MINUTES OF THE MEETING
PAROCHIAL EMPLOYEES' RETIREMENT SYSTEM
BATON ROUGE, LOUISIANA
SEPTEMBER 19, 2023

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

Upon motion by Mr. Bourgoyne and second by Ms. Fontenot, the Board approved the minutes of the June 20, 2023 meeting.

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

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

Investment Recap – 2Q 2023

Summary:
Global markets have performed well in the first half of 2023. The PERSLA investment portfolio returned 3.2% for the second quarter and 8.2% YTD. Since the end of the second quarter, markets were quite strong in July, but retreated somewhat in August, resulting in somewhat muted returns thus far for the third quarter. Through August, the PERSLA portfolio is up approximately 9% YTD.

CIO Insights:
Those who like to follow simple rules and maybe even old Wall Street saws like "sell in May and go away" have not been happy campers this Summer. Basically, the strategy suggests selling stocks at the end of April and re-entering the stock market six months later at the beginning of November, thereby side-stepping what has historically been a tough time for stocks. Data offers support to the strategy, although correlation too often is confused with causation; another example being the "Super Bowl Indicator" (google it!).

This year has not fallen in line with the theory as the S&P 500 index is up more than 8% from May through August. Considering the backdrop, it's easy to see how one would be tempted to sell stocks and hide out for a while. Stubbornly high inflation, fading trust in America's institutions, a Federal Reserve laser focused on keeping the economic emergency brake fully deployed, sky high valuations in equity markets, war in Europe, a new COVID variant, government debt as a percentage of GDP at WWII levels all piled on top of a looming election where neither side feels good about their leading candidate. The take away here is to remind us how difficult it is to predict the near-term performance of the markets. The markets seldom make sense until after the fact. And even then, sometimes it doesn't. It is best to stick with tried-and-true strategies that lead to strong results over <u>decades</u> NOT <u>days</u>. Value, quality growth, diversification of manager approach, disciplined portfolio re-balancing, asset allocation reviews, and well-conceived investment policies are all examples of the tried and true. How's that for a set of simple rules to follow?

The month of July saw our initial investment with Barrow Hanley (hired at the March meeting) get fully funded. In the meantime, we are working through the contract agreements with Arrowstreet (they were hired pending contracts at the June meeting) and anticipate having that investment funded in mid-September (completed 9/14). As we head into year end, we are still focused on the international equity space within our portfolio and have a bit more work remaining as we restructure our manager line-up in an area where results have been just mediocre.

Next year will also bring an in-depth review of our asset allocation targets when we conduct our asset/liability study in the first half of the year. The interest rate environment today is vastly different than it was four years ago when we last reviewed our asset allocation. Taken together with the plan's strong funded status, this should allow some added flexibility in the ultimate asset allocation the board decides upon.

Additional Market Observations

Within the U.S., stocks rose for a second consecutive quarter, as investors were happy that inflation was cooling and that interest rate hikes might slow. The Russell 3000 Index rose 8.4% for the quarter. Large cap stocks (+8.6%) outperformed small caps (+5.2%), as smaller companies are more dependent on financing, regional banks concerns and higher interest rates continued to hinder their performance. Large cap growth (+12.8%) continued to significantly outperform value (+4.1%), as positive IT gains were driven by continued enthusiasm for artificial intelligence. The market return concentration continued in the second quarter as the top seven stocks in the S&P 500 Index contributed a whopping 74% of the total 16.9% return for the index, year to date.

Developed international stocks also surged ahead, as energy supply concerns faded and hopes grew that inflation was peaking. The MSCI EAFE Index returned 3.0% for the quarter. Europe posted positive returns with the European Central Bank raising interest rates twice in the quarter and headline annual inflation declining. U.K. equity markets struggled following high inflation and low growth expectations. Japanese equities were up, as foreign investment interest has grown over the quarter. Emerging markets were up marginally during the quarter as China's underwhelming economic recovery and tensions with the U.S. contributed to the lag against developed markets. The MSCI EM Index gained 0.9%.

The yield curve further inverted during the second quarter of 2023, with short-term rates rising faster than long-term rates. The Federal Reserve hiked rates by 25 basis points in May. In June, the Fed announced it would pause interest rate increases after 10 consecutive rate hikes. Sector returns were mostly negative with only the high yield sector and cash delivering positive quarterly returns. The Bloomberg Aggregate Index declined 0.8% over the three month period.

