

JOINT RETIREMENT INVESTMENT BOARD MEETING

Tuesday, April 17, 2012

7:00 pm

**Second Floor Conference Room
Independence Hall-725 Old Post Road
Fairfield, CT 06824**

FINAL MINUTES

Members Present: Bob Malarkey, Don Bowers, Paul Hiller, Erik Kalapir, Michael Mears, Geoff Mullen (via phone), Rose Sandick, Mike Tetreau, Brian Vahey (via phone), Karl von Hardenberg, Jean Sturges

Members Absent: Scott Bartlett, Barry Rosen, Fred Schaefer, Joseph Rigoglioso

Others Present: Bud Pellicchia, Tom Shingler, Sherwood Yuen

I. Call to Order

Chairman Bob Malarkey called the meeting to order at 7:01 pm.

II. Approval of Minutes

Mike Tetreau made a motion to approve the minutes of February 21, 2012. Paul Hiller seconded the motion which carried 9-0-1 (Michael Mears abstained; Jean Sturges hadn't arrived yet).

Mr. Hiller made a motion to approve the minutes of March 27, 2012. Mr. Mears seconded the motion. Mr. Tetreau made an amendment to correct a statement made by Mr. Schaefer in the first sentence in the second paragraph under Portfolio Advisors on page three to now read: "Mr. Schaefer asked if the valuations for secondaries are good or bad." Mr. Mears seconded the amendment which carried 10-0 (Mrs. Sturges hadn't arrived yet).

Mr. Hiller made an amendment to add the following language next to Brian Vahey's name in the Members Absent section on page one of the March 27, 2012 minutes: "Mr. Vahey chose not to attend in order to avoid a potential conflict of interest as a separate part of his firm, Mesirow Financial, was presenting as a potential manager for the pension board at this meeting. He made it clear it would not be appropriate for him to opine or have part in the possible selection of his firm or any of the other candidates." Don Bowers seconded the amendment which carried 10-0. The main motion, as amended, carried 10-0 (Mrs. Sturges hadn't arrived yet).

III. Hedge Fund Education

Callan gave the Board a report on Hedge Fund Investing. Sherwood Yuen gave an overview on his discussion educating the Board on hedge fund investing, including the asset class in general, risk, what the fees are and how allocations are implemented. Mr. Hiller asked how Wellington is classified. Mr. Pellicchia said Wellington and Conatus both uses strategies that are long-short equity. Mr. Mears asked what happened to Pequot. Mr. Hiller said it's in liquidation and he had received the final payment from Pequot Core. The remaining balance is about \$450,000 in Pequot Endowment. Mr. Hiller said he's confident to get most of the money back. Mr. Mears asked who looks at the hedge fund portfolios and what the managers are invested in, as Pequot had investments that were non-equity, despite the equity focus of the fund.

Mr. Yuen said that for new investments, Callan typically performs due diligence on hedge fund of fund managers, not on individual managers. Mr. Mears asked if Callan and the Board are keeping track of what is being invested in and what is returned. Mr. Mears said he wants to see more information on what hedge funds the Board is investing in. Mr. Pellecchia said that Callan, as the Board's consultant, provides regular (monthly, quarterly) performance measurement evaluation and review of the hedge fund investments.

After Mr. Yuen discussed his background, he explained what hedge funds are. Mr. Yuen said they focus around a trading strategy or multiple strategies which may employ a variety of asset class exposures, risk/return/profiles, leverage, derivatives, etc. Hedge funds are usually private placement limited partnerships. Most hedge funds are now required to register as '40 Act Investment Advisers, and hedge fund transparency has markedly increased, but is still behind that of traditional public market managers.

Mr. Yuen discussed the opportunities for using hedge funds. He said hedge fund performance has done better than bonds and traditional assets on a cumulative basis through market cycles and exhibit lower volatility than asset classes such as equities. Up until recently, hedge funds have been less correlated to traditional assets, but correlation to equities has increased with market volatility. Hedge funds can be beneficial from a risk/return perspective.

Mr. Yuen discussed types of hedge fund strategies. Callan breaks the strategies into four groups: equity hedge; event driven; macro; and relative value. The largest strategies are event driven and global macro. Mr. Yuen gave an overview of the hedge fund market stating that no one strategy outperforms year after year so Callan likes to take a diversified approach.

