economic growth slowed. All sectors were negative in the quarter, but Consumer Staples (-4.6%) was the strongest on a relative basis. Consumer Discretionary (-26.2%) and Telecom (-20.7%) were down the most. With the strength in energy during the year, the one-year return of +40% far outweighed the return of other sectors.

Following an already challenging start to the year, international markets fell sharply in the second quarter as the war in Ukraine continued to negatively impact markets and recession fears weighed on stock valuations. In dollar terms, the MSCI EAFE Index fell 14.5% in the second quarter, while the MSCI AC World ex-US Index fell 13.7%. This brings the year to date returns of both benchmarks to -19.6% and -18.4% respectively. Much of this move lower for international stocks was the result of the strengthening US dollar. While lower quality value stocks led again during the quarter, the magnitude of the lead was more benign.

The U.S. bond market was also in negative territory, as the Bloomberg Aggregate Bond Index declined 4.7% for the quarter and 10.3% year-to-date. This was the worst first half performance for the Index in its 46-year history. Inflation dominated headlines as CPI increased 8.6% year over year in May and 9.1% in June. This was the largest one-year increase since 1981, prompting the Fed to hike rates by 0.50% in May and 0.75% in June. The yield curve rose significantly during the quarter and credit spreads widened in every major investment grade and high yield sector.

Private markets continue to provide a positive dampening to the volatility of the public markets. We do expect to see pressures on valuations throughout private equity, real estate and credit markets creep into returns throughout the second half of 2022. But on the flip side, the delayed mark to market is proving beneficial to total plan return/risk profiles. With second quarter returns in, the numbers are lower than 2021 but are positive relative to public markets on an absolute and relative basis. The increasing yield environment facing all private markets, including credit, is a good news/bad news situation and investors should anticipate active management and selection as key drivers of incremental returns.

Chairman Rodrigue asked Mr. Reynolds to review investment performance. Mr. Reynolds stated that for the seven months ending 7/31/22, the plan return was -9.73%. The portfolio value as of 7/31/22 is $4,811,245,699.

Mr. Reynolds stated that the equity managers have outperformed the index for the seven months ending 7/31/22. He indicated that the fixed income and alternative managers have also outperformed their respective indices.

Mr. Reynolds stated that the investment committee interviewed three emerging market debt managers at its last meeting. He indicated that after interviewing the candidates, it is the investment committee's recommendation to allocate $200 million to T. Rowe Price. Mr. Reynolds stated that T. Rowe Price will manage a dynamic emerging market bond fund for PERS. He explained that T. Rowe Price will charge .375 basis points which is lower than the fee charged by the current emerging market debt manager.

Upon motion by Mr. Kelly and second by Mr. Bourgoyne, the Board authorized execution of a contract with T. Rowe Price to manage $200 million pending document review and approval of the Board's attorney.

Mr. Burke provided an update on the XTP cost analysis. He indicated that XTP has uncovered some portfolio costs that they are discussing with managers. Mr. Burke stated that all of the managers are working with XTP on the investigation. He reminded the Board that any cost savings that results from the analysis will be split 50/50 for a two year period.

Chairman Rodrigue thanked Mr. Burke and Mr. Reynolds for their presentation.

Upon motion by Ms. Fontenot and second by Mr. Kelly, the Board approved retirements for July, August and September of 2022. A handout detailing all retirements for these months was provided to all Board members.

Upon motion by Mr. Kelly and second by Mr. Bourgoyne, the Board approved the following request for reciprocal recognition:

Lakeisha Simien, School Employees

Upon motion by Mr. Bourgoyne and second by Ms. Fontenot, the Board approved the following requests for actuarial transfer of service:

Erin S. Bivona, St. Tammany **to** Municipal Employees

Amanda Cain, St. Landry **to** Teachers

Mia Clement, Assumption **to** Clerks

Cheryl D'Albor, 16th JDC District Attorney **to** State Employees

Eugene D. Folse, Jr., Jefferson **to** Teachers

Deborah Foshee, Jefferson **to** Municipal Employees

Robert Franklin, Lincoln **from** Municipal Employees

William Garbo, 22nd JDC **from** Sheriffs

Joycelyn Gros, Terrebonne Sales & Use **to** Municipal Employees

Pamela Guillotte, Calcasieu **from** State Employees

Nancy Landry, 15th JDC **to** State Employees

Tung Nguyen, Jefferson **from** City of Alexandria

Thomas J. Nicholson **from** School Employees

Brad Richard, Jefferson **from** Municipal Employees

Donna D. Russo, Jefferson **from** Municipal Employees

Richard Schmidt, Jefferson **from** Teachers

Sandy Shaffer, Tangipahoa DA **to** Teachers

Richard Smith, Caddo **to** Sheriffs

Mary Tate Strahan, Washington & 22nd JDC **to** District Attorneys

Benjamin Tassin, Tangipahoa **to** State Employees

Jeffrey Lagarde, Ascension Library **from** City of Baton Rouge

Serena Vaughan, Jefferson **from** State Employees

Michael Vinsanau, Jr. St. Tammany **from** State Employees

Upon motion by Ms. Fontenot and second by Mr. Bourgoyne, the Board approved the following meeting dates for 2023: **March 14, June 20, September 19, December 12**

Chairman Rodrigue asked Ms. Tully to address the board member election. Ms. Tully stated that Terrie Rodrigue's term of office expires on 12/31/22. Ms. Rodrigue has decided not to run for another term. Ms. Tully explained that Ms. Rodrigue represents the following parishes: Jefferson, Orleans, St. Bernard, Plaquemines and St. Tammany. She indicated that the election would be held for the 2023 – 2028 term of office.