For the first time in a long time, we have seen a divergence in performance among private assets. Namely, real estate valuations so far in 2023 have seen negative valuations, and while private credit and private equity saw revaluations, most returns are still positive for the first half of 2023.

There has been a lot of disparity within the real estate sectors which continued throughout the first half of 2023. The second-half expectations are for a continuation of the pattern, albeit more muted. The office sector took the largest write-downs in the first half, with the second quarter coming in particularly negative. Depending on the appraisal firm and the manager, we saw an increase in negative valuations in the June quarter. So, for some managers with different appraisers, there will likely be further pain in the second half as the market continues to adjust downward. That said, the reduced valuation environment is likely to provide some good entry prices, for those with the ability to invest, especially in many of the closed end value add or opportunistic areas.

Private equity marks have declined, along with an increase in down-round valuations, but we are not seeing holistic issues in the sector with acquisitions and other growth mergers still apparent. Clearly, in a slowing environment, rationalization will continue to be apparent as GPs evaluate the portfolio companies in the light of increasing financing, higher costs and slower growth. Private firms have the advantage of delayed mark-to-market valuations and, thanks to the increase in value for public markets, the denominator effect is more favorable than at year end. We continue to think if investors have cash flow, that investing in the current or next vintages will provide good entry points for investors.

Hedge funds have benefitted from their ability to be less directional than other types of strategies. Investment approaches that limit or eliminate beta exposure are believed to offer a relative advantage over the next 12 to 18 months. Equity long/short, long/short credit and relative-value-driven mandates are well positioned to combat volatility across asset classes and capitalize on idiosyncratic situations.

Chairman Kelly asked Mr. Reynolds to review investment performance. Mr. Reynolds stated that for the seven months ending 7/31/23, the plan return was 10.54%. The portfolio value as of 7/31/23 is $5,054,980,887.

Mr. Reynolds stated that the domestic equity managers were the stars of the portfolio for the seven months ending 7/31/23. He indicated that the international equity managers lagged their benchmarks, except for LSV Emerging Markets. LSV outperformed their benchmark for the period ending 7/31/23. Mr. Reynolds stated that the fixed income managers had mixed performance relative to their benchmarks while the alternative managers lagged their benchmark for this same period.

Mr. Burke stated that the fixed income portfolio is currently under review. He indicated that there are currently 7 fixed income managers and he is working with Segal Marco to evaluate how these 7 strategies work for the portfolio. Mr. Burke stated that this review is ongoing and may continue in to 2024.

Mr. Burke introduced Matt Buxton and David Zielinski of Loomis Sayles. He indicated that Loomis Sayles manages a fixed income core plus full discretion strategy for PERS. Mr. Buxton stated that Loomis Sayles manages $310 billion with approximately two thirds of those assets in fixed income. He indicated that the firm was founded in 1926.

Mr. Zielinski reviewed the philosophy of the fixed income full discretion strategy. This strategy's inception was 1989. The core plus strategy has $23 billion under management. He stated that the team believes that the market is inefficient at pricing fixed income and the management team seeks to take advantage of those inefficiencies. Mr. Zielinski indicated that the management team determines which sectors appear attractive, conducts intensive research to determine the primary drivers or excess return and then performs risk assessment on proposed investments.

Mr. Buxton reviewed portfolio performance through 8/31/23. He indicated that the portfolio value was $258,640,100 as of this date. For the one year period ending 8/31/23, the portfolio return was 1.80%. For the three year period ending 8/31/23, the portfolio return was 2.39%.

Chairman Kelly thanked Mr. Buxton and Mr. Zielinski for their presentation.

Chairman Kelly asked Mr. Burke to address the investment timeline. Mr. Burke stated that the investment committee will meet prior to the December Board meeting. At the December Board meeting, Mr. Burke indicated that the investment committee will have a recommendation regarding the international growth manager. He also stated that an asset allocation study will be due in 2024 and the procedure for the study will be reviewed at the December Board meeting.

Upon motion by Ms. Brolin and second by Mr. Bourgoyne, the Board approved retirements for July, August and September of 2023. A handout detailing all retirements for these months was provided to all Board members.

