Present:

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

BET Attendees: Andy Duus, Anthony Turner, David Weisbrot

Staff: Peter Mynarski, Comptroller and ex-officio member of the OPEB Trust Board; Kathleen Murphy, OPEB Trustee; Natasha Yemets, Assistant to the Treasurer

The meeting was called to order at 8:34 A.M.

Approval of March 14, 2018 Meeting Minutes

Upon a motion by Mr. Pellegrino, seconded by Mr. Ferdinand, the Board voted 3-0 to approve the Minutes of the March 14, 2018 Meeting.

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

Ms. Murphy distributed the March 31, 2018 OPEB Investment Portfolio Performance reports and related materials. She commented that the Portfolio had a loss of $603 thousand for the month, down (1.9%) for the month. The portfolio is up 7.5% for the fiscal year-to-date reflecting a gain of $2 million which is 87bps above its benchmark. As of March 31 the portfolio had a market value of $29,167,96.

Referring to the Rebalancing Analysis report, Ms. Murphy commented that four trades had taken place in March with the objective of increasing the weighting Technology and Finance sectors and decreasing the weighting to neutral in the Industrial and Materials sectors. She observed that the Portfolio target was 68.5% equities/30% fixed income/1.5% Alternatives, and that at month end the portfolio was $400 thousand over weighted to equity target. The portfolio is in compliance with the IPS.

Ms. Yemets referred the Board to the recently available 4Q 2017 Callan Market Pulse Report which contains asset allocation and performance data for a composite of retirement funds by sponsor types and by size, including Public, Corporate, Foundation, Taft-Hartley, and large and small plans. Ms. Yemets commented that OPEB’s performance was in the top 25 percentile of funds Public funds and small funds for the quarter and the five years ending December 2017.

Reviewing the March benchmarks’ returns, Ms. Yemets commented that the S&P 500 index was down (2.54%) or the month. She also noted that for the month small caps performed better than large caps, returning +1.29%, vs a negative return of (-2.27%) for large cap equities. International equity indices were also negative, however, the returns were better than the S&P 500, down (1.76%). The Barclay’s US Aggregate was up 0.64% for the month.
Turning to the portfolio performance Ms. Yemets reviewed the performance report and commented that the portfolio was down (1.91%) for the month, 79 bps behind the benchmark. Domestic equity was down (2.96%), or 42 bps behind the benchmark, International equity was down (2.21%), 45 bps behind its benchmark, and fixed income was up 0.31%, 33 bps behind its benchmark. Alerian was down (7.23%) for the month. For the fiscal year to date the portfolio returned 7.54%, 87 bps ahead of the benchmark.

The Board reviewed the Attribution reports and the S&P 500 sector portfolio weightings and performance. The Board discussed the holdings which detracted from the portfolio's benchmark return. Focus was on the difference in returns for the month of the two technology holdings in the portfolio: QQQ (down 4.08%) and the Fidelity Select Technology (down 2.51%).

The Chairman asked Ms. Murphy to see if there would be a “proxy security” that could represent the portfolio’s CT STIF holding in the Bloomberg data base to give a truer return figure for the fixed income performance.

Discussion of market conditions and investment strategy, including sector weightings and sector weighting

The consensus of the Board was that they should not reduce the equity allocation yet. Volatility has increased significantly but is actually a return to more normal levels of historical volatility. Absent a political disruption or a black swan event the equity market should do fine for the next 12 to 18 months. The Fed is expected to raise rates slowly and not impact credit availability, and inflation is not an issue. The country is experiencing employment gains and economic activity is very strong. Next 12 month earnings multiples of 16x - equities are not overvalued. Equities are the only asset class than can meet the actuarial assumption. Corporate earnings releases for the first quarter were about to begin and we will learn more of how the economy is doing. The Board will continue to look at equity valuations each month to form a consensus as to the timing to reduce equity exposure.

After their discussion the Board made no changes to the major asset allocation target weightings. They focused in two areas. In domestic equities the focus was on the technology sector, after a discussion of the significant impact the FANG (Facebook, Amazon, Netflix, and Google) stocks have on the technology index and current risks in the valuations of these stocks, as well as the risks of more regulation impacting Facebook and Google, and the political criticism that Amazon is experiencing, the Board concluded the actively managed fund, Fidelity Select Technology Fund (FSPTX), would continue to perform better. FSPTX also is more diversified and has a larger number of small cap stocks. In fixed income, the Board had requested the Treasurer and the Assistant to the Treasurer to prepare reports on the top performing unconstrained bond funds. With increasing interest rates, it is expected that actively managed funds would do better than index funds since they have more options in managing interest rate risks. After their review of the reports the Board decided replace short term bond fund (VSCSX) and with a new position, the Brandywine Unconstrained Bond Fund (LORIX).

Mr. Pellegrino made a motion, seconded by Mr. Ferdinand, to sell 100% of Powershares QQQ and invest the proceeds in Fidelity Select Technology (FSPTX). The Board voted 3-0 in favor of the motion. Motion carried

Mr. Pellegrino made a motion, seconded by Mr. Ferdinand, to sell 100% of Vanguard Short Term Corp and invest the proceeds in the Brandywine
Unconstrained Bond Fund (LORIX). The Board voted 3-0 in favor of the motion. Motion carried.

**Review of the Investment Policy Statement**

The Board discussed changes they would recommend to the Investment Policy Statement (IPS). Suggestions for clarifying changes to the timing of meetings, reports, and rebalancing will be incorporated into the Policy Statement to reflect how the Board actually operates. In general, the actual meetings, reports and rebalancing take place with more frequency than required by the IPS. The original IPS requires quarterly rebalancing to take place in the months of August, November, February and May. The suggested change add language that this could be more frequently at the discretion of the Chair. The Benchmarks for International Fixed Income developed markets and for emerging market fixed income were changed from the JPMorgan indices to the Bloomberg-Barclays respective indices.

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

Future OPEB Board Meeting Dates

May 9, 2018 at 8:30 A.M. (Wednesday)
June 13, 2018 at 8:30 A.M. (Wednesday)
July 24, 2018 at 8:30 A.M. (Tuesday)
August – no meeting
September 11, 2018 at 8:30 A.M. (Tuesday)
October 16, 2018 at 8:30 A.M. (Tuesday)
November 13, 2018 at 8:30 A.M. (Tuesday)
December 11, 2018 at 8:30 A.M. (Tuesday)

**Discussion of topics for future meetings**

- Review of five best Material Sector mutual funds and ETFs
- Review of Vanguard Total Stock Market ETF (VTI)

**Adjournment**

On a motion by Mr. Pellegrino, seconded by Mr. Ferdinand, the Board voted 3-0 to adjourn the meeting at 10:28 A.M.

Next meeting scheduled for May 9, 2018 at 8:30 A.M. (Wednesday) in the Mazza Room.

Catherine Sidor, Recording Secretary

Robert Stricker, OPEB Trust Board Chairman

*BET OPEB Trust Meeting Minutes April 11, 2018 – Approved*