



**Cheshire Retirement Board  
February 3, 2016  
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, Paul Shay. Police Department representatives Thomas Bobok and Kevin Costa; Fire Department representative Bob Shalagan; Finance Director James Jaskot; Deputy Finance Director Gina DeFilio; Ross Charkatz of Graystone Consulting (by phone) and Peter Newell of Vontobel Asset Management (by phone). Mark Izzo (arrived at 6:15 p.m.) Tom Ruocco, Council Liaison (arrived at 7:00 p.m.).

Absent: Dennis Flagg

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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 November 4, 2015 meeting.

**MOTION:** Mr. Evans made a motion to approve the minutes from the meeting on November 4, 2015 as amended. The amendment was to correct the spelling of "illiquid" on page 3 bullet point number 6. Motion was seconded by Mr. Shay. The motion was unanimously accepted by members present.

5. Old Business:

None

6. New Business:

- a. Investment Update and Market Comments - Mr. Peter Newell of Vontobel Asset Management and Mr. Ross Charkatz of Graystone Consulting.

Mr. Newell gave an overview of his employment history. He became associated with Vontobel in 1990. He was attracted by its emerging market strategies. At that time 64% of business was in Europe including Zurich, Switzerland. He went on to assist in building a franchise in the United States with distribution through Virtus Investment Partners. There has been notable success in emerging markets for the past 19 years particularly in 2005, 2006, and 2007. Philosophy is built on high quality growth companies and growth based on high return on equity, assets, investment capital, low leverage, dominant market share, high various entry, durable demand, diversified income strength, affordability, 5 years of sustainable earning growth and a good price. Today's challenge is finding growth in a low growth environment.

Morningstar rates Virtus in the emerging market world in the top percentile because of its focus on quality in an index that is flawed. The index in emerging markets is viewed as the risk. The vast majority of companies in emerging markets are high capital expenditure, high credit requirement, low pricing power and low return on equity (ROE). These companies have been able to add a large premium over the index by taking a benchmark view and focusing on companies with the characteristics mentioned. He referenced companies in the 1950's such as Proctor and Gamble and Anheuser Busch that have these characteristics and similarities. They had 40 years of sustainability and high double/low double digit compound growth within an acceptable level. Indexes have been dominated by companies that do not have these characteristics. Vontobel's emerging market investments today comprise companies that are similar to those in the 1950's. These companies have good corporate governance, strong balances, dominant market share and products with durable demand.

Emerging markets will out earn all portfolios from a collective earning standpoint and this will benefit clients in all environments.

Mr. Evans asked how British American Tobacco became the largest position in emerging market funds; is it because they are selling to China, India, etc.? Mr. Newell said that it is a non-emerging market stock with revenues coming from emerging markets.

Mr. Evans asked the same about Unilever to which Mr. Newell answered "yes" and that it was a recently added stock due to an opening from another stock that was taken off the list.

Mr. Evans asked why India is favored. Mr. Newell said that it is because it has more transparency, entrepreneurs, a collective return on expenditure and the stocks meet the criteria of the stated philosophy. Mr. Charkatz commented that there are a lot of components in emerging markets tied to commodities that are attractive where others are not.

Mr. Evans asked Mr. Charkatz to elaborate on why \$2M should be taken from other funds and put into Vontobel.

Mr. Charkatz said that money can be taken from funds that are larger holdings such as FPA Crescent at 8.8% and IVA Worldwide at 8.7%. The Vanguards should be cleaned up because they are going away. He recommends removing Eaton Vance entirely because the market has become less liquid. The time to do this is now while the risk is greater than zero to avoid being subject to a difficult environment later on.

Mr. Evans commented on the challenge with daily liquidity and bank loans that could become difficult to sell.

Mr. Charkatz said that it normally takes 3 days to settle stock trades. These loans can have 10, 15, or 30 day settlements. If the market gets major sets of withdrawals, the asset class could come under pressure. This is beginning to take place in the current environment.

Mr. Evans asked if the stocks are in energy. Mr. Charkatz said "no" but that the credits are in energy.

Mr. Evans asked the committee to vote on the movement of money. There are two separate recommendations.

MOTION: Mr. Evans made a motion to accept Mr. Charkatz's recommendation to add \$2M to the Vontobel Emerging Markets Fund, eliminate the three

Vanguard funds and reduce the FPA Crescent by \$400,000 and IVA Worldwide funds by \$180,000. The motion was seconded by Mr. Shay and unanimously approved by the members present.

MOTION: Mr. Shay made a motion to transfer funds from Eaton Vance Floating Rate and put \$400,000 in Double Line Total Return and \$397,129 in the Metro West Low Duration. The motion was seconded by Mr. Evans and unanimously approved by the members present.

Mr. Charkatz gave a summary of the world markets followed by recommendations to the Town.

### Market Comments

Looking at the Global Markets Cumulative Returns as of December 31, 2015:

- The S&P 500 was up 1.4% for the year. Beyond that all else was negative. The largest companies in the S&P have a greater weight on what the index does. Some stocks have moved upward delivering 2.6% of the returns.
- Similarly, outside the U.S., there have been negative returns mostly due to currency.
- Bonds were negative in and outside of the U.S.
- World stocks were down 8, 10, and 12%.
- There have been substantial declines in high yield and distressed debt due to energy companies. Cannot make as much money if prices go down; the debt comes under pressure and the price of the bond goes down. As this begins to happen there is spill over into other areas.
- Commodities were down - copper is negative.
- Hedge funds were a mixed bag.
- Momentum drove returns last year. If something went up, it just went up. Momentum and value stocks were basically the same.
- When the markets peaked in May, 8.3% of the stocks were down and half of all stocks were down in late January, 2016.

