Food Employers Labor Relations Association
And United Food & Commercial Workers
Pension Fund

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MINUTES OF THE MEETING OF THE BOARD OF TRUSTEES
OF THE FELRA AND UFCW PENSION FUND
VIA VIDEO CONFERENCE
NOVEMBER 2, 2022

The following Trustees were present:

UNION TRUSTEES	**EMPLOYER TRUSTEES**
M. Federici – Chairman	J. Paradis – Secretary
D. Blitzstein	D. Dosenbach
T. Hipkins	M. Goble

Also present were:

W. Antoshak – Associated Administrators, LLC
J. Chorpenning – UFCW Local 27
C. Hoffmann – UFCW Local 400
D. Hope – Investment Performance Services
D. Jensen – Associated Administrators, LLC
G. Kalwarski – Cheiron
M. Kreps – Groom Law Group
B. Maiorano – Associated Administrators, LLC
C. McDonough – Investment Performance Services
R. McKnight – Associated Administrators, LLC
C. Murphy – Associated Administrators, LLC
S. Sanchez – Slevin & Hart, P.C.
A. Sims – Associated Administrators, LLC
B. Slevin – Slevin & Hart, P.C.
L. Walsh – Associated Administrators, LLC
M. Wilson – UFCW Local 400
K. Woodrich – Cheiron

I. CALL TO ORDER

A quorum being present, the Chairman called the meeting to order.

II. FINANCIAL REPORT

A. Investment Performance Services

The Trustees welcomed Mr. Chris McDonough of Investment Performance Services ("IPS") to the meeting. Mr. McDonough presented the Asset Allocation Analysis dated November 2, 2022. Mr. McDonough stated that the Special Financial Assistance ("SFA") funding for $1,180,432,879 was invested in Loomis Sayles on September 28, 2022. Loomis estimates the cash-match portfolio will cover approximately 11.5 years of benefits and expenses, assuming the additional SFA proceeds expected to be received as a result of the Fund's supplemented application are allocated to the portfolio. He noted that pension checks have been paid using the SFA funds since June 1, 2022.

As of September 30, 2022, Mr. McDonough reported that the Non-SFA (legacy) assets for the Pension Fund are approximately $81.4 million, which consists of $70.4 million in cash, $7.3 million in private equity, $1.9 in opportunistic investments and $1.8 million in other investments.

Mr. McDonough provided an overview of the legacy portfolio investment considerations and stated that based on current yields, a target return of 5.4%, which Cheiron previously stated was the approximate return necessary to enable the Fund to pay all benefits and expenses in perpetuity, may be achievable through a low-risk investment grade fixed income strategy. He noted, however, that the legacy portfolio has a high degree of reinvestment risk due to an expected small percentage of assets to be received over the next 23 years as well as a potential decline in interest rates over the next 11.5 year accumulation period.

Mr. McDonough presented two possible alternative options for investing the legacy assets to achieve the Trustees' objective of paying all benefits and expenses while taking minimal investment risks: (1) Cash Flow Driven Investment strategy ("CDI"); and (2) a diversified investment portfolio with a 5.4% target return ("Traditional Approach"). He provided an overview of the CDI strategy that would include a mix of intermediate and long duration corporate and U.S. Treasury securities to capture yields by investing cash currently in the legacy portfolio plus incoming withdrawal liability payments. This strategy would be designed to complement and extend the cash flow matching strategy utilized for the SFA assets. However, Mr. McDonough reported that this strategy is not projected to result in sufficient assets to pay all Fund benefits and expenses in perpetuity. He noted that a 50% equity/50% CDI strategy potentially could meet this goal, assuming a 6.8% return for equities and a 5.1% yield on the CDI strategy. Mr. McDonough reported that if this approach is taken, the allocation mix between equities and the cash flow driven strategy would need to be revisited annually and the target allocations adjusted based on market conditions and liability projections.

Mr. McDonough provided an overview of the diversified investment portfolio option, with a 5.4% target return. He stated this approach allows incoming withdrawal liability payments to be invested upon receipt, according to the asset allocation approved by the Trustees. Mr. McDonough presented several portfolio options with varying expected returns along with their respective risk analyses. He noted that adding allocations to asset classes beyond public equity and investment grade fixed income results in lower expected risk and more efficient portfolios. Mr. McDonough reviewed Portfolios C, D, E, and F and noted that a percentage of the portfolio that would need to be allocated asset classes other than investment grade fixed income in order to achieve the 5.4% return objective. He stated that the amount of such percentage would be a function of the yields available in the investment grade fixed income market. He stated if yields decline, the percentage of the portfolio that would need to be allocated to higher risk asset classes would increase as a result. Mr. McDonough concluded that an initial allocation to a diversified portfolio with a target return appropriate for the objective would be an appropriate solution for the Fund's legacy portfolio. He stated that ongoing reevaluation of the strategy based on changing market conditions would be important. After discussion, and

On Motion made and seconded, the Trustees voted unanimous approval of the following resolution:

> **RESOLVED, to amend the Fund's Investment Policy to adopt Portfolio C, as presented by IPS, which includes an allocation of 12.5% to US Large Cap Equity, 2.5% to US Small/Mid Cap Equity, 55% to Fixed Income – Core, 15% to Short Duration High Yield, 7.5% to High Yield, and 7.5% to Real Estate – Value Add; and**
>
> **FURTHER RESOLVED, to amend the Fund's Investment Policy to reflect the Board's intent to adjust the Portfolio C allocations as necessary to further the Board's goal of paying all Fund liabilities in perpetuity; and**
>
> **FURTHER RESOLVED, to widen the asset allocation ranges under the Investment Policy to allow for future allocation adjustments as approved by the Board.**

The Trustees thanked Mr. McDonough for his report.

III. <u>ADJOURNMENT</u>

There being no further business to come before the Trustees, the meeting was adjourned.

Respectfully Submitted,

Mark Federici, Chairman

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