Chairman Kelly asked Ms. Tully to address the Option 4 payment request for Joycelyn Schaeffer. Ms. Tully indicated that Ms. Schaeffer has submitted a DROP application with her partner listed as the Option 4 beneficiary. She stated that Ms. Schaeffer is not married to her partner and is therefore not a first degree relative. Ms. Tully reminded the Board that when a member submits an application listing someone who is not a first degree relative as an option beneficiary, it must be approved by the Board. Ms. Tully also indicated that Ms. Schaeffer's partner entered DROP in 2014 and named Ms. Schaeffer as his Option 4 beneficiary. This was prior to the Board's policy regarding Option 4 beneficiary selection which was adopted in 2019. Ms. Tully stated that since the Board adopted the Option 4 policy, they have not approved a beneficiary who is not a first degree relative. Upon motion by Mr. Bourgoyne and second by Ms. Fontenot the Board denied the Option 4 payment request of Joycelyn Schaeffer.

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

Katie M. Banks **from** Municipal Employees

Rennie Buras, Plaquemines **from** State Employees

Mary C. Connick, Jefferson **from** Municipal Employees

Nancy Creekmore, G.B. Cooley Hospital **to** Teachers

Angela DeMoss, Bossier & Caddo DA **to** State Employees

Gerilyn Dinette, Plaquemines **to** City of New Orleans

Scotty Dryden, Terrebonne **from** Teachers

Melicia Dupaquier, Jefferson **to** State Employees

Tammy Griffith, Jefferson **from** Teachers

Diana Guzman-McMahon, Jefferson **to** Municipal Employees

Meredith Hearn, Jefferson **from** District Attorneys

Donald Jackson, DeSoto **from** Municipal Police

Kelly Kingrey-Edwards, Rapides Library & Calcasieu **to** Teachers

Belinda Meyer, St. Bernard **from** Teachers

Jared Nolan, Ascension **from** Teachers

Susan C. Nunez, Sulphur Parks **from** Teachers

Vanessa Pichon, Natchitoches **to** Clerks of Court

Derrick M. Romero, Sulphur Parks **from** Municipal Employees

Morgan Sherlock, St. Tammany Library **to** City of New Orleans

Mary L. Smith, Caddo DA **to** State Employees

Christy Vanblaricum, 8th JDC **to** Municipal Employees

Belicia Zeringue, Terrebonne **to** Sheriffs

Upon motion by Ms. Fontenot and second by Mr. Bourgoyne, the Board approved the following meeting dates for 2024: **March 12, June 18, September 17, December 10**

Chairman Kelly asked Ms. Tully to address the board member election. Ms. Tully stated that Bruce Kelly's term of office expires on 12/31/23. Chairman Kelly has indicated that he would like to run for another term. She also informed the members that Theresa Pacholik of Rapides Parish has expressed an interest in running from this district. Upon motion by Ms. Fontenot and second by Mr. Bourgoyne, the Board nominated Chairman Bruce Kelly and Ms. Theresa Pacholik of Rapides Parish to run for the 2024 – 2029 term of office.

Ms. Tully also informed the Board that Valerie Brolin has accepted a position with the City of Kenner and is no longer able to serve on the Board. Ms. Tully indicated that an election would need to be held to fill the remaining term for this region. Ms. Tully stated that Bridgette Horton of Plaquemines Parish and Jeremy Dwyer of Jefferson Parish have both expressed an interest in running from this district. Upon motion by Ms. Brolin and second by Mr. Bourgoyne, the Board nominated Ms. Bridgette Horton of Plaquemines Parish and Mr. Jeremy Dwyer of Jefferson Parish to run for the unexpired term for Region 4.

Ms. Tully next presented the quarterly report on the operating budget through June 30, 2023. She informed the Board that the budget is on target for the first six months of the year.

Upon motion by Mr. Bourgoyne and second by Ms. Fontenot, the Board moved to enter executive session to discuss personnel matters. Upon motion by Mr. Bourgoyne and second by Ms. Fontenot, the Board moved to enter into regular session.

Chairman Kelly asked to add an update on technology to the December meeting. Ms. Fontenot asked for an update on moving to a digital format for enrollment and remittance of reports over time. Mr. David stated that LASERS has membership portals that allow members to access their accounts. Ms. Tully stated that an update would be provided at the next meeting.

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

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Chairman of the Board