Ridgefield Pension Commission
Minutes of the Meeting of September 16, 2019 [FINAL]

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

MEMBERS PRESENT: Messrs. Chris Christiansen, Mike Rettger, Tom Hayes, Chris de Pinho, Art Aaronson, Chris Sierakowski
MEMBERS ABSENT: Mr. Jim Stoveken
OTHERS PRESENT: Mr. Brian Binkley, Vanguard, via telephone

1. Mr. Binkley continued the discussion from the prior meeting of Vanguard's assessment and recommendations on the fixed-income portion of the plans' asset allocation targets. Vanguard has two concerns with the current allocations. First, the duration of the portfolio is currently 4.3 years, which is nearly 2 years lower than that of the benchmark aggregate for the market. Also, about 75% of the US fixed-income portfolio is comprised of "credit" bonds. While Vanguard favors an overweight toward "credit" bonds for their return advantage, Vanguard's policy is to limit this allocation to no more than 50% of the total. Combined, Vanguard believes these differences present the risk of underperformance relative to the benchmark return over the long term forecast horizon.

   In response to the committee's discussion at the prior meeting, Vanguard is proposing another strategy for adjusting to achieve their proposed targets. They propose to eliminate the current short-term TIPS allocation, and to reduce the allocation to the Short-term Investment Grade Bond Fund, shifting both positions into the Vanguard Total Bond Market Index Fund. The result would be an increase in duration to 5.1 years, and a reduction in "credit" exposure to around 50% of the total. All of the bond holdings would still be in governments or investment-grade credits, with no high yield / non-investment grade bonds positons being used.

   There were several questions by the members about the recommendation. It was observed that the increase in duration did not seem to result in a higher expected yield. Mr. Binkley responding that this was due to the combined effects of the current flat/slightly inverted yield curve and the shift from "credit" bonds to governments by using the Total Bond fund. Members noted that the resulting proposed duration of 5.1 years, rather than moving to match the duration of the market index, was preferred at this time given that current interest rates are close to historic lows. There were a number of questions on whether the proposed lengthening of duration could be achieved by replacing the current short-term TIPS allocation with an allocation to a long TIPS fund. Mr. Binkley responded that it was Vanguard's policy that use of TIPS to achieve both duration targets and inflation protection in a portfolio was not its recommended approach, as Vanguard views equities as the preferred vehicle for long-term inflation protection. Mr. Christiansen asked how Vanguard would react if directed to use the long TIPS fund as discussed. Mr. Binkley responded that Vanguard would accept and and make the change, but would consider this as a "directed instruction", documenting this move as being requested by the Commission and not being the recommendation of Vanguard as the discretionary investment advisor for the funds.

It was observed by a member that if we were to accept the proposal, the overall result is not a significant change in overall expected yield for the fixed-income portion of the portfolio, but rather a realignment of risk sources, reducing "credit" risk exposure of the portfolio while increasing interest-rate risk from having a higher duration exposure.

Mr. Binkley left the meeting at 7:45.

After further discussion, it was agreed that the adjustments proposed by the Vanguard recommendation were reasonable, but also marginal in the context of the overall portfolio allocations, that the timing was reasonable in light of recent fixed-income market developments, and that the resulting adjustment in risk factors were consistent with the adjustments made earlier in the year to the equity portion of the portfolio.

> **VOTING ACTION:** Upon motion and second, the recommendation from Vanguard for adjustments to the fixed-income portfolio was approved as presented. Mr. Christiansen will communicate that decision to Vanguard for their implementation.

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

3. Mr. Christiansen distributed two invoices for review. The first, from TR Paul, is for benefit calculations. Mr. Christiansen requested approval of the invoice, subject to review by Laurie Fernandez of Town HR. The second was a small billing from Cohen and Wolf for work on the OPEB trust document revisions. Mr. Christiansen requested approval but indicated he would not pay it until it could be combined with another future billing, due to the small amount involved. Upon motion and second, both invoices were approved for payment as proposed.

4. Upon motion and second, Mr. Christiansen was elected as chairman for the coming year and Mr. Rettger was elected as secretary for the coming year.

5. Mr. Christiansen reported that he was still waiting on feedback or questions from First Selectman Marconi on the proposed revisions to the OPEB Trust Agreement. He reported that he and Mr. Rettger were finalizing a full red-line version of the amended document. As there had been a number of interim versions of revisions to the original over the past year, we realized that we did not have a single document that incorporates all of the changes comprehensively. He and Mr. Rettger were also waiting on some last feedback from Town HR to finish the amended Firefighters' Plan document. Mr. Christiansen reported that several questions had arisen with some recent hirings at the Board of Education on the interpretation of some plan provisions, providing a good example of the value of doing these updates to the various documents.

6. Mr. Christiansen provided some information from some recent surveys of pension and OPEB plan assumptions from other comparable Connecticut municipalities. He has earlier distributed a chart from Vanguard showing the assumed rate of return and percentage of non-fixed income assets in their portfolio targets. Ridgefield falls amid the largest cluster of towns, which displays

a range of 6.625% to 7% assumed return, and "equity-like" allocation targets of 65% to 70%. He also had information from a recent survey by Hooker and Holcomb. This showed that Ridgefield has a slightly lower assumed return (6.75% vs 6.81%) and a higher funding level compared with the average. We are using similar mortality tables as the towns surveyed. One significant difference is that Ridgefield is using a significantly shorter amortization period than the average for factoring in market gains and losses in the actuarial estimate calculations. The OPEB survey showed that the majority of the towns surveyed are not pre-funding their OPEB obligations at all. Ridgefield's OPEB funding level is similar to the average of those town which do have a pre-funding program.

7. Mr. Christiansen reported that as follow up to the prior meeting where action on the renewal of the PBI contract had been deferred, the feedback from the members had been to terminate the contract and switch to the Vanguard service, with the idea that their indications could be compared with the information received by Town HR as a backup source. We could later re-institute the PBI contract if we felt the Vanguard service was not adequate. Upon motion and second, this proposal was approved.

8. The next meeting of the commission will be Monday, October 21, at 7pm.

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
September 18, 2019