Ms. Tully informed the members that Valerie Brolin of Jefferson Parish and Bridgette Horton of Plaquemines Parish have expressed an interest in running from this district. Upon motion by Mr. Bourgoyne and second by Mr. Kelly, the Board nominated Ms. Valerie Brolin of Jefferson Parish and Ms. Bridgette Horton of Plaquemines Parish to run for the 2023 – 2028 term of office.

Ms. Tully next presented the quarterly report on the operating budget through June 30, 2022. She informed the Board that the insurance portion of the budget is over budget due to the increase in cyber security insurance. She indicated that the cost of cyber insurance had increased 5 times over the prior year.

Chairman Rodrigue asked Ms. Tully to discuss the letter from the Louisiana Attorney General. Ms. Tully stated that the Attorney General had sent a letter to all of the state and statewide retirement systems. She indicated that there is a movement to oppose ESG initiatives. Ms. Tully indicated that she wanted the trustees to be aware of the concerns expressed in this letter.

Chairman Rodrigue asked Ms. Tully to discuss the employer agreement for Tangipahoa Recreation District #3. Ms. Tully indicated that Ms. Akers had reviewed this group's inquiry and has determined that they are eligible to enter into an agreement for participation. She indicated that the recreation district is asking to enter into an agreement effective October 1, 2022. Upon motion by Ms. Fontenot and second by Mr. Bourgoyne, the Board approved the agreement for participation with the Tangipahoa Recreation District #3.

Chairman Rodrigue next asked Ms. Tully to discuss the employer agreement for Allen Parish Coroner. Ms. Tully indicated that Allen Parish Coroner currently participates through Allen Parish, but the coroner will be taking over its payroll and wished to remit as a separate entity. The agreement with Allen Parish Coroner will be effective October 1, 2022. Upon motion by Mr. Bourgoyne and second by Mr. Kelly, the Board approved the agreement for participation with Allen Parish Coroner.

Chairman Rodrigue asked Ms. Tully to discuss the on board processing and technology enhancements. Ms. Tully explained that Ms. Fontenot had contacted her to discuss improvements to the system. Ms. Fontenot stated that she would like to have the enrollment process for new employees to be moved to a digital format. Chairman Rodrigue indicated that Ms. Akers had researched the digital enrollment process and had prepared a letter for the Board to review. Ms. Akers stated that digital enrollment would be permitted legally. She indicated that confidentiality and reliability are concerns when moving to digital enrollment. Ms. Akers indicated that in her research, she did hear back from two systems who had recently implemented digital enrollment and she expects to hear from other systems that she had reached out to. Ms. Akers stated that the School Employees' Retirement System allows digital enrollment, but has 5 employees in IT. Ms. Akers stated that digital enrollment would need to be authorized by the Board and would have a cost to the system.

Ms. Fontenot indicated that she would like for the enrollment form to be transmitted digitally as a first step. She stated that adding an IT staff member may be a second step. She suggested that an encrypted email of a digital form could be used to submit the enrollment forms. Chairman Rodrigue asked if all employers have the capability to submit forms in a digital format. Ms. Tully indicated that she was unsure if all employers have the capability to submit in this manner. She stated that she could work with the current IT consultant to determine a way to implement accepting a digital format for the enrollment forms. Ms. Tully also indicated that she would want input from the auditor, Duplantier, Hrapmann, Hogan & Maher, on implementing a digital procedure.

Chairman Rodrigue asked Ms. Tully to address LAPERS Seminar. Ms. Tully reminded the members that the LAPERS Seminar would be held at the New Orleans Marriott from 9/18 – 9/20/22. Chairman Rodrigue told the members that the LAPERS Seminar provides valuable information and recommended that all board members attend.

Ms. Tully asked that the agenda be amended to discuss a retiree request for legislation. Upon motion by Mr. Kelly and second by Mr. Bourgoyne, the Board amended the agenda to add Retiree Request for Legislation. Ms. Tully explained that she received a letter from a Jefferson Parish retiree asking that the Board amend state law to allow granting a COLA annually. Ms. Tully stated that current law limits all statewide systems on the frequency of granting COLA's. She indicated that under the current law a plan that is 90% or more funded, like PERS, may grant a COLA every other year. She also stated that the Funding Deposit Account currently has enough for two COLA's. Ms. Tully informed the Board that the benefit provided for under the plan does not include a pre-funded COLA. The Board must rely on state law to grant a COLA. Upon motion by Mr. Bourgoyne and second by Mr. Kelly, the Board denied the request to amend the current statutes pertaining to the frequency of granting a COLA to retirees.

Upon motion by Mr. Kelly and second by Mr. Bourgoyne, the meeting was adjourned.

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Chairman of the Board