

# **JOINT RETIREMENT INVESTMENT BOARD MEETING**

**Tuesday, August 21, 2012**

**7:00 pm**

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

## **FINAL MINUTES**

Members Present: Robert Malarkey, Rose Sandick, Mike Tetreau, Paul Hiller, Fred Schaefer, Jean Sturges, Mike Mears (arrived 7:16 pm), James Takami (via phone)

Members Absent: Don Bowers, Scott Bartlett, Barry Rosen, Brian Vahey, Erik Kalapir, Geoff Mullen

Others Present: Tom Shingler, Bud Pellecchia, Steve Center (via phone)

### **I. Call to Order**

Chairman Bob Malarkey called the meeting to order at 7:03 pm.

The Board took items out of order.

### **V. Performance Review of Pension Plan (Second Quarter Report and 7/31/12 Flash Report)**

Referring to a booklet dated June 30, 2012 on investment measurement service, Bud Pellecchia briefly discussed the second quarter report. Mr. Pellecchia said capital markets were pretty poor because the economy had slowed down in the second quarter. The market picked up in July. Active managers didn't pay off well in the 2<sup>nd</sup> quarter.

Referring to a handout on the flash report, Tom Shingler discussed the investment measurement service monthly review dated July 31, 2012. Mr. Shingler discussed market values as of the end of July. There were over weights in the domestic equity and domestic fixed income areas and there were under weights in the hedge fund area, private equity and commodities. Paul Hiller said he got instructions to free up cash by August 30, 2012 to fund Gresham in commodities. The fund is good on cash up to October 1, 2012. Mr. Shingler said domestic equity is below the benchmark for the month. Domestic fixed is right about at the benchmark. July was a better month for Wellington's hedge fund. The total fund last month was 0.74%. Mr. Pellecchia said domestic equity managers underperformed for the last three years. The Board's next project is to evaluate the equity manager structure and the right mix of large capitalization, small capitalization and the right group of managers. (Michael Mears arrived at 7:16 pm).

### **VI. Performance Review of OPEB**

Mr. Shingler gave an overview on OPEB. Using a handout dated July 31, 2012, Mr. Shingler said the OPEB total at the end of July was \$11,783,610 and is closely split between Employees and Fire & Police. Mr. Shingler said returns for the period ending July 31, 2012 were slightly above the benchmark. Mike Tetreau said fiscal year 2013 is the first time the Board will fund 100% of ARC. Mr. Hiller said the Board has to perform a bi-annual update on liability. Mr. Mears asked if going forward, the Board wants to take losses on equities in the OPEB and whether it is a good idea to invest in that asset class. After seeing the actuary report in December, Mr. Tetreau would like the Board to discuss OPEB at its January meeting. Mr. Pellecchia said it

would be helpful to Callan to see the preliminary actuary report. Mr. Shingler said Callan should see what statutory restrictions there are.

### III. Investment Manager Evaluation-Core Fixed Income

Steve Center from Callan discussed how Callan came up with the names of the investment managers for the core fixed income search. Mr. Center briefly discussed how the managers were picked. Referring to the booklet dated August 10, 2012, Mr. Center gave an overview on each manager.

Babson Capital Management's an externally managed strategy (not insurance assets) and has a very stable team. Babson are sector specialists. The key alpha driver is overweight to credit. Babson has a competitive fee.

Barrow, Hanley, Mewhinney & Strauss is a value equity manager that also has a very large long credit business. The team is very stable. Barrow is a dollar-based bond group and likes to capture roll downs. Barrow always over weights credit like Babson does. Barrow manages \$60 billion in total assets.

CS McKee, L.P. manages \$12 billion in total assets--half is fixed income. The core portfolio outperformed the last five years. CS came through the crisis in 2008 very well. CS has a very stable team. CS has the lowest volatility compared to the other candidates.

Goldman Sachs Asset Management is included as supplemental information and is not the result of Callan's search process because the Town requested Goldman be provided in this review. Goldman is a core strategy manager focused on all fixed income areas. Mr. Center discussed the changes in the historical distribution of sectors and the percent of ending weights in each sector. There has been a lot of turnover with the senior professionals.

