Present:

Trust Board: Co-Chairmen: William Ferdinand, Joseph Pellegrino

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

BET Attendees: Andy Duus, Miriam Kreuzer, David Weisbrod

Guest: Cyril Espagnol

The meeting was called to order at 3:00 P.M.

1. Approval of OPEB Meeting Minutes

Upon a motion by Mr. Pellegrino, seconded by Mr. Ferdinand, the Board voted 2-0-0 to approve the Minutes of the OPEB Trust Board Meeting held on June 10, 2021. Motion carried.

2. Review of the Trust's performance and asset allocation as of the end of June 2021

Ms. Yemets provided an overview of market activity, commenting that international and US value stocks posted negative returns, while domestic growth and core equities generated positive returns ranging from 1.47% to 6.80% in June. The S&P 500 gained 2.33%, MSCI All Country World ex US lost 65 bps and BC Aggregate gained 70 bps. One-year returns for US equities range from 42.50% for Large Cap Growth to 73.28% for Small Cap Value; one-year return for emerging markets is 40.90% and international equities have gained 32.35%.

With the return of 1.51% in June, the Trust Portfolio outperformed its blended benchmark for both calendar year-to-date and one-year time periods; its longer-term returns were well above the actuarial assumption of 7%. Domestic equities gained 2.41%, international equities lost 49 bps for a total equities gain of 2.00%. Fixed Income generated a return of 22 bps and lagged the benchmark. In total, the Portfolio gained $564,750 in June, ending the month with a market value of $42.9 million. The Portfolio’s market gain in fiscal year 2021 amounted to $10.2 million.
In closing, Ms. Yemets reminded the Committee that the Town’s annual net OPEB contribution of $883,365.88, which consists of the budgeted contribution of $3,836,000 minus the previous fiscal year expenses of the plan, was wired into OPEB’s brokerage account at Vanguard and swept into the Vanguard Federal Money Market Fund the day before the Board meeting.

3. **Review of the Portfolio compliance with the Investment Policy Statement approved by BET on June 14, 2021**

The OPEB Portfolio allocations at the end of June were 60.6% in domestic equities, 9.6% in international equities and 29.8% in domestic fixed income including short term and cash. All allocations were close to targets that were set at the June 10 OPEB meeting and were within the updated IPS guidelines, with the exception of the PIMCO Income Fund (PIMIX). Ms. Yemets noted that the proceeds from the previous month’s sale of VTWO ($4.65 million) had been used to bring the S&P500 ETF (SPY) holdings to 60% of the Trust, with the remainder of the proceeds going to PIMCO Income Fund (PIMIX). Per the current IPS, actively managed mutual funds and ETFs are limited to 20% of the total Portfolio for any individual mutual fund or ETF, and 30% in aggregate across all actively managed mutual funds and ETFs. PIMIX was now up to 22.8% of the portfolio, so this should be addressed by the Board in today’s meeting.

4. **Discussion of market conditions and investment strategy**

Mr. Ferdinand led off the discussion suggesting that the Federal Bank was focusing on reducing unemployment, not raising interest rates, and it apparently had no intention of disrupting the financial markets in the near term. He predicted that in the second half of the year, earnings would carry the market through the first half of next year. Mr. Ferdinand indicated he was not inclined to make any changes to the OPEB portfolio. Mr. Pellegrino suggested that he believed that US global interests were de-coupling from China, and that US banks had no incentive to lend because of concern about inflation and rate increases. He was more concerned about inflation, and remarked that the Portfolio’s lack of exposure to international fixed income was a drag on performance, especially relative to the index. He proposed the Board consider Vanguard Total International Bond Index Fund ETF (BNDX) which is a very large fund or BlackRock Short Maturity Bond ETF (NEAR) which has positive returns over all timeframes. Ms. Yemets was asked for a 3-year comparison of MINT’s earnings versus BlackRock Short Maturity Bond ETF and a list of alternative funds to consider at the next meeting.

After some discussion, Mr. Pellegrino proposed to bring the PIMCO Income Fund’s allocation in compliance with the Trust’s current IPS by moving the excess 2.8% into the PIMCO Enhanced Short Maturity Active ETF (MINT). In addition, he suggested that the Town’s annual contribution should also be invested in MINT until other options are researched and considered at the next OPEB Board meeting in October 2021. It was noted that approving these motions would result in aggregate actively managed mutual funds and ETFs becoming slightly above the 30% maximum allowed by IPS guidelines.

Mr. Pellegrino made a motion, seconded by Mr. Ferdinand, to sell the 2.8% excess in PIMCO Income Fund (PIMIX) and invest the proceeds in PIMCO Enhanced Short Maturity Active ETF (MINT). The Board voted 2-0-0. Motion carried.
Mr. Pellegrino made a motion, seconded by Mr. Ferdinand, to invest the Town’s annual contribution (net of prior fiscal year expenses) in the amount of $883,365.88 in PIMCO Enhanced Short Maturity Active ETF (MINT). The Board voted 2-0-0. Motion carried.

5. Discussion of topics for future meetings

- Discussion of fixed income investment options.

Ms. Yemets remarked that the IPS calls for an annual review consisting of review of markets, market outlook, changes in asset class expected returns, and any recommendations for changes to IPS if applicable. IAC members on the call said this may not be necessary at this time since the IPS guidelines had just been updated.

6. Adjournment

Upon a motion by Mr. Ferdinand, seconded by Mr. Pellegrino, the Board voted 2-0-0 to adjourn the meeting at 3:55 P.M.

Next OPEB meeting is scheduled for Thursday, October 14, 2021 at 8:30 A.M. The meeting will be held at Town Hall in a meeting room to be determined.

Catherine Sidor, Recording Secretary

Joseph Pellegrino, Co-Chair, OPEB Trust

Schedule meetings for the remainder of calendar year 2021

Thursday, October 14, 2021