Cheshire Retirement Board
Meeting Minutes
November 1, 2017
Cheshire Town Hall
84 South Main Street
Cheshire, Connecticut 06410
Room 210; 6:00 p.m.

In attendance were Chairman Michael Evans, and members Mark Izzo, Dennis Flagg and Jeremy Beitel. Police Department representative Kevin Costa, Finance Director James Jaskot; Deputy Finance Director Gina DeFilio; Ross Charkatz of Graystone Consulting (by phone).

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1. Call to Order

Chairman Michael Evans called the meeting to order at 6:05 p.m.

2. Roll Call and Determination of a Quorum.

Chairman Michael Evans called the roll and a quorum was determined.

3. Pledge of Allegiance.

All present recited the Pledge of Allegiance.

4. Approval of Minutes for August 2, 2017 meeting.

MOTION: Mr. Evans made a motion to approve the minutes from the meeting on August 2, 2017. Motion was seconded by Mr. Izzo and unanimously accepted by members present.

5. Old Business

   a. There was no old business to report.

6. New Business:

   a. Investment Update and Market Comments

Mr. Charkatz provided a market overview as of September 2017. Returns since the election are in part due to earnings, but most due to price/earnings expansion. Things are getting more expensive. Markets have gone up. Earnings have gone up. Raw characteristics of bull market are in place. Sentiment is good. World economies are in the midst of the most synchronous global upturn since 2009 with characteristics of self-sustainability. Global Managers are strong outside of the US and doing well relative to risk. European equities have outperformed this year (+23.4%YTD) despite the stronger euro's headwind on earnings growth expectations. Prior underperformance against the S&P 500 may be coming to an end. S&P returns have been driven by expanding valuations and earnings of late. Japanese equities have performed well this year (+16.5% YTD), even with a stronger yen. Emerging Markets equities have been the strongest performers year-to-date (+28.1%YTD) as anti-trade rhetoric concerns have cooled and the US dollar has topped.

U.S. Bond yields have trended lower in 2017. The 10-Year US Treasury yield peaked just above 2.5% by end of 2016. The yield fell to 2.3% in September 2017.

Mr. Evans asked if the portfolio should own less in fixed income given the current low yields. Mr. Charkatz referred to the investment report to explain that much of this exposure has been diversified away from the duration risk associated with longer term treasuries, although there remains an investment in high quality bonds as a ballast.

General approaches to credit warrant caution due to record low credit spreads and interest rates and early signs of credit deterioration in commercial real estate and auto financing.

Hedge funds posted an 11th consecutive month of positive returns in September 2017, and positive returns in 14 of the past 15 months. Long/Short Equity is the largest seen for any year since 2010. Net exposure to US equities continues to drift lower since mid-2015 while European and Emerging Markets exposure has risen higher and accelerated this year. Macro-oriented hedge funds have posted negative results since late 2016, with some signs of a recent uptick. Multi-strategy and hedge funds are likely to struggle with redemptions.

Easy financial conditions remain a tailwind behind rising markets and low volatility. Input shows that current conditions are about the best seen in this cycle. Several factors supporting this suggest that conditions may be peaking, a development that would suggest rising volatility. Look for signs of liquidity and yields dropping down. A reversal of the recent downside trading in the US dollar and a pickup in inflation could effect a tightening of conditions, prompting a pickup in market volatility. Inflation is caught between (upward) cyclical and (downward) structural pressures.

Look for an inflation pick up in 2018. Capital market volatility is expected to normalize; increasing by as much as 30% over the next three-to-five years across bonds, equities, currencies and commodities. Focus should be placed on adding to global macro and managed futures strategies given their relatively low volatility. These strategies should deliver uncorrelated return streams with normalization in rate, currency and commodity markets.

Mr. Evans asked about what areas are being paid attention to globally; what appear to be most attractive and least attractive.

Mr. Charkatz said that Emerging Markets outside of the US are most attractive and that Equity Markets in the US are least attractive.

Mr. Charkatz made no investment recommendations. Investment managers are on track and the portfolio has the right mix.

Mr. Evans mentioned that 10 year numbers should look better in another couple of quarters. He asked Mr. Charkatz if he was pessimistic about the economy.

Mr. Charkatz said that the longer term outlook for 10 year returns does not look great, lower returns and higher risk are forecasted.

Mr. Evans asked why the outlook does not look encouraging; is it for political reasons, boomers heading into retirement?

Mr. Charkatz said future return prospects would look better if the market went down a lot, if there was a correction. Also, if there was an increase in the equilibrium interest rate that people use to value stock, maybe we are valuing stocks too low? Interest rates really drive everything.

At September, 2017, Portfolio values were up 9.5% and 10%year-to-date and as high as 10.5% over 12 months. Pointer has 30% exposure to the stock market and its return since inception is 12.69%. The percentage is the same for 1 year.

Graham Absolute Return and Abbey Capital showed good numbers at 1.91 and 1.46 for the current quarter, compared to their benchmarks.

Mr. Charkatz noted that low volatility coincides with a favorable liquidity environment. Liquidity will be watched as a signal to anticipate a shift to higher volatility. It was noted that there is 3 months of performance data missing for illiquids. The total asset benchmark for marketable assets and illiquids is 3.03% for the current quarter, 9.34% year-to-date, and 9.56% for 1 year. The percentage since inception was 9.55%. Performance exceeded these benchmarks.

Mr. Charkatz stated that October activity looks good so far, perhaps another 1%.

b. Annual Review of Investment Policy Statements (IPS)

This is an annual review for good governance. The Board agreed to continue with the current allocations and not making any changes.

c. 2018 Retirement Board Calendar

MOTION: Mr. Flagg made a motion to approve the 2018 Retirement Board Calendar as presented. It was unanimously accepted by the Board members.

d. Pension Disbursements – For Information Only

There was no discussion.

e. Summary of Bills – For Information Only

There was no discussion.

7. Public Comment

There was no public comment.

8. Adjournment

Mr. Evans made a motion to adjourn the meeting at 7:00 p.m. Motion was seconded by Mr. Flagg. All members present were in favor of the motion.

Respectfully submitted,

Dawn Guite

Dawn Guite, Recording Secretary