

MEETING MINUTES – review of Q4 2021
Defined Contribution Plans – 401k & 457b
February 14, 2022, 10:30

In attendance:

Bolton

Mike Beczkowski, Senior Consultant
Victoria Arabskyj, Consultant

Committee Members present:

Robert Burk, Comptroller
Charles Beckhardt, Technology Services
Alison Jones, Deputy Court Administrator, Circuit Court
Werner Mueller, Retirement Plans Manager
Tim Burke, County Attorney

Unable to attend:

Kim Frock, HR Director
Deb Effingham, Bureau Chief, Mgmt & Bdgt.

Talking points from Mike:

- Update for Y-T-D returns, as of 2/11/2022: Every fund in our investment lineup is negative. Value funds have significantly outperformed growth funds, as growth funds are particularly sensitive to interest rate changes.
- Federal Reserve balance sheet. Provided details on past quantitative easing (QE). We are currently in “QE4,” which is 22 months in length and counting. The balance sheet contains app. \$8.4T (!) in Treasury bonds and mortgage-backed securities.
- Inflation is a global issue and for both developed and emerging countries. Forecasters are calling for up to 7 US rate hikes in 2022.
- Returns and valuations by style. Recent years have clearly seen growth outperform value – until recently. While returns are negative across the board on a year-to-date basis, value funds have held up much better. This trend may continue as growth funds’ current price-to-earnings (PE) ratio remains much higher versus its 20-year average.
- Interest rates and inflation. Real interest rates (i.e., 10-year Treasury yield less core CPI) are at its lowest level (-3.58%) since 1975 and 1980.
- S&P 500 Index at inflection points. Despite 2022’s poor performance thus far, the forward P/E of 19.8X remains higher than the 25-year average of 16.8X, possibly portending more difficult times in that index and the general stock market.
- Value vs. Growth. Despite growth stocks suffering losses so far in 2022, growth stocks are still deemed to be more “expensive” than value stocks, so this current performance trend may continue for some time.
- Blackrock makes a case for “high quality stocks” trading at a deep discount (i.e., cheaply valued) than at any time since the early 2000’s, the time of the Dot-com bubble.

- Unemployment and wages. The unemployment rate has fallen from 14.7% just as Covid-19 commenced to 4% currently, while wage growth has increased to 6.9%, well above its 4% 50-year average.
- Inflation. Energy CPI, i.e., oil, natural gas, etc. is up app. 30% from a year ago, which has significantly contributed to the headline CPI number of 7.5%.
- EuroPacific Growth Fund: In Q4 2021, the fund returned nearly 5% lower than its benchmark. This was primarily due to the underperformance of emerging market stocks, particularly Brazil, and the digital payment component for many platform stocks. Its 3, 5, and 10-year returns vs. its benchmark remains outstanding.
- TRP Mid-Cap Growth and TRP Growth Stock: had not done well recently as its benchmarked to the S&P 500 and did not commit to “growthier” stocks and has a heavy allocation in foreign stocks. Funds are sticking to their strategy as look for companies that can pass along costs without impacting demand. Financial stocks are in favor as they better manage any increases in interest rates.
- Assets in LifeSpan models comprise 17% of Plan assets.
- Asset allocation among both of CCG’s plans have changed little in recent years.
- All funds in CCG lineups have an effective net expense ratio below its fee group median.
- There are no funds on “Watchlist.”

Our Q1 2022 review will be held sometime in May. Date and time TBD.