

Summer 2021

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Speaker Opportunities

Don’t overlook information in the flyer to the right providing PAPERS’ corporate members (Associate and Affiliate) an opportunity to apply for a speaking position at the next conference. Applications should be submitted to PAPERS as early as possible in August when agenda planning for the Fall Workshop gets underway. The application form may be found on the home page of the PAPERS website www.pa-pers.org or by clicking on: <http://pa-pers.org/newweb/documents/Speakerapplication.pdf>.

2021 PAPERS Fall Workshop
Held in Hybrid Format

Virtual Sessions Nov. 9 & 10, 2021
(mornings only)

In-Person Sessions Nov. 16, 2021
(afternoon only) @ Harrisburg Hilton Hotel



Watch for Conference Details in September

A 2021 PAPERS membership (Participating, Sustaining, Associate or Affiliate) for your pension plan or firm is required for your representative(s) to participate in PAPERS’ two annual conferences.

Proposals for presentations/speakers at this conference should be submitted by early August to PAPERS Executive Director Karen Deklinski. Form and details at: <http://pa-pers.org/newweb/documents/Speakerapplication.pdf>.

Corporate sponsorships for this conference are welcome from PAPERS’ Associate and Affiliate Members. Contact PAPERS Director of Operations Doug Bonsall (717-921-1957 OR douglas.b@verizon.net) for details about becoming a sponsor.

Successful Virtual Forum in May

PAPERS’ 17th annual Forum was held virtually over six dates in May 2021 with participation from more than 130 persons representing public pension funds and the firms providing services to those funds. Twelve presentations were given on-line covering a wide range of topics pertinent to the retirement systems serving hundreds of thousands of Pennsylvanians. The Fall Workshop promises more of the same great training.

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Happy Summer...

...from the PAPERS Board President



As new PAPERS President, I want to take the time for this article to both introduce myself and talk a little bit about my thoughts on PAPERS.

I am currently in my 23rd year as Lebanon County Controller and have also served as Penna. Controller Association President.

In addition to Auditing, General Ledger, and Budgeting duties, as Controller I sit on the Lebanon County Employee Retirement Board as Secretary. Prior to being appointed and subsequently being re-elected every 4 years, I spent 29+ years in the world of banking, serving in various management positions.

I have always been a strong advocate for trustee training, as an informed trustee is a valuable part of any Retirement System and Board. With new regulations and changes in the Retirement and Funds Investment world, now more than ever keeping up to date is vitally important. As such, PAPERS is a valuable tool to keep Trustees informed.

We have just come off a very successful virtual Forum in May. Many thanks to Executive Director Karen Deklinski and Office Manager Doug Bonsall for all their hard work and efforts to put all the pieces together to present a great Forum. In addition, many thanks to our presenters for informative and timely topics and special thanks to our sponsors who helped make the Forum possible.

Moving forward our November Workshop will be, if no new restrictions are in place, a combination of in-person and virtual presentations. More details on that conference will be forth coming in the future.

As new regulations and laws are coming at a rapid pace, now more than ever PAPERS is vital to keeping Trustees informed and up-to-date. Your participation in these conferences is important to both PAPERS and your respective Retirement Plans. If you have not participated in the Trustee Certification program, perhaps you should consider doing so for it is a great tool for both new Trustees and even seasoned Trustees.

In closing, let me say that as the world of rules and regulations relating to Retirement Funds and Investments is changing constantly. PAPERS is here to help you better understand these new regulations. Have a great rest of your summer and hope to see you in person or virtually at the November Forum.

Bob Mettley

PAPERS Board President

From the Desk of PAPERS' Executive Director

Do you know that feeling after a long cold winter, you walk outside and it's bright and sunny and you take a deep breath of fresh air and say "Wow I'm so happy it's (the weather) getting better".

