Ridgefield Pension Commission
Minutes of the Meeting of March 18, 2019 [FINAL]

The meeting convened in the small conference room of Town Hall at 7:05 p.m.

MEMBERS PRESENT: Messrs. Chris Christiansen, Tom Hayes, Mike Rettger, Art Aaronson (by telephone), Chris St. Victor de Pinho, Jim Stoveken (by telephone), Chris Sierakowski
MEMBERS ABSENT: None
OTHERS PRESENT: None

1. Upon motion and second, the minutes of the Commission's February 25, 2019 meeting were approved. Mr. Sierakowski abstained.

2. Mr. Christiansen distributed for review an invoice from Cohen and Wolf for work on the revisions to the Pension and OPEB Trust Agreements.

   VOTING ACTION: Upon motion and second, the invoice from Cohen and Wolf was approved for payment as presented.

3. Mr. Christiansen reported that the change in procedure for transferring employee pension contributions to Vanguard, as discussed and approved at the prior meeting, has been implemented. Now that this process change is confirmed, he will notify the Town that this process should also be put in place for the other Town payments to the pension and OPEB trusts. To complete the prior meeting discussion on this topic, he requested a formal action to approve use of this process for funds going to the trust for the Money Purchase Plan and for BOE transfers to the pension and OPEB trusts.

   VOTING ACTION: Upon motion and second, the recommendation was approved to change process to use regular mail to transfer funds to the appropriate investment accounts at Vanguard for town appropriation payments for the Money Purchase Plan, and for BOE transfers for the pension plan and the OPEB plan, including both employee contributions and BOA appropriations payments. The chairman was authorized to send letters of instruction to this effect to the Town Treasurer and the BOE.

4. Mr. Christiansen updated the members on a number of informational items since the last meeting:
   - The amounts proposed in the 2019-2020 budgets for the Town and BOE for pension and OPEB appropriations were as recommended by the Commission, except for a small difference for the BOE OPEB appropriation.
   - Vanguard has published revised capital market projections as of year end. These now show an expected return for the plans, before management fees, of slightly more than 7%, an increase from the levels of the prior mid-year 2018 projections.
   - Beneficiary payments to pensioners for February were made out of the OPEB account at Vanguard rather than from the pension account, after having been done correctly in January. Vanguard is looking into the source of the error, and will make the two accounts

whole for the effects of the error.

- Town HR is researching the cases of vested terminated employees who should be contacted about their options for withdrawing funds due them under the pension plans.
- The Town has confirmed that there is a desire to maintain bond/insurance protection for the trusts, so Mr. Rettger will work with the Town risk manager and the Town insurance broker to obtain information about available coverage options and estimated costs, with a target time frame of July 1. He will work with Mr. de Pinho to review the resulting information.

5. Mr. Christiansen reported that he and Mr. Rettger had met with Rudy Marconi and Laurie Fernandez to review the changes to the pension and OPEB trust agreements and on the plans for updating the pension plan documents. They also had discussed the difficulties we are having in getting constructive responses and substantive feedback from the BOE on the proposals. Mr. Marconi offered to contact the superintendent to see if he can facilitate a meeting to review their position. Mr. Marconi may schedule consideration of the trust agreement amendments for the Board of Selectmen meeting on April 14, but this is dependent on the timing of the meeting with the BOE.

6. Mr. Sierakowski presented the analysis that was done by the working group on the topic of asset strategy mix between "active" and "passive" investment options for the trust's equity allocation. The group included Mr. Hayes and Mr. Aaronson, and was done with input and support from the Vanguard account team.

   The group reviewed a number of considerations including the Vanguard framework for portfolio construction, expectations from Vanguard for long-term potential returns and volatility effects from active management, the expected marginal costs of using actively managed funds, and the financial aspects of the trusts that would influence the trust's risk tolerance on a qualitative basis. The group offered the following findings:

   - Vanguard projects an expected incremental return (market "alpha") of approximately 100 basis points over a time horizon of ten years or more. Net of expected fund management fees, this projections would produce a net "alpha" benefit of 60-80 basis points of incremental return versus a passive-only strategy.
   - The four actively-managed funds in the portfolio exhibit individual historical tracking error (a measure of active risk) in the range of 2.4% to 5.8%, depending on the measurement time frame. On a combined basis, the funds' tracking error falls in the range of 3%-4%, which would be considered "moderate" risk.
   - The active funds in use for the portfolio have low management costs.
   - The relatively strong asset/liability position of the trust as well as the relatively close alignment between actual and expected return, suggest that the trust should operate with a moderate level of risk tolerance. As a corollary, assuming an aggressive risk tolerance position is not necessary and may not be appropriate for the trust at this time.
   - If the portfolio strategy were adjusted toward less actively-managed funds, there would be a direct benefit realized in terms of the lower absolute management fees from using passively-managed index funds.

   Given these factors, the Vanguard portfolio construction framework suggests that an appropriate level of "active" management for the overall equity allocation would be in the range of 25%-50%. We are currently at the upper end of this range.

The working group feels that in light of the various factors, it would be reasonable to lower the actively-managed portion of the equity portfolio, while at the same time still maintaining a sufficient level of active management so as to realize a meaningful benefit from that strategy.

Specifically, the group is recommending reducing the actively-managed portion of the equity portfolio to 30% from the current 50%. This would be accomplished by dropping the allocation to each of the active funds now in the portfolio from 7.5% to 4.35%. In response to a question, it was suggested that if the recommendation were adopted, implementation of the change should be accomplished fairly quickly rather than be done over an extended time period.

The members discussed the materials and the recommendations of the group. It was agreed to defer action on the recommendation until the next meeting, to allow the members time to review the materials that were distributed with the presentation and to permit the Vanguard advisor to participate in the discussion.

In response to a question, it was clarified that the recommendation only relates to the equity portion of the portfolio and does not extend to the fixed-income portion at this time. Mr. Aaronson reviewed the several circumstances that make the analysis of this issue different for the fixed income universe.

Upon motion and second, the meeting was adjourned at 8:30 p.m.

Submitted in draft with the concurrence of the Commission members
Michael Rettger, Secretary
March 19, 2019