PAPERS

Pennsylvania Association of Public Employee Retirement Systems

PO Box 61543, Harrisburg, PA 17106-1543

Website: ***www.pa-pers.org***

In This Issue

2023 PAPERS Fall Workshop

Wednesday, Nov. 8
Thursday, Nov. 9

The 2023 PAPERS Fall Workshop will take place November 8-9, 2023, at the Harrisburg Hilton. There will NOT be separate virtual presentations on additional days for this conference, although the workshop presentations tentatively will be available on-line for those unable to attend in-person.

Registration will begin September 1, 2023; watch for details to be posted on the PAPERS website www.pa-pers.org.

Summer 2023

An Exciting New Opportunity for Public Pension Fiduciaries

New Certification Program

A Cooperative Effort Between PAPERS & Penn State Behrend

PAPERS is proud to announce its partnership with Penn State Behrend on its new Certified PA Public Retirement Plan Professional program. This certification is an ideal way to better understand your fiduciary role and how to carry out fiduciary responsibilities.

Is your PA retirement system meeting its obligations to employees and their families? If you're in a decision-making role on behalf of your PA retirement system plan, it's your legal responsibility to ensure that decisions are being made in the best interests of plan participants and beneficiaries. What's more, as a fiduciary you may be personally liable for the decisions made by the plan. With increasing news headlines and legal and regulatory pressure on public retirement plans, now is the time for comprehensive fiduciary education.

The certification program provides participants with exposure to a diverse and comprehensive curriculum of fiduciary and plan management topics in a two-part process:

1. Complete an on-line introductory fiduciary process course developed by PAPERS and Penn State Behrend
2. Attend program sessions at PAPERS conferences focused on regulatory updates, plan management best practices and service provider due diligence.

Make a difference! Become a Certified PA Public Retirement Plan Professional

See Page 2 for more details and the *Certification Program Enrollment* Form.

Certified PA Public Retirement Plan Professional

Course Design

The certification program provides participants with exposure to a diverse and comprehensive curriculum of pension topics in a two-part process:

- **On-line introductory education modules developed by Penn State Behrend.**
- **Attendance at PAPERS conferences**

Program Enrollment

Please use the *Certification Program Enrollment* form below or access a fillable version of the form on the "Certification Program" page of the PAPERS website www.pa-pers.org.

Submit the completed form to PAPERS by mail to: **PAPERS, PO Box 61543, Harrisburg, PA 17106-1543** or by e-mail to: **douglas.b@verizon.net.** Call PAPERS @ 717-921-1957 with questions about enrolling.

Program Cost

The one-time enrollment fee is $499, payable to Penn State Behrend. Payment details provided after enrollment.

Process

After receiving your completed *Certification Program Enrollment*, PAPERS will provide notice to Penn State Behrend of your enrollment. Penn State will contact you with more details, including the requirement to pay the one-time enrollment fee. Upon payment of the enrollment fee, enrollees will receive a link giving access to the three on-line modules. Modules may be taken at one's leisure to be completed within six months of enrollment.

At the conclusion of each module, participants will take an on-line test to check their understanding of the material. The test may be re-taken any number of times until a passing grade is received. Participants will receive notification upon successful completion of the on-line modules.

The next step in the certification process is attendance at three of the next four PAPERS conferences (held each spring and fall). After attending the required number of conferences, participants will be awarded the *Certified PA Public Retirement Plan Professional* designation. Public recognition of this achievement will be provided at PAPERS conferences.

Certification Program Enrollment

Name: ____ Date: _____________

(Please **print** your name the way you would like it on your final certification)

Pension plan or firm: ____

Address: ____

City: ______________________________________ State: _________ Zip: ____________

Telephone: ________________________ E-Mail: ___________________________________

Please submit this completed application to PAPERS by one of following methods:

- by mail to: ***PAPERS, PO Box 61543, Harrisburg, PA 17106-1543*** OR
- by e-mail to: **douglas.b@verizon.net**

From the PAPERS Executive Director

Congratulations, SERS! Joe Torta, Executive Director of the PA State Employees Retirement System (SERS), has joined the PAPERS Board of Directors as a plan member.

Established in 1923, SERS is one of the oldest and largest public employee pension plans in the nation and joins fellow plan members PSERS, PMRS, the City of Philadelphia, and the counties of Dauphin, Lebanon, and York on the PAPERS Board. These plans represent the top public pension plans in Pennsylvania, not only in size but in forward thinking, their contemporary approach to training and their unwavering desire for fiduciary excellence.

