FINANCE DEPARTMENT

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TOWN HALL

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Minutes

Wilton Retirement Trust
Wilton Employees Retirement Plan Investment Committee
Other Post-Employment Benefits Trustees

Special Meeting – August 12, 2015
Meeting Room B - 7:30 PM

Present:

Investment Committee: Robert H. Kelso, Jeffrey G. Rutishauser

Retirement Trust: William Brennan, Richard J. Dubow, Michael Kaelin, Sandra Dennies, John Kalamarides

OPEB: Warren Serenbetz, Sandra Dennies

Others: Christopher Rowlins; FIA, Richard McArdle, Sarah L. Taffel

Absent: Paul Burnham, James Saxe, Deborah McFadden, Ken Post, Robert Schultz, Chris Stroup, Richard E. Wehrmann

Call to Order

Mr. Brennan called the Meeting to order at 7:30 p.m.

Minutes

Mr. Brennan asked for a motion to approve the Retirement Trust minutes of the May 14th Regular Meeting. John Kalamarides made the motion to approve, Richard Dubow seconded and the motion carried unanimously.

Capital Markets Overview – Fiduciary Investment Advisors

Mr. Rowlins first discussed the Defined Benefit Fiduciary Governance Calendar, where the 2nd quarter has a focus on Practice and Policy for asset allocation and investment monitoring, as well as any Legislative Update. This quarter the Investment Policy Statement ("IPS") is looked at, especially in terms of governance of the plan. Mr. Rowlins stated that there is one modest adjustment in Appendix A for "Other" (Inflation Protection) due to changes in who owns previously noted investments. The Benchmark Index is now referred to as Custom Blend Index, which reflects a blend of strategies and benchmarks present today.

As this is the first change since the IPS was adopted, Mr. Rowlins paused for discussion. Brief discussion followed for clarification. Mr. Brennan then asked for a motion to approve the recommended change to Custom Blend Index under the Benchmark Index. Michael Kaelin so moved; Jeff Rutishauser seconded and the motion carried unanimously.

The Legislative Update shows State Supreme Courts have weighed in on pension reforms, with some states overturning reforms. Some have cut cost-of-living increases for retirees, while others have upheld the laws cutting benefits.

The Pension Review for the Second Quarter 2015 followed. Mr. Rowlins stated there were no recommendations at this time.

Pension Plan highlights include:

- Second quarter was volatile, with June especially difficult due to uncertainty when the Fed hike will occur and the debt crisis in Greece
- Index results showed S & P up 30 basis points while REITS experienced some negative returns, falling off 10%
- International markets also experienced a difficult June, but Japan ‘s results helped BlackRock
- Emerging market equities sold off at quarter end posted modest gains despite increased volatility in China
- Significant Return Dispersion benefitted Health Care, Telecom and consumer discretion
- Energy has pulled back
- Managers performed well, outperforming the Benchmark
- Fixed Income interest trended sharply higher
- Commodities rebounded up over 4-1/2% for the quarter

<u>Asset Allocation and Investment Performance</u>

Mr. Rowlins reviewed the Asset Allocation, which ended the quarter at $100,310,707. This reflects a dedicated Fixed Income allocation of approximately 30%. Domestic Equity is consistent with current strategy. International managers performed very well during the quarter. The Inflation Protection segment is about 4% of the portfolio. Both Van Eck and Credit Suisse are included in the commodities/ resource-related allocation.

The Asset Class look-through, on page 20, reported 33% Domestic Equity, 34.5% Fixed Income, and roughly 23% international markets.

Account reconciliation for the quarter was up a net 40 basis points, while benchmark down about 10 basis points. YTD was up about 3%, benchmark about 1.6% or about 130 basis points ahead of the benchmark YTD.

A Quarter Review by Manager and Manager Commentary followed. Mr. Rowlins said that Fixed Income has been relatively flat during this challenging environment, but Domestic Equity has brought added value with their strategy. Mr. Rowlins was asked if his firm was concerned about deflation, given the events in China and elsewhere. He discussed it saying it sends a bigger message, presenting a lot of questions by world leaders, IMF, etc., such as what is the true growth rate in world's second largest economy. He reaffirmed that FIA's International Managers still have a nice diversification strategy.

Because Mr. Rowlins talked about the collapse of commodities and oil prices, Sandra Dennies asked him how long the Town should be holding onto Credit Suisse and Van Eck because of a very long downward trend. Mr. Rowlins replied that Van Eck has a different approach to natural resources, looking at shale production and efficient energy, so this gives FIA an opportunity to take advantage of improving markets. He stated they are not yet willing to give up the asset class just yet. It's been discussed internally at FIA, but no decision has been made.

Mr. Brennan inquired if other towns have a similar allocation. The answer is that portfolios look similar, based on the philosophy of Fiduciary.

Chris briefly discussed July results and stated the Pension is up 3% in July, or up 3.2% YTD against a benchmark of 2% or 120 basis points. Fixed Income was strong, as was International. There was an ending value in July of $103.2.

<u>OPEB Minutes</u>
Since there was no quorum present, the Minutes from the May 14th Regular Meeting will remain as Draft Minutes, pending a meeting at a future date.

