In attendance were Chairman Gary Gombar, members, Tom Denne, Mike Evans, Michael Caron, William Freitag, Police Department representatives Joseph Mazzini and Tim Rodgers, Volunteer Fire Representative Robert Shalagan, Finance Director Patti-Lynn Ryan, Deputy Finance Director James Jaskot, Ross Charkatz and Bob Scherer of Graystone Consulting.

1. CALL TO ORDER

Chairman Gary Gombar called the meeting to order at 6:02 p.m.

2. ROLL CALL AND DETERMINATION OF A QUORUM.

Chairman Gary Gombar called the roll and a quorum was determined.

3. PLEDGE OF ALLEGIANCE

All present recited the pledge of allegiance.

4. APPROVAL OF THE MINUTES FROM SEPTEMBER 1, 2010 MEETING

Tom Denne made a motion to approve the minutes from the meeting on September 1, 2010. Seconded by Michael Caron.

Motion to approve the minutes was unanimous by members present.

5. NEW BUSINESS

a. PENSION CUSTODIAN/TRUSTEE RFP

Patti Lynn stated that right now Bank of America is our custodian and trustee. A couple things have developed. We want to go out into the market for better service and better fees. Also, the Other Postemployment Benefit (OPEB)
trust that we are now forming will fall under the auspices of this Board. Bank of America will not be the custodian for an OPEB trust; they have bowed out of that business. The timing is right. Graystone has been assisting with the RFP. They will advertise the RFP and will bring forth the top three candidates. At that point we need Board participation unless you want to completely go with staff. We can have the interviews here for the top two or three candidates. You can form a Board subcommittee to attend the interviews. Graystone has graciously agreed to do the work on the OPEB trust pro bono.

Patti Lynn explained that the Town has just adopted an ordinance to create a trust to fund OPEB benefits. Our liability is $22 million. The bulk of this is for implicit rate subsidies arising from Retired Teachers Medical Benefits. The Town is required by State statute to allow teachers to purchase health insurance from the Town upon retirement. Since they pay the same premium as the current workforce but are in an older age group, the Town is paying more for medical insurance overall.

Ross stated that the reporting system Bank of America is currently using is old and they are not really supporting this business. One of the things we are looking for is master trust accounting to report on investment transactions by the individual plans. This is being done by hand on an off-line excel spreadsheet by Bank of America, and is causing delays in processing. Patti stated that we are currently paying about $10,000 per quarter for this service.

Gary Gombar said that we would like to have one or two members from the Board participate on a subcommittee to interview the top candidates. Mike Evans and Michael Caron agreed to participate. Patti said that either Jim and/or she would participate on the committee as well. Ross stated that the draft is just about finished, and we would probably plan on issuing it after the holidays, perhaps in February. July 1, 2011 was deemed to be the most appropriate time for the eventual transition.

b. PENSION PLAN ELECTION POLICY

Patti Lynn described a situation where a woman had checked off two boxes on her pension election form. She has since called to say that she was getting the wrong pension amount. As it stands right now we really cannot make a change for her, the election is irrevocable.

This policy would allow for a short period of time to make minor changes to the pension benefit. There was some discussion about this opening up a “can of worms”. Patti stated that the policy would require a signed affidavit. Benefits sometime take a couple of months before you get your first check.
Tom Denne asked if we could delegate the administration to the Finance Director. Patti Lynn and the Board agreed that the Board should handle this policy. Michael Caron asked if the policy could be revoked if it does not work out. It was decided that it could be revoked if abuse became prevalent. The policy would be retroactive back to July 1, 2010 to accommodate the situation noted above.

Mike Evans made a motion to approve the policy. Seconded by Michael Caron. Motion passed unanimously.

C. SEPTEMBER INVESTMENT ACTION ITEMS

Ross Charkatz stated that Neuberger Berman requested permission to amend their investment guidelines. Currently they have a policy that states, “At time purchase, individual issuers will not exceed either 5% or 1.5 times the issuer’s weighting in the Russell 1000 growth index.” Permission was requested to change the guideline to “No individual security shall represent more than 10% of the total market value of the portfolio at any time. No sector will constitute more than 1.5 times the Russell 1000 Growth sector weighting, or the Russell 1000 Growth sector weighting plus 1000 basis points, whichever is greater.” The reason for the change was to benefit from a slight, over-weighting in Apple Corporation. Bob Scherer said this was a very reasonable request.

William Freitag made a motion to make the change. Mike Evans seconded the motion. Motion passed unanimously.

Bob Scherer continued with a discussion on the recommendation to make some changes to the portfolio that were outlined on the Sources and Uses of Funds in the handout (see attached). These recommendations are to continue diversifying the portfolio by investing in Templeton Global Bond and Abbey Capital Ltd. funds. On the bond side, the Town’s portfolio is pretty much a domestic portfolio. Global bond markets are attractive since two thirds of the world’s bond holdings are overseas, not in the U.S. From a shear opportunity standpoint, we should be represented there. Secondly, the U.S. dollar and currency exposure would dictate that we have some holding in the international arena.

