

U.S. Masters Swimming Meeting Minutes

Committee Name:	Investment Committee	Session #:	
Committee Chair:	Ralph Davis	Vice Chair:	Stan Benson
Minutes recorded by:	Phil Dodson	Date/time of meeting:	1/17/23 @ 7 PM EST

MSA:

1. Approved Meeting Minutes of October 18, 2022

Number of committee members present: 8	Absent: 1	Other Delegates present: 0
Committee members present (list all, including chair and vice chair): Ralph Davis , Stan Benson, Teddy Decker (Ex-officio), Phil Dodson, Gary Keehner (Ex-officio), C.J. Rushman, Bill Sherman, Robin Smith Other USMS representatives Present: None		
Absent: Guy Davis		
Guests: Jim Gregory, Northern Trust Investment Manager		

Minutes

The meeting was called to order at 7:02 PM EST. Ralph asked if any conflicts of interest. None were noted. Ralph introduced our newest member, Robin Smith, and we all briefly introduced ourselves. Ralph then introduced Jim Gregory, our Northern Trust (NT) Investment Advisor, who gave a brief recap of the market outlook followed by a review of both the USMS and SSL Investment portfolios 4th quarter 2022 performances.

For the benefit of Robin, Jim reviewed the NT tactical versus strategic allocation and how NT and how he uses it. The NT investment committee meets monthly. Tactical allocations start with their Strategic 5 year outlook then adjusts for current market conditions.

Their current changes in the tactical allocations are a little less overweight in cash and high yield, equal weight in US stocks which is up from most of 2022, Developed International equal weight, and Emerging Markets still under weight. Overall NT maintained its bias towards US Equities and underweight investment grade fixed income. Their biggest risk factor is the Federal Reserve (Fed), but not an unknown Fed but risks of the market diverging too early from what the Fed is telegraphing. NT believes the Fed will pause raising rates around 5% to 5.25%. Inflation is and will continue to go lower, but will take a long time to return to the 2% Fed target.

The NT basic outlook is that economic risks remain skewed to the downside from cumulative central bank tightening, but sentiment should start to shift more favorably in 2023 on a "plateau" in policy rates and lower inflation. Central banks have communicated a slowing in rate increases with an expectation to pause rather than continue rate hikes. This reduces risk of policy mistakes. Other risk issues are: the US Labor market durability leading to more stubborn core inflation; the Ukraine War, China reopening; and Taiwan tensions.

Jim reviewed the portfolio's various asset classes and their relative 2022 performance. Simply put, there was nowhere to hide, in 2022. Even the 60/40 portfolio allocation was down big (-15.8%) with fixed assets getting slammed (-13.0) due to the speed of rate increases by the Fed. Cash was the only asset class up in 2022.

Jim briefly reviewed GDP and Inflation chart statistics. NT expects GDP and the economy to hold up as long as consumption is up as there is and will continue to be minimal investment by business right now. Inflation should continue to moderate due to Year over Year due to easier comparisons, but it could be 2024 before inflation returns to the 2% target rate set by the Fed. Reviewing the inflation components chart he pointed out that the Fed tends to look at the PCE indicator for its inflation analysis and that the Market is keen on inflation expectations and moves on it.

Return to our recent Market peak will take time, maybe 2024 to reach November 2021 highs.

Jim reviewed the portfolio's asset allocations in comparison to NT targets and ranges. Nothing "has" to be adjusted and no recommendations were offered though Jim pointed to the large cap allocation which is near the top in NT ranges. The portfolio is currently generating \$85K income annually.

Jim also briefly reviewed the SSL portfolio which is all index funds and strictly follows the NT tactical weightings. The SSL portfolio outperformed (less of a loss) the USMS portfolio year-to-date, minus 13.41% versus minus 14.79%, largely due to USMS over weighting in Large Cap and lower cash allocation. The portfolio has built up some cash which Jim may soon reinvest.

The Committee then posed questions to Jim:

1. Why are bond funds yield so low in comparison to rise in Treasury yields? Lower current returns are probably due to existing longer maturity bonds not rolling off fast enough to be replaced with higher yielding bonds.
2. Labor is not a specific component of inflation, what is its impact on inflation? It's embedded in most components and it's a big Fed concern. Despite lots of publicity on tech layoffs, they are not yet hitting the larger labor market.
3. Asked if we were to make a rebalancing allocation, what would he recommend. He would increase somewhat our allocation to Emerging Markets, but reiterated it is not needed. The Committee discussed and decided to wait for our April meeting which will have the added benefit of the USMS 2023 Cash flow forecast.

Jim was excused and thanked for his review and recommendations.

Based on the discussion from these questions, the committee agreed to continue the following discussion points in our April meeting:

1. Receive, review and take actions consistent with the USMS 2023 cash flow forecast
2. Increase fixed income assets yields by swapping US Treasuries for the Corporate and Government Bond fund
3. Reallocate asset classes that are near or exceed their upper end asset class target allocations

The Committee formally voted to approve the already email approved meeting minutes from October 18, 2022. MSA

The Committee scheduled the next meeting for April 18, 2023, 7PM EDT.

The meeting was adjourned at 8:05 PM EST
