1. OPEB Trust Board Meeting Documents

   Documents:

   APPROVED_OPEB_TRUST_MTG_MINUTES_10-05-17.PDF
   OPEB_TRUST_MEETING_AGENDA_10-05-17.PDF
TOWN OF GREENWICH
OPEB Trust Board Meeting Minutes
Thursday, October 5, 2017
Mazza Room, First Floor, Town Hall

Present:

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

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 September 7, 2017 Meeting Minutes

Upon a motion by Mr. Pellegrino, seconded by Mr. Ferdinand, the Board voted 2-0 to approve the Minutes of the September 7, 2017 Meeting.

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

Ms. Murphy distributed the September 30, 2017 OPEB Investment Portfolio Performance reports and related materials. Referring to the Rebalancing analysis schedule she reviewed the portfolio changes approved at the September meeting, when the Board voted to increase the target allocation to emerging markets to 5%, bringing the portfolio allocation to international equities to 20%. Funding for this investment came from reducing the allocation to the S&P Index financial services sector ETF (KRE and XLF). She noted that at September 30th the portfolio positions were in line with the revised targets and the Investment Policy.

Ms. Murphy pointed out that Gain/Loss information was added to the report for the month and the year to date, and noted that the Portfolio experienced a monthly gain of $420,067, or 1.7%, ahead of its benchmark by 72 bps, and a fiscal year to date gain of $996,971, or 3.9%, ahead of its Benchmark by 66 bps.

Ms. Yemets noted that September was a good month for equities, with the S&P 500 generating a return of 2.06% and the MSCI x US index was up 1.86%. Emerging Markets were down 40 bps for the month. The US Aggregate Bond Index was down 48 bps for the month. The OPEB portfolio had positive returns in all of its asset classes. Domestic equities were up 2.09%; international equities were up 3.54%; and fixed income was up 18 bps. Oakmark International continues to outperform its index, returning 4.47% for the month. Also PIMCO continues to do well, beating the fixed income index by 101 bps. Ms. Yemets pointed out that the portfolio outperformed its benchmark for the 12 months ending September by 441 bps, returning 15.3%.

Ms. Yemets reviewed the S&P sector weightings of the domestic equity portion of the OPEB portfolio, noting the overweighting to industrials (by 3.3%), materials (by 1.5%), telecom (by 1.5%), technology (by 1.4%) and energy (by 1.1%). The financial sector allocation is in line with the S&P 500 index, and all other sectors are underweighted, including healthcare (by -2.4%).
Discussion of market conditions and investment strategy, including sector weightings, and potential changes to asset allocation and target sector weightings

The consensus of the Board was that they were comfortable with the current allocation to equities (68.5%). The economic outlook remains positive. The prospect of tax reform, the continuation of strong earnings, the promise of modest Fed interest rate increases, and equities with a PE multiple of 18 are still more attractive than bonds. They expect the Fed will increase interest rates in December. Mr. Ferdinand cautioned that the addition of 4 new Federal Reserve members in January may unsettle markets. Mr. Pellegrino added that he saw opportunity in adding to the biotech and financial service sectors.

The Board discussed the relative merits of the portfolio's cash position (5% of the portfolio), the Vanguard Short Term Bond Fund Index (VSCSX), and the PIMCO Income Fund (PIMIX), representing the fixed income allocation of the portfolio. The FED's unwinding of its significant position in fixed assets (accumulated as part of QE) will impact interest rates, as interest rates may have to go up higher than otherwise to incent buyers of these assets. Given these uncertainties and the ability of PIMCO, as an active manager, to move along the yield curve as fixed rate markets adjust to actions by the FED, as well as its performance history, the Board decided to move funds from VSCSX to PIMIX and to leave the cash position in place.

Upon a motion by Mr. Stricker to liquidate $1.5 million of the position in Vanguard Short Term Bond Index (VSCSX) and invest the proceeds in PIMCO Income Fund (PIMIX), the Board voted 3-0 to approve the motion.

Within the equity allocation, the consensus of the Board was to add to the financial services and the healthcare sectors. The rationale was a) financial services should benefit from rising interest rates and resulting widening spreads, and b) the current position in healthcare is very heavily weighted in large pharmaceuticals while the consensus of the Board was that the real opportunities in healthcare were in companies more focused in biotechnology. Funding for these investments would come from the sale of shares in the S&P 500 ETF (SPY).

During the discussion about investing in a new healthcare fund, the Board reviewed 8 funds comparing their holdings and performance. Mr. Pellegrino noted that there were general healthcare funds and sector funds concentrating on Pharma, Biotech, Medical Devices and Healthcare insurers. The Board considered bringing healthcare up to market weighting by investing 2.4% of the equity position, approximately $345 thousand. In addition, the Board was looking to liquidate the entire position in the Vanguard Healthcare Fund (VGHAX) and reinvest the proceeds in a different healthcare fund. Mr. Ferdinand indicated that he preferred to make these changes at the November meeting, at which time Ms. Murphy would provide research on 5 years of rankings for the top five funds in the general healthcare space. The Board agreed to defer the decision on VGHAX.

Upon a motion by Mr. Stricker to increase Financial Service (XLF) holdings to 1% of total equities (approximately $110k), the Board voted 3-0 to approve the motion.

Upon a motion by Mr. Stricker to invest 1% of total portfolio (approximately $280k) in a new position - SPDR S&P Biotech ETF (XBI), the Board voted 3-0 to approve the motion.

Upon a motion by Mr. Stricker to sell sufficient amount of shares in SPY to
cover the purchases in XLF and XBI, the Board voted 3-0 to approve the motion.

Discussion of topics for future meetings

Mr. Ferdinand proposed reviewing the Portfolio’s funds and ETFs on a regular basis to compare them to the five best funds in each sector. At the November OPEB meeting, the five best funds for each of general healthcare and medical devices will be reviewed.

Adjournment

On a motion by Mr. Ferdinand, seconded by Mr. Pellegrino, the Board voted 3-0 to adjourn the meeting at 9:50 A.M.

Next meeting scheduled for November 8, 2017 at 8:30 A.M. in the Mazza meeting room.

Catherine Sidor, Recording Secretary

Robert Stricker, OPEB Trust Board Chairman

Schedule future OPEB Board Meeting Dates

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, October 5, 2017
8:30 A.M.

Mazza Room
1st Floor, Town Hall

AGENDA

1. Approval of September 7, 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 potential actively managed mutual funds and ETFs in healthcare

5. Discussion of topics for future meetings

6. Adjournment

Next Meeting – November 8, 2017