Bob Scherer continued with a discussion on Templeton Global Bond fund. It would be only sovereign debt, not corporate debt. Right now they have zero in the U.S. They make money three different ways. One-third comes from interest rates, one-third from duration, and one-third from currencies – sometimes they will hold foreign debt but they will hedge it back. Bob pointed out on Page 7 of the Templeton Global Bond Fund report the relatively low correlations historically to other asset classes. This shows the
diversification benefits. The resiliency of the returns is displayed on Page 8. Page 22 shows the year-by-year returns where most have positive results.

William Freitag noted that the fund was up 8% or 9% for the year. Do you think we are coming in late? Bob Scherer did not think so; the return streams were very steady. Bob noted that the fund yielded close to 6%. Mike Evans reminded everyone that the portfolio’s goal was 8%. Bob stated that the 8% is long-term, a twenty to forty year reach number. You are not going to get there in five to ten years. Stocks in, the long run, are a good inflation hedge. Nothing in the short-run is a good inflation hedge. The global bonds provide greater diversification and a greater opportunity set. But at some level we have to talk about inflation and how we are going to diversify against inflation. That’s the next big story to talk about, the allocation between bonds and stocks. This global bond fund will represent about 7% of the portfolio. The average of the larger pension plans are moving into the 20% to 30% range in their alternative funds. The average range of foundation and endowment markets is way higher than that - 40%, 60%, 70%. We are still below average even though we have come a long way. The asset classes that we need to talk about more are those that depend less on the movements of the market. Hedge funds have managed to generate some fairly positive returns over the course of a decade, and in troubled times. William Freitag noted that this proposal only moves money within the fixed income class, from domestic to global. Bob stated that the first thing you want to do is diversify within your asset classes, to cast as wide a net as possible. Bob concluded by reviewing the chart on Page 14 of the handout showing that interest rate cycles are long-term. Diversification is the best hedge against risk factors in fixed income investments including inflation, deflation, re-investment, credit risk, sovereign risk, currencies, etc. It is an absolutely legitimate discussion to consider further expansion into alternatives to get the right returns out of the portfolio, but tonight we are just discussing diversification moves.

Patti mentioned that we are due to review the Investment Policy Statement (IPS), and perhaps at the February meeting we can discuss the overall portfolio allocation.

Mike Evans made a motion to put 4 million into the Templeton Global Bond fund, taking 2 million from Metro West and 2 million from Loomis Sayles. Seconded by William Freitag. Motion passed unanimously. The motion was then rescinded until the next agenda item was discussed. Mike Evans made a motion to rescind the motion; William Freitag seconded the motion to rescind. Motion passed unanimously.

As a follow up comment, Bob Scherer stated that one of the disciplines in investing is rebalancing. The corporate bond and mortgages represented by Loomis Sayles and Metro West have both had a significant run up.
Next, Bob Scherer introduced Abbey Capital Ltd. He directed the Board to the second-to-the-last page of the handout, a chart on Managed Futures in Difficult Market Environments (1980-2009). The chart shows how managed futures correlate to global equities, tending to be positive in down markets. Managed Futures are mechanical, algorithmic trend callers. They are not fundamental decision makers; these are people who design computer programs to identify trends. They do not care which direction the market is moving. All they care about is that they can identify trends and ride those trends until the appropriate reversal time and then get out. Markets include agriculture, metals, natural resources, oil, interest rates, currencies, stocks and futures. The sources of their returns seem to be completely unrelated to the traditional assets that are out there. They tend to make money more in down markets. This is because markets fall faster and harder.

Bob Scherer said that alternatives can be fairly illiquid since most of the investments are limited partnerships and can be very proprietary to the major brokerage houses. It can be expensive and less transparent than other asset classes. However, Abbey is a fund of funds and they do things rather uniquely. They have separate accounts for their managers creating instant transparency and control. Managed accounts help them control costs better, maybe half the norm. This is a fund that is listed in Ireland with daily liquidity. In addition to long-term trend following, Abbey balances things off with short-term traders. Mike Evans asked how they do in bear markets? Bop said that they have done well in all types of markets. They are the largest allocator of managers in the world.

William Freitag made a motion to move 1 million out of Neuberger Berman Large Cap into Abbey Capital Ltd. and 2 million each out of Metro West and Loomis Sayles into Templeton Global Fund as shown in the Sources and Uses of Funds in the handout. Seconded by Tom Denne. Motion passed unanimously.

d. SEPTEMBER INVESTMENT REVIEW

The Board was directed to the Investment Performance Update for September 30, 2010 in the handout.

e. MARKET REVIEW

Market updates were commented on during the discussions dictated above.

6. OLD BUSINESS

a. PENSION DISBURSEMENTS

The Board reviewed the packet materials. There was no discussion.
b. SUMMARY OF BILLS

The Board reviewed the packet materials. There was no discussion.

7. PUBLIC COMMENT

None

8. AMENDMENT TO AGENDA – 2011 MEETING CALENDAR

Michael Caron made a motion to amend the meeting agenda to include setting the 2011 meeting calendar. Mike Evans seconded the motion.

William Freitag made a motion to set the calendar for calendar year 2011 as follows: February 2, May 4, August 10, November 2, 2011 and February 1, 2012. Tim Rodgers seconded the motion. All members present were in favor of the motion.

9. ADJOURNMENT

Michael Caron made a motion to adjourn the meeting at 8:28 p.m. Seconded by Mike Evans. All members present were in favor of the motion.

Respectively submitted:

James J. Jaskot,
Deputy Finance Director