That's how it feels to me after this long COVID experience. In June I attended the ALOM conference, my first event in over a year and a half, and that is how I felt!! Wow, I am so happy it's getting better! Reconnecting with friends and colleagues was like a ray of bright sunshine. We had so much to talk about because even though some events stood still, time did not. The impact on our public pension system is still being realized and we have much to discuss and many ideas to share.



During COVID, we shared our training virtually. The virtual sessions have received such great feedback that we will be doing part of the conference in November virtually as well. But still, one of the greatest aspects of PAPERS is our ability to network and to see our colleagues in-person and talk with our peers about challenges that face us every day as pension trustees. For that reason it's critical we do have an opportunity to get together. I know I can speak for the entire Board when I say we can't wait to see everybody in-person in November. So, our Fall Workshop will be held in Harrisburg in-person in addition to the virtual component which will focus on fiduciary foundations and the basic responsibilities of a trustee. On so many aspects it seems like we're returning to normal but in quite a number of ways there are more unique challenges we have to face. Coming together as an association to share our challenges helps us find those solutions.

A heartfelt special thank you to our Auditor General Tim DeFoor. General DeFoor has been a long time member of PAPERS and a great supporter. We truly appreciated his insight and his remarks during our May Forum. His recognition of the need for ongoing training in public finance is a tenet of his administration. And additional exciting news....this fall we look forward to hearing from our State Treasurer Stacy Garrity. Treasurer Garrity will open our November Workshop during a lunch at the Harrisburg Hilton. I can't overstate how much we cannot wait to see to see you all there! HAVE A GREAT SUMMER!

Karen Deklinski

PAPERS Executive Director
kdeklinski@msn.com; 717-979-5788

Become a PAPERS Member

For details about **Participating, Associate, Affiliate** and **Sustaining Memberships**, check the membership section of the PAPERS website www.pa-pers.org or contact:

**PAPERS, PO Box 61543
Harrisburg, PA 17106-1543**

Douglas A. Bonsall
Phone: 717-921-1957
E-mail: douglas.b@verizon.net

PAPERS Membership & Sponsorship Categories

- **Participating** (\$125/year early bird rate; \$150/year after 3/31/2021) - *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 in any other category above*

A current (2021) PAPERS membership (Participating, Associate, Affiliate or Sustaining) is required to attend PAPERS conferences, to receive CPE (Continuing Professional Education) credits or to enroll in the PAPERS certification program described on Pages 4-5.

Corporate (Associate & Affiliate) Members also have the additional opportunity to become sponsors for PAPERS' two annual conferences. Sponsors receive recognition in the printed and on-line materials produced for the conferences and also receive priority consideration to provide speakers and/or make presentations. The three categories of sponsorships for each conference are: **Platinum** - \$5,000; **Gold** - \$3,000; **Silver** - \$2,500.



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 three-part process:

- **On-line introductory education modules develop by FI360, Inc.**
 - *The Role of the Retirement Plan Fiduciary*
 - *Creating a Comprehensive Fiduciary Process – Parts 1 & 2*
- **Attendance at PAPERS conferences**
- **Continuing Education** – additional on-line education modules; on-line library resources

Program Enrollment

Please visit the PAPERS website www.papers.org to access the certification program application form. A link to this printable form may be found on the "Certification Program" page.

Submit the completed form either by mail or e-mail. See details below under "Program Cost" for more information about submitting the application and required payment.

Program Cost

The one-time enrollment fee of \$499 is payable by three methods:

1. **To pay by check.** Please make check payable to: **PAPERS** and return with application to: **PAPERS, P.O. Box 61543, Harrisburg, PA 17106-1543**
2. **To pay by credit card or PayPal.** Please access the PAPERS website www.papers.org and click on "Certification Program". Near the bottom of this page click on the drop down box and follow the directions to pay the registration fee. If a

completed application has not already been submitted, please do so either by mail to: **PAPERS, PO Box 61543, Harrisburg, PA 17106-1543** or scanned, saved and e-mailed to: douglas.b@verizon.net.

