

Ridgefield Pension Commission
Minutes of the Meeting of July 23, 2018 [FINAL]

The meeting convened in the small conference room of Town Hall at 7p.m.

MEMBERS PRESENT: Messrs. Chris Christiansen, Tom Hayes, Mike Rettger, Art Aaronson, Jim Stoveken, Chris St. Victor de Pinho, Chris Sierakowski

MEMBERS ABSENT: None

OTHERS PRESENT: Mr. William Burns and Mr. Brian Binkley, Vanguard

1. Mr. Christiansen introduced Mr. Burns and Mr. Binkley of Vanguard, who were attending the meeting to review the investment report of the past fiscal year. Mr. Burns informed the members that Mr. Binkley had recently been assigned to the Ridgefield account, and would be working with him going forward in managing the Trust's investment portfolio.

Mr. Binkley reported that the pension portfolio had produced a total return of 7.22% for the most recent fiscal year ending June 30, 2018, gross of management fees. The equity portion of the portfolio returned 12.33%, while the fixed income portion produced a 0.49% return and the REIT portion a 2.28% return. The asset distribution is in line with the allocation policy, and results were overall generally in line with benchmark results. Net of management fees the total return was 7.15%. This result exceeded the target rate of return of 6.75% used in the current actuarial analysis.

The OPEB account produced a total return of 3.59% gross of fees and 3.52% net of fees. Mr. Binkley noted that the lower OPEB result is due to the fact that this portfolio had a lower equity allocation until the allocation was increased by the Commission several months ago. Now that the allocation policy matches the pension trust, the results of the two portfolios should match in the future.

Mr. Binkley reported that the equity portfolio had recovered well from the downturn in Q1 2018, and had benefitted from the results of the several actively managed funds, which generally exceeded benchmarks. He also reported that the low fixed income result was in line with the overall market, and this portion of the portfolio also benefitted from active management, with an emphasis on higher credit quality and lower than market average duration. The members discussed these results with the Vanguard team, with questions about the concentration of exposures for the international funds and about sector over- and under-weightings for the domestic equity funds.

Mr. Burns discussed Vanguard's investment outlook for the future. In the coming year, they forecast both rising inflation and rising interest rates. Over the longer term however, they do not see inflation being a significant problem and the portfolio should

benefit from the rising interest rate situation given its structure. Vanguard continues to forecast “muted” equity returns relative to the past 10-20 years. They are also placing higher probability on some level of disruption in the equity markets due to trade policy, but see this primarily manifesting itself as increased market volatility more than an overall negative impact on GDP growth in the longer term.

Mr. Burns presented the current results of the Vanguard capital markets model for future return estimates for the portfolios. At this time, using the 30 year horizon data of their model, the median weighted return for the current portfolio asset mix is 6.45%, with the 25th to 75th percentile range of estimate being 5.81% to 7.08%. As requested by the Commission, Vanguard has also modeled alternative asset mixes with several levels of increased equity exposure. These results show some increase in expected return over the 20- and 30-year horizons, but at the cost of higher average volatility.

The members discussed these forecast results and their potential implications for future funding requirements and possible asset allocation changes for the trust portfolios. It was observed that although the median total return result was less than the current return assumption, the assumed return was still well within the range of reasonable expectations, so while this result needs to be monitored, there is time to study and consider options. The Commission asked Vanguard if they could provide information on the asset allocation policies and assumed return results for other Vanguard pension clients. The members also discussed the options of looking at increasing the pure equity allocation on the portfolio by reducing the portion allocated to REITs, and of increasing the duration of the fixed income portfolios to gain yield as interest rates continue to increase. The members discussed the idea of having the actuary continue to estimate the sensitivity of funding levels and estimated liability levels to small reductions in expected total return as may be indicated by the Vanguard forecast. It was agreed these ideas should continue to be reviewed and discussed in upcoming Commission meetings.

2. Mr. Christiansen presented the question of the continuation of the current trust agreement with Vanguard. He reminded the members of the information from the prior meeting that the Cohen and Wolf attorney had communicated that it is not advisable to have two active trust agreements in place. Mr. de Pinho noted that under Connecticut trust law, Vanguard already has certain obligations of duty and prudent action by virtue of their investment management role, and so the Vanguard trust agreement does not really provide any additional value to the Commission as Trustee. Mr. Christiansen observed that based on that information, it would seem that the cost of the Vanguard trust is not providing added value or protection to the Trust or the Commission.

