TOWN OF GREENWICH
OPEB Trust Board Meeting Minutes
Wednesday, July 12, 2017
Mazza Room, First Floor, Town Hall

Present:

Trust Board: Robert Stricker, Chairman; William Ferdinand, Joseph Pellegrino
BET Attendees: William Drake, John Blankley, Arthur Norton
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 8:34 A.M.

Approval of June 7, 2017 Meeting Minutes

Upon a motion by Mr. Pellegrino, seconded by Mr. Ferdinand, the Board voted 3-0 to approve the Minutes of the June 7, 2017 Meeting.

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

Ms. Murphy distributed the June 30, 2017 OPEB Investment Portfolio Performance reports and related materials. She reviewed the Board’s June target allocation change which was to sell the entire position in Wisdom Tree Europe Hedged Equity (HEDJ) and reinvest the proceeds in Oakmark International (OAYIX), leaving the decision to hedge or not to hedge the currency, as well as overweighing any particular country, to the experts. Ms. Murphy remarked that the portfolio allocations as of June 30th were within target and in compliance with Investment Policy. Ms. Murphy added that money market funds had not been moved from Vanguard’s Federal Money Market Fund (VMFXX) because no satisfactory alternative had been found yet.

Ms. Murphy remarked that the Portfolio had a gain of $151,000 for the month of June and, was up 14.5% for the Town’s fiscal year with a gain of $3.3 million.

Ms. Yemets reviewed the performance of the portfolio. She noted that the market value of the Portfolio was $26,376,300 which was up 58 bps for the month and ahead of its benchmark by 27 bps. For the fiscal year ending June 30th, the Portfolio was up 14.49% beating its benchmark by 405 bps. One, five and seven year returns were in line with the benchmark and ahead of the actuarial assumption for OPEB.

Both domestic and International equities posted positive absolute and relative results in June beating their respective benchmark by 21 bps; Financial Services was up 6.5%, Regional banks were up 6.4%, and Vanguard Healthcare was up 3.27% for the month, whereas the tech sector was down -2.8%. International equities were up 0.52bps for the month of June, against its benchmark of 0.31bps, beating the Index by 0.21 bps.

In reviewing the S&P 500 sector allocations Ms. Yemets noted that financials sector was the best performer of the month (up 6.4%) and healthcare was the second best performing sector (up 4.62%). The portfolio’s largest allocation (22.3%) was in technology, in line with the S&P Index exposure, which dampened total return for the month since technology, along with
telecommunications services and utilities generated the weakest performance. The underweighted in healthcare also negatively impact the month’s return.

Mr. Stricker asked Ms. Murphy to add several previous fiscal year-end figures for comparison with FY17 year-end (June 30).

**Review the timing and amount of the net cash inflow from the Town of Greenwich for its OPEB Trust contribution for fiscal year 2017-2018**

At the OPEB meeting Ms. Murphy advised the Board that the Town’s contribution would be paid shortly and that the net (OPEB Contribution for FY2017-18 less the amount owed to the General Fund) inflow of new cash would be $817,618. She noted that this amount was less than what she communicated last month due to additional claims recorded at the end of June.

**Discussion of market conditions and investment strategy, including asset allocations and sector weightings.**

The Board discussed the allocation to the health care sector acknowledging that the underweighting to the S&P index weighting hurt results in June. Mr. Stricker commented that he felt that the healthcare sector was prudently underweighted given the risks associated with Congress's attempt to repeal and replace Obamacare and with the government's objective to reduce the costs of healthcare. Mr. Pellegrino commented that biotech has performed strongly in the last few months. Mr. Ferdinand commented that the performance in biotech was driven by the research and technological advancements and acquisitions, where the S&P 500 health care sector is mainly made up of traditional health care companies. The consensus was that the risk reward assessment suggests that the Board take no action on this sector weighting until the uncertainties are clarified.

In discussing the overweighting to financials, Mr. Ferdinand felt very comfortable due to the prospect of rising interest rate and a positive sloping yield curve both of which are good for banks. The Fed is suggesting that they need to begin to shrink the balance sheet. Also, in Europe the ECB is beginning to slow down its stimulus program. Both of these actions will result in higher global interest rates improving bank earnings. The financial sector should have "wind at its back, not in its face," which cannot be said of other sectors.

The Board discussed their strategy of taking sector bets, acknowledging that this has resulted in improving performance in the portfolio. They concluded that this is working and that using fundamental analysis concentrated sector bets will enhance the portfolio returns.

Turning to the international equity allocation the Board concluded that with the fundamentals beginning to improve globally that the target allocation should be raised to 15%. Mr. Stricker commented that the international sector allocation could be as much as 30% but agreed with Mr. Ferdinand’s preference for more gradual steps, preferring increasing to a 15% allocation.

The Board asked Ms. Murphy to see if Treasury bills could be bought in the Vanguard brokerage account to improve on the yield that the Portfolio is getting in the Vanguard money market fund. The consensus was that the Board would maintain a 5% cash positon in the portfolio.
After discussing market conditions and performance the Board reviewed the asset allocation and noted that the portfolio allocation to International equity was 12.8%. The IPS would allow exposure up to 30% of the portfolio. Viewing more upside in international equity markets the Board concluded they should increase the international equity allocation.

The OPEB Board took the following actions:

Mr. Pellegrino made a motion, seconded by Mr. Ferdinand, to invest $817,618, i.e. the amount being transferred to OPEB from the Town representing the net FY18 Contribution to OPEB, in Oakmark International (OAYIX). The motion passed with a 3-0 vote by the Board.

Mr. Pellegrino made a motion, seconded by Mr. Ferdinand, 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% of the portfolio by investing the proceeds in Oakmark International (OAYIX). The motion passed with a 3-0 vote by the Board.

Other Business

Mr. Mynarski advised that at the IAC meeting following today’s OPEB meeting there needed to be action taken regarding the reappointment of Bill Ferdinand to the OPEB Trust Board and to appoint the Chairman of the Board for the new Fiscal year. Mr. Ferdinand confirmed he would be interested in continuing to serving on the OPEB Trust for an additional term. Mr. Pellegrino and Mr. Ferdinand both agreed that they supported Mr. Stricker for the role of Chairman. Mr. Mynarski advised that he would submit a resolution for publishing on the BET July 13th meeting Agenda.

Discussion of topics for future meetings

Review OPEB’s performance vs performance of other public funds. The Callan report was not available at the time of the meeting.

Adjournment

The Board voted unanimously to adjourn the meeting at 9:44 A.M.

Next meeting scheduled for September 7, 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.
November 8, 2017 at 8:30 A.M.
December 4, 2017 at 8:30 A.M.
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)