

**GLASTONBURY BOARD OF FINANCE
SPECIAL MEETING MINUTES
WEDNESDAY, JUNE 24, 2020**

The Glastonbury Board of Finance, along with Finance Director, Julie Twilley, and Town Manager, Richard J. Johnson, held a special meeting at 10:00 a.m. via dial-in conferencing.

The purpose of the meeting is 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.

Also on the call were Chris Kachmar and Matt Kaminski from FIA.

Roll Call

Members

Mr. Constantine “Gus” Constantine, Chairman
Ms. Jennifer Sanford, Vice Chairman
Mr. Robert Lynn
Mr. James Zeller {joined at 10:20 a.m.}
Mr. Walter Cusson {excused}
Mr. James McIntosh {excused}

With only three members present at the onset, the meeting proceeded as a Pension Sub-Committee meeting. However, with Mr. Zeller’s presence, quorum was met, and the meeting reverted to a special meeting.

1. Public Comment Session Pertaining to the Call *None*

2. Discussion: Presentation provided by Fiduciary Investment Advisors (FIA)

Chris Kachmar introduced Matt Kaminski, a partner at FIA, who presented FIA’s philosophy of selecting active managers. He explained that their team in Chicago selects managers the same way that their team in Windsor does. So, the merger is very integrative. Their manager research philosophy is to identify managers who can outperform benchmark and stay the course. Both qualitative and quantitative metrics are important. He added that while they look at historical performance, without the qualitative understanding of how the manager got there, that quantitative record has less meaning.

Ms. Sanford asked, when the merger occurred, was there a change of control? Specifically, how has it impacted Glastonbury today, in terms of resources? Mr. Kaminski explained that, going forward, they will split the private and public. They are mixing the analysts between the two teams. As for changing control, some team members will report to the project lead in Chicago,

but they are in constant communication and are philosophically aligned with each other. In terms of the impact to the portfolio, there are overlaps in some names that they each use. Over the coming months, they will dig deep and try to refine what they have and what the best ideas are going forward.

Mr. Lynn stated that he is looking at trying to exceed the benchmark and reduce risk. He would like to look at each of their funds specifically, which would give them a better idea of how to proceed. Mr. Kachmar stated that the Board showed specific interest in going over the Templeton Global Bond Fund. Mr. Lynn noted that, for the last 7 years, that fund has been 90 basis points off of benchmark. He asked why they continue to keep that fund in their portfolio. Mr. Kaminski explained that their approach is understanding that the fund can just as easily perform very well, and there are periods where that has happened. They want to avoid selling managers when they are at the bottom of their cycle. He thinks that, over time, it will overperform. Mr. Kachmar added that they like their thoughtfulness, their resources, and the way they build portfolios. Mr. Lynn asked why they are moving it now to BlackRock if they think that this is a better hold for the future. Mr. Kachmar explained the attributes of the international market, adding that it is an exercise in balance, to mix and match.

Ms. Sanford stated that she is more partial to derivatives than fixed income. She asked if FIA is finding it more challenging now than in the past 10 years. She remarked that FIA is committed to this manager and feels that the Templeton Fund is a diversifier to the portfolio. Mr. Kaminski replied yes, it is a very difficult environment to think about 20-30% of a portfolio to be invested in US bonds, which are yielding what they are today. It is definitely as challenging as it has ever been. He thinks that it is the same idea here with the Templeton Fund. He feels quite confident at the ability for this to create returns to benefit the portfolio, and same with BlackRock.

Ms. Sanford asked, due to performance, why wouldn't a fund like this just systematically be put on a watch list? Mr. Kaminski explained that, with Templeton, there are periods where performance has outperformed to the same magnitude as it has underperformed. Ms. Sanford asked, what is the right size of a fund, and how does that impact the total riskiness of the portfolio and the rate of return?

The discussion then moved over to Cape Ann. Mr. Lynn asked why the switch wasn't proposed six weeks ago. Does this mean that FIA does not have conviction in these managers? Mr. Kachmar stated that the idea is vetted, researched, and takes time to reach a thoughtful basis going forward. Touchstone and Westfield is a good large-cap manager and DFA is very well-regarded. FIA just thinks that, on a go-forward basis, saving a little and dialing down that portion of the program while introducing a couple of mid-cap managers is a good proposition. It is not that those managers are bad, but they are just trying to work with the market. So, yes, they believe that there is a better way to structure the domestic equity program going forward.

Mr. Lynn stated that he would like to see the top 2 or 3 funds in the small/mid cap, so that he can understand FIA's homework. Mr. Kaminski stated that they have the research, which the Board can access, and speak directly to the analysts.

Mr. Kaminski explained that the Cape Ann Emerging Markets is a value approach to emerging markets. They have underperformed because they are a value-focused investor. Mr. Lynn stated that he did not know that they were heavily into energy. If FIA is comfortable with them, then he is comfortable, too. He then stated that \$5 million is probably not enough to help the Board achieve a 6.5% yield return target. He asked if they should consider private equity to get some long-term return here. He asked if there are other municipalities that have private equity or hedge funds within their portfolio?

Mr. Kachmar explained that, at the local level, most committees decide that the headline risk with private equities and hedge funds is not a profile that they want to adopt. So, most of their plans look like Glastonbury's plans. Mr. Kaminski agreed, saying that that option is almost a nonstarter here, but the Town could mimic private equity.

Mr. Lynn stated that he would defer to Mr. Kachmar and Ms. Sanford to wait until July to take action on the portfolio changes. Ms. Sanford stated that she is uncomfortable with delaying action and would prefer to have the professionals at FIA take action now.

Mr. Constantine summarized the recommendations from FIA as the following:

- Moving the Templeton Global Bond Fund from 7.5% to 5%
- The Touchstone and DFA Funds would go to 0
- Small midcap and small value stocks would go to 6%

The Board decided that the Templeton Fund is the most pressing matter at the moment, and they can wait to vote on the rest of the items at a later meeting date.

3. Action: Remove current investment manager(s) and replace with other manager(s).

This action is postponed until the next meeting.

4. Action: Adjust asset allocation / portfolio construction.

Motion by: Mr. Lynn

Seconded by: Ms. Sanford

BE IT RESOLVED, that the Glastonbury Board of Finance hereby moves the Templeton Global Bond Fund shares from 7.5% to 5% of the current pension portfolio.

Result: Motion passed unanimously {4-0-0}.

5. Adjournment

Motion by: Ms. Sanford

Seconded by: Mr. Lynn

BE IT RESOLVED, that the Glastonbury Board of Finance moves to adjourn their meeting of June 24, 2020, at 11:22 a.m.

Disc: Mr. Lynn appreciated FIA for answering their questions. In the future, he would like to have such meetings not on Zoom but in person, and discussions focused on the micro not macro level.

Result: Motion passed unanimously {4-0-0}.

Respectfully submitted,

Lilly Torosyan

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Recording Clerk

For anyone seeking more information about this meeting, a video on demand is available at www.glastonbury-ct.gov/video; click on Public Broadcast Video On Demand, and an audio recording is available in the Finance and Administrative Services Office.