



**Cheshire Retirement Board
Meeting Minutes
February 7, 2018
Cheshire Town Hall
84 South Main Street
Cheshire, Connecticut 06410
Room 210; 6:00 p.m.**

In attendance were Chairman Michael Evans, and members Paul Shay and Mark Izzo, Police Department representative Kevin Costa; Fire Department representative Robert Shalagan; Finance Director James Jaskot; Ross Charkatz of Graystone Consulting (by phone).

Guests during executive session: Police Chief Neil Dryfe; Police Officer Thomas Wright

1. Call to Order

Chairman Michael Evans called the meeting to order at 6:10 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.

**CHANGE TO AGENDA ORDER: EXECUTIVE SESSION MOVED FROM
AGENDA ITEM 6.d.**

6. New Business

d. Review of Request for Disability Retirement

EXECUTIVE SESSION

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The Retirement Board entered into Executive Session at 6:12 p.m. for the purpose of considering an in-service disability pension for police officer Thomas Wright. All Board members who were present were called to attend the executive session, along with Finance Director James Jaskot, Police Officer Thomas Wright, and Police Chief Neil Dryfe.

The Executive Session ended at 6:45 p.m. and the Board returned to regular session.

Resolution: That the Retirement Board approves a police, in-service disability pension for Thomas Wright retroactive back to January 29, 2018, when his workers' compensation benefits were discontinued.

The Board reviewed a request for disability retirement for Thomas Wright, a Cheshire Police Officer for over 17 years of service to the Town. The Board reached their decision that Mr. Wright was eligible for the disability pension based on discussions held during Executive session and review of medical records, including an Independent Medical Exam.

VOTE: This resolution was unanimously approved by members present.

4. Approval of Minutes for November 1, 2017 meeting.

Mr. Evans suggested two revision to the last paragraph on Page 2 and emphasized that these were generic comments and not specific to Cheshire's portfolio. The first revision was to provide some clarification in the second sentence so that it will read as follows: Long/Short Equity has, in general, seen the best performance for any year since 2010. The second revision was to eliminate the last sentence: Multiple strategy and hedge funds are likely to struggle with redemptions.

MOTION: Mr. Evans made a motion to approve the minutes from the meeting on November 1, 2017, as corrected. Motion was seconded by Mr. Izzo and accepted unanimously 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 December 31, 2017. Mr. Evans commented on recent market volatility, but overall thought the portfolio now would be similar to the value on December 31. Mr. Evans asked Mr. Charkatz to provide a few

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comments on the last couple of days in the financial markets. Mr. Charkatz said that where this volatility is coming from is technical in nature. Some investment products, generally owned by individual investors, have complex structures that people think are safe and they are betting on tomorrow being exactly like yesterday. When it isn't, everyone runs for the door. Market volatility recently spiked and some of these investments lost a lot of money. Credit Suisse is behind one of the products – known as an exchange traded note (ETN). People mistake these investments for ETFs. The investment bets on low volatility. Although losses from the sell-off following the recent spike in volatility are borne by investors holding the product, the activity was believed to have exacerbated the recent market turmoil. When markets bet on low volatility, people think things are safe. The recent increase in volatility woke some people up, but it shouldn't be anything to lose sleep over.

Mr. Charkatz said that last year everything went up – the US stock market and, outside the US, emerging markets did well, too. Technology growth has been robust around the world. Commodities jumped up, including industrial metals. US short term rates rose resulting in a flattening yield curve. Volatility has been extremely low from a historical perspective. Growth stocks have outperformed value stocks, the most since the technology, media, and telecom bubble in the late 1990s.

Mr. Charkatz stated that it will get fundamentally tougher later this year. Easy conditions will become tighter. Interest rates are going up and inflation appears to be emerging. Volatility will likely go up which could be a good thing from a long-term stand point because it will create some opportunities as well.

The Portfolio was up 13.43% for the year, excluding illiquids. The numbers are all fairly pleasing. Fixed income and alternatives did well, too. Illiquids show a 9.25% return for the year, but they will likely be revised and should go up. Overall, the portfolio had a one year return of 13.06% and the total asset benchmark was 12.85%.

Mr. Izzo asked about the cash. Last quarter it was \$2.4 million, now its \$1.2 million. Mr. Charkatz said that they tend to raise between three and six months of cash flow for pension benefit and administrative disbursements. The Town makes a large contribution in excess of several million dollars, typically at the beginning of the fiscal year. Some is invested and some is kept on hand for disbursements. During the year, employee contributions do not come close to covering the millions of dollars disbursed annually for benefits. Since the plan is closed to new hires, employee contributions have been decreasing. Also, cash flow is affected by capital calls and distributions from the illiquid investments. The cash on hand at any given time does tend to fluctuate accordingly.

