



## **CHESHIRE RETIREMENT BOARD**

WEDNESDAY, MAY 6, 2015  
CHESHIRE TOWN HALL – ROOM 210  
84 SOUTH MAIN STREET @ 6:00 P.M.  
CHESHIRE, CONNECTICUT 06410

In attendance were Chairman Michael Evans, members Michael Caron, Dennis Flagg, and Paul Shay; Police Department representatives Thomas Bobok and Kevin Costa; Finance Director James Jaskot; Deputy Finance Director Gina DeFilio; Ross Charkatz of Graystone Consulting; and Nicholas Basso and Stephen Siciliano of Oaktree Capital, via conference call at 6:30 p.m.

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### 1. CALL TO ORDER

Chairman Michael Evans called the meeting to order at 6:06 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 Caron made a motion to approve the minutes as corrected from the meeting on November 5, 2014. Motion seconded by Michael Evans. **VOTE:** Minutes were unanimously approved as revised by members present.

Revision: Page 4, 2<sup>nd</sup> paragraph: Change \$3 million to \$3 billion in the following statement: *This particular strategy, called Strategic Income, has just shy of \$3 billion under management.*

### 5. OLD BUSINESS

None

## 6. NEW BUSINESS

## a) ELECTION OF OFFICERS

Mr. Jaskot distributed the Retirement Board By-Laws which were approved by the Board in 2007. The By-Laws explain the procedures of the Board, their authority, election of officers, etc. Mr. Jaskot stated that per the By-Laws, the election of officers should take place at the April meeting each year. Because the Board does not meet in April, Mr. Jaskot recommends an update to change the meeting month for election of officers.

**MOTION:** Michael Caron made a motion to elect Michael Evans as Chairman of the Retirement Board. Motion seconded by Dennis Flagg. **VOTE:** Mr. Evans was unanimously elected Chairman of the Board.

**MOTION:** Michael Evans made a motion to elect Paul Shay as Vice Chairman of the Retirement Board. Motion seconded by Michael Caron. **VOTE:** Mr. Shay was unanimously elected as Vice Chairman of the Board.

**MOTION:** Michael Evans made a motion to elect Michael Caron as Secretary of the Retirement Board. Motion seconded by Dennis Flagg. **VOTE:** Mr. Caron was unanimously elected Secretary of the Board.

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

Investment Update

Referring to the Quarterly Portfolio dated March 31, 2015, Mr. Charkatz commented that the total portfolio was up 2.01% for the quarter. The traditional assets were up 1.63% for the quarter while the alternative assets were up 3.41% for the same time period.

The investment performance includes a number of changes approved at recent Board meetings. Wedgewood partners, within the equity portfolio, began in February, so their quarter to date is not for the full quarter, but only for their performance since they were added. Oppenheimer Int'l Growth replaced Thornburg International on February 1, 2015, and is performing as expected. Looking at the investments on a long term basis, managers have generally kept pace or outperformed the current index. They are not recommending any additional changes at this point.

The three plans (Police Health Care Trust Plan, the Firefighters Plan and the OPEB Plan) have all done well for the period. They are invested similarly in terms of asset allocation, without the alternative investments.

Mr. Charkatz reviewed the Illiquid Investment Schedule, which shows current commitments except for the recent addition of Oak Tree. The Board reviewed the schedule, including the capital amount committed, the capital amount contributed, percentage funded, capital returned, and market value as of valuation date.

As requested by the Board at the last meeting, Mr. Charkatz provided exhibits of where the money will payout in the future (2015-2017), using four different scenarios based on the commitment to this sector. Each scenario assumes: the realization schedule assumes a 10% rate of return each year; the realizations being in the 3<sup>rd</sup> year and are paid out by year 5. The entire portfolio assumes 7.5% net growth/year.

Scenario 1 is the most extreme scenario, assuming 100% of the capital commitments get called, and we include Entrust as an illiquid. The drawdown schedule estimates the amount of each commitment called (in raw dollars) based on the call period (number of years). The percentage allocation peaks out at 6.13% in 2017.

Scenario 2 assumes a 90% capital call, with Entrust included as an illiquid. The percentage allocation peaks out at 5.06% in 2017.

Scenario 3 assumes a 100% capital call but does not include Entrust as an illiquid. The percentage allocation peaks out at 5.26% in 2017.

Scenario 4 assumes a 90% capital call but does not include Entrust as an illiquid. The percentage allocation peaks out at 4.35% in 2017.

Mr. Charkatz also provided charts for each scenario on estimated cash flows and the percentage of total portfolio assets allocated in illiquids.

Mr. Caron asked how capital commitments are reported on the financial statements. Mr. Jaskot responded that these commitments are not reported on our financial statements. Mr. Charkatz stated that these commitments are not liabilities. Mr. Caron is concerned because we have legally committed to these funds. Mr. Jaskot will check on this with current reporting standards. Mr. Charkatz stated we will not make any additional commitments at this time.

- c) Oaktree Strategic Income Presentation with Nicholas Basso and Stephen Siciliano, who joined the meeting via conference call at 6:30 p.m.

Mr. Siciliano provided the background: Oaktree Capital Management is a leading global alternative investment management firm with particular expertise in credit strategies. The firm was formed in 1995 by a group of individuals who had been investing together since the mid-1980s in high yield bonds, convertible securities, distressed debt, real estate and controlled investments. They were one of the first players in the distressed debt space in 1988.

