

**TOWN OF SOUTH WINDSOR
PENSION COMMITTEE
MINUTES
July 22, 2019**

1. Call Meeting to Order

The meeting was called to order at 8:30 a.m.

Members Present: Chris Chemerka, Board of Education; Scott Custer, Chief of Police; Michael Maniscalco, Town Manager; Patricia Lewis, Assistant Director of Finance; Andrew Paterna, Mayor; Patricia Perry, Director of Finance; Matthew Riley, Town Council

Members Absent: MJ Hockenberry, Town Council; Karen Lydecker, Town Council; Michael Paré, Board of Education

Also Present: Anthony Tranghese, Fiduciary Investment Advisors, LLC
Matthew Galligan

2. Approval of Minutes

Mr. Matthew Galligan made a motion to approve the May 2, 2019 minutes. Chief Scott Custer seconded the motion; and it was approved unanimously.

3. Discussion Items

A. Update – Fiduciary Investment Advisors, LLC (FIA)

Mr. Anthony Tranghese provided the Committee with a Quarterly Investment Review for the second quarter of 2019. A copy of the review is available in the Town Clerk's Office. Mr. Tranghese gave a brief overview of the Fiduciary Governance Calendar. He then reviewed redline changes to the Asset Allocation Policy. These changes were accepted by the Pension Committee at the May 2, 2019 meeting: the removal of the inflation protection sleeve, and the reallocation of those assets across the portfolio.

Mr. Michael Maniscalco asked for a motion to approve and accept the redline changes to the Asset Allocation Policy. Mr. Matthew Galligan made the motion to approve, Ms. Patricia Perry seconded, and the motion was passed unanimously.

Mr. Tranghese gave a review of the market. This year has been very good overall in equity markets. Value has continued to underperform growth, and growth leadership has continued to occur. A meaningful part of that are famous tech names that are prominent growth-oriented stocks, and are carrying the market. The Town portfolio is modestly positioned to take advantage of value outperforming in the future. Small-cap stocks have underperformed large-cap stocks this year. International equities are up this quarter, but the US continues to outperform. Bonds have performed well over the past 12 months. Rates have come down, so bond prices have gone up. Commodities were the only negative story in the quarter, down 1.2%.

Interest rates have been a meaningful driver in markets since the end of last year, when the US Fed switched from being hawkish to dovish. Mr. Tranghese referred to a graph on pg. 20 of the

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quarterly review, showing a yield curve snapshot as of June 30, 2019. Currently returns are higher on a 1-month or 3-month bond than on a 3-year or 5-year bond. This is referred to as an inverted yield curve, which is a challenging environment. This may be because at first the Fed had increased rates a few times over the course of last year, then this year they have suddenly switched their course to decreasing rates. The market is expecting a number of rate decreases now, which is a very different expectation than was held a couple of months ago. Councilor Riley asked if the rate decreases have caused the yield curve to start to come back from the inversion. Mr. Tranghese said that the 10-year outlook has improved a little. The yield curve is on the edge between inverted and normal. Mr. Tranghese explained that, in the past, inverted yield curves have preceded an economic recession. It is a sign of economic displacement. The challenge that the Fed has is that while they would probably like to have rates move higher into a more normalized range, they also have to be globally competitive.

Next Mr. Tranghese gave an overview of asset allocation for the Town and Board of Education (BOE) plans. The portfolios are about 35% in fixed income, 38% in domestic equity, and 21% in international equities. At the top of pg. 25 of the report are the results of the two plans as of June 30th, 2019. In the quarter the plans were up about 2.8%, so far this year they are up close to 12%. The trailing one year is just over 3%. Councilor Riley asked if lower returns can be expected in the third quarter. Mr. Tranghese said that while the environment over the last year has been a good one for returns, it is not one that would be forecasted to repeat within the year. International managers have performed well collectively compared to the benchmarks and to each other, and have been complementary to each other. One manager, Morgan Stanley, has been placed on watch due to underperformance. FIA does not recommend action at this time, but will continue to monitor for further deterioration. FIA does not have any other recommendations for change to the portfolio.

Councilor Riley asked about the value and growth of the SMP 500 index. Mr. Tranghese said that it is about half and half. Councilor Riley and Mr. Tranghese discussed the benefits of diversifying the portfolio to include more international managers. Councilor Riley suggested to the Committee the possibility of going to a more passive, low-cost approach with domestic equities. In general the SMP is outperforming the more actively managed funds. Mr. Tranghese will include in the report for next quarter some recommendations for index funds to replace the current two active domestics.

Mr. Tranghese gave an update on Wells-Fargo's sale of their custody business to Principal. The transaction closed at the beginning of July. Over the next couple of quarters Wells-Fargo and Principal will be working on determining the right long-term solution for clients. FIA has been told not to expect any changes in the near future. There have been no interruptions to services, and FIA will continue to monitor the transition.

Mr. Galligan asked for an update on the OPEB. Mr. Tranghese directed attention to pg. 89 of the quarterly review. The OPEB has a target allocation that is the same as the two pension plans. The only difference is that the portfolio was invested less than a year ago, so there is not much of a track record. Mr. Tranghese said that he suspects that any asset allocation changes made in the pension will be followed in the OPEB, but will be addressed separately.

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Councilor Riley asked Mr. Galligan for clarification on the OPEB. Mr. Galligan said that the numbers are based off of a formula run by Milliman in their actuary report to determine how many employees would be entitled to health insurance after age 65. This figure is the liability that the Town and BOE need to fund for, even if it is unlikely that the funds will ever be used. They are for a worst-case scenario. Mr. Galligan said that at some point in the future the Town Council will have to decide what to do with the unused funds. Mr. Galligan said that SMP and Moody's are glad that the liability is being funded. It brings up the Town's rating.

Mr. Galligan informed the Committee that he recently allocated some money in the budget to be added to the Pension fund, so that it will be about 70% funded. Next year it will raise again. He did this because of the bond issue coming up in February 2020 to fund for two new schools. Mr. Galligan wanted the Pension fund to be over the 70% mark so that when the Town finances are evaluated and the evaluators see more debt from the bonds, they will also see more revenues and increasing fund balances. This should hopefully prevent the Town from receiving a rating downgrade. Mr. Galligan commended the Committee for their good work in managing and keeping track of the Pension fund thus far.

4. Miscellaneous

None.

5. Schedule the Next Meeting

The next meeting was tentatively scheduled for October 30th, 2019.

6. Adjournment

Mr. Galligan made a motion to adjourn at approximately 9:22 a.m. Chief Custer seconded the motion; and it was approved unanimously.

Respectfully submitted,

Samara Haddock
Recording Secretary

Attachment: Quarterly Investment Review – Second Quarter 2019, prepared by Fiduciary Investment Advisors, LLC. The attachment is available for review in the Town Clerk's Office.