Mr. Evans commented on the size of the portfolio. It's the highest that it has been. We have \$77 million invested when you add it all up.

b. Portfolio Rebalancing Recommendations

Mr. Charkatz reviewed rebalancing recommendations. As an FYI, he showed that \$1.5 million of cash was being raised in the first quarter and liquidated from a number of equity funds. He recommended liquidating Loomis Sayles Bond, which has done terrifically well. Credit spreads are as tight as they have ever been and we want to take credit risk out of the portfolio. The compensation that you get will be less for this risk you are taking at this point. Mr. Evans commented that it was a situation of buy low, sell high. We were happy with the returns, but there will be more inherent risk going forward. Mr. Charkatz said we want to increase quality, take some out with the redemption of the low to medium corporate grade Loomis and a portion of Goldman Sachs Emerging Markets Debt and transfer the money to JP Morgan Strategic Income, DoubleLine Total Return, and the rest in the equity fund Vanguard Emerging Markets. The second recommendation was to move Metro West Low Duration into Metro West Total Return to increase duration now that rates are a bit higher. The essential difference between the two is just the term of the bonds.

Lastly, we do want to continue to build the emerging markets position. Mr. Charkatz noted that Rajiv Jain, the former manager for Virtus Emerging Markets, formed a new company called GQG Partners. We may want to talk about this more at our next meeting. The bigger a fund gets, the harder it is to manage. He said that Mr. Jain had a very large following and that the GQG fund will likely be capped. Mr. Evans commented this is a case of following the manager.

Mr. Evans summed up the changes. We are moving some money to emerging market equities, increasing the credit quality and duration of bond funds.

MOTION: Mr. Izzo made a motion to accept the recommendations as outlined on page 11 of the Board materials from Graystone, Attachment 1. Mr. Evans seconded the motion and it was unanimously accepted by the Board members.

The Board agreed to continue with the current allocations and not making any changes. We want to increase duration now that rates are a bit higher.

The Board thanked Mr. Charkatz for his presentation. Mr. Charkatz said that next time they would spend more time talking about emerging markets, GQG Partners and Rajiv Jain. Emerging Markets may very well be one of the only parts of the globe over the next 10 years to make a satisfactory return and it is outside of the US. It would be good for the Board to learn more about it.

Mr. Evans asked if we have anything going into illiquids right now. Mr. Charkatz said that we have contributed \$6.3 million, capital returned was \$1.4 million and the current value was about \$6.3 million. He did not think there would be much more draw – but Oaktree Strategic Income and Blackstone Tactical could see more.

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c. Interim Actuarial Valuations as of July 1, 2017

Mr. Jaskot briefly went over the three plan valuations, noting generally the actuarially determined contributions (ADC) for the upcoming FY 2019 budget year were slightly less than reported in the last valuation, mostly due to the increase in the actuarial value of the assets. Actuarial asset values are smoothed for gains and losses over five years. Mr. Jaskot stated that the Town elected to have the interim valuation done based on the support from the Board. The hope was that the required contributions would go down and that's the way it played out. The Town plan actuarially determined contribution went down by about \$50,000. The Police plan contribution decreased by about \$72,000 for the funding option which would increase contributions the most under several options reported. The Police plan is still behind in funding its actuarially determined contribution and phasing in the increases.

Mr. Jaskot also reviewed plan cash flow – contributions and benefit disbursements, and plan membership data. Since the Town and Police plans are closed the members should continue to decrease over time. The Volunteer Firefighter Plan is not closed and the benefits are determined based on a formula that takes into consideration the number of fire calls a member responds to.

A full valuation will be done for July 1, 2018 and it is required. This will take into consideration actuarial experience gains and losses, as well as changes in the actuarial asset values.

Mr. Izzo said the interim valuation was probably worth it this time based on the resulting effect on contribution requirements, and considering the cost compared to a full valuation. Mr. Evans quipped when the markets up you do it, when the markets down you don't. Mr. Jaskot replied that there is probably an argument to get a better feel for what is coming up and smoothing out increases and decreases.

d. Review of Request for Disability Retirement – see discussion above.

e. Pension Disbursements – For Information Only

Mr. Evans asked about one of the amounts reported as a VEBA refund. Mr. Jaskot said that this was a return of contributions plus interest from the Police postretirement medical plan due to an officer opting out of the benefit. Even though the officer did not retire, he can still elect out of the plan at any time under the contract.

f. Summary of Bills – For Information Only

There was no discussion.

