

**GLASTONBURY BOARD OF FINANCE
SPECIAL MEETING MINUTES
WEDNESDAY, NOVEMBER 9, 2022**

The Glastonbury Board of Finance, along with Town Manager, Richard J. Johnson, held a special meeting at 2:00 p.m. in the Council Chambers of Town Hall at 2155 Main Street with the option for Zoom video conferencing. The video was broadcast in real time and via a live video stream.

Also present were Chris Kachmar and Mark Wetzel from Fiducient Advisors.

Roll Call

Members

Mr. Constantine “Gus” Constantine, Chairman
Mr. Jared Soper, Vice Chairman
Mr. James McIntosh
Ms. Susan Karp
Mr. Robert Lynn
Mr. James Zeller {excused}

1. Public Comment Session: Comments pertaining to the call. *None*
2. Discussion and possible action concerning pension investment program and services.

Mr. Soper would like everybody to be on the same page regarding roles. He asked to review what Fiducient thinks their role and responsibility is and what they think the role and responsibility of the BOF is. Mr. Kachmar explained that Fiducient functions as a non-discretionary adviser to the Board, conducting asset allocation work and ongoing monitoring of performances to ensure that they are on track to meet the Board’s long-term objectives. The Board’s responsibilities are to consider the advice and action items that Fiducient brings and to make a final decision as far as asset allocation and which investment managers are in the fund.

Mr. McIntosh asked how Fiducient would rate the Board’s performance. Mr. Kachmar explained that most of their Connecticut municipal clients engage with them in the way that this Board does, though the spectrum of execution varies a little. Mr. Wetzel added that the Town’s portfolio is different from that of many of their clients because this Board has been more involved in those decisions than many of their clients have been. The Board’s fiduciary role is to think about the plan and give their best input, which this Board has been doing well.

Mr. Lynn noted that Glastonbury has some managers which other towns do not. He asked if those were also the Board’s decisions. Mr. Kachmar explained that other clients use many of the managers that Glastonbury does, so it is not an absolute. In 2022, a couple managers really struggled, which they acknowledge. Some of Fiducient’s clients, like West Hartford and Westport, have greater equity exposure than Glastonbury, making them more volatile. In striking a balance between return opportunity and risk, Glastonbury is above the trend line. If the Board seeks to dial up that allocation with more equity, they can do that.

Mr. Soper asked where the conversation would begin, should the Board choose to increase their equity allocation. Mr. Kachmar stated that it would start at the annual asset allocation exercise. They must also be mindful of the Town's actuarial assumption target of 6.25%. West Hartford's is higher while Westport's is lower, though they are very well funded. Mr. Soper, however, views the ROR assumption and the actuarial returns as somewhat of a chicken and an egg situation. Mr. Kachmar agreed that there is a circular element to it. Mr. Lynn asked why Westport has certain funds that Glastonbury does not. Mr. Wetzel stated that some of the differences lie simply in timing. Mr. Kachmar noted that while a lot of clients trust Fiducient to interview candidates, Westport does it themselves. Mr. Wetzel added that those candidates are all managers that Fiducient showed them.

Since it is the Board's responsibility to select the managers, Mr. Soper would like more in-depth information on them. Ms. Karp finds it important to have a system which can outlast the current board. She would also like to see what other towns are doing and why and cautioned against doing something that is not recommended. Board members have an obligation to work towards something together. She expects Fiducient to give an honest opinion as to whether something is a good idea or not. This would help them see why other towns might seem to have more opportunities and why they have chosen the portfolios that they have. Mr. Soper does not care much about what other towns are doing. Fiducient is bringing them their best idea. If they bring their top two positions, then the Board could choose which is most suitable for them. He agreed that there needs to be a system which works for the whole board, and for when the board is not there. He seeks more detail in some of the recommendations.

Mr. Soper asked, if the Board becomes dissatisfied with a manager, should they approach Fiducient. Mr. Kachmar replied yes, they should. Typically, when a manager goes on watch, it receives a heightened level of scrutiny, and they hold the analyst accountable for those statuses. They typically do not leave a manager on watch for more than three quarters. Mr. Soper asked to walk through the Templeton Foreign Small Cap Fund. Mr. Kachmar stated that the fund has had bright spots throughout its tenure but has struggled over the last year or so. Fiducient has started to move away from them. Mr. Soper asked how the Board determines that they even want to be in an international small cap strategy space. Mr. Kachmar explained that it starts at the asset allocation exercise, with looking at the complexity of the portfolio.

Mr. Lynn asked if Templeton was on the watch list two months ago. Mr. Kachmar stated that they are technically not on the watch list, but when thinking about where they should move forward, it is time to leave. He also spoke about Jackson Square, which has been very volatile. Mr. Wetzel explained that a year ago, Jackson Square looked great. 9 months later, they looked terrible. They try to balance how much they have with each manager. Mr. Lynn asked if the process from watch list to firing a fund is too slow. Mr. Kachmar conceded that it is not a perfect process. The litmus test is that over long periods of time, they have received responsible rates of return with reasonable risk.