3. **To pay by ACH transfer.** Please contact PAPERS by e-mail douglas.b@verizon.net to request the bank account and routing information you'll need to pay by this method. If you require a signed form to initiate the ACH transaction, please send the form to this e-mail address and it will be completed/returned promptly. Then, submit your completed membership application as note in #2 above so it can be matched with the ACH payment.

Process

After submitting a course enrollment form and payment of the one-time fee, individuals will receive an authorization code giving access to the 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 written notification upon successful completion of the three 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, on the website and in newsletters.

Continuing education will be required to maintain this designation.



Application Form

Certified Pennsylvania Public Retirement Plan Professional

Participant Information:

Name: _____ Date: _____

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

Organization: _____

Address: _____

City: _____ State: _____ Zip: _____

Telephone: _____ E-Mail: _____

Payment Information:

The one-time registration fee is \$499. Please fill out the following only if different than above:

Billing Name: _____

Billing Address: _____

City: _____ State: _____ Zip: _____

Payment methods:

- 1. To pay by check.** Please make check payable to: **PAPERS** and return with this application to: **PAPERS, P.O. Box 61543, Harrisburg, PA 17106-1543**
- 2. To pay by credit card or PayPal.** (*this function available after 6/1/2018*) Please access the PAPERS website www.pa-pers.org and click on "Certification Program". Near the bottom of this page click on the drop down box and follow the directions to pay the registration fee. If a completed application has not already been submitted, please do so either by mail to: **PAPERS, PO Box 61543, Harrisburg, PA 17106-1543** or scanned, saved and e-mailed to: douglas.b@verizon.net.
- 3. To pay by ACH transfer.** Please contact PAPERS by e-mail douglas.b@verizon.net to request the bank account and routing information you'll need to pay by this method. If you require a signed form to initiate the ACH transaction, please send the form to this e-mail address and it will be completed/returned promptly. Then, submit your completed membership application as note in #2 above so it can be matched with the ACH payment.

Please submit this completed application and payment to:

PAPERS, PO Box 61543, Harrisburg, PA 17106-1543

Reminders for Institutional Investors During Periods of Market Stress or Dislocation

Submitted by: *AndCo Consulting*

AndCo Consulting is an independent, SEC registered institutional investment consulting firm. We serve as a fiduciary to each of our clients, without exception or caveat, while assisting and guiding them in making important investment and plan design decisions. AndCo is honored to serve several public plans in the Commonwealth of Pennsylvania.

As institutional investors, our typical recommendation is to stick with the following basic principles, many of which should be detailed in your investment policy statement. We believe these timeless tools are effective considerations for not only weathering the current uncertainty, but also helping to better position portfolios for future potential success.

Reaffirm Long Term Objectives: During periods of market or economic stress, it is important to reaffirm and understand the ultimate goals and objectives that the portfolio is trying to achieve. It is important to evaluate whether current market conditions have materially altered the portfolio's long-term goals, time horizon and/or overall risk tolerance. Reaffirming long term objectives allows everyone associated with the Retirement System to "step back" from the day-to-day barrage of news and the emotional or (short-term) mindset that the 24/7 news cycle might create. What you may find is that your long-term objectives remain sound and that the portfolio remains on track under the current objectives.

Reaffirm Liquidity Needs: Under normal market conditions, cash flow requirements are often factored into a discussion of goals, objectives and constraints. However, during periods of market dislocation, liquidity management deserves its own special focus. Whether the portfolio is meeting regular beneficiary obligations or funding investment capital calls, it is not preferable to source cash flows from depressed assets or assets experiencing a liquidity crunch. It is prudent for portfolio fiduciaries or Trustees to actively involve their investment professionals and utilize their collective insights as part of the liquidity planning process.

Conduct Rebalancing when Necessary: Much like the first two tools, a disciplined rebalancing strategy should be part of a well-defined portfolio's investment policy. We acknowledge that rebalancing is one of the most stressful portfolio decisions to undertake during severe market movements. This is another scenario where open discussions and scenario analysis can make these difficult rebalancing decisions easier to stomach.

