Ridgefield Pension Commission
Minutes of the Meeting of May 20, 2019 [FINAL]

The meeting convened in the small conference room of Town Hall at 7:00 p.m.

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

1. Upon motion and second, the minutes of the Commission's April 15, 2019 meeting were approved.

2. Mr. Christiansen distributed for review an invoice from Cohen and Wolf for work on the Trust documents to respond to questions raised in the meeting with Mr. Marconi and the school district representatives, to be covered later on the agenda.

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

   A member asked the question of whether bills like this, when they apply to both the pension trust and the OPEB trust, are split evenly or are allocated in proportion to assets. After discussion, it was agreed that since this specific work applied equally to each trust and was not related to the asset holdings, that an even split seemed appropriate.

3. The group continued the discussion from the prior several meetings on the allocation of the asset portfolio between actively-managed and passive (index) funds for the equity portion of the portfolio. Mr. Sierakowski reported that the working group (Mr. Sierakowski, Mr. Hayes, and Mr. Aaronson) had several discussions since the last meeting. The group had focused its recent discussions on two options, the 70/30 passive/active split that the group had proposed in March, and the option of moving to a fully passive portfolio, as was suggested by Vanguard at the April meeting. Both options have reasonable rationales. Given funding levels and expected asset returns, the trusts do not need to be aggressive in their positions, and the passive option would result in lower management fees. Factors favoring the 70/30 option are that Vanguard's research indicates they have been successful in producing a positive "alpha" from their actively managed funds over time, and even with the lower allocation to active, the long-term result could be potentially an incremental 12 basis points net of fees, compared to a wholly passive position.

   Mr. Hayes summarized the several different proposals that had been heard and discussed by the Commission over recent months. In February, Vanguard had stated (via an email communication) that they felt that maintaining the current 50/50 mix was still appropriate. They supported this position with information about their active equity manager framework and with the indication from their research team that Vanguard's expectation for "active alpha" for this mix was on the order of 100 basis points (gross of fees) over a long-term horizon of ten years or more. At the Commission's March meeting, the working group had presented its alternative proposal of a 70/30 split, after consideration of the Vanguard information and portfolio management framework, as well as other considerations such as management fees, the portfolio return expectations used in the actuarial valuation versus the indications of the advisor's capital market modeling, and the sponsor's overall risk tolerance for return volatility. In the April meeting, Vanguard presented a new recommendation, of moving to a fully passive portfolio. So there are three alternative options under consideration, the current 50/50 split, the working group's 70/30 split, and fully-passive option more recently offered by Vanguard.

Based on consideration of the discussions of the Commission over past meetings of this topic, as well as the information, both written and verbal, provided in support of the various active/passive mix alternatives discussed over the past three months, the working group suggested that the Commission's decision be based on three overall considerations: 1) Does the Commission believe that active management will produce a positive marginal return over time? 2) Is the expectation of added return more than the fixed savings (and corresponding benefit to portfolio returns) that would result from the lower fees of a wholly-passive model? and 3) Does the group feel that the trust can absorb the potential added volatility of results (relative to corresponding market benchmarks) that might accompany the actively-managed result over interim periods?

Further discussion demonstrated close support for either option among the members. It was observed that the 70/30 option would seem to offer a balance between the potential for marginally higher returns over a long timeframe, compared with a wholly passive model, while also reducing the potential for shorter term volatility that might be expected with the current 50/50 mix.

> **VOTING ACTION:** Upon motion and second, it was approved to modify the target mix of equity assets between passively-managed and actively-managed funds from the present 50%/50% to a new level of 70%/30%. This target would be applied only to the equity portion of the portfolio (that is, it would not be applicable to the fixed income funds or to the REIT funds), but it would be applied to both the pension trust and the OPEB trust. The change in policy should be communicated to Vanguard, with the direction that the manager should implement the change using its discretion as to timing and market conditions.

4. Mr. Christiansen and Mr. Rettger reported on their meeting with Mr. Marconi and Laurie Fernandez of the Town together with Dr. Collins and Dawn Hudson of the school district, to discuss the school district's response to the proposed OPEB Trust amendments, as had been reported at the prior Commission meetings. When asked for specifics of their basis for expressing concerns, the district representatives noted several categories of investments permitted by the Trust, such as mortgages, real estate, options, and derivatives, which they felt in their opinion could "be risky" and could "lose value". Mr. Marconi also asked about the nature of several of the investments listed. Mr. Christiansen and Mr. Rettger explained that while the Trust was consistent with state statutes in authorizing a broad range of potential investments, the actual selection of investments held by the Trusts were more limited and that

the Commission was required to operate within the framework of the Trusts' written investment policy as well as state statutes concerning trusts and the prudent investor rule (copies of which were distributed to the meeting participants for their review.). Mr. Marconi also asked that, if the Trust were to invest directly in real estate, was it required to follow the same procedures for notice and public hearings as would the Town when it acquires real property.

Mr. Christiansen has discussed the questions from the meeting with the attorney at Cohen and Wolf as well as with Vanguard. Cohen and Wolf has confirmed that being a separate legal entity, the Trust is not subject to the Town's procedures in the event it invests in real estate. Mr. Christiansen reported that he is continuing to work with the attorney and Vanguard to develop a response to the questions from the meeting, either as adjustments to the Trust language or in the form of an explanatory letter addressing the questions raised. Both Cohen and Wolf and Vanguard have indicated that significant restrictions on the potential investment options available to the Trust could impair the ability of both the Commission and the manager to properly fulfill their fiduciary responsibilities to the Trust and its beneficiaries. The members agreed that Mr. Christiansen should continue to develop a response with the help of Mr. Rettger and Mr. de Pinho, for review by the full group at a future meeting.

5. Mr. Rettger distributed a summary exhibit that had been developed by him and Mr. de Pinho outlining the differences between Fiduciary Liability insurance, and Fidelity Bond and Crime Insurance coverage. Mr. Rettger discussed the types of events covered by each form of policy, the "defense in limit" and "claims-made" aspects of the fiduciary liability policy limits, and the requirements of the Town ordinances concerning the Town purchase of bond or crime insurance coverage for the operations of the Trusts. He indicated that his understanding of the ordinance is that the Town is responsible for obtaining and paying for any bond or crime coverage, and that he has been working with the Town risk manager and insurance broker as they explore their options.

6. Mr. Christiansen updated the members on several administrative items since the last meeting:
    - Laurie Fernandez had several questions on elements of the proposed Firefighters' Plan document amendments. Mr. Christiansen feels these questions need to be clarified or resolved before we can finalize that document and carry those changes through to the other two plan documents for the Police and Town pension plans.
    - As a result of some recent changes implemented by Vanguard in their ACH processing, the school district has decided to follow the recently-adopted process of the Town of sending checks to Vanguard for employee plan contributions. He will remind the people involved in the Town and school district finance units of these procedures in advance of the employer contribution payments that will be made upon finalization of the Town and district budgets.
    - The implementation of the new checking accounts at Vanguard is nearly finished, having been delayed by additional signature requirements that Vanguard identified in their set up process. Mr. Christiansen is now expecting that the current Union Savings Bank accounts will be closed by the end of June.

The next meeting of the Commission will be Monday, June 17 at 7 pm.

Upon motion and second, the meeting was adjourned at 8:20 p.m.

Submitted in draft with the concurrence of the Commission members
Michael Rettger, Secretary
May 23, 2019