

Ridgefield Pension Commission
Minutes of the Meeting of July 15, 2019 [FINAL]

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

MEMBERS PRESENT: Messrs. Mike Rettger, Tom Hayes, Jim Stoveken, Chris de Pinho

MEMBERS ABSENT: Messrs. Chris Christiansen, Art Aaronson, Chris Sierakowski

OTHERS PRESENT: Mr. Brian Binkley, Vanguard

With the concurrence of the members present, Mr. Rettger served as acting chair of the meeting due to the unexpected absence of Mr. Christiansen.

1. Mr. Binkley reported on the results of the portfolios for the prior twelve months through June 30, 2019, corresponding to the Town's last fiscal year. Strong equity market returns in the first half of 2019 partially offset the market downturn in Q4 2018. Fixed income markets had seen good results in the first half of 2019 as interest rates declined. Overall the pension portfolio showed a total return for the 12 months of 5.51%, and 5.44% net of fees. This result underperformed relative to most benchmarks. Domestic equity returns were 6.43% (gross of fees) compared to the benchmark return of 9.0%, hurt by the underperformance of the actively-managed funds. International equity results were flat, and lagged the benchmark return of 0.50% due to the underperformance of the international growth and international value funds. Fixed income produced a strong return of 6.84% (gross), but this was less than benchmark as the result of the portfolio having a shorter duration during a window of falling interest rates as well as the position in TIPS, which lagged the benchmark return. The real estate fund had the best return among the asset classes, of 12.26% for the twelve month period. Mr. Binkley noted that although the portfolio underperformed for the past twelve months, results are equal to or better than benchmark since the inception of Vanguard having active advisory authority.

Mr. Binkley noted that the OPEB portfolio results are roughly in line with the pension results, with differences being attributed to the effect of differing cash flow patterns between the two portfolios.

Mr. Binkley then presented Vanguard's views regarding the fixed income portion of the portfolios. Overall, and subject to investor's risk tolerance, Vanguard generally favors a portfolio that is overweighted toward investment-grade corporate credit investments, in order to receive the benefit of the "compensated" credit premium available. While the Ridgefield portfolios do have this overweight, the specific positions are held in the short-term and intermediate-term corporate bond funds. The overall market has been seeing a steady increase in average duration for the past decade, so that the Ridgefield portfolio's duration of 3.94 is now about 2 years lower than the total market at present (6.03). In Vanguard's view, this means that there is an implicit interest-rate risk in the portfolios, relative to the fixed-income benchmark result, when there are further interest rate movements in the market. Vanguard would recommend that we modify the mix of fixed-income asset positions to bring the portfolio duration to "market neutral", and provided specific fund adjustments that would achieve this change.

The members expressed several points relative to the recommendation. It was felt that the lower risk

of the fixed income portfolio was appropriate given the increase in overall equity exposure that was made earlier in the year. It was also noted that with the recent drop in rates, extending duration at this time might expose the portfolio to underperformance if rates do not continue to fall. It was noted that the position in the short-term TIPS fund, while providing a positive return, was one of the factors in the underperformance of the past year, and that the position was not balanced by a long-bond position as was originally contemplated. It was also observed that there is an interest-rate exposure inherent in the REIT position, which does not get factored into the duration calculation when considering the overall interest rate risk of the portfolios.

The members agreed that with several members not present, it would not be appropriate to take action on the Vanguard proposal. Vanguard was asked to model an asset mix change that would involve replacing the current TIPS allocation with a larger allocation to the intermediate-term corporate bond fund, as it was felt that this could move the portfolio toward a longer duration in a more risk-controlled manner. Mr. Binkley agreed and will provide the result to Mr. Christiansen for distribution.

Mr. Binkley left the meeting at 8:00.

2. Upon motion and second, the minutes of the Commission's June 17, 2019 meeting were approved.
3. Mr. Rettger distributed for review two invoices, one from TR Paul for benefit calculations and for the administration fee for the first half of 2019, and the second from Cohen and Wolf for work on the trust document revisions. Upon motion and second, both invoices were approved for payment as presented.

Mr. Rettger reported that the commission had received a renewal notice for PBI, the firm that was hired to do periodic checks for deceased pension recipients. He reported that according to a note from Mr. Christiansen, Vanguard is able to run a similar checking process. As there was no additional information available on the Vanguard option, the members agreed to defer a decision on the renewal to the next meeting.

4. Given the absence of several members, the members present agreed to postpone election of officers for the current fiscal year until the next meeting.
5. Mr. Rettger reported that the proposed language for the OPEB trust document concerning use of financial derivatives, as was adopted at the last meeting, had been reviewed by Vanguard and Cohen and Wolf, and both were in agreement with the wording. Mr. Christiansen has scheduled a follow-up meeting later this month with Rudy Marconi to review the latest changes to the proposed OPEB trust revision, and to see about getting the amendments on the schedule of the Board of Selectmen for consideration.

Mr. Rettger also reported that Mr. Christiansen and he are continuing to work with Laurie Fernandez and with the plan actuary to resolve the several last operational questions that were raised about the Plan document for the Firefighters' Plan.

6. After discussion, no additional changes to the assumptions for the annual valuation reviews for the pension plans and the OPEB plans were identified.
7. Several members present noted that they were not available for the scheduled August meeting, and that they also had other plans in August. It was suggested that the August meeting be cancelled, and that an ad-hoc meeting could be scheduled on short notice if there were decisions needing action before the September meeting.

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
July 17, 2019