1. OPEB Trust Meeting Documents

Documents:

OPEB_TRUST_MEETING_AGENDA_03-14-18.PDF
SUB_TO_APP_OPEB_MINUTES_03-14-18.PDF
APPROVED_OPEB_MINUTES_03-14-18.PDF
AGENDA

1. Acceptance of the OPEB Trust Meeting Minutes of January 9, 2018

2. Review Performance of Trust as of the end of February including the rebalancing trades approved at the January meeting and the asset allocation percentages

3. Discuss market conditions and investment strategy, including asset allocation and sector weightings

4. Review the five best performing mutual funds and ETFs in the materials sector

5. Review of the Investment Policy Statement

6. Schedule OPEB Board Meetings for July through December, 2018

7. Discussion of topics for future meetings

8. Adjournment

Next Meeting: Wednesday, April 11, 2018 at 8:30 A.M. in the Mazza Room
TOWN OF GREENWICH
OPEB Trust Board Meeting Minutes
Wednesday, March 14, 2018
Mazza Room, First Floor, Town Hall

Present:

Trust Board: Robert Stricker, Chairman; William Ferdinand, Joseph Pellegrino
BET Attendees: William Drake, Andy Duus, Anthony Turner, David Weisbrod
RTM Attendee: Jill Capalbo – District 8
Staff: Peter Mynarski, Comptroller and ex-officio member of the OPEB Trust Board; Kathleen Murphy, OPEB Board Trustee; Natasha Yemets, Assistant to the Treasurer

The meeting was called to order at 8:38 A.M.

Approval of January 9, 2018 Meeting Minutes

Upon a motion by Mr. Pellegrino, seconded by Mr. Ferdinand, the Board voted 3-0 to approve the Minutes of the January 9, 2017 Meeting.

Review Performance of Trust as of the end of February including the rebalancing trades approved at the January meeting and the asset allocation percentages

Ms. Murphy distributed the February 28, 2018 OPEB Investment Portfolio Performance reports and related materials. She commented that the Portfolio had a loss of $973 thousand for the month, down (3.2%) for the month, and that the portfolio’s gain for the fiscal year through February was $2,591,888, up 9.64%, 176 bps above the benchmark. As of February 28, the portfolio balance was $29,768,192.

Referring to the Rebalancing Analysis report, Ms. Murphy commented that only one trade had taken place since January, proceeds from the sale of SPDR S&P 500 (SPY) ($500 thousand) were invested in SPDR Financial Select (XLF) with the objective of increasing financials to 2% overweight relative to the S&P index. The portfolio is in compliance with the IPS; and she noted that the portfolio is 2.04% ($600,000) above the target allocation to Equity.

Mr. Ferdinand asked whether there is a fee to participate in the CT Treasurer’s Short-Term Investment Fund (STIF) to compare its rate of return 1.42% to US Treasury’s 1.6%. Ms. Murphy said that there were no fees associated with the STIF investment and that there was daily liquidity. Mr. Stricker remarked that the ease of liquidity with STIF made it worthwhile despite the 0.2% difference in rate.

Ms. Yemets continued with comments on the portfolio’s performance, remarking first on the performance of the major market indices. The S&P experienced its first negative month down (3.69%) in February after twelve months of positive returns; all major indices experienced negative returns for the month. Foreign markets were down (4.72%). She indicated that large cap had performed slightly better than small cap and growth outperformed value. The Bloomberg-Barclays Aggregate Bond index was down (0.85 %) for the month. In February, the Trust portfolio
was down (3.17%), 54 bps below its benchmark return of negative (2.63%). Fiscal year to date the portfolio was up 9.64%, 176 bps ahead of its benchmark, and the one-year return was a positive 12.93%, 165 bps ahead of its benchmark.

Ms. Yemets reviewed returns for the various asset classes and the different S&P 500 sector portfolio holdings vs the respective benchmarks. As of February month end the financial sector was over weighted by 1.9% reflecting the change made by the Board in January.