Training its members and all the members of PAPERS would not be possible without the guidance, support and experience of our Corporate Advisory Committee Members:

- *BNY Mellon*
- *CS McKee*
- *Neuberger Berman*
- *Kessler Topaz Meltzer & Check*
- *The Hazzouri Group at Morgan Stanley*
- *Bernstein Litowitz Berger & Grossmann*
- *Korn Ferry*
- *NAREIT*.

This is the heart of PAPERS as an organization, and their unwavering focus leads us to announce the ***reopening*** of our certificate program in partnership with Penn State Behrend. Our first plan member to complete the online portion of the new program was A.C. Stickel from Blair County. CONGRATULATIONS, A.C.!!! In A. C.'s words, "I don't know why I waited so long to do this! ".

The job of a trustee for a public pension plan is the most important role in the industry. I am so proud of PAPERS' ability to support all public plans in Pennsylvania in their quest for fiduciary excellence. I would urge every plan to enroll today in the online training section of the certificate program. More information about the certification may be found in this newsletter and on the PAPERS website!

Karen Deklinski

PAPERS Executive Director

From the PAPERS Board President

Happy summer! I hope everyone is enjoying their beginning to the summer season.

I want to congratulate all involved with making the PAPERS Spring Forum a huge success! My thanks on doing great jobs to:

- *Karen, our Executive Director, and Doug, our Office Manager, for pulling all the pieces together to conduct it.*
- *our Education Committee for assembling a very informative slate of speakers and topics.*
- *the presenters for their time and talents in making presentations.*
- *J. P. Lilly for the audiovisual services*
- *Sponsors who make it financially possible for us to conduct the Forum, and lastly*
- *those who attended either in person or online.*

As we look forward to the Fall Workshop in November, please note that we will be returning to a totally in-person format, not hybrid. The in-person format gives us more opportunities to interact and network with fellow members and sponsors. Watch for details in the near future.

With the ever-changing world of fiduciary duties and responsibilities, as well as legislative changes, I am pleased to announce our new Certification Program created in conjunction with Penn State Behrend. Please take the time to look into the process of how to enroll shared in this issue and participate in this program designed to make each and every one of us better pension fiduciaries.

I encourage you to reach out to colleagues in other funds that you know are not PAPERS members and ask them to join. In this way we can continue to grow and provide education opportunities. In closing, let me say it is never too late to learn and become an even better pension fund fiduciary. Have a great rest of your summer and see you in the fall.

Bob Mettley

PAPERS Board President

Webinar Planned

Watch for details later this summer about an educational webinar sponsored by PAPERS coming up on September 12th. The exact time and specific topic are yet to be confirmed, but PAPERS guarantees this will be yet another learning opportunity to examine timely pension issue(s).

Becoming a PAPERS Member is Easy

For details about PAPERS four membership categories and/or the simple process to apply for membership, check the "Join Now" section of the PAPERS website **www.pa-pers.org** or contact:

- **Mail - PAPERS, PO Box 61543, Harrisburg, PA 17106-1543**
- **Phone – (717) 921-1957**
- **Email - douglas.b@verizon.net**

Membership Categories

- **Participating** ($125/year early bird rate; $150/year after 3/31/2023) - *Public employee retirement systems (pension funds)*
- **Associate** ($1,500/year) - *Corporate providers of legal and investment services to pension plans*
- **Affiliate** ($750/year) - *Corporate providers of other services, exclusive of legal and investment services, to pension funds.*
- **Sustaining** ($75/year) - *Individual membership open only to those persons with an interest in public pensions but not affiliated with an organization which qualifies for group membership pin any other category above*

A current (2023) membership is required for a firm or pension plan to register its representative(s) to participate in PAPERS' two annual conferences. The website gives complete details for three ways to submit the dues payment.

Equity Opportunity After Easy Money

By: Doug Kramer & Raheel Siddiqui, Neuberger Berman

Douglas Kramer, Managing Director, joined the firm in October 2015 and is the Head of Institutional Equity and Multi-Asset. Doug is responsible for managing the firm's institutional equity and multi-asset investment teams as well as growing and expanding the institutional equity platform and multi-asset business. Prior to this position, Doug co-headed the firm's Quantitative and Multi-Asset team. Doug formerly was Chief Executive Officer at Horizon Kinetics, an investment management firm, where his focus was engaging with clients and building their successful options strategy. Previous to Horizon Kinetics, he was a Managing Principal of Quadrangle Group and a Partner of Goldman Sachs & Co. where he served as Chief Investment Officer and Head of the Global Manager Strategies Group. At Goldman, Doug was responsible for manager selection across all traditional asset classes and the strategic development of GSAM's Institutional Fiduciary Management business. Doug holds an MBA from Columbia Business School and a BS from the University of Pennsylvania – Wharton School.

