1. OPEB Trust Board Meeting Documents

Documents:

APPROVED_OPEB_TRUST_MTG_MINUTES_12-08-16.pdf
OPEB_TRUST_MEETING_AGENDA_12-08-16.pdf
The meeting was called to order at 11:05 A.M.

Approval of November 15, 2016 Meeting Minutes

Upon a motion by Mr. Pellegrino, seconded by Mr. Ferdinand, the Board voted 3-0 to approve November 15, 2016 Meeting Minutes.

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

Ms. Murphy distributed the November 30, 2016 OPEB Investment Performance reports and related materials. She remarked that performance of the major indices was mixed for the month. S&P 500 was up 3.7%, the MSCI Global World Index ex US was down (2.3%), the US Aggregate Bond Index was down (2.37%). The total portfolio value as of November 30th was $24,120,065 and the gain for the month was $590 thousand. The Portfolio was up 2.5% for the month, ahead of its benchmark by 199 bps; domestic equity performance was up 4.71%, ahead of its benchmark by 101 bps; international equity performance down (-1.45%) beating its benchmark by 86 bps. Fixed Income performance was down (0.82%) but ahead of its benchmark by 191 bps, primarily due to the shorter duration of the domestic positions and the fact that the international bond fund was hedged to the US$ (the dollar was up 3% for the month). She noted that the portfolio weightings were 68.8%/27.8%/3.4% : equity/fixed income/alternatives.

Mr. Stricker commented that the portfolio was over weighted in equities which were responsible for improving performance. Mr. Ferdinand pointed out how the overweighting had produced the favorable 6.5% CYTD (calendar year to date) rate of return, 18 basis points ahead of the benchmark. The portfolio was running behind its benchmark for the first 10 months of the year.

Discussion of market conditions and investment strategy, including sector weightings

Mr. Pellegrino commented that the current asset allocation was 68.8% to equities. At its November meeting the Board voted to increase the equity allocation to 70% and to bring the industrial and materials sectors up to their respective market weights immediately. He reported that, although he was authorized by the Board at their last meeting to increase each of these sectors' weightings by an additional 1%, he had not been satisfied with market conditions and
had not asked Ms. Murphy to make the trades. He suggested that now was the time to execute these trades.

Mr. Ferdinand observed that S&P Index earnings are expected to improve during the next year. He reviewed certain technical charts and noted that the market cycle was intact but cautioned that a 10% pullback was likely in the not too distant future, possibly in response to the Federal Reserve’s December interest rate increase. He remarked that with the economy improving, the Federal Reserve would increase interest rates in December, and probably twice during the upcoming year. He suggested that the environment favored equities over the next 1-2 years and encouraged the OPEB Trust to look for opportunity to add 1-2% to equity holdings in sectors that were relatively cheap.

Mr. Pellegrino predicted the market would experience a “Santa Claus rally;” thereafter he suggested that a slight decline or pullback might occur. Additionally, he saw deregulation in the future and questioned what impact the international conditions would have on the US market. He asked fellow Trust members if they would consider increasing equities to 70% or 75% of the portfolio. He proposed reducing healthcare holdings and increasing financials; saying that the tech and telecom sectors currently seemed weak, he preferred investing in industrials, materials and energy.

Mr. Stricker commented that financials we have already performed very well, but that earnings would not be as high in the coming year. He commented that things don’t change that quickly in Washington. He agreed that equities were currently the better investment choice, but equities are high, with the indices hitting new highs regularly. The markets are on a “sugar-high.” He agreed the Board should go to 70% in equities but not higher – let’s not “chase the market.”

Mr. Pellegrino proposed increasing investment in the technology sector (XLK) to market weighting. He suggested reducing holdings in healthcare by 6% and using the proceeds to increase positions in industrials and materials by 1-2%.

Mr. Ferdinand questioned owning the S&P index, which contained sectors like utilities whose rate of return was minimal. He recommended investing directly in the in ETFs of the individual sectors in lieu of investing in the S&P 500 index (SPY). Mr. Ferdinand commented that investing in ETFs would facilitate rebalancing. Mr. Pellegrino noted that the S&P consisted of investments in 11 sectors, and purchasing ETFs in preferred sectors, plus small and mid-cap funds/ETFs, would enhance the portfolio’s performance. Mr. Stricker suggested that we trim some of the ETFs we already have, find other funds to replace them. With an overlay of other attributes (growth/value and large/small cap.) we would have a multi-factor model to assess if investing in them would create any unwanted exposure. Mr. Pellegrino offered to work with Ms. Murphy and Ms. Yemets on the development of the spreadsheet.

Ms. Moriarty asked how this change in style would affect risk and volatility of the portfolio. Ms. Murphy asked if the Trust should consider creating a “sector policy” for the portfolio.

Upon a motion by Mr. Pellegrino, seconded by Mr. Ferdinand, the Board voted 3-0 to:
1) Increase holdings in the tech sector (XLK) to market weight;
2) Increase holdings in the materials sector (XLB) to overweight the sector by 1%;
3) Increase the industrials sector (XLI) to overweight the sector by 1%;
4) Sell PIMCO Income Fund (PIMCO) in amount sufficient to raise the equity allocation to 70%.
5) Sell shares of Vanguard Health Care (VGHAX) to cover the purchases above.

In rebalancing the portfolio, the S&P 500 sector weightings as of the trade date should be used.
Review of the new real estate select sector (XLF-spin off) holding (XLRE)

Mr. Pellegrino commented that real estate holding accounted for only 0.3% of the portfolio. OPEB Trust members agreed to track the spin-off XLRE ETF as a sector on the spreadsheet being developed for January 2017’s meeting.

Discussion of topics for future meetings

• Review of current international holdings to possibly be traded for international ETFs
• Review of fixed income bank funds for possible investment in BLK ETF

Adjournment

On a motion by Mr. Ferdinand, seconded by Mr. Pellegrino, the Board voted 3-0 to adjourn the meeting at 1:05 P. M.

Next meeting scheduled for January 5, 2017 at 8:30 A.M. in the Mazza Meeting room

Schedule future OPEB Board Meeting Dates

February – no meeting is scheduled
March 2, 2017 at 8:30 A.M.
April 17, 2017 at 8:30 A.M.
May 4, 2017 at 8:30 A.M.
June 7, 2017 at 8:30 A.M.
July 12, 2017 at 8:30 A.M.
August – no meeting is scheduled
September 7, 2017 at 8:30 A.M.
October 5, 2017 at 8:30 A.M.
November 8, 2017 at 8:30 A.M.
December 7, 2017 at 8:30 A.M.
AGENDA

1. Approval of November 15, 2016 Meeting Minutes

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

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

4. Review the new real estate select sector (XLF-spin off) holding (XLRE)

5. Discussion of topics for future meetings

6. Adjournment

Next Meeting – January 5, 2017