In reviewing their returns over the last 10 years, Mr. Lynn pointed out that Westport and West Hartford had upsides higher than, but downsides similar to, Glastonbury's. He asked if this Board should be mirroring towns with better track records. Mr. Wetzel stated that there is a possibility that the volatility of those towns has been all in the upside. They can investigate that. In total, though, Fiducient believes that they add real value. Over the long term, their clients are doing better than other municipal clients in the state. Glastonbury is above the line, with less return but also less risk. They can discuss moving the town up. Mr. Soper pointed out that the

Board made a proactive decision as to the asset allocation. In part, volatility was taken into consideration. He was initially not in agreement with Mr. McIntosh's suggestion for 100% equities in the long-term, but he came around to the idea.

Mr. McIntosh continues to favor 100% equity. There are ways to avoid a problem with the town budget, namely, to place less weight on the ADC. Some Board members have had discomfort with elements of their financial performance. He has discomfort with the actuaries. Mr. Wetzel stated that 100% equity funded over 20 years is great, but the problem is whether a Town can make it to the end of those 20 years. That is very hard to do with a board. Mr. McIntosh is aware that it is a political decision, but he made the point that they have an infinite horizon and are a mature plan. They have enough cash now to be able to pay their contribution for decades into the future, so he thinks that they would do much better with a heavier contribution in equities.

Mr. Johnson stated that the Board has had discussions on whether to change the investment allocation from the hybrid plan to closer match the legacy plan. Mr. Soper's tendency is to move it to a similar allocation, but he suggested asking Mr. Kachmar what his position on that would be. Mr. Kachmar stated that the original exercise centered on that lower volatility profile. The Town probably does have the capability to take on more equity. They can run that exercise and show comparisons of what different mixes look like. Mr. Wetzel added that it seems like a good time to start thinking about potentially getting more aggressive.

Mr. Johnson senses that the Board does not seek to proceed with the outsourced Chief Investment Officer, based on tonight's discussion. This would essentially turn the reins over to Fiducient to manage the portfolio and report to the Board on a periodic basis. Mr. Soper asked what the fee is for that discretion. Mr. Wetzel stated that it is typically a 30% increase, but they would provide a discount to the Town, given their 10-year relationship. The process would entail working together on the investment allocation and policy statement, and then Fiducient would go off and do the work. Mr. Kachmar added that Plainfield and Waterford use Fiducient in a discretionary framework.

Mr. Wetzel thanked the Board for a long relationship and partnership. They are proud and honored to work with a plan like Glastonbury's. Mr. Lynn thanked Fiducient for their work. He explained that the BOF is a fiduciary, so it is their business to go to the marketplace and see if there is a different way of doing business for their citizens. That was the point they were trying to make.

Mr. Kachmar reviewed a list of four potential changes to the Town's portfolio, which will be discussed further at the Board's next meeting. Mr. Johnson will put that action item on the Board's next agenda.

3. **Action:** American Rescue Plan Act (ARPA) – Small Business Assistance Program

Mr. Johnson explained that the Town Attorney has opined to handle the midyear ARPA allocation as a supplemental appropriation. This request is to fund the Small Business Assistance Program. 50 small businesses applied for help, explaining how they were negatively affected by the pandemic and how this money would help them. 30 applications can be approved, with a maximum grant of \$5000 per applicant. However, 31 met the requirement. Therefore, he asked that the funding allocation be raised to \$155,000 to accommodate all 31 applicants. He will talk about this with the Council tonight.

Mr. Johnson explained that the role of the BOF is to confirm that monies are available in the ARPA funds, which they are, and that this is an approved use of ARPA monies per the US treasury, which it is. That is what the Town Attorney opined. Mr. Lynn is worried about whether this transfer of ARPA monies to help small businesses would become an ongoing action. Mr. Johnson replied that with the ARPA monies, they tried not to build cliffs. They have focused on one-time allocations. Mr. Soper asked if this is an approval or a recommendation. Mr. Johnson clarified that it is a recommendation.

Motion by: Ms. Karp

Seconded by: Mr. Lynn

BE IT RESOLVED, that the Glastonbury Board of Finance hereby recommends an allocation of \$155,000 in ARPA monies in support of the small business assistance program established by the Town Council.

Result: Motion passed unanimously {5-0-0}.

Mr. Johnson noted that, at a prior meeting, he had mentioned gathering additional data on historic performance. He provided information on five other towns, to see what they are doing and what their funds are like. He also asked that the Board's meeting next week begin earlier than 4:00 P.M. The Board agreed to meet at 3:00 P.M. on Wednesday, November 16.

4. Adjournment

Motion by: Mr. Lynn

Seconded by: Mr. Soper

BE IT RESOLVED, that the Glastonbury Board of Finance moves to adjourn their meeting of November 9, 2022, at 3:38 p.m.

Result: Motion passed unanimously {5-0-0}.

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.