Raheel Siddiqui, Managing Director, Senior Research Analyst, joined the firm in 2004. Raheel is the Senior Investment Strategist in the Neuberger Berman Global Equity Research Department. In this role he researches impending inflection points in the business cycle, risk appetite, inflation, global asset classes, US sectors, style (growth vs. value), and size to enhance fundamental stock selection and portfolio construction processes by taking advantage of emerging trends not fully appreciated by the market. His research spans finding systematic ways of distilling leading or confirming messages from macroeconomic, quantitative, derivatives data, and behavioral data as well as periodically evaluating portfolios for efficient asset allocation. Prior to this role, Raheel was a part of Lehman Brothers US Equity Strategy Team where he co-authored over 100 strategy reports, many of which were quoted in the Wall Street Journal, Financial Times, and Barron's. Raheel earned MS/BS degrees in Biochemical Engineering from the Indian Institute of Technology and an MBA from Columbia University. Raheel has also been published with the American Institute of Physics.

Executive Summary

If you invested in a market capitalization-weighted global equity index strategy over the decade to 2021, you did very well indeed.

For the most part, however, that was due to an extraordinary run of performance by U.S. large cap growth, itself largely driven by a handful of mega-cap U.S. technology stocks linked to the rise of smartphones, social media, cloud computing—and rock-bottom interest rates.

However, if you were still market-cap weighted through 2022, when rising inflation, tighter monetary policy and petering growth crashed the party, you gave a good portion of those gains back.

We believe we've entered a new economic regime marked by higher rates and resurgent economic volatility—a fundamental reversal that, in our view, calls for more thoughtful and selective portfolio positioning. In this article, we discuss four major unfolding trends that we think present attractive equity opportunities in the era after easy money.

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Equity Opportunity After Easy Money

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- **The flight toward even better earnings quality.** Over the last six decades, companies with lower operating margins tended to underperform their more profitable peers; likewise, companies that relied on more aggressive accounting techniques suffered relative to their conservative competitors. We believe extra aggression is likely to earn extra punishment in both the current downturn and over the longer horizon.
- **Cheaper companies over growth stories.** Value stocks outpaced high-flyers for eight decades until easy money flipped the script. We believe higher domestic inflation and a potentially weakening U.S. dollar (now at historic highs) will likely usher in a period of global reflation which, in the past, has often benefitted value stocks.
- **Smaller companies over large players.** Similar to the long-term value-versus-growth trend, small caps typically edged out large caps before the 2008 financial crisis. In our view, historical valuation differentials and dollar cycles now imply that small caps are ready for a revival.
- **Non-U.S. over U.S.** As the dollar weakens, non-U.S. developed markets (as well as emerging ones) could be set to outperform.

Link to entire article here:

Neuberger Berman - Equity Opportunities After Easy Money

Top Gun: Bond Mavericks

Submitted by: Loop Capital Asset Management

A long overdue sequel to a 1980s classic, Top Gun: Maverick became the top grossing film of 2022. But, the film is not the only 1980s revival; indeed, we've been hearing the phrase "not since the 80s" a lot recently, particularly relating to markets and the economy. To combat the rapid rise of inflation the Fed felt the *need for speed* and hiked policy rates at a pace reminiscent of Volcker's campaign against inflation in the early 80s. The recent failures of Silicon Valley Bank, Signature Bank and First Republic Bank knocked Continental Illinois (failed 1984) out of the second spot for largest bank failures in U.S. history – and the magnitude of moves in short term interest rates in the wake of those failures was, you guessed it, the largest since the 1980s.

