



CHESHIRE RETIREMENT BOARD

WEDNESDAY, FEBRUARY 4, 2015
CHESHIRE TOWN HALL – ROOM 210
84 SOUTH MAIN STREET @ 6:00PM
CHESHIRE, CONNECTICUT 06410

In attendance were Chairman Michael Evans, members Michael Caron, Mark Izzo (arrived at 6:22 p.m.), Paul Shay; Police Department representatives Thomas Bobok and Kevin Costa; Fire Department Representative Robert Shalagan; Finance Director James Jaskot; Town Council Liaison Thomas Ruocco; and Ross Charkatz of Graystone Consulting

1. CALL TO ORDER

Chairman Michael Evans called the meeting to order at 6:08 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 FROM THE NOVEMBER 5, 2014 MEETING

MOTION: Michael Evans made a motion to approve the minutes from the meeting on November 5, 2014. Motion seconded by Paul Shay. **VOTE:** Minutes were unanimously approved by members present.

5. OLD BUSINESS

None

6. NEW BUSINESS

ELECTION OF OFFICERS

The Board will consider electing officers (chairman and vice-chairman) at the next meeting. Mr. Jaskot will check procedures in the Board's bylaws and when the last elections took place. Mr. Jaskot also noted that Mr. Shay's Board term ran through 1/31/2015, but per the Town charter, his term does not end until Mr. Shay is reappointed or terminated. He is eligible to vote during tonight's meeting.

a) INVESTMENT UPDATE AND MARKET COMMENTS – Mr. Ross Charkatz of Graystone Consulting

Market Review

Mr. Charkatz provided a review of the 2014 year from his report:

- ❖ Aside from a few bright spots, notably the S&P 500 (US Large Cap Stocks), managed futures strategies, and long-duration bonds (10 years and further out), most other investment categories lost ground in 2014. Although Large Cap stocks were positive throughout the year, Small Caps were negative until a 4th quarter rally. Commodities were the strongest asset class at the beginning of the year, peaking in April and falling sharply until year-end.
- ❖ Performance concentration in the largest stocks and low volatility in large caps contributed to the S&P's outperformance against most other indices and fund managers. Less than 20% of fund US equity managers outperformed their index according to Morningstar. As a frame of reference, fewer than 30% of the stocks in the S&P 500 outperformed the index itself, a low level that has not been reached since 1999 according to Leuthold Group.
- ❖ The strength of the US Dollar against virtually all other currencies was a major story in the second half of the year. The MSCI All Country World Index ex-US (non-US stocks) was up 6% measured in local markets, although as an example of the currency effect, US investors experienced a 3.9% decline in the same investments.
- ❖ US stock market outperformance has far outpaced the rest of the globe since the end of the Great Recession, although the economy as a whole (GDP) has grown faster outside the US. A considerable portion of US equity returns has come from multiple expansion, attributable at least in part to low rates and induced risk taking.
- ❖ Long-term US Treasury yields declined in 2014, fueling one of the best years ever in long-term bonds. Shorter-term yields rose in the US, resulting in a flatter yield curve. Although US yields sit near all-time lows, the US 10YR remains a higher yield against a number of other countries, in particular the German Bund which tends to track UST within 12-month periods.
- ❖ Sharp declines in Oil seeped into concerns about the high yield bond market, as approximately 20% of the market's debt is tied to energy issuers, reminiscent of the Technology, Media, and Telecom rupture in 2002.

- ❖ High valuations in US equities and low yields in bonds portend an outlook for greater volatility and lower returns over the next 7-10 years. We lean toward global exposure in equities, lower exposure to liquid credit, budding exposure in opportunistic illiquid opportunities (credit and equity), and an emphasis on risk-awareness.

Investment Update

Referring to the Quarterly Portfolio dated December 31, 2014, Mr. Charkatz commented that the total portfolio was up 3.65% for the year, which was a bit behind relative benchmarks. Although as a point of reference, December 31st marked an all-time high in terms of the value of the portfolio. The traditional assets, which are the equity stock managers and the bond managers, in total were behind for the year at 2.83% as compared to the same composition in the market which was up 4.21%. The alternative investment portfolio did quite well, up 6.74% for the year, more than doubling the comparative index of 3.19%. Perhaps more relevant, over the past three years of performance, the portfolio is up 10.14% per year on average and ahead in every category. The long term period rate is the compounded average return per year. Relative to the rest of the world, overall the performance of the portfolio looks fine.

Looking at individual manager performances: Snow Capital was up 2.8% for the last quarter and 8.21% for the past 12 months. Neuberger Berman Large Cap is no longer a manager in the portfolio, but as of December 31, 2014, was up 3.39% for the 4th quarter and 7.58% for the last 12 months. Under the International/Global Equity managers, the Thornburg Int'l Value (which is no longer in the portfolio) and Neuberger Berman-Int'l were down but not down nearly as much compared to the market. Pimco All Asset All Authority's portfolio, which is inflation oriented, was down 2.45% for the last 12 months. Regarding First Eagle Global – one area Graystone Consulting pays attention to in managers is the amount of money under their management, because it's more difficult to put a large amount of money to work because there is a very limited amount of things you can buy. First Eagle Global's assets are high. Mr. Charkatz just wanted to bring this to the Board's attention.

The Fixed Income Bond Portfolio was positioned well at the end of 2013. In 2014, however, it added the least return to the portfolio - it was difficult to keep up with the market. A year and a half ago, they recommended moving the Metwest Total Return portfolio to the Metwest Low Duration portfolio, which helped in 2013 but not in 2014. The Doubleline Total Return portfolio, which has a smaller position, did well in 2014 (6.73%). Looking at alternative investments, Abbey Capital was up 30.40% in 2014. Mr. Charkatz would categorize all other investments in this portfolio, other than Abbey Capital, as fundamental value based investments. Abbey Capital is the only investment that is solely technical, run by computers looking for trends in markets. During 2014, there were sustained trends which benefited this strategy, which is a true diversification.