### Investment Update

The portfolio for the quarter was up 1.74%. It was down 3% in the last 12 months. Mr. Charkatz believes that when there is activity outside of the U.S. in asset classes or credit, it gets noticed by the time it reaches the S&P. Internationally, with moving toward Vontobel, steering out of commodity driven areas, things have gone well.

Mr. Evans asked if taking money from PIMCO means that it was not prepared properly or if there is concentration in energy. Can it be compared to a TIPs fund?

Mr. Charkatz said that it has inflation plus return over time. TIPs reflects inflation. It has, as appropriate, a benchmark for something that does not have a great benchmark associated with it. Returns that challenge TIPs are non U.S. currency outside of the U.S. They have a hedge against the S&P and made money when the market went down.

Mr. Evans asked if Snow All Cap held up better in January than other funds.

Mr. Charkatz said that it did a little better. The value was down "5 and change" and this is where they came in - in January.

Mr. Charkatz said that Berens is a fund that buys long/short equity hedge funds. It should give an equity over time with less risk. Historically, this is a characteristic for Berens but most recently this has not been the case. He gives it a yellow flag and it will need to be determined whether or not to continue with it.

Mr. Evans asked about illiquids.

Mr. Charkatz said that all are investing money. Oak Tree/Entrust/Blackstones are taking advantage of the challenge affecting credit and forced sellers similar to bank loan funds. They buy when others are selling.

b. Update on Actuarial Valuations

Mr. Jaskot said that July 1, 2015 interim valuations were approved by the Board and that the final product is near completion so that numbers will be available for the budget. An interim valuation is about half the price of a full valuation.

Fire Plan:

The contribution to the plan was \$263,970 for FY2016 with a modest increase to \$271,000 for FY2017 based on preliminary results. This plan remains open. 36% was funded as of June 2015; it is a relatively new plan. Contributions have been at 100% of actuarial recommendations.

Mr. Evans asked if the Police Plan is frozen.

Mr. Jaskot said that there are no new hires going into either the Town or Police Plans.

Mr. Evans asked if there is new participation in the Police Plan.

Mr. Jaskot said "yes", but in a defined contribution 401A plan. He commented that the Town and Police Plans have the biggest liabilities. They went from an 8.5 to a 7.5 rate of return assumption which caused the liabilities to explode. It was difficult to budget so the Town Council decided to step up contributions by \$150,000 per year until the contributions were funded at 100%.

Town Plan:

This year, FY2016, the recommended amount by the actuaries will be contributed. The valuation currently being worked on will not be increasing this. \$1,821M was contributed this year and the projection is now \$1,774M.

Mr. Evans asked if there is a plan to catch up for the years when contributions were not at 100%.

Mr. Jaskot said that current contributions took into consideration the years when contributions were not at 100%.

A question was asked if the 2008 losses are off the books for the 5 year smoothing.

Mr. Jaskot said "yes" and that the plan as of June 2015 was 78% funded and he expects this percentage will continue to increase.

Police Plan:

The Police Plan has made a lot of progress. As with the Town Plan, the Council stepped up contributions to \$150,000 to funding the full actuarial contribution. Newly hired officers go into a defined contribution plan or 401A.

There was a discussion regarding an overpayment matter for a retired police officer. Both the Pension benefit calculation and tax reporting were in error. Restitution from the former actuary and/or retiree would likely involve litigation and be cost prohibitive. Therefore a funding request will likely be included in the FY2017 budget for approximately \$78,000, \$47,000+ for principal and about \$31,000 of interest. Over a 14 year period there was an overpayment of approximately \$4,000 each year due to an error in the benefit calculation. Benefit payments were corrected going forward as of January 1, 2015. Mr. Charkatz assisted in calculating the interest accrued for each month's overpayment based on the Police Plan's actual monthly rate of return.

A July 1, 2015 actuarial valuation for other postemployment benefits (OPEB) is also in process at this time. The last valuation was July 1, 2013.

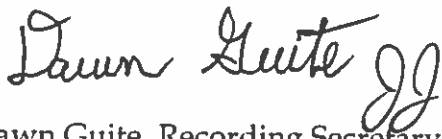
### OPEB Plan

OPEB may have the most liability in the Police Plan where participating officers and spouses, who retire, receive insurance until age 65. The plan is not well funded at this point. The percentage is 8.57% for the Police Plan. The percentage for the Town Plan is 2.5%.

- c. Pension Disbursements - For Information Only  
Document was distributed showing the disbursements.
  - d. Summary of Bills - For Information Only  
Document was distributed showing the current expenses.
7. Public Comment  
There was no public comment.
8. Adjournment

Mr. Evans made a motion to adjourn the meeting at 7:45 p.m. Motion was seconded by Mr. Shay. All members present were in favor of the motion.

Respectfully submitted,



Dawn Guite, Recording Secretary