Fixed income investors whose actions influenced government policy, by pushing rates higher in response to policy decisions to increase fiscal spending, came to be known as 'bond vigilantes'. History doesn't exactly repeat, but it does often rhyme. **Where the 1980s had 'bond vigilantes', perhaps the new breed of fixed income investors should be called 'bond mavericks', who like the eponymous movie pilot have just been waiting for the chance to show they've still got it.**

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Top Gun: Bond Mavericks

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Highway to the Danger Zone: The U.S. government has not run a fiscal surplus in a single year since 2001 and as we've noted previously, the last president to leave office with a lower national debt than when they took office was Calvin Coolidge! Clearly, the growing national debt is not a new problem, however, it hasn't been a limiting factor either. Secularly declining interest rates provided cover for increased fiscal spending and tax cuts as lower rates muted the impact of the heightened debt levels via reduced debt servicing costs. However, with interest rates rising significantly, the cost to service that debt is now exploding.

Net Interest Rising Faster than a Pilot After a Bombing Run: If interest rates in the U.S. remain near current levels, the increase in debt service as bonds mature and need to be refinanced will be significant, costing hundreds of billions of dollars a year above current level. In fiscal 2022, the U.S. government spent $6.3 trillion, with 8% allocated to net interest payments. The increased interest costs could eventually be on par with the annual budget of Department of Defense - $750 billion in 2022. Even if not that high, the increased debt service could add 10% to a budget, that already ran a massive deficit to the tune of $1.4 trillion in 2022.

Before it goes nuclear: There is a point – not as clearly defined as in the movie – at which debt levels and debt servicing become a significant problem. Scholarly research suggests that countries have increased financial vulnerability - including default - once the debt to GDP ratio exceeds 75%. These observations have been made of smaller and emerging economies; while developed economies are likely to have higher debt carrying capacity, there is limited historical precedent for the significant number of countries with debt ratios larger than the size of their economy and increasing interest rates. The US is likely to have additional leeway versus other countries given it global economic strength, but there could still be a tipping point at which those factors can no longer keep market forces at bay. As the U.S. debt situation worsens, the hand of bond mavericks strengthens.

A Suicide Mission? The bombing run in Top Gun is viewed as near suicidal – perhaps the reactor could be destroyed, but after the mission it would be impossible to escape. This, too, is the view for American politicians regarding entitlement spending. In 2022, the U.S. spent $1.2 trillion on Social Security, $750 billion on Medicare and $600 billion on Medicaid with mandatory spending accounting for over 60% of total spending. The outlays for these programs have risen dramatically over time and are projected to continue rising, particularly given the inflation adjustments embedded in the programs. While projections vary, most show Medicare and Social Security likely to be insolvent within 10 years. Absent changes, these programs are likely to put further pressure on deficits and debt.

Next Generation Fighters: In its last iteration, the battle between government policy and bond vigilantes was fought and won with government policies being subject to market forces. In the interim, a new generation fighter has demonstrated its powers to combat market forces. The Fed has clearly shown it has the tools to buffer markets during periods of stress, however, the challenge the Fed faced in these earlier episodes was falling growth and inflation, while the current and prospective environment is much different. Stabilizing inflation is critical to prevent spiraling Treasury yields, however persistently higher yields also increase interest costs. In an environment tilting towards fiscal dominance would the Fed engage in a dogfight against the Bond Mavericks and deploy new tools such as the yield curve caps implemented in the 1940s to try and restrain further advances in yields?

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Top Gun: Bond Mavericks

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Returning to Base – Conclusions and Outlook: Large deficits in the past led markets – bond vigilantes – to 'punish' politicians with higher interest rates. While possible deficits today will lead to the same outcome, in our view, it is far from assured. Certainly, from a supply / demand dynamic, a greater supply of debt should equate to lower prices and higher yields, but this assumes constant demand. As seen in 2011, demand for Treasuries rose as a result of risk-off sentiment driven by a downgrade in the selfsame Treasuries. What would happen today? Would increased supply push rates up or would fears of a crisis (yes even if it's a debt crisis) lead to a flight to quality? In all likelihood, the market will gyrate, perhaps violently, between these sentiments and the most certain outcome would be volatility.

From a fixed income market perspective, the increase in debt service costs and the current inability to pay them without the issuance of additional debt is likely to lead to higher issuance of U.S. government debt. The increased Treasury issuance could continue to reshape the traditional bond market and shift sector weights within bond benchmarks.

Soaring deficits and higher interest rates create the potential for new challenges for the economy and for markets. Though the United States has advantages likely to protect it to a greater degree than other nations, it also faces a higher debt burden and higher interest rates than other major developed nations. In this uncertain environment, where Bond Mavericks flex their muscles, the steady hand of experienced pilots will be needed to navigate the turbulence.

Link to entire article here:
Loop Capital – Top Gun: Bond Mavericks