



**Cheshire Retirement Board
November 4, 2015
Cheshire Town Hall
84 South Main Street
Cheshire, Connecticut 06410
Room 210; 6:00 p.m.**

In attendance were Chairman Michael Evans, members Michael Caron (left meeting at 7:00 p.m.), Dennis Flagg and Paul Shay. Police Department representatives Thomas Bobok and Kevin Costa; Fire Department representative Bob Shaligan; Finance Director James Jaskot; Deputy Finance Director Gina DeFilio; and Ross Charkatz of Graystone Consulting. Tom Ruocco, Council Liaison (arrived at 7:00 p.m.).

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 19, 2015 meeting.

MOTION: Mr. Caron made a motion to approve the minutes from the meeting on August 19, 2015 as amended. Motion was seconded by Mr. Flagg. The motion was unanimously accepted by members present.

5. Old Business:

None

6. New Business:

a. Investment Update and Market Comments – Mr. Ross Charkatz of Graystone Consulting.

Mr. Charkatz began with a summary of the global markets to segway into current activity followed by making recommendations to the Town.

Market Comments

Looking at the Global Markets Cumulative Returns as of September 30, 2015:

- Under the Americas the market year to date is down in the mid to upper single digits.
- The Russell 1000 growth inside the U.S. splits the stocks 60/40 and are noted as growth stocks because they have higher priced multiples and growth rates.
- The S&P 500 is down 5.3% year to date. The Dow Jones Industrial Average is 7.0%.
- Similarly, Europe is down 6, 7 and 8%.
- Across the entire complex, commodities are down.
- The MSCI Emerging Markets index globally show that over the last 12 months is 19.0%; with the majority in the last 9 months at 15.3%. This is noted in U.S. dollars. Local currency is more disparaged than it was one year ago. In Brazil emerging markets are down from 5 to 40%. Russia has been profitable year to date at 9.4%. Currency is in rubles. Historically, emerging markets have been tied to commodities and have done poorly. High yield numbers being down slightly are masking what is truly happening.
- The Barclays Capital Global High Yield for bonds is 2.5% YTD and year over year is 3.4%. In the credit markets high yield is lower grade credit; companies that are paying higher interest rates have lower fico scores and are paying more. The lower the fico score the higher the interest rate.
- The U.S. had reached a peak at 20% of the high yield market in energy.
- The bottom 10% of credits in high yield bond markets are down over 1/3 this year and the U.S. stock market is the last to get touched.

Investment Update

Year to date the September portfolio is 4.37% which has come in the summer quarter. Numbers were down 5% across the board. The 7 year number to date is 5.39%. There is a 3% per year difference (dropping off the bad month). The numbers were up 5% during the first two weeks of October. The 7 year number jumped 700 basis points.

Mr. Charkatz made the following comments:

- First Eagle has a substantial asset base. It settled an action over the past several months where it was cited for paying marketing fees to some brokers which erroneously came out of the fund that should have come out of management company. The money is being reimbursed. The management company is selling itself. Assets are a detractor from performance. This is a point of reference. May not necessarily move on from this. There is need for more time to determine performance.
- Berens has emerging market exposure and has suffered as a result. It should be looked at again over the next few quarters to determine if comfortable with or not. A recommendation will not be made now.
- Mr. Evans asked about Templeton Global Bond. Mr. Charkatz responded one quarter can move tremendously and it is not afraid to take sizeable bets.
- Mr. Evans asked if the oil companies are in trouble taking debt to put holes in the ground. Mr. Charkatz replied the big oil companies; i.e., Exxon, etc., are not in trouble.
- Credit exposure is in alternative investments. Ironwood has credit within it but is operating in a hedge type fashion. Its performance has not suffered.
- In liquid assets Oak Tree has just started and it is early in the game. It will take time to play out. Oak Tree will pick up more as exposure worsens. Oak Tree as well as Blackstone will fare well as a result of debt. It is sitting on uncalled capital and over collateralized loans. The loans are 3 to 1 collateralized on buildings and equipment.
- It is early in the game for liquid investments. The TVPI Multiple reflects that anything above 1 means that the investment is ahead. Numbers below 1 are more of an accounting reference; it is too early to tell.