Mr. Yuen discussed hedge fund risks. Hedge fund risk management has dramatically changed over the last few years. Now there is more transparency to underlying managers and better risk management systems. Mr. Yuen discussed systematic and unique risks of managers. Mr. Mears asked what the Board's strategy is for hedge funds and what the plan's liquidity needs are. Mr. Yuen said Callan can help identify managers that have more liquid portfolios and that most FoF managers have quarterly liquidity with 95 days prior to written notice. There have been changes in the industry to tackle all the hedge fund risks. Mr. Yuen discussed risk management solutions, including Operational Due Diligence (ODD). Separately Managed Accounts (SMAs) that allow for more customization, transparency and control are becoming more prevalent with hedge fund of fund managers, but require sizable investments that could be prohibitive for Fairfield. Mr. Mullen said that customized solutions may be available at a lower asset level.

Mr. Yuen discussed Fairfield's current target allocation and where we want to see hedge funds in the portfolio. Mr. Yuen said Callan recommends a fund of funds solution that is absolute return in nature and complements the current long/short equity exposure. Mr. Hiller said two years ago, the Board, which had a few different members than who's serving now, had rejected the fund of funds solution from EAI because of the legacy with Pequot and the fee structure. Another issue was over-diversification. Mr. Yuen said the fees are worth it and that this solution provides better diversification and the necessary due diligence. Mr. Yuen discussed investing in smaller managers and emerging managers due to their potentially higher returns in response to the question on dilution of quality in fund of funds.

Mr. Pellecchia asked the Board how it wants to move forward in the space of hedge funds. Mr. Pellecchia said that Callan recommends a fund of funds and can conduct a search in this area. Callan would not recommend direct hedge funds, but if the Board produces names of hedge funds, it would invest in directly, Callan could conduct investment due diligence on them, but not operational due diligence. Operational due diligence would have to be handled by a third party. Mr. Shingler said that Callan recommends a fund of funds approach for investors of Fairfield's size and resource due to the oversight and diversification they provide.

Brian Vahey said it makes sense to look at the fund of funds option. He likes hedge funds for diversification reasons. Mr. Mears agrees that the Board should look into this option. Mr. Bowers said this broader hedge fund of fund approach makes sense for the Board and for beneficiaries. (Mr. Tetreau left at 8:50 pm).

IV. Fixed Income Discussion

Mr. Shingler gave the Board a handout dated March 31, 2012 with a monthly investment measurement service review of the total fund. Mr. Pellecchia said, with regard to the fixed income managers, that there are organizational issues with both Dwight and Seix. In about two months, Goldman Sachs will take over Fairfield's portfolio from Dwight. Callan gave pros and cons of using Goldman Sachs as a manager and said they recently met with GSAM/Dwight. There is a high level of turnover at Seix. Mr. Hiller noted they are owned by SunTrust, which has had issues. Performance for Seix has been strong, protects well on the downside, but is more muted in up markets than some more aggressive Core Plus managers. This is a good time to reevaluate the total fixed income portfolio. Mr. Pellecchia recommends the Board speak to Dwight and Seix representatives at its next meeting, which the Board agreed to.

Mr. Shingler gave the Board another handout on the fund's fixed income investment managers' returns and peer group rankings. Mr. Pellecchia noted that this handout shows a different ending period than the flash report.

V. Money Market Fund Options

Mr. Shingler gave the Board a handout on cash accounts that addressed the interest in increasing yield on the cash account. He discussed the Federated Government Obligations Fund, which Fairfield currently uses, and the Federated Prime Obligations Fund which still has the same AAA credit rating as the Government Obligation Fund from the three main rating agencies. Mr. Shingler said Callan likes the Federated Government Obligations Fund in general for cash and Federated as a cash manager. The Government Obligation Fund is the safest, but currently gets virtually no yield due to the rate environment. The alternate safe fund is the Prime Obligations Fund which invests in non-government securities so it can get more yield.

Mr. Hiller made a motion to move the Prime Obligations Fund. Mr. Mears seconded the motion which carried 10-1-0 (Sandick against; Tetreau had left the meeting at 8:50 pm).

VI. OPEB Status

Mr. Hiller said three years ago, the Town set up two trust funds. Mr. Shingler gave the Board a handout dated March 31, 2012 showing a monthly investment measurement service review of the OPEB. Mr. Hiller said the Town is committed to fully fund the ARC, from the actuary. The funds are managed by Smith Affiliated Capital, which was the predecessor to Dwight. Mr. Pellecchia said the Fund has done decently by Smith for our type of investment and noted that he and Mr. Shingler recently met with Smith.

VII. New Business-None

VIII. Old Business-None

IX. Public Comment-None

X. Adjourn

Mr. Hiller made a motion to adjourn the meeting at 9:25 pm. Mr. Mears seconded the motion which carried unanimously.

Respectfully submitted,

Jennifer S. Carpenter
Recording Secretary