Oaktree added the strategic credit strategy in 2012 as a step-out from their industry-leading distressed debt strategy, to capture attractive investment opportunities that appear to offer too little return for distressed debt investors, but may pose too much uncertainty for high yield bond creditors. The strategy seeks to achieve an attractive total return by investing in public and private performing debt. They have about \$100 Billion in assets across various types of strategies, including high yield bonds, convertible bonds, distressed debt, real estate, private equity and emerging market equity.

Mr. Basso explained the core strategies of Oaktree from its founding were distressed debt, high yield debt, and convertible bonds. The reason they entered into these markets in the late 1980s was because there was significant inefficiencies in these markets at that time. He also clarified that the strategic income strategy is an investment in stressed rather than distressed debt, and therefore the portfolio will be in performing bonds and loans rather than distressed or defaulted securities.

Mr. Basso explained distressed debt as companies who are very likely to file for bankruptcy, very likely to default on their securities, and have to go through some sort of material restructuring of their balance sheet. That process is relatively complicated and can take a significant amount of time. Distressed debt cycles tend to be cyclical. Mr. Charkatz clarified that in these scenarios, Oaktree acquires the debt that is in distress and becomes an equity owner after bankruptcy.

Mr. Basso explained that the opportunity for strategic credit in the market historically did not exist outside of banks. Strategic credit was created as a step-out of Oaktree's distressed debt strategy to address the challenges fixed income investors face to generate current income in a yield-constrained environment. They seek to provide private loans to companies who cannot secure a public loan. Stressed credit involves something that doesn't price efficiently. Stressed credit provides opportunity to lend to borrowers that Oaktree believes will be able to meet their debt payments, although may not be able to access funds by traditional means due to downturn in revenue and earnings that makes them a less attractive borrower to banks or other lenders. Oaktree may seek to provide financing to a company who is in the process of restructuring, with attractive loan terms backed by both economic and asset security.

The conference call ended at 7:15 p.m.

Mr. Charkatz contrasted the Abbey investment with the rest of the portfolio. Across the 97% of the portfolio invested in all other strategies that are not managed futures, every one of those investment strategies are based on the same concept, which is the manager's assessment of value.

The other 3% of our portfolio is in managed futures, which are global, macro systematic traders. This technical strategy trades in all liquid instruments around the globe, whether in interest rates, currencies or commodities – they buy and sell futures contracts. The reason that people invest in these technical trading strategies is that they are driven by trends that are often damaging to fundamentally based portfolios and act as a source of diversification in the infrequent although impactful occasions when those trends take hold. Last year, when the rise in the US Dollar, decline in interest rates, and sharp drop in oil caught most investors by surprise, the managed futures were beneficiaries and offset much of the negative effects that showed up in other areas of the portfolio. Mr. Charkatz stated we may want to increase our percentage in managed futures to 5% in the future.

#### d) JULY 1, 2014 PENSION VALUATIONS

Mr. Jaskot explained that the Volunteer Firefighters plan is the smallest plan of the Town's three defined benefit plans. There were no changes in plan assumptions since the 7/1/13 valuation. The rate of return assumption used was 7.5%. The assets in the plan did well. In fiscal year 2015, the Town contributed the Actuarial Required Contribution rate (ARC). In 2016, the budget includes committed funds to pay 100% of the projected ARC.

The Town and BOE Personnel plan - Mr. Jaskot explained that employee contributions have increased over the past years. A change in the retirement age assumption (when do people actually retire and start collecting their money) also helped the plan. In fiscal year 2016, the Town will be contributing 100% of the ARC. The Town's assets are also performing stronger.

The Police Personnel plan – Mr. Jaskot explained that the change in the retirement age assumption also helped this plan, but the plan was amended to increase the benefit multiplier for officers with at least 25 years of service. As of January 1, 2014, the plan was closed to new entrants. The Town will catch up to the ARC by the fiscal year ending June 30, 2019 based on current projections.

Mr. Caron asked when the next valuation is scheduled. Mr. Jaskot was going to bring this to the Board at the next meeting. Because the Town is almost caught up with the ARCs, does the Town need to continue doing interim valuations? Mr. Jaskot will present pertinent information on this matter at the next meeting.

e) PENSION DISBURSEMENTS – INFORMATIONAL ONLY

The Board reviewed new pension disbursements since the last meeting.

In response to Mr. Izzo's question at the last meeting, asking about the Town's monthly and annual pension disbursements, Mr. Jaskot provided the following information based on last year's financial statements:

- The Town Plan pays out about \$176,000 per month, and \$2.1 Million for the year.
- The Police Plan pays out about \$152,000 per month and \$1.8 Million for the year.
- The Firefighter Plan pays out about \$12,000 per month and \$139,000 for the year.

f) SUMMARY OF BILLS – INFORMATIONAL ONLY

The Board reviewed invoices paid since the last meeting.

7. PUBLIC COMMENT

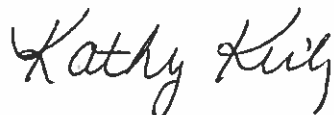
None

8. ADJOURNMENT

The next meeting is scheduled for Wednesday, August 5, 2015.

**MOTION:** Paul Shay made a motion to adjourn the meeting at 7:55 p.m. Seconded by Michael Caron. **VOTE:** All members present were in favor of the motion.

Respectfully submitted,



Kathy Kirby  
Recording Clerk