<u>OPEB Plan 2nd Qtr. Results</u>
Chris Rowlins then briefed the meeting attendees on the Market Review, the highlights of which are in Tab 1 of the handout. Tab 2 shows the Asset Allocation is just under $5 million. The Plan has roughly a 60/40 allocation, but FIA has gradually been diversifying. The Plan was down 60 basis points for the quarter and the benchmark was down about 1%. YTD the Plan is at 1.70 vs. a 1.30 benchmark. There is a commonality of holdings and strategies (pages 9 and 10), although OPEB was up 1% in July.

Per page 47, Mr. Rowlins recommends the following changes to the fixed income allocation:

- Remove Vanguard Intermediate Term Investment Grade Fund in favor of a more flexible core plus offering; i.e., Prudential Total Return.
- Remove the Vanguard Short Term Investment Grade Fund and allocate the proceeds to the existing unconstrained fixed income mandate via BlackRock Strategic Income Opportunities.

Mr. Serenbetz noted that, since there was no quorum present, no action could be taken on these recommendations. Ms. Dennies advised that the next Regular Meeting is scheduled for November. Discussion followed as to whether there will be a phone, e-mail meeting or Special Meeting and how critical it is to vote on the recommendations. Mr. Rowlins said that this is being viewed as a tactical play for the long term, with a broader investment mandate and more diversification. Mr. Serenbetz will advise Ms. Dennies.

<u>Experience Study 7/1/09 - 7/1/14 - Presentation by Hooker & Holcombe Rep</u>
Ron Schlee went over the Experience Study, the purpose of which was to discuss current vs. proposed assumptions and illustrate their effect on the demographics of the groups involved, investment return and the amortization period for unfunded liability. Mr. Schlee advised that most of the assumptions for the Pension also applied to OPEB. He said this was not a look at the budget number for 2015, but

rather a re-run of 7/1/14 valuations to see what the impact would have been for the current fiscal year if changes had been made. He stated that Return on Investment was 9% at 7/1/15. This does not include the Police contract and except for the Fire group, none of the plans allow for new entrants in the Retirement Plan. All new employees would move into the Defined Contribution Plan.

<u>Police:</u> The current salary assumption is 8.5% annual increase for the first 7 years of employment, dropping to 3.5% annually thereafter. H & H recommends 3% from 2.75% thereafter, to take into account inflation.

<u>Non-Certified Board of Ed:</u> Assumptions were twice vs. actual, due in part to people working longer. They recommend reducing the assumption to 3.5% annual increase down from a flat 4% for all future years. This percentage is still above inflation.

<u>Other Town Employees (including Library):</u> The current and proposed assumptions remain 5.5% for the first 8 years of employment, with 3% annually thereafter. This is due to the actual number of those reaching retirement age and actually retiring vs. what was projected.

<u>Fire:</u> This group had revised projected numbers also in a downward trend. H & H proposed 8% annual increase for first 6 years of employment with 3.0% annually thereafter, up from 2.5% in their current contract.

<u>Mortality Assumptions:</u> A study by H & H found that the best fit for municipalities was to use a new Actuarial Table RP-2014. This increases ages by one year, reducing life expectancy by one year for those employees. Ron recommends using this new table and to set the ages forward one year. In this manner these factors won't have to be addressed again until another study is done.

Mr. Schlee pointed out the impact would be that the funded percent would increase and accrued liability would be reduced by about $500,000. He feels that 6.5% or 6.75% would be best for the investment return assumption. Other towns range from a high of 7.625% to a low of 6.125%, with most towns at 7% or 7.5%. Discussion followed on what percentage to use.

<u>Action Item:</u> Richard Dubow made a motion to approve a reduction in the valuation assumption to 6.875%, to keep it under a 7% threshold. Michael Kaelin seconded the motion and it carried unanimously.

<u>Amortization Period for Unfunded Liability:</u> The current method is a 20 year amortization, but Mr. Schlee pointed out that the Plan is actually being amortized faster than 20 years. The example given is if a 5% additional payment contribution is made, then 95% is funded which reduces the amortization to 18 years. He stated no other towns do this; and he recommends keeping it at 20 years, which met with no opposition.

<u>Assumption Changes Impact on OPEB Results:</u> Mr. Schlee said this amortization assumption also impacts OPEB's contribution, ranging from a decrease of $32,000 at 7.125% to an increase of $35,000 at 6.5%.

Ms. Dennies pointed out that this was an unusual year and we need to ensure that all retirees are being counted appropriately. She verbalized her concern about everyone being counted in OPEB, as the annual required contribution could increase substantially, citing the BoE groups within OPEB and their high deductible health plan.

After discussion Ms. Dennies said she will send Trip McGarvey a letter to verify names so this can be assessed accordingly. Mr. Serenbetz replied, at a minimum, the interest rate should be the same as the Pension Plan, but since there was no quorum there could not be a vote. After Ms. Dennies forwards Trip's information, a decision will be made about a Special Meeting. She commented perhaps the OPEB representatives should consider expanding the voting group to include more people so action can be taken at the quarterly meetings. Mr. Serenbetz replied he will contact her to schedule a Special Meeting.

There being no further business, the meeting adjourned at 9:14 PM.

Respectfully submitted,

Kris Fager
(from audio recording)