GLASTONBURY BOARD OF FINANCE
PENSION SUB-COMMITTEE
SPECIAL MEETING MINUTES
WEDNESDAY, APRIL 22, 2020

The Glastonbury Board of Finance, along with Finance Director, Julie Twilley, and Town Manager, Richard J. Johnson, held a special meeting at 3:00 p.m. via Zoom video conferencing to discuss topics pertaining to the Pension plans including, but not limited to, the current pension portfolios, current investment practices, asset allocations, manager attribution, plan performance, and market analysis.

Chris Kachmar, CFA, from FIA was also present at the meeting.

Roll Call

Members
Mr. Constantine "Gus" Constantine, Chairman
Ms. Jennifer Sanford, Vice Chairman
Mr. Robert Lynn
Mr. James McIntosh {joined the call around 3:15 pm}
Mr. James Zeller
Mr. Walter Cusson

Chris Kachmar from FIA explained that the BOF had asked him about balancing at their previous meeting. He assured the Board that their team is looking at that on a regular basis. Mr. Kachmar explained that they laid out asset class tables for both the Town's legacy and BOE's hybrid pension plans, noting that the Town's plan leans into risk assets, or equities. The hybrid plan today is all indexed, using Vanguard index funds to express the allocation. It leans relatively into international equities a little more than the Town's plan. The rates of return are 5% for the hybrid plan and 6.5% for the legacy plan. Can the return be achieved in 1-3 years? Mr. Kachmar stated that while they cannot know for certain, given how volatile the markets have been, in the longer term, their expectation is that the returns can be returned.

Ms. Sanford noted that the hybrid plan is an all-index fund, so it does not have active management. She asked if that is the sole reason why the international is heavier. In other words, did the BOF neglect to drive that expression when they reallocated and set up much lower international exposures, or is it purely that, despite the expression, FIA still believes they need to be weighted? She concluded that it stands out to her as something that needs to be adjusted lower. Mr. Kachmar responded that, at the time, they thought the structure was appropriate.

Mr. Lynn stated that international equities have underperformed domestic equities in the last ten years. Mr. Kachmar explained that, ten years ago, international equities dominated, so these cycles can extend over certain periods of time. They have the forecast view that international equities will have their day in the sun again. Ms. Sanford stated that international equities stand out to her. There is a difference in the asset allocation in the international space, which she cannot defend, but if other people can, then she will not object.

Mr. Kachmar then moved on to explain that there is a positive skewness in the return distribution of the legacy plan, which is strikingly different from the hybrid plan. Mr. Kachmar explained that some of this difference has to do with the fact that they have a stretched-out return distribution for the legacy plan because of the risk assets. Those outcomes are stretched around the median and the model is picking that up, whereas the hybrid plan centers on fixed income, so the distribution clusters a little more tightly. Ms. Sanford stated that she cannot reconcile the differences in the two. Mr. Kachmar stated that he will look into it and offer a little more clarity around those outcomes at a later meeting.

Mr. Kachmar then explained the expressions of the portfolios, noting that they are diversifying by asset class and also by entity, which is different for the new hire plan. He clarified that this is a relatively small pool. Mr. Lynn asked if Mr. Kachmar is pleased with all of the funds FIA has selected for this because there are a couple of funds that have greater risk and lower performance than the benchmarks. In other words, is FIA looking at these funds and offering any changes? Mr. Kachmar explained that they will see periods of time with managers underperforming, but overall, there is a compelling story to tell, and they are content with the roster as it exists today.

Mr. Kachmar explained that the preliminary in March was a really difficult quarter, but numbers have improved significantly in April, and they are cautiously optimistic that the stability will persist. Mr. Lynn asked how fast they rebalanced after their March meeting. Mr. Kachmar replied, they did so in real time. Mr. Lynn stated that the plan returned 5.1% and the blended benchmark at the same time was 5%. For those 10 basis points, how much risk did they assume in that plan, relative to the return? Mr. Kachmar stated that this has been a really difficult time for active management. Mr. Lynn remarked that he wants to better understand their risk relative to the return benefit. Ms. Sanford commented that she still supports active management. What the BOF needs to do is feel confident about their assumed rate of return and their manager. She is struggling with the assumed rate of return more than that issue. Mr. Lynn replied that if you are active managing to the benchmark and adding more risk, then he has a problem with that.

Mr. Kachmar stated that the financial wherewithal of a small company is accentuated in a bad way right now. Ms. Sanford asked where is the additional risk on the portfolio? She thought it was the Templeton Global Bond Fund. Mr. Kachmar stated that the Templeton fund is a fairly volatile entry in the global bonds space.

Ms. Sanford thanked Mr. Kachmar for putting together an excellent presentation.

The Board adjourned their meeting at 3:57 p.m.

Respectfully submitted,

Lilly Torosyan
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Recording Clerk

For anyone seeking more information about this meeting, an audio recording is available in the Finance and Administrative Services Office.