b. Investment Manager Recommendation – Mr. Charkatz

- Allocating money from Vanguard to Vontobel Emerging Markets.
- Reduce PIMCO Authority by half and add to FPA Crescent. Mr. Evans asked why not reduce PIMCO entirely? Mr. Charkatz responded that it is positively exposed to unexpected inflation and there is less of a need for it but don't get rid of entirely. If it reaches a point where it is significantly under performing, that is the time to get rid of it and do so in stages. Mr. Evans asked about the spike and what contributed to it. Mr. Charkatz responded that the spike had nothing to do with inflation but that it had more to do with China.
- It is a good time to build up IVA Worldwide and Abbey Capital for diversification. Within Abbey Capital, assets get picked up with inflation.
- IVA Worldwide and Abbey Capital manage as if they have all of your money. They are adverse to risk in every way. They will not put money in risk unless there is a positive return associated with it. Mr. Evans asked if there is a guideline for managers for a maximum? Mr. Charkatz responded that there is not a guideline for managers for a maximum. Mr. Evans commented that there was a significant shift by the Board in assets 7 years ago to actively manage the portfolios. FPA Crescent started being used in 2012; IVA Worldwide in 2010; PIMCO Authority in 2014. Mr. Charkatz commented that the portfolio is protected on the downside.
- Mr. Evans commented that he likes moving money from bonds to futures which is a step in the right direction. He likes the recommendations made by Mr. Charkatz including easing out of PIMCO Authority in stages. Mr. Evans further commented that the portfolio should have more managed futures which hold well and take advantage of interest rates going up on the fixed income portion.

Additional Comments

It is a difficult time to invest. Valuations in the U.S. Stock Market are high to expensive. When valuations are high you are paying high prices for stocks. This results in future returns being lower and it is a riskier return profile when you pay up.

With interest rates being as low as they are, bonds have been the key asset for allocation. As stocks fell, bonds provided income and protected the other side of the portfolio in varying degrees and in many cases quite a bit. If there are hiccups with interest rates at these levels, the bond side of the portfolio cannot be protected in the way it has been.

A big take away this summer was that within high quality bonds interest rates did not budge. They did not come down. With stocks

going down there were no increases in bond prices. This is more the norm than the exception of things coming back quickly. The U.S. is expensive where outside the U.S. not as expensive.

There is more appreciation for growth within emerging markets. A large portion of them are commodity oriented but concentrate in blue chip, quality and what is recognizable.

Going Forward

Nothing will be voted on tonight regarding selection of a new Manager. The Board members will review the information provided and request to speak to the Manager. A special meeting can be scheduled. Mr. Charkatz advised that this can be discussed further at the meeting in February 2016.

MOTION: Mr. Evans made a motion to move \$1.875m from PIMCO All Asset All Authority and reallocate \$962,500 to FPA Crescent and \$912,500 to First Eagle Global. Motion was seconded by Mr. Shay. Motion was unanimously approved by the members present.

MOTION: Mr. Evans made a motion to reallocate \$600K from MetWest Low Duration into Abbey Capital. Motion was seconded by Mr. Flagg. Motion was unanimously approved by the members present.

c. Annual Review of Investment Policy Statements (IPS)

This is an annual review for good governance. It is recommended to continue on the current track of allocating and not making any changes.

MOTION: Mr. Evans recommended no changes to any plans at this time. This was seconded by Mr. Shay and passed unanimously by members present.

d. 2016 Retirement Board Calendar

The Board members set the following meeting dates for 2016: February 3, 2016, May 4, 2016, August 4, 2016, November 2, 2016, and February 2, 2017.

MOTION: Mr. Evans moved to approve the 2016 calendar dates. This was seconded by Mr. Flagg and passed unanimously by members present.

e. Pension Disbursements – For Information Only

f. Summary of Bills – For Information Only

7. Public Comment

There was no public comment.

EXECUTIVE SESSION began at 8:00 p.m. to discuss potential litigation related to a pension payment matter. Executive Session ended at 8:10 p.m. and the Board returned to regular session.

8. Adjournment

Mr. Evans made a motion to adjourn the meeting at 8:15 p.m. Motion was seconded by Mr. Shay. All members present were in favor of the motion.

Respectfully submitted,

Dawn Guite, Recording Secretary

