

**TOWN OF SOUTH WINDSOR
PENSION COMMITTEE
MINUTES
October 28, 2019**

1. Call Meeting to Order

The meeting was called to order at 8:32 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

Members Absent: MJ Hockenberry, Town Council; Matthew Riley, Town Council; Michael Paré, Board of Education

Also Present: Anthony Tranghese, Fiduciary Investment Advisors, LLC

2. Approval of Minutes

Chief Scott Custer made a motion to approve the July 22, 2019 minutes. Ms. Chris Chemerka 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 third quarter of 2019 (attachment A). A copy of the review is on file in the Town Clerk's Office, and may be examined upon request. Mr. Tranghese also gave a brief overview of the Fiduciary Governance Calendar (pg. 6 of report). The focus of the third quarter is on assets and liability. Expected returns have come down gradually over the past 15 years for plans within the state. Pg. 9 of the report is a graph detailing the rate of return over the past 5 years for CT public pension plans. Mr. Tranghese explained that since the financial crisis there has been a robust return environment. Since late 2008 markets have moved up rapidly. The profile of expected returns for the foreseeable future is probably not as robust as has been enjoyed over the past 10 years. Also, rates are very low right now, which is a negative for fixed income. Those two things together have caused the profile for expected returns to come down dramatically.

Mr. Tranghese explained that FIA uses modeling software to run asset allocation studies (pg. 10-12). They model just on asset classes, not on excess return. The modeling estimated an annual return of 6.18%. FIA recommends increasing allocation by 5% from fixed income to equities. That would change the portfolio from 65 equities to 70, and from 35 fixed income to 30. When this was modeled, it showed an expected return increase to 6.36%.

Mr. Tranghese gave a review of the market (pg. 14-18). He said that the market is doing better than most people think. Value and growth performed similarly in the third quarter, but for the full year to date growth has outperformed value by a healthy margin. Large-cap stocks have outperformed small-cap stocks. International stocks were also down in the quarter, largely due to the strengthening of the US dollar. However, there was a sentiment shift in September, reversing the trends seen previously in the year. Growth beat value, small-cap beat large-cap, and international

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markets outperformed US. This is beneficial for the Town portfolio, which has a tilt toward value that has started to play out with the sentiment shift.

Next Mr. Tranghese reviewed the investment portfolio (starting pg. 22). He also referred to two handouts outlining the cash flow for both the Town and Board of Education plans as of October 25, 2019 (attachments B and C, respectively). The cash flow worksheets indicate current allocations, and what the resulting allocations would be if the recommended change of 5% from fixed income to equity was made. Mr. Tranghese proposed that at the next meeting, the target asset class ranges (last column of each worksheet) be revisited to see if they should be broadened. He suggested that the Committee vote on approving the allocation change.

Mayor Andrew Paterna made a motion to approve the changes as indicated on the cash flow worksheets. Chief Custer seconded the motion. Mr. Michael Maniscalco asked if this move was being recommended to make money now, or for long-term stability. Mr. Tranghese said that the intent was for long-term stability. Fixed income is a preferred investment because it has low risk and low volatility. However, the problem is that rates are currently so low that it is hard to justify it in portfolios. Mr. Tranghese recommended that the change be made over two periods, as it is a big move. Ms. Perry asked who the new manager would be for the real estate fund. Mr. Maniscalco suggested this be discussed before voting on the motion. The vote was tabled until after Mr. Tranghese gave the manager performance review.

Starting on pg. 23 of the report is the manager performance overview. In the third quarter both plans were moderately positive. However, Mr. Tranghese pointed out that the majority of the year so far has been about recapturing losses from the 4th quarter of last year. Relative performance has been under benchmark for two reasons, the first being that fixed income portfolio diversification has been a detractor from relative performance this year, because high-quality longer duration bonds have done better and the Town portfolio has been structured to protect from a rising rate environment. The other is the value tilt in the portfolio, as value has underperformed growth this year up until September. The good news is within domestic equity the portfolio managers have performed well. The international managers have also performed well. Mr. Tranghese directed attention to pg. 26 of the report, outlining Real Estate Securities managers. The Morgan Stanley REIT has been under watch this year due to underperformance, and FIA recommends that it be replaced. Mr. Tranghese mentioned that Vanguard International Explorer (Pg. 25, under International Equity) has also been placed on watch, but FIA does not recommend action for them at this time.

Moving ahead to pg. 95 and 96 of the report, Mr. Tranghese explained the replacement options for Morgan Stanley. This section of the report provides an overview of the two replacement options: Cohen & Steers Capital Management, Inc.; and Dimensional Fund Advisors. These are two very different organizations and portfolios, but they both fill the slot of global real estate. Cohen & Steers is a standard investment manager with a focus on real estate and infrastructure portfolios. The fund FIA proposes with them is their Global Real Estate Securities fund. This portfolio will typically hold 70-95 REITs, diversified by sector and geography. DFA is a large organization with a lot of different strategies. FIA recommends their All Country Real Estate fund. Their approach is embedded in academic research, suggesting that valuation and size securities are the most prominent factors. They create an index tilted toward underappreciated parts of the market that

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they believe will lead to success. This fund would have about 400 names, as opposed to the 70-95 in Cohen & Steers and Morgan Stanley. FIA recommends the DFA strategy for its diversified approach and lower fees. Pg. 98 shows the calendar year performance of the two new manager options and Morgan Stanley. Pg. 101 shows graphs of return vs. risk for all three.

At this time the vote to approve the allocation change was brought back before the committee, and was approved unanimously.

Ms. Chemerka asked Ms. Patricia Perry when the actuarial report would be received. Ms. Perry indicated that the actuaries are working on it and that she anticipates it arriving shortly.

4. Miscellaneous

None.

5. Schedule the Next Meeting

The next meeting was tentatively scheduled for January 28, 2019.

6. Adjournment

Mayor Paterna made a motion to adjourn at approximately 9:17 a.m. Chief Custer seconded the motion; and it was approved unanimously.

Respectfully submitted,

Samara Haddock
Recording Secretary

Attachments:

- A) Quarterly Investment Review – Third Quarter 2019, prepared by Fiduciary Investment Advisors, LLC. As it is a large document, this attachment may be reviewed upon request in the Town Clerk's Office.
- B) Cash Flow Worksheet – Town of South Windsor
- C) Cash Flow Worksheet – South Windsor Board of Education