J.P. Morgan Asset Management is a very successful core bond strategy mostly due to its strong performance during the credit crisis. Mr. Center expressed some concern with the asset size—there is \$36 billion in the mutual fund.

Mr. Hiller said none of the manager pages being looked at have a comparison to Seix. Mr. Center said Callan ran correlations to Seix in their search process and limited candidates to those with excess return correlations of 0.4 or lower. Mr. Center said Babson and Barrow are pretty conservative credit focused managers. Mutual has a higher positive correlation to Seix. Mr. Pellecchia said Callan will add the correlations by Wednesday to the comparative manager performance section in the booklet.

Mutual of America Capital Management was also requested by the Town and not a result of Callan's search. Mutual is a credit focused firm. It recovered quickly in 2009 from the 2008 crisis. Mutual has a very stable team. Mr. Center is concerned with the size of Mutual's strategy.

Prudential Fixed Income is looking to add value through securities collection. Prudential has a very high quality strategy. The key to its portfolio is a strong risk management team. Prudential manages \$36 billion in assets. It has followed the benchmark over time.

Smith Affiliated Capital Corporation was requested by the Town and not the result of Callan's search. Callan had a difficult time learning how Smith's portfolio was constructed after meetings with Smith. Smith manages only about \$600 million in core fixed income assets. Callan got a positive feel on Smith's transition as Dr. Smith retires. Mr. Center said Smith has taken risks on the credit side leading to volatility. Fred Schaefer noted Smith has more big positive and negative swings than expected.

Wells Capital Management is a diversified fixed income strategy. Wells' fee is on the higher end of its peer group.

Mr. Shingler referred to the summary matrix. Mr. Pellecchia said the Board's goal is to narrow its choices down to three managers for the next meeting to interview. Members discussed who they liked and didn't prefer.

Mr. Tetreau made a motion that the Board would select Wells, McKee and Babson. Mr. Mears seconded the motion which carried unanimously.

#### IV. Update on Status of Asset Allocation and Distribution

Referring to a handout on the Board's work plan, Mr. Shingler said the plan shows what the board has accomplished and its next steps. Mr. Shingler reviewed asset allocation, manager searches, and next steps. Mr. Tetreau said this work plan helps update the Board of Finance on progress being made.

#### VII. Review and Approve Authorization to Change in Signatories

Mr. Hiller made a motion to add Michael C. Tetreau's name as a signatory to the signing and trading authority which authorizes Mr. Tetreau to execute any and all documents in the name and on behalf of the Joint Investment Retirement Board. Jean Sturges seconded the motion. Mr. Hiller made a friendly amendment to remove Kenneth A Flatto's name from the signing and trading authority and add Mr. Tetreau's name. Mr. Tetreau asked who the other signatories on the account are. Mr. Hiller said Mary Carroll Mirylees is a signatory on custodial accounts.

The motion carried unanimously.

#### II. Approval of Minutes

Ms. Sturges made a motion to approve the minutes. Rose Sandick seconded the motion which carried 5-0-3 (Schaefer, Mears and Hiller abstaining).

#### VIII. New Business

Mr. Tetreau said the Board will present the RTM with an annual report on September 24, 2012 since it's an annual requirement per the ordinance. The report will include a presentation of the current investment policy, investment performance since the last annual report, all expenses incurred since the last annual report and a summary of any conflicts of interest reported since the

last annual report. Mr. Mears noted there are minor inconsistencies in the investment guidelines. Mr. Tetreau asked the recording secretary to send new members the statement of no conflict to sign. Mr. Tetreau talked to the Pension Plan attorney. The attorney pointed out that there are some documentation issues that need to be cleared up to get the Plan into compliance with IRS Code. Mr. Tetreau has asked the attorney to report back on the best approach to get the Plan into compliance. He will forward the attorney's email to the Board.

IX. Old Business-None

X. Public Comment-None

XI. Adjourn

Ms. Sturges made a motion to adjourn the meeting at 9:22 pm. Mr. Schaefer seconded the motion which carried unanimously.

Respectfully submitted,

Jennifer S. Carpenter  
Recording Secretary