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 Department representative Robert Shalagan (arrived at 6:30 p.m.), Finance Director Patti-Lynn Ryan, Deputy Finance Director James Jaskot, Ross Charkatz of Graystone Consulting and Bob Scherer (by phone until 6:45 p.m.) of Graystone Consulting.

1. CALL TO ORDER

Chairman Gary Gombar called the meeting to order at 6:00 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 MAY 5, 2010 MEETING

William Freitag made a motion to approve the minutes from the meeting on May 5, 2010. Seconded by Tom Denne.

Motion to approve the minutes was unanimous by members present.

5. NEW BUSINESS

a. JUNE/JULY INVESTMENTS ACTION ITEMS ONLY

Ross stated that there were no action items for review.
b. JUNE/JULY INVESTMENT REVIEW

Ross gave a brief investment review. The portfolio currently consists of about 50% in equities, 30% in fixed income and the balance in hedge funds and cash. Based on the underlying exposures, the portfolio is 58% in equity strategies, 40% fixed income strategies and 2% cash.

The UBP redemption continues and we are about to receive another 15% ($122,475) in the next several days, or 80% redeemed. We expect another 10% over the next quarter. Mike Evans asked if there was a gain on UBP right now. Ross said yes.

Ross noted that one of the equity owners at Berens Capital Management has left to seek a unique career opportunity. Graystone has not placed the manager on watch at this point. The people managing the portfolio are quite competent. Mike Evans asked how many partners they have. Ross said there are six and the one leaving owned about 15% of the management company.

Ross stated that portfolio changes this year have broadened the strategy allocation. He reviewed the performance as of July 31, 2010. As volatility has picked up, the portfolio has outperformed on the downside and lagged during brief periods when the markets have risen sharply, with a total YTD return through July, 2010 of just over 4%, and 13.29% for the year. He directed the Board to the handout “Retirement Board – Investment Review September 1, 2010” as to the performance of individual managers. International equity managers Thornburg and Neuberger have outperformed by a wide margin over the past year, as did fixed income managers Loomis and MetWest. Markets were tough during the month of August, 2010. The portfolio returned and estimated 2% to 2-1/2% for the month. The hedge funds have been flat to slightly positive, which is nice to see in a month when the market loses.

Domestic equities have underperformed, although high quality equities have better opportunities and the portfolio is over weighted in these. Brandywine is indicative of this group and its performance has been lagging, although Graystone believes it is just a matter of time before their performance improves. Bob Scherer said they are keeping a close eye on them, and thinks that the numbers should be looking better between now and the end of the year. Mike Evans expressed concern over the Morning Star reports for Brandywine – they are not trending well. He said that we have been waiting for them to turn around for years. This fund really sticks out compared to the positive performance of others in the portfolio. Bob reiterated that managers go through periods of underperformance. He said that from a historical standpoint, they have gone through periods like this before and came back
strong. He suggested that, given previous periods of recovery, we ought to wait until the end of this calendar year. If things don’t improve by then, we should consider a change.

William Freitag asked about the Investment Performance and Policy Review Checklist in the handout, specifically the 8.5% actuarial rate. He thought that this rate is perhaps a little high. Patti Lynn explained that this rate has been used for actuarial purposes for quite some time. The Board may want to consider dropping the rate, perhaps by a quarter of a point for starts, and recommend this to the Council for their approval. We should be more conservative. Jim mentioned that 8.5% may have been considered conservative at one time, considering how the plan assets have historically performed. Bob Scherer said that since inception in 1979 the plan has earned about 12-1/4%, and therefore the plan has surpassed the current assumption. Right now with the challenges assets have, this could be a difficult number to meet. Gary suggested that the Town actuary meet with the Board to discuss the matter in more detail. Patti will ask the Town actuary to make a presentation at the next meeting.

c. MARKET REVIEW

Ross said that the main theme is to diversify the portfolio into managers and strategies that can respond well in a variety of markets and give the portfolio even broader allocation. We have brought up in the past a couple of areas that warrant discussion: expanding the fixed income area into international bonds and consider other alternatives such as managed futures. He referred to page 10 in the handout for details. This area seems to perform particularly well in stressed markets, and also to maintain diversification benefits over the long-term. Mike Evans asked if these were like shorting strategies? Ross replied no – managed futures invest in variety of future strategies that can be long or short. Bob Scherer said they generally try to capture longer term trend strategies. He mentioned the fund Abby Fund out of Ireland. It is liquid on a daily basis, has transparency, and costs less that other fund of funds. Mike asked if they do well when things go wrong, then how do they perform when things go well? Bob responded that the correlations are not necessarily negative, the correlations are random. Bill Freitag said that the chart on page 10 would be more interesting if it not only showed bear markets, but bull markets as well.

Mike Evans asked about other alternatives such as commercial real estate or direct commodities such as oil or metals? Bob said that he would rather shy away from illiquid strategies. He agreed that there is an illiquidity premium, but there is also an illiquidity risk. Bob said he would rather the portfolio be fully invested in a hedge fund market line, before turning to these other markets. That’s a whole other step, he said.
Bob said that over the course of the next several meetings, we should be addressing inflation – the natural hedging capabilities of certain asset classes, commodities clearly being one of them. The time you do not want to be buying is when “we are running for the hills” when there is inflation. We should be talking about it now when there is no inflation from a practical standpoint and people are more focused on deflation.

Michael Caron asked if Brandywine has a minimum balance requirement? Bob did not believe there was one.

Gary thanked Bob Scherer for his comments.

6. OLD BUSINESS

a. PENSION DISBURSEMENTS – INFORMATION ONLY

The Board reviewed the packet materials. Gary asked about the timing of initial disbursements.

b. SUMMARY OF BILL – FOR REVIEW ONLY

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

7. PUBLIC COMMENT

Mike Evans noted that he had an unfortunate incident with particular members of the Police Department back at the end of February. He stated that he has not been to a Retirement Board meeting since. He will recuse himself from any issues involving the particular police officers about their retirement, going forward and during his term on the Retirement Board. He wanted to go on the public record that that’s what he will do.

8. Tim Rodgers made a motion to adjourn the meeting at 6:53 p.m. Seconded by Joseph Mazinni. All members present were in favor of the motion.

Respectively submitted:

James J. Jaskot,
Deputy Finance Director