2015 Illiquids Recommendations

In 2013, the Board put in place an illiquids program targeting a 5% allocation to the illiquids asset class. Currently, the percentage invested in illiquids is about 2.3%. The process was to commit amounts of money each year, which will be invested over a several year time frame. Initial commitments were made to Blackstone Tactical Opportunities Fund I and Private Advisors Small Company Buyout Fund V for \$2 million each. In 2014, we committed \$1 million to Entrust Special Opportunities Fund III. Our recommendation for 2015 is to commit \$2 million to Blackstone Tactical Opportunities Fund II and \$1 million to Oaktree Strategic Income Fund. A research report for Blackstone Tactical Opportunities Fund II and a DAC Manager Profile report for Oaktree Strategic Income Fund were distributed to the Board.

Oaktree is one of the larger alternative investment firms and one of the largest distressed debt investors in the US, if not in the world. They have a variety of different types of strategies that they pursue. This particular strategy, called Strategic Income, has just shy of \$3 million under management. This strategy represents an opportunity in illiquid credit, which is mostly (2/3rd) US distressed debt. It is all debt and all income oriented. Their market is illiquid credit; most of their loans will be shorter term (3-4 years). This particular strategy will get a high yield for a very good risk reward trade-off. Graystone Consulting is recommending a \$1 million commitment to the Oaktree Strategic Income Fund. Mr. Charkatz did distinguish that this fund is not a distressed debt fund generally. Although Oaktree does buy distressed debt, this investment strategy for this particular fund is to make secure loans to companies; they are a lending vehicle which originates loans that for the most part don't exist today. The Blackstone Tactical Opportunities Fund II uses the same strategy as the Blackstone Tactical Opportunities Fund I, just a different fund. Blackstone Tactical Opportunities can act very quickly when an opportunity arises to buy existing loans already in the market, both distressed and equity oriented. Both Oaktree Strategic Income Fund and Blackstone Tactical Opportunities Fund II are collateralized, controlled type investments.

By the end of the year, the actual investment for the whole portfolio (existing and new) will be between a 3.5%-4%. Mr. Jaskot asked if we will be "ahead of ourselves" with these recommended commitments, based on our current investments and commitments. Mr. Charkatz stated no, based on the expected calls for these funds and the timing/terms of those calls. We will also see some investments coming back from our current investments. Mr. Evans asked where the funds for these commitments will come from in the portfolio. Mr. Charkatz replied the index funds on the equity side have been the source of funds for the equity funds, which includes Blackstone Tactical Opportunities Fund I and Private Advisors Small Company Buyout Fund V. The source of funds for EnTrust Special Opportunities III will come initially when called from the Eaton Vance Floating Rate. He expects this strategy for funding to continue, taking money from those types of vehicles to fund this portfolio. If those funds were all

drawn out, the funds would come pro-rata more from the equity side of the portfolio. Mr. Caron asked that the Board verify that the Investment Policy Statement wording clearly states a 5% investment versus commitment.

Mr. Caron asked specifically where the money would come from for the Oaktree vehicle. Mr. Charkatz responded they would first drain funds from the Eton Vance Bank Loan fund, followed by the Vanguard Index Funds.

Mr. Charkatz stated if the Board votes to commit this evening, Graystone Consulting will prepare all the paperwork so we are ready when the money is called in the future.

MOTION: Michael Evans made a motion to commit \$1 million to the Oaktree Strategic Income Fund. Motion seconded by Paul Shay. VOTE: The motion was unanimously approved by members present.

MOTION: Michael Evans made a motion to commit \$2 million to the Blackstone Tactical Opportunities Fund II. Motion seconded by Michael Caron. VOTE: The motion was unanimously approved by members present.

Mr. Evans and Mr. Caron asked Mr. Charkatz to invite a representative from Oaktree Strategic Income Fund to speak to the Board about this fund at a future meeting. Mr. Charkatz will do so. Mr. Charkatz stated that pension funds have historically been among the largest investors in illiquid investments, given the long-term nature of both.

Mr. Evans also asked Mr. Charkatz to provide a simple model of where the money will payout in the future (2015-2017), which he will do.

b) PENSION DISBURSEMENTS – INFORMATIONAL ONLY

The Board reviewed new pension disbursements since the last meeting. Mr. Caron asked why the Board receives this list of new pension disbursements. A thought was that in the past, the Board had to approve new pension disbursements before they were issued. Now the Finance Department processes these retirement benefits and advises the Board of their action; the Board receives this quarterly report on any new pension disbursements for informational purposes.

Mr. Izzo asked the amount of the Town's monthly and annual pension disbursements. Mr. Jaskot will provide that information at the next meeting, but also stated this information is available in the Town's financial statements, which are posted on the Town of Cheshire website.

c) SUMMARY OF BILLS – FOR INFORMATIONAL ONLY

The Board reviewed invoices paid since the last meeting.

7. PUBLIC COMMENT

None

8. ADJOURNMENT

The next meeting is scheduled for Wednesday, May 6, 2015. Michael Evans made a motion to adjourn the meeting at 7:40 p.m. Seconded by Michael Caron. All members present were in favor of the motion.

Respectfully submitted,

A handwritten signature in cursive script that reads "Kathy Kirby".

Kathy Kirby
Recording Clerk