



**Cheshire Retirement Board
Meeting Minutes
February 6, 2020
Cheshire Town Hall
84 South Main Street
Cheshire, Connecticut 06410
Room 210; 6:00 p.m.**

In attendance were Chairman Michael Evans, members Mark Izzo, and Paul Shay; Police Department representatives Kevin Costa and Steve Jester, Fire Department representative Bob Shalagan; Finance Director James Jaskot; Town Council Liaison David Borowy, Ross Charkatz and Amanda Thome of Graystone Consulting (by phone).

1. Call to Order

Chairman Michael Evans called the meeting to order at 6:00 p.m.

2. Roll Call and Determination of a Quorum.

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

Chairman Michael Evans introduced David Borowy, Town Council Liaison, to the members. Mr. Borowy served for 16 years as a town council member in the 1980s and 1990s and 15 years of service on the Regional Water Authority Board, giving him 30 years of government finance and planning experience.

3. Pledge of Allegiance.

All present recited the Pledge of Allegiance.

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4. Approval of Minutes for November 6, 2019 meeting.

MOTION: Mr. Izzo made a motion to approve the minutes from the meeting on November 6, 2019 as written. Mr. Shay seconded the motion which was approved unanimously.

5. Old Business
There was no old business to report.

6. New Business:

- a. Investment Update and Market Comments

No recommendations were made at this time.

The Town of Cheshire Retirement Portfolio assets total \$77,501,116 as of December 31, 2019.

Mr. Evans asked if any allocation changes are being looked at, i.e., small cap stocks? Mr. Charkatz said that there is currently high risk with low return around the world and that more investing is being done with companies outside of the U.S. No recommendations were made at this time.

- b. Investment Presentation - Hamlin Capital Management, LLC

Charlie Garland conferenced in and gave a presentation on his firm, Hamlin Capital Management, LLC. The firm invests exclusively in dividend-paying equities focusing on stocks with dividend yields at least 50% above the yield of the S&P 500 Index. It is managed by Hamlin Capital (founded in 2001), an independent asset manager with \$4.1 billion in Assets under Management (AuM). The fund has been able to deliver an annualized return of 10.6% with lower volatility and less severe drawdowns. Its focus on high quality businesses has helped to limit downside capture when markets sell off. Downturns have been used as opportunities to upgrade the portfolio by purchasing high quality companies as their valuations fall below estimated intrinsic value. Portfolio turnover has been approximately 40% historically.

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Mr. Garland pointed out sustainability metrics which have led to strong earnings growth. Hamlin invests in companies that are not borrowing to pay dividends, have clean balance sheets where net debt capital ratios are 50% or below, show an attractive return on equity, and have lots of free cash flow to cover dividends with few exceptions.

Further, Hamlin looks at 150 stocks that fit this criteria in all business sectors. It then finds the best 33 stocks from the 150 by studying filings, 10K's, and 10Q's; and meeting with CEO's to learn if their companies can grow and if top line growth is in the low single digits or higher. If revenue growth is in the mid-single digits, companies are asked their intentions in terms of cash flow. Companies need to be devoted to returning cash back to Hamlin in the form of a growing dividend where stocks will go up. It will only commit client capital to companies where there is a 25% return expected over a 2 to 3 year period. If a return is 25% or higher, then Hamlin will consider purchasing it. Hamlin's investments have been 70% in mid and large cap stocks. It has owned as many mid cap stocks as large cap stocks over time.

Hamlin's dividend yield as of 12/31/19 was 3.9%. It is higher to date due to dividend growth and new stocks in the portfolio. Net debt is low and attractive at 36.5%. The portfolio traded at 12.7x at year-end and is currently trading at 12.8x. The S&P 500 PE was at 18.2x at year-end and is currently closing in on 19x earnings. Because Hamlin is cheaper than the stock market, it has upside and may do better should the market slow down or correct. Hamlin has compounded at 9.85% after fees since inception in 2001. The S&P 500 has compounded at 6.9%.

Mr. Evans asked how Hamlin has dealt with volatility during extremes in Q4 2018, Q1 2019, and Q4 2019. Mr. Garland said that volatility, financial depression and quantitative ease, factors during the Obama Administration and aggressive fiscal stimulus in the current administration, have shown an average of only 2% growth. Investors predict future debt fund cuts and more volatility. The 2020 Presidential Election is a factor where moderate Democratic candidates, Biden and Buttigieg want to raise company taxes from 21% to 28% and 35% respectively. Either would lead to an 8 to 14 point reduction in profitability before talking about higher taxes on capital gains and dividends.

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Hamlin and competitors are going to be uneasy when they see polling numbers for whoever the Democratic nominee is. This will put pressure on the stock market over the next six months.

Mr. Evans asked if Hamlin strategically changes allocations by backing down and taking a more defensive cash position; or, is it looking at higher quality names during challenging times. Mr. Garland said that decisions are made based on the sustainability metrics previously mentioned, i.e., attractive valuation. If found with a trusted management team, Hamlin will purchase the stock. The stock could be a utility or an automobile maker. Hamlin is a bit more defensive. It does not own as much industrial or tech stocks. Mr. Garland projects a 7% earnings growth in 2020. While the S&P 500 has shown an earnings gain at the start of this year at 9%, there is doubt that it will grow to 7% throughout the year, in fact, it may be less than that.

Mr. Shay asked if Hamlin's thoughts involve demographics of baby boomers needing income where banks and treasuries are not paying anything. Mr. Garland said "yes" and that these demographics are highly relevant. He said that he believes that baby boomers are very interested in Hamlin's corner of the stock market and that they are likely to purchase the same stocks that Hamlin has purchased for the Town of Cheshire.

Mr. Charkatz mentioned that he will arrange for ClearBridge Large Cap Growth to present to the members at the next meeting. The ClearBridge Large Cap Growth strategy invests in U.S. large cap stocks utilizing Growth at a Reasonable Price (GARP). It is managed by ClearBridge Investments, a global equity investment firm based in New York that has almost \$150 billion in AuM and focuses on strategies with a high active share. It is wholly owned by Legg Mason, a multi-affiliate investment manager in Baltimore, MD, with over \$780 billion in AuM. Noted strengths are the portfolio managers' expertise in healthcare and technology with technology being a leading contributor to performance. Portfolio turnover is <20% historically.

- c. Pension Disbursements - For Information Only
- d. Summary of Bills - For Information Only

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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. Izzo. All members present were in favor of the motion.

Respectfully submitted,

Dawn Guite, Recording Secretary