7. Public Comment

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There was no public comment.

8. Adjournment

Mr. Evans made a motion to adjourn the meeting at 8:00 p.m. Motion was seconded by Mr. Izzo. All members present were in favor of the motion.

Respectfully submitted,

A handwritten signature in black ink that reads "James Jaskot". The signature is written in a cursive style with a large, prominent initial "J".

James Jaskot, Recording Secretary

TOWN OF CHESHIRE
SOURCES USES

As of December 31, 2017

ATTACHMENT 1

Fund/Category	Q1 2018		Rebalancing Recommendation	Changes	Projected Value	Projected Allocation
	Current Values	Current Allocation				
Domestic Equity						
Snow	\$ 4,369,459	8.3%			\$ 4,369,459	5.8%
Wedgewood	\$ 4,379,384	8.3%			\$ 4,379,384	5.9%
FPA Crescent	\$ 5,470,747	7.4%			\$ 5,370,747	7.3%
Total Domestic Equity	\$ 14,839,590	20.1%		-1%	\$ 14,139,590	19.1%
Global/Int'l Equity						
Oppenheimer Intl Growth	\$ 4,328,380	5.9%			\$ 4,128,380	5.6%
Neuberger Beriman International	\$ 4,318,031	5.8%			\$ 4,118,031	5.6%
IVA Worldwide	\$ 5,549,266	7.5%			\$ 5,349,266	7.2%
First Eagle Global	\$ 5,566,039	7.5%			\$ 5,366,039	7.3%
Virtus Emerging Markets	\$ 1,229,317	1.7%			\$ 1,229,317	1.7%
Vanguard Emerging Mkts	\$ 1,681,906	2.3%			\$ 2,953,709	4.0%
Total Global/Int'l Equity	\$ 22,872,939	30.7%	\$ 1,271,803	1%	\$ 23,144,742	31.3%
Total Equity	\$ 37,512,530	50.7%	\$ 1,271,803	0%	\$ 37,284,333	50.4%
Fixed Income						
Metro West Low Duration	\$ 2,168,137	2.9%			\$ 2,288,137	3.1%
Metro West Total Return	\$ -	0.0%			\$ -	0.0%
Loomis Sayles Bond	\$ 1,271,803	1.7%			\$ -	0.0%
Goldman Sachs Emerging Mkts Debt	\$ 2,205,491	3.0%			\$ 1,655,491	2.2%
DoubleLine Total Return	\$ 2,182,132	3.0%			\$ 2,282,132	3.1%
JPM Strategic Income	\$ 1,276,359	1.7%			\$ 1,626,359	2.2%
Pimco All Asset All Authority	\$ 1,641,575	2.2%			\$ 1,641,575	2.2%
Reserve Cash	\$ 1,247,263	1.7%			\$ 2,747,263	3.7%
Total Fixed Income & Equivalents	\$ 11,892,760	16.2%	\$ (1,271,803)	0%	\$ 12,220,957	16.5%
Alternative Investments						
Ironwood	\$ 5,229,697	7.1%			\$ 5,229,697	7.1%
SCS Opportunities Fund	\$ 3,731,089	5.0%			\$ 3,731,089	5.0%
Abbey Capital	\$ 1,931,919	2.6%			\$ 1,931,919	2.6%
Graham Absolute Return	\$ 1,838,842	2.5%			\$ 1,838,842	2.5%
Pointer Capital	\$ 5,457,451	7.4%			\$ 5,457,451	7.4%
Oaktree Strategic Income	\$ 954,402	1.3%			\$ 954,402	1.3%
Entrust Special Opportunities III	\$ 1,073,319	1.5%			\$ 1,073,319	1.5%
Blackstone Tactical Opps	\$ 1,396,357	1.9%			\$ 1,396,357	1.8%
Blackstone Tactical Opps II	\$ 1,227,855	1.7%			\$ 1,227,855	1.7%
Private Advisors Small Cap Buyout	\$ 1,619,030	2.2%			\$ 1,619,030	2.2%
Total Alternative Investments	\$ 24,459,971	33.1%	\$ -	0%	\$ 24,459,971	33.1%
Total	\$ 73,965,260		\$ -		\$ 73,965,260	

* Values may differ from statements due to timing and/or rounding. Investment execution will be subject to redemption and investment terms. Values subject to change.

