**Northern Essex Community College**

**Board of Trustees Audit and Finance Sub-Committee Minutes**

**Wednesday, February 1, 2023**

**Attendees:** Trustees Jennifer Borislow, Jouel Gomez, Sally O’Rorke, Evan Silverio,   
President Lane Glenn, Michael McCarthy, Anthony DeGregorio, and   
Linda Buckley, Note-taker

Chairwoman Jennifer Borislow called the meeting to order at 4:02 pm and the minutes of the December 2 meeting were approved with a motion made by Trustee Linehan and seconded by Trustee O’Rorke. All were in favor, none opposed.

**Introduction of GWK Investment Management**

James M. McCarthy, Chief Investment Officer of GWK, provided the committee with a detailed analysis of the Mid-Year Actual to Budget Review, which included an appraisal of NECC’s Investments and the Combined Performance and Asset Allocation. James has provided the following detailed information shown below.

Performance review – 2022 was a very challenging year for stocks and bonds.  The combination of persistently high recession and aggressive movement by the Federal reserve drove US stock and bond markets as the fear of recession grew.  Add in the war in the Ukraine and political and economic issues in China and markets continued to hit new lows into late September.  By then, S&P 500 was off roughly 25%   from its highs and the Barclays Aggregate bond index was down roughly 13%, one of the worst returns on record for bonds.  We did get some relief in the 4th quarter.  Inflation numbers finally started to inch downward and this gave hope that the Fed would not have to move interest rates as aggressively. The S&P 500 rallied over 7 1/2% in the fourth quarter while the bond market rallied almost 2%. Though the Federal Reserve is continuing to raise short-term rates, long term interest rates have started to move lower taking some pressure off the markets.  Markets have continued to show strength early this year. Inflation continues to trickle lower, the Fed has slowed its aggressive interest rate and economic numbers have continued to rise to the upside, giving hope to the possibility we avoid a recession. Corporate earnings season has been decent.  Though earnings are coming down most companies have been reporting within the market’s expectations.

For the calendar year 2022, NECC’s overall return was down just over -14.6%.  Our equities which are balanced between growth and dividend stocks, with an allocation to small and mid cap US stocks was down around 17% and our smaller allocation to international and emerging markets were also off 21%. Dividend stocks were the best place to hide as they dropped only 7% versus the S&P's loss of over 18%.  Normally in years like this you would expect some help from the bond market but as mentioned, it was one of the worst years on record and the bond portfolio was down roughly 12.6%. With the rally we've had in January into February the overall portfolio is up 4.6% year to date with equities returning roughly 5% and bonds 3.8% on the year.  There was a significant addition of cash in March of 2022 and thankfully we were able to add this at opportune times during the year.  Overall this addition was down just 1-2% overall.

Though we are off to a strong start this year we believe we will continue to see some equity market volatility. Until the Fed is finished raising rates and it is clear that inflation is into a more reasonable range, the equity markets will continue to react to the economic numbers and inflation data. There is a possibility of recession, though we believe, if we do slip into one, it would be mild and short lived. A 10-year treasury peaked above 4.25% last fall and has recently traded in the 3.4 to 3.7% range. Though rates could inch higher we don't expect meaningful upward moves in long-term interest rates. Also, the bond portfolio has higher expected returns now as yields are averaging 5% within the portfolio.

Allocation and Shifts: As of today, the allocation is roughly 59% in equities, 38.5% in bonds and 2.5% in cash. I am comfortable with the balance of stocks and bonds.  We are going to accumulate cash to add to stocks over the coming year. We will use our discretion to do this at opportune times.

James McCarthy, CFA | GW&K Investment Management

Partner

**The following key assumptions were noted by Vice President Michael McCarthy:**

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| * Tuition revenue increase of $216k for QT. 2; projection increase based on the current projected increase for net college credits of 785 for QT. 2 and 1,346 for YTD and after consideration of a projected completed credit melt factor for the year |
| * SFA using a discount rate of 36% versus 42%--consistent with non-CARES/HEERF funding prior   years--due to utilizing HEERF III Institutional funds for SFA   * Grants & Other Revenues QT. 2 projections remain the same as the QT. 1 projection * Salaries & Benefits projections were updated; resulting in a slight net increase of 1.89% or $871k   in expenses for QT. 2 projections   * Other Operating Expenses projection decreased ($400k) from QT. 2 and ($850k) or (4.3%) from the   approved Supplemental Budget, driven by various expense categories   * Federal CARES/HEERF Funds, senior management continues to plan to spend appropriately   the remaining available funds by 6/30/23   * FY23 State Appropriations Funding remains the same for a total of $31.4m * FY23 Capital Appropriations Funding Schedule remains at $2.2m   **Results in a revised QT. 2 projected FY2023 yearend gain in Net Position of $1.1m**  With no further business, the meeting was adjourned at 4:50 pm.  Respectfully submitted by Linda Buckley. February 9, 2022 | |