VOTING ACTION: After further discussion, upon motion and second, it was approved to take action to terminate the existing trust agreement with Vanguard as soon as that contract permits.

3. Mr. Christiansen also reported on his analysis of the option to use Vanguard's payment processing service as an alternative to the current use of TR Paul to issue benefit checks to pension recipients. The cost of using Vanguard would be about 60% of the current cost with TR Paul, and since all funds would be within the Vanguard organization, this approach would also result in fewer handoffs and movements of funds between accounts than happens today. There was discussion of the timing if a change were to be made. Mr. Stoveken and Mr. Burns of Vanguard suggested that making the change at a calendar year end would be easier for plan beneficiaries as well as the administrator since there would not be the need to produce two 1099 reports for recipients for the tax year. Mr. Christiansen indicated that he still needed to contact the references provided by Vanguard. He plans to do this in the coming weeks, and would expect to have that information at the next Commission meeting so the group can consider action on this possible change.

Mr. Burns and Mr. Binkley left the meeting at 8:20 pm. following this discussion.

4. Upon motion and second, the minutes of the Commission's May 21, 2018 meeting were approved.
5. Mr. Christiansen presented and reviewed an invoice from Cohen and Wolf for their work on the revision to the Town ordinances concerning the Commission. He indicated that work was substantially complete, so he did not expect further billings on this matter. He also reported that the invoice contained the detail of work hours as had been requested in the discussion of Cohen and Wolf billings, at the previous meeting.

VOTING ACTION: Upon motion and second, the invoice from Cohen and Wolf for legal work on the ordinance revisions was approved for payment.

6. Mr. Christiansen noted that as required by the Town ordinances, the Commission needed to elect a Chairman and Secretary for the coming year.

VOTING ACTION: Upon motion and second, Mr. Christiansen was elected Chairman and Mr. Rettger was elected Secretary of the Commission through the next election of officers in 2019.

7. As had been requested by Mr. Christiansen at an earlier meeting, Mr. de Pinho distributed materials and discussed for the members information about the responsibilities of a trustee and the duties of a fiduciary. He explained that the trustee's role is defined both by the trust agreement contract and by Connecticut statute. He reviewed the key responsibilities of a trustee, including duties to the beneficiaries of the trust, standards of care and action, avoidance of self-dealing, and the importance of transparent information and documentation about the actions and decisions of the Commission. He also reviewed key provisions of the "prudent investor rule" that is referenced both in the trust agreements and the statutes.

In the review of this information, the members discussed, among other topics, the information that is available to beneficiaries concerning the actions of the Commission. It was noted that all meetings of the Commission are noticed in advance, that all meetings are open to the public, and that minutes of the meetings are published on the Town website. Also, information about the financial status of the trusts is included in the Town's annual financial report, which is audited and published on the Town web site. It was suggested that we should contact other municipalities in the area to determine what if any additional notices and financial information may be provided to their plan beneficiaries and participants. Mr. Christiansen indicated that he would contact Laurie Fernandez, the Town HR manger, to determine what information of this type may be provided already by the Town or in conjunction with collective bargaining-unit contracts. The findings of this research will be reviewed at an upcoming meeting when available.

8. The members discussed the draft of the proposed changes to the Town ordinances concerning the operation of the Commission, which had been circulated before the meeting.

VOTING ACTION: Upon motion and second, it was agreed that the proposed ordinance change document was approved by the Commission for presentation to the First Selectman, with the request that the changes to presented to the Board of Selectman for adoption subject to his concurrence with the proposal.

The members also discussed the draft of the changes to the OPEB Trust agreement that have been circulated for review. Mr. Christiansen reported that the current draft has been reviewed by Cohen and Wolf, and reflects all changes they had proposed as well as their concurrence with changes offered by us. Subject to any remaining changes that may arise, it was agreed that this draft should also be presented to the First Selectman as part of the meeting concerning the ordinance changes. A report of that discussion along with any changes offered by the First Selectman will be presented to the Commission for consideration it its next meeting, prior to any recommendation for presentation of the document to the Board of Selectmen.

9. Due to schedule conflicts for several of the members, it was agreed that the planned August meeting of the Commission will be cancelled.

Upon motion and second, the meeting was adjourned at 9:15 p.m.

Submitted as approved at the September 11, 2018 Meeting
Michael Rettger, Secretary
July 24, 2018