1. OPEB Trust Board Meeting Documents

Documents:

APPROVED_OPEB_TRUST_MTG_MINUTES_09-07-17.PDF
OPEB_TRUST_MEETING_AGENDA_09-07-17.PDF
Present:

Trust Board: William Ferdinand, Joseph Pellegrino
Absent: Robert Stricker, Chairman

BET Attendees: William Drake, John Blankley

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 8:35 A.M.

Approval of July 12, 2017 Meeting Minutes

Upon a motion by Mr. Ferdinand, seconded by Mr. Pellegrino, the Board voted 2-0 to approve the Minutes of the July 12, 2017 Meeting.

Review Performance of Trust including any rebalancing trades during the month and the resulting asset allocation percentages

Ms. Murphy distributed the August 31, 2017 OPEB Investment Portfolio Performance reports and related materials. She reviewed the Board’s July target allocation change which was to sell Powershares Core Small Cap (IJR) up to the dollar amount needed to increase OPEB Portfolio’s international holdings in developed markets to 15% by investing the proceeds in Oakmark International (OAYIX). She noted that the Portfolio allocations as of August 31st were within target and in compliance with Investment Policy.

Ms. Murphy commented that the Portfolio realized a gain of $54,639 for the month of August up 19 bps, and for the first two months of the fiscal year the gain was $577 thousand, up 2.2%. The OPEB Trust Total assets were $27,753,666 at the end of August.

Ms. Yemets reviewed the OPEB Trust fiscal year-end (June 30th) performance ranking within the Callan Fund Sponsor Databases. The Callan report with June data was not available for the Board’s previous meeting in July. The quarter ending June 30 return of 2.64% places the Trust Portfolio in the third quartile of Callan’s Public and Small Companies universes. The five-year return of 8.96% places it in the second quartile of both of those databases. Mr. Ferdinand noted that there were only small differences among the relative returns for small and large, and public, private, and union fund sponsors.

Ms. Yemets noted that in August all major market indices had modest positive returns with S&P 500 up 0.31% during the month, MSCI All Country World up 0.52%, and Bloomberg Barclays US Aggregate up 0.90%. US Growth Equity outperformed Value, and Large Caps did better than Small Caps.
The OPEB Trust portfolio was up 19 bps for the month, lagging the benchmark by 39 bps. Domestic equity performance was in line with its benchmark, returning 28 bps with poor performance from financial sector positions (KRE;XLF) and the S&P small cap ETF (IJR) offsetting the stronger performance from the technology sector (XLK and QQQ). The portfolio has a 5% overweighting in financials. Alerian MLP ETF, in the energy sector, had a loss of -4.9%.

International equities had a loss of 16 bps all attributable to Oakmark, which is heavily weighted to financials. The emerging markets ETF (EEM) was up 2.35% helping to offset the loss from OAYIX.

The fixed income allocation also trailed its benchmark, with PIMCO in line with the benchmark and Vanguard Short Term Corporate Bond Fund lagging the benchmark by 62 bps. Over the month there was little change in the short end of the yield curve while longer term rates declined. The fixed income allocation was up 59 bps.

The Board reviewed the attribution reports for the 3 year period and for 5 years. Mr. Ferdinand noted that allocation and selection had helped the portfolio’s performance.

Discussion of market conditions and investment strategy, including sector weightings and determine if changes to target sector weightings

Mr. Ferdinand shared technical charts he uses to assess near term market conditions. These charts indicate there is no expectation of a recession in the next year or two. Excepting a geopolitical event, e.g. North Korea, we could, however experience short term pull backs in the markets.

Q3 earnings are expected to be good. Expectation for the US markets is just more of the same. Interest rates may drift downward as foreign governments are buying US treasuries. Europe is in recovery. Emerging markets are more attractive on both a valuation and growth basis.

Mr. Pellegrino proposed increasing the International allocation from 16.5% to 20% of the Portfolio. A European ETF was compared to performance of Oakmark (OAYIX). After discussion of holdings in Oakmark, it was concluded that Oakmark was doing a very good job and they were clearly a very active manager and we didn’t need to overweight with an additional position in a European ETF, we could rely on Oakmark to decide where to overweight. Mr. Pellegrino and Mr. Ferdinand agreed that the target allocation to emerging markets should be increased to 5%, which would bring the allocation of the portfolio to foreign markets up to 20%.

Healthcare was the best performing sector for several periods. Mr. Pellegrino also suggested that Vanguard Healthcare (VGHAX) holdings might also be increased, citing its low risk, albeit mediocre performance. His preference was to explore alternative actively-managed healthcare funds.

Noting that financial services was the portfolio’s largest domestic equity over weighted position at 5% over the S&P 500 index, Mr. Pellegrino proposed paying for the purchase of increased international holdings first, from the sale of the entire position in regional banking ETF (KRE) and second by selling sufficient amount of the financial sector ETF (XLF). The portfolio would still have an over weighting in financial services which are expected to out perform when bank spreads increase due to rising interest rates.
Mr. Pellegrino made a motion, seconded by Mr. Ferdinand, to increase the target allocation to emerging markets to 5% of the portfolio, resulting in target allocation to International Equities of 20% of the Portfolio.

Mr. Pellegrino made a motion, seconded by Mr. Ferdinand, to sell 100% of the SPDR S&P Regional Banking ETF (KRE) and sell down Financial Services (XLF) to the dollar amount needed to fund the purchase of additional shares in iShares MSCI Emerging Markets ETF (EEM) to bring the allocation from the current level of 2.1% to 5% (approximately ($830,000), and to bring the allocation to developed international markets up to the current target of 15%, by adding to the current position in Oakmark.

Discussion of topics for future meetings

The Board planned to explore actively-managed healthcare fund for discussion at its next meeting.

Adjournment

The Board voted unanimously to adjourn the meeting at 9:45 A.M.

Next meeting scheduled for October 5, 2017 at 8:30 A.M. in a meeting room to be determined.

Catherine Sidor, Recording Secretary

Robert Stricker, OPEB Trust Board Chairman

Schedule future OPEB Board Meeting Dates

October 5, 2017 at 8:30 A.M. (Thursday)
November 8, 2017 at 8:30 A.M. (Wednesday)
December 7, 2017 at 8:30 A.M. (Thursday)
January 9, 2018 at 8:30 A.M. (Tuesday)
February – no meeting is scheduled
March 14, 2018 at 8:30 A.M. (Wednesday)
April 11, 2018 at 8:30 A.M. (Wednesday)
May 9, 2018 at 8:30 A.M. (Wednesday)
June 13, 2018 at 8:30 A.M. (Wednesday)
TOWN OF GREENWICH

OPEB TRUST MEETING

Thursday, September 7, 2017
8:30 A.M.

Mazza Room
1st Floor, Town Hall

AGENDA

1. Approval of July 12, 2017 Meeting Minutes

2. Review Performance of Trust including the rebalancing trades approved at the July meeting and the resulting asset allocation percentages

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

4. Review the portfolio benchmark weightings, in particular the international (including emerging markets) equity weighting, which is currently 16.7% of the total equity allocation

5. Discussion of topics for future meetings

6. Adjournment

Next Meeting – October 5, 2017