Present:

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

BET Attendees: Andreas Duus, Miriam Kreuzer

Staff: Joan Lynch, Assistant to the Treasurer; Peter Mynarski, Comptroller and ex-officio member of the OPEB Trust Board; Nataliya Yemets, Treasurer and OPEB Board Trustee

The meeting was called to order at 8:31 A.M.

1. **Approval of OPEB Trust Meeting Minutes**

   Upon a motion by Mr. Pellegrino, seconded by Mr. Ferdinand, the Board voted 3-0-0 to accept the Minutes of the January 9, 2020 OPEB Trust Meeting. Motion carried.

2. **Review performance of Trust as of the end of January 2020**

   The Board reviewed OPEB Trust investment performance reports for January 2020 and related materials. Ms. Yemets remarked that stock prices were mixed in January. Major indices reached record highs as a result of the strong economic data and the U.S. and China signing phase one trade agreement, but then the gains were erased by fear of potential conflict with Iran and the coronavirus news. The S&P 500 index lost (0.04%) in January; MSCI All Country World ex US lost (2.69%); US Aggregate gained 1.92%. Large Cap Growth domestic stocks gained 2.24%; Small Cap Value lost (5.39%). Global, international and emerging market equities all ended the month in red territory. One-year returns were still positive, ranging from 3.81% for Emerging Markets to 27.94% for U.S. Large Cap Growth.

   Focusing on the OPEB Trust Rebalancing Analysis, Ms. Yemets reported that in January per the Board’s decision, approximately $1.57 million of U.S. Treasuries were sold and the proceeds were invested in SPY, and the Oakmark International Fund (OANIX) was replaced with the Vanguard FTSE All-World ex-US ETF (VEU). As a result of these trades, combined with the market impact, on January 31, 2020, the Portfolio had a 59.7% allocation to Equities (50.0% to Domestic and 9.7% to International and Emerging Market Equities) and 40.3% to Fixed Income. All allocations were close to target and in line with the IPS guidelines.

   In January, the OPEB Trust lost $92 thousand or -0.50%, ending the month with the market value of $33,530,268 before operating cash. The FYTD gain was $1,810,430 or 5.52%. The one-, three- and five-year returns for the total OPEB Trust Portfolio were 10.82%, 8.05% and 7.19% respectively. All of these longer-term results, even though below the Portfolio’s blended benchmark, were above the actuarial expected return of 7.00%. Domestic Equities shorter term performance was in line with the benchmark. Total International Equity lost (6.15%) and underperformed the MSCI All Country World ex US Index. Domestic Fixed Income generated a return of 0.42%.
3. **Discussion of market conditions and investment strategy, including asset allocation and timing for increasing the Portfolio’s equity position**

Mr. Ferdinand began the discussion with a review of stock valuations and commented that stocks continued to be more attractive relative to bonds. He noted that over half the stocks in the S&P 500 had higher yields than the ten-year Treasury. If the economy continued to stay strong, profits went up and the rates remained low, bonds would not be an attractive investment and the only way to achieve the actuarial assumed rate of return of 7% would be through equities. Mr. Ferdinand suggested that equity allocation should be increased. Mr. Stricker agreed that equities looked better relative to bonds and that it would be impossible for the bonds to achieve the actuarial assumption. However, he argued that equities were not cheap relative to their historical valuations. In his view, a major market correction should be expected after equities have experienced such a long run, thus current equity allocation should not be at its maximum level in the OPEB Trust Portfolio. Mr. Stricker felt that the present 60%/40% allocation was adequate and equities should not be increased in anticipation of a market correction. Mr. Pellegrino debated that the OPEB Plan would be better served by using an algorithm whereby the equity position would be adjusted based on the percentage change in the market. For example, every time S&P 500 pulls back 5%, allocation to equities should be increased by 5% until the market conditions change and then the direction of investments reverses.

Mr. Ferdinand made a motion, seconded by Mr. Pellegrino, to sell U.S. Treasuries and invest the proceeds in SPDR S&P 500 ETF Trust (SPY) in sufficient amount to increase the OPEB Trust Portfolio total equity position from 60% to 65%. The Board voted 2-1-0 in favor of the motion (Opposed: Stricker). Motion carried.

Mr. Pellegrino made a motion, seconded by Mr. Ferdinand, to sell U.S. Treasuries and invest the proceeds in SPDR S&P 500 ETF Trust (SPY) in sufficient amount to increase the OPEB Trust Portfolio total equity position from 65% to 70%, with trades to be executed if the equity markets decline, and Mr. Pellegrino being delegated the authority to monitor the market movement, communicate and agree upon the timing of the trades with Mr. Stricker and Mr. Ferdinand and then instruct the Treasurer to place the aforementioned trades. The Board voted 2-1-0 in favor of the motion (Opposed: Stricker). Motion carried.

The Board discussed the OPEB Trust blended benchmark and its composition. It was deliberated whether the actuarial assumed rate of return should be considered as a more appropriate benchmark for the Total Portfolio and what expected return would be adequate under current market conditions.

4. **Discuss the OPEB Trust Board annual report for the Investment Advisory Committee**

The Board discussed the IPS requirement for an annual report to the IAC. It was decided that the Board would work with Ms. Yemets to prepare such a report to be reviewed, approved and presented to the IAC at the next OPEB Trust Board meeting.

5. **Discussion of topics for future meetings**

- Discussion of expected returns and consideration of IPS benchmarks
- Discussion of future meeting frequency
6. **Adjournment**

The Board voted unanimously to adjourn the meeting at 9:28 A.M.

Next OPEB meeting is scheduled for March 12, 2020 at 8:30 A.M. in the Mazza Conference Room, 1st Floor.

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Catherine Sidor, Recording Secretary

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Robert Stricker, OPEB Trust Board Chairman

**Schedule of OPEB Trust Board Meetings for calendar year 2020 at 8:30 A.M.**

- March 12, 2020 (Thursday) – Mazza Conference Room, 1st Floor
- April 7, 2020 (Tuesday) – Human Services Conference Room 3rd Floor
- May 7, 2020 (Thursday) – Mazza Conference Room, 1st Floor
- June 11, 2020 (Thursday) – Mazza Conference Room, 1st Floor
- July 16, 2020 (Thursday) – Mazza Conference Room, 1st Floor
- August (no meeting)
- September 17, 2020 (Thursday) – Mazza Conference Room, 1st Floor
- October 15, 2020 (Thursday) – Mazza Conference Room, 1st Floor
- November 10, 2020 (Tuesday) – Human Services Conference Room 3rd Floor
- December 8, 2020 (Tuesday) – Mazza Conference Room, 1st Floor