Analyze the Portfolio's Investment Management Structure: Experts tend to come out of the woodwork during times of market distress and, if they have something to sell, their guidance can be suspect. Fortunately, in addition to your investment consultant, each portfolio has its own set of experienced market professionals in the form of investment managers that Trustees can leverage. Trustees should engage their investment managers to gather insights to better understand how assets are being managed in the current environment and what these professionals are observing day-to-day in the marketplace.

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Reminders for Institutional Investors...

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Assess the Viability of New Market Opportunities: The four previous tools we discussed were more defensive in nature, while this tool is more offensive. Every crisis and significant market drawdown inevitably creates investment opportunities that aim to take advantage of the evolving market dislocation. Try to avoid taking on a fear of missing out mentality, but instead consider taking a methodical fact-based approach and determine what investment opportunity may provide the best risk/return profile for your retirement system.

In summary:

These tools are not a complete list of actions Trustees can undertake but they are a good start for any Trustee to consider when dealing with any period of market stress or dislocation.

Important Disclosure Information:

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Four ESG Transition Tips for Pensions Trustees

By: Carolyn Eagle, FTSE Russell
Senior Product Manager, Sustainable Investment

As ESG integration into investment has grown and evolved, so too have the considerations for pension trustees. Many asset owners are under increased scrutiny by plan members who want to see ESG options and want managers to incorporate ESG risks and opportunities in their pension investments.

Pension trustees are no longer asking, "why implement," but rather, "how do I implement?" When implementing ESG strategies, there are several key considerations for pension trustees.



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Four ESG Transition Tips for Pensions Trustees

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1. Codify your beliefs

There are multiple approaches to integrating ESG into investments across active and passive strategies and asset classes—the themes covered by ESG are broad, there are different ways to implement, and there's much to consider. The asset owner must first be clear on their associated investment beliefs including what themes and approaches are appropriate to support their investment needs.

This may involve codifying their approach by making any necessary amendments to the plans' investment policy statement. This helps align ESG integration into investments with broader policy around engagement, advocacy and proxy voting.

There may also be a focus on specific themes within ESG, such as in climate change, which the trustees may believe have the greatest implications for future investment returns. Or it may involve establishing investment beliefs related to types of companies they wish to explicitly exclude from their portfolios, such as tobacco. If this is determined by ethical preferences, rather than reflecting beliefs about improving investment outcomes, this process should capture the preferences of scheme members.

2. Understand that benchmark selection matters

It's vital for pension trustees to recognize that there are numerous approaches to incorporating ESG considerations, and that methodologies matter. This is especially relevant when selecting an ESG benchmark or choosing an index for the basis of an ESG passive portfolio.

For example, for pension trustees looking to address climate change risk in their plans, there is a spectrum of approaches. This ranges from applying climate risk parameters to vary security weights, through to full divestment from fossil fuels.

3. Establish ESG metrics

Once ESG strategies are implemented, establishing comprehensive and consistent success metrics can be helpful. This allows pension trustees to properly measure the effectiveness of their ESG strategy alongside investment objectives. For example, establishing performance, risk and impact metrics allows pension trustees to track progress towards meeting climate goals, with metrics such as emission reduction, while also understanding the potential impact on the risk budget, using metrics such as tracking error.

4. Remember it's a process, not an event

The process can seem daunting, due to the range of implementation options and nuances in definitions and approaches. However, with a few clear steps—such as those set out above—trustees can define a clearer approach to sustainable investment and begin their journey.

There is no single approach to integrating ESG considerations, but it is important to make a start and then review and adjust as necessary along the way as knowledge and experience grows, because this process is a journey, not a destination.