**Discussion of market conditions and investment strategy, including sector weightings and possible changes to target sector weightings**

Mr. Ferdinand foresees continuing growth in the economy based on earnings growth over 15% and no inverted or flat yield curve, but he balanced his comment saying that the unsustainability of the US debt load and the Federal Reserve reducing its long-term holdings could impact the market. Despite a possible headwind from increasing Federal Reserve interest rates, the Board agreed that equities should continue to do well. Ferdinand proposed debating the fund selection in the equities portfolio, not decreasing its size more than was accomplished in December 2017 when the board reallocated $1.3 million from equities to near cash in CT STIF in anticipation of a market correction.

Mr. Stricker expects that short term situation will last until 2019 or shortly thereafter. At the right time, he suggests reducing risk, but acknowledging that although the portfolio would not earn 7% rate of return, it would preserve capital. Mr. Weisbrod recommended discussing “multiples” as a guide to when risk should be reduced. Mr. Pellegrino proposed reducing equities and increasing fixed income based on yield rising above 3%.

The Board then reviewed allocation and agreed that small caps had been underperforming but attributed it to large caps, and especially technology, overwhelming everything. Mr. Ferdinand predicted that the changes in the tax code would improve small business activity and suggested purchasing Vanguard Total Stock Market Index (VTI) with its broad portfolio of small caps. Mr. Pellegrino responded that 11% of the OPEB portfolio was in mid-caps and had been productive but hard to isolate as a sector fund.

The Board reviewed the portfolio’s investment sectors, discussing which one(s) had potential to boost performance.

The Board voted (3 to 0) to make the following adjustments to the S&P 500 sector weightings:

- Increase the over weighting in the Technology sector from 1.6% to 3%, agreeing that the secular trends (increased automation, improved productivity, product innovation, etc..) will continue to support demand for technology. (FSPTX)
- Increase the over weighting in the Financial sector from 1.9% to 3%, agreeing that financials will benefit from the expected rising of interest rates. (XLF)
- Decrease the over weighting in the Industrial sector from 2.6% to a neutral weighting. (XLI)
- Decrease the over weighting in the Materials sector from 1.4% to a neutral weighting. (XLB)
  - The reductions in exposure to the Industrial and Material sectors are made in light of the recent trade tariff’s implemented by the USA and the recent (negative)
impact on the stock prices of companies in that space. When there is more clarity as to the impact of the tariffs the Board will revisit these moves.

- Any excess funds needed to complete this rebalancing of the portfolio would come from S&P 500 EFT (SPY)

**Review the five best performing mutual funds and ETFs in the Materials sector**

Due to time constraints this topic was rescheduled to April meeting agenda.

**Review of the Investment Policy Statement**

The Board discussed reviewing the policy annually but due to time constraints, Ms. Murphy distributed a “redline” copy for view and discussion at the April meeting.

**Schedule OPEB Board Meetings for July through December 2018**

Rescheduled for discussion at April meeting.

**Discussion of topics for future meetings**

- Review of five best Material Sector mutual funds and ETFs
- Discussion of Investment Guidelines and Policy Statement
- Review of the best performing Unconstrained Bond Funds, including the Retirement Fund holding, Neuberger Burman Unconstrained Bond Fund (NUBIX)
- Review Fidelity Contrafund equity fund (FCNTX) and Vanguard Total Stock Market ETF (VTI) as potential replacement for SPY.

**Adjournment**

On a motion by Mr. Pellegrino, seconded by Mr. Ferdinand, the Board voted 3-0 to adjourn the meeting at 10:30 A.M.

Next meeting scheduled for April 11, 2018 at 8:30 a.m. in the Mazza Room.

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Catherine Sidor, Recording Secretary

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Robert Stricker, OPEB Trust Board Chairman

**Schedule future OPEB Board Meeting Dates**

May 9, 2018 at 8:30 A.M. (Wednesday)
June 13, 2018 at 8:30 A.M. (Wednesday)
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