Worcester Retirement Board
Finance Meeting
February 15th 2024

The Board met in at 8:30 a.m. through Zoom teleconference in open public session for a financial meeting. Board Members E. Early, J. Mahan, R. Stearns, and T. Cullen were in attendance. Meketa Representative Steven Maclellan was present.

Gar Chung from Financial Investment News was also on the call and an unnamed individual.

In regard to the current economic markets, Q4 everything was positive with exception of commodities. One of the larger drivers of any fluctuations in Q1 are the predictions of what the Federal Reverse will do in regards to interest rates. This year being an election year will also cause some market volatility. Unemployment is still low, and inflation is still on the higher end.

Comparing the Portfolio to the State, they are pretty much even with Private Equity exposure, however the Portfolio has more Emerging Market exposure which has results in netting higher than PRIM due to the Portfolio having less China exposure in that class which has helped on a performance basis.

The Portfolio as of 12/31/23 was 10.5% net of fees. This is behind the benchmark, however, this is due to private markets from 2022 are impacting performance vs the public benchmarks.

The Board had 6 managers come in to discuss due diligence. All were asked the following questions:

- Have there been any significant changes to the firm or investment team?
- Have there been any significant changes to the strategy or investment process?
- What do you believe to be the greatest obstacle to **exceeding** your benchmark and/or competing with peers over the next five years?
- How do you anticipate the current macroeconomic environment will impact your strategies? What opportunities and challenges do you foresee?

<u>State Street Global Advisors:</u>
Patrick Hearne, VP was present.

There were no significant changes to the firm for investment team or the strategy or investment process. The SSGA investments seek to track the index, and 99% of their strategies have tracked as expected including all SSGA managed strategies for Worcester Retirement System. Ensuring they maintain their tight tracking, low-cost trading and high client satisfaction remain their priority. And, Given the nature of these funds, where are index tracking funds we will seek to replicate the performance of the benchmarks as closely as possible and do not anticipate the current macroeconomic environment to impact our ability to do so effectively.

<u>Eaton Vance:</u>
Rachel Carey VP , Brad Godfrey Portfolio Manager was present.

In regards to changes on the team, there were various role changes and hires discussed.

There have been no changes to the strategy or investment process.

They believe they tend to exhibit a lower beta than many of our peers, largely because the benchmark is relatively concentrated in some of the most volatile EMD markets (e.g., Brazil, Mexico, South Africa) and many of their peers tend to track the benchmark more closely than they do. As a result, if EMD markets perform very strongly in a sustained fashion for the next five years, they expect to lag a bit.

They believe the current macro environment is quite constructive for EMD. Fundamentals appear to be on solid footing in many spots. Notably, growth differentials between EM and DM economies are expected to be near their widest levels in 15 years. Valuations are still compelling for the asset class with all segments appearing cheap relative to their own history and cheaper if compared to valuations on many other segments of global capital markets. Many EM central banks have plenty of room to cut rates; they expect that to continue and potentially accelerate when the Fed ultimately starts cutting, itself. Both of those aspects would likely be positive for EMD. Finally, they expect institutional demand for the asset class to increase after back-to-back years of significant outflows from EMD funds globally in 2022 and 2023 and which would further support the asset class

<u>Income Research & Management</u>

Johnathan Higley, Client Portfolio Manager

There were no material changes to IR+M's organizational structure during the fourth quarter of 2024. Regarding changes on the team, there were various role changes and hires discussed. There were no significant changes to their strategy or investment processes.

They believe the strength of their investment process lies in our sole focus on fixed income, as well as their team-oriented approach. They invest solely in US dollar-denominated cash bonds. Their investment process focuses on diligently scouring US dollar-denominated sub-sectors on an issue-by-issue basis for those offering structural and price advantages. They emphasize sectors and industries that we know best and that are supported by analyzable balance sheets and cash flows. They avoid sectors subject to heightened geopolitical or headline risks, or that do not offer us an information advantage. They recognize that their prudent risk management process could be viewed as a weakness, particularly in risk-on periods. They believe our emphasis on risk management allows them to limit downside potential, while remaining flexible enough to participate in the upside.

Regarding the upcoming macroeconomic environment, going into the first quarter of 2024, markets appear optimistic regarding the possibility of a soft landing as the Federal Reserve considers rate cuts, though concerns regarding credit fundamentals remain. As investors look to navigate the Fed's changing policy, they continue to rely on their duration-neutral philosophy to mitigate interest rate risk and use their bottom-up approach to identify securities with attractive compensation.

<u>AEW</u>

Emily Margolis and Tony Crooks.

There has been no significant changes to the firm, investment team, strategy or investment process. In regard to their greatest obstacle; If Real estate capital markets do not normalize over the next five years, this would make it harder to exit their investments. They have no issues competing with our peers in this type of dislocated investing environment. Also, The current macroeconomic environment is significantly increasing the funds investment opportunity set as Commercial real estate capital markets are severely dislocated and liquidity is significantly constrained. The largest challenge will be a lack of recovery in commercial real estate capital markets within their typical hold period (5 years), thereby putting risk in their ability to exit/sell their assets at values supportive of our return targets

<u>Acadian Asset Management</u>

The firm discussed recent changes in their investment teams. Regarding their changes in investment strategy they have continued to make incremental enhancements as part of their ongoing investment process monitoring and rigorous research program. While we believe these changes add value to their overall process, it is important to note they are relatively small in scale and that their core investment philosophy and general approach have remained consistent.

Regarding obstacles, periods may occur in sharp bull markets (e.g., the tech-stock bubble of the late 1990s), down markets (e.g., the 2008 global financial crisis), or market dislocations and rotations (e.g., the abrupt shift in2009, when the market emerged from the GFC). They do not believe such periods can by predicted ahead of time, but they do expect that at least some of our signals may provide positive returns when they happen.

<u>Loomis, Sayles & Company</u>

Changes in the investment team were mentioned and discussed. There have been no significant changes to their strategy or process. Their Greatest obstacles are underperformance regarding the benchmark or peers during an illiquid market when prices are declining due to term deteriorating credit fundamentals or event-driven market technical. The market may not adequately reflect the long-term value supporting the issues. They Believe their long term/full cycle focus can cause periods of underperformance. Their portfolios are well diversified and deploy many opportunities sets that may be less correlated to the markets and can, in times of market stress, provide some relief from price erosion.

Anything bad for credit, such as a recession, would be bad for high yield and somewhat less bad for loans given their senior, secured status and short average lives. They would expect to outperform the benchmark in risk-on environments through our allocation to B-rated loans and underperform in a risk-off environment driven by the need for increased conservatism.

In regard to upcoming environments they are mindful of the risks going forward, such as tighter financial conditions and their impact on the financial system, slower Chinese economic growth, geopolitical risk, the broader economic impact of a further decline in the commercial real estate market, and the upcoming US Presidential election. They continue to maintain liquidity as they patiently wait for opportunities to potentially develop. If volatility increases and they see what they view as more attractive yields and spreads, they will consider redeploy

9:30 Board Adjourned
Respectfully Submitted

Lisa Poske, Executive Secretary

Elizabeth Early, Chair/ Elected Member
DNA
Matthew Wally, Appointed Member

Robert Stearns, Ex-Officio Member

John Mahan, Elected Member
Tamara Cullen, Fifth Member