Collateralized Loan Obligations: Finding Opportunity Amid Uncertainty

By: Himan Trivedi, Nuveen



Himani Trivedi is Managing Director and Head of Structured Credit at Nuveen, responsible for various fixed income strategies. Previously, Himani served as co-head of investments and head of structured credit at Nuveen affiliate Symphony Asset Management. She began on the convertibles desk, launched the CLO platform and became co-portfolio manager for all CLOs. Prior to Nuveen, Himani worked at Washington Mutual Bank and ICICI Bank in India. Himani holds a B.S. in Chemical Engineering, an M.B.A. in Finance from Gujarat University, India and a Masters in Financial Engineering from the Haas School of Business at UC, Berkeley.

The resiliency of the CLO structure, which successfully weathered market swings and liquidity crunches since the mid-1990s, was tested when the COVID crisis hit. As credit markets lurched downward, new issuance came to a halt, prices of CLO instruments plunged and a wave of rating downgrades began to strain portfolios. However, initial panic selling quickly self-corrected and bank loans recovered, as quarterly earnings outperformed predictions and governments and central banks aggressively intervened. CLO debt spreads returned to almost pre-pandemic levels, portfolio losses generally stabilized and market conditions again pointed to an opportune moment to put money to work in this asset class.

MARKET STRESS RESILIENCY

Despite structure complexity, CLOs have shown market stress resiliency for several reasons:

1. **Term structure:** CLO issued debt remains outstanding for the full term of the vehicle and is not generally subject to forced liquidation, even if underlying portfolio market values go to zero.
2. **Diverse portfolios:** CLOs' strict investment guidelines enforce minimum ratings quality and levels of portfolio diversification, greatly reducing industry and borrower concentration risk.
3. **Active management:** Managers have the ability to swap out of bank loans that may have become riskier since initial purchase, or to purchase undervalued bank loans.
4. **Structural "guardrails":** If CLO losses exceed a pre-determined threshold, interest income from the portfolio that would have otherwise been paid to equity or other junior debtholders is used to gradually pay down the CLO's principal debt, starting with the most senior. Once leverage is reduced to a manageable level and asset coverage tests are passing, CLOs can resume paying to equity investors.

A GOOD TIME TO INVEST IN CLO EQUITY

- **Upside potential:** It is reasonable to expect that the vast majority of current bank loans will repay at par, either at maturity or when refinanced. For equity investors with leveraged exposure, this "pull to par" trend could generate impressive returns.
- **Relatively low financing costs:** CLO debt spreads have returned to pre-COVID levels and CLOs have been able to lock-in highly attractive financing rates, which benefit equity investors.

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Collateralized Loan Obligations

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- **LIBOR floors:** Most new bank loans are issued with LIBOR floors, which set a minimum based rate which supports the coupon. In a low rate environment, this benefits equity investors because CLO debt tranches are not subject to LIBOR floors greater than zero. Effectively, an equity investor can earn the spread between the LIBOR floor and actual LIBOR which can produce meaningful results on a levered basis.

SEIZING THE OPPORTUNITY AND THE IMPORTANCE OF MANAGER SELECTION

Although CLOs are often viewed as complex, 2020 highlighted their ability to withstand high levels of market volatility. We believe the current market environment represents a compelling opportunity for potential CLO equity investors. Nevertheless, appropriate levels of caution and due diligence are warranted underscoring the importance of partnering with a skilled manager with a robust platform and significant alignment of interest to capture upside opportunities while mitigating downside risk.

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The Time for Convertibles Is (Still) Now

Submitted by: Palisade Capital Management

We believe 2021 will be another favorable year for convertibles and remain a compelling asset class, especially for those that have re-examined their allocation framework and appetite for risk given the rollercoaster ride of 2020.

The structural nature of convertible securities provides investors with a desirable asymmetry of returns and alpha potential by offering more upside participation and less downside capture as equity markets move higher or lower.

To view Palisade's white paper on this topic, click on:

https://palisadecapital.com/assets/news_downloads/PALISADE_CAPITAL_-_The_Time_for_Convertibles_is_%28Still%29_Now_February_2021.pdf

For further information regarding this white paper or about Palisade Capital Management, please contact Don Triveline, dtriveline@palcap.com