

**Town of Newtown
Pension Committee Meeting
August 20, 2020, 7:30pm**

**Town Hall South, 3 Main Street, Lower Meeting Room
*Held Remotely due to COVID-19 and Social Distancing Guidelines***

THE FOLLOWING MINUTES ARE SUBJECT TO APPROVAL BY THE PENSION COMMITTEE.

1. Meeting called to order by Chairman Ellen Whalen at 7:35 pm.

Committee Members in attendance: Patrick Burke, Sam Broomer, Charles Farfaglia, Tom Snayd, Paula Wickman and Ellen Whalen.

Guest: Devon Francis, Partner and Senior Consultant, Fiduciary Investment Advisors, LLC

2. New Pension Committee Member – Joe Eppers

Chairman Whalen advised Committee Members Joe Eppers had been appointed to the Pension Committee by the Board of Selectmen. We will welcome Joe at the September meeting.

3. Devon Francis, Partner and Senior Consultant, Fiduciary Investment Advisors, LLC

Market/Economy Review

Ms. Francis discussed the Pension and OPEB 2020 Second Quarterly Investment Review and provided an overview of the Capital Markets.

Ms. Francis noted GDP growth forecasts for 2020 are negative for most of the world except China; however, 2021 estimates are more optimistic. Also, PMI data revealed progress toward more normal economic activity; however, all indices remain below 50, indicating economic contraction. Core inflation dropped off amid the decline in demand, given the shutdown. CPI fell even further with the drop in oil prices. Ms. Francis further noted the second quarter equity rally pushed up valuations globally, bringing them very close to pre-COVID 2019 year-end levels. Technology contributed nearly half of the quarterly total return, driven by very strong performance and a meaningful index weight of 26%. Country Total Returns (%) – Top 10 Largest Economies Optimism about containment of the virus and reopening was expressed in equity returns across the world, which were all positive in the second quarter. The drop experienced in March has left most countries in negative territory for the year. U.S. Treasury yields traded relatively flat, with the Fed keeping the frontend anchored, and economic uncertainty weighing on the back-end. Positive performance was driven by spread compression – notably different from the first quarter when risk-free rates fell and spreads widened. Volatility (stocks and bonds) levels fell from March peaks but remain elevated for equities amid continued COVID-19 uncertainty. Job losses spiked in the second quarter, notably for those less-educated who comprise a majority of the service-related industry workforce. The rally in growth stocks continued for much of the second quarter, with the exception of a couple weeks in early June. Technology-heavy NASDAQ was the clear outperformer, whereas U.S. small caps have struggled to recover from a 40% drop in late March. U.S. dollar weakness emerged amid increased monetary accommodation and the Fed's willingness to do whatever it takes. Central bank policy rates remain low and have been cut even further toward the zero bound in the U.S. and U.K.

Trust Performance Review

Ms. Francis advised the Committee the pension portfolio produced a return of 13.5% in the second quarter this year. The one-year portfolio return is 4.2%, the three-year annualized return: 5.7%, the five-year annualized return: 5.3%, and the ten-year annualized return: 6.3%. The OPEB portfolio has produced similar results: 13.5% in the second quarter, 3.8% on a one-year basis, 5.5% on a three-year annualized basis, 5.2% on a five-year annualized basis and 6.0% on a ten-year annualized basis. The second quarter/plan year end Trust market values were as follows: Pension \$47.5 million; OPEB \$3.1 million. The 2019 Calendar Year Performance was: Pension 19.9%; OPEB 19.5%. The July 31st Trust market values were: Pension \$51.4 million; OPEB was \$3.4 Million with one month returns of: Pension 3.4%; OPEB 3.3%.

IPS Draft Review

Manager Termination Guideline – The Committee reviewed the most recent IPS draft Manager Termination language. Ms. Francis suggested we add the following language in the first paragraph may be terminated at any time, at the will of the Trustees/Committee. While not an exhaustive list, common grounds for termination are and for the third

paragraph Every Manager serves at the will of the Trustees/Committee, and may be terminated at any time for any reason; quantitative, qualitative, or otherwise. Mr. Snayd made a motion to add the Manager Termination language suggested by Ms. Francis to both the Pension and OPEB IPS documents. Seconded by Mr. Broomer. All in favor.

International Equity Allocation/Active Management/Trust Contribution Allocation

The Committee briefly discussed the following:

International equity allocation

- FIA's recommendation is to have a neutral market weight. For a portfolio with 60% equity, that would be about 33% domestic and 27% international.
- Mr. Burke's recommendation to add emerging markets (EM) to the portfolio. Ms. Francis commented FIA does think EM exposure is important within a diversified portfolio. With a 27% allocation to international equities, they envision 5-6% being in EM and the remainder (21-22%) being in developed markets.

Active management

- FIA is a proponent of active management. The Committee has felt that it's important to get the IPS in place before introducing active management, but will discuss the potential of doing so at the September meeting.

Recent portfolio contributions

- Pension cash contribution will stay in the money market and will be used to fund pension payments over the course of the year
- OPEB contribution of approximately \$200K is currently in cash – FIA recommends investing that, since there are no outflows coming from that account.
 - Our recommendation would be to dollar cost average into the market over the course of 2-3 steps, on a monthly or every-other-month basis.

The Investment Sub Committee will meet prior to the September Pension Committee to discuss the above recommendations/comments and make a recommendation to the Pension Committee.

4. Minutes

A motion was made by Mr. Snayd to approve the minutes of the June 18, 2020 meeting, Mr. Broomer seconded the motion. All in favor. Note: Meeting for June 16th cancelled and Special Meeting planned for June 23rd cancelled.

5. Correspondence

None

6. Retirements

Mr. Broomer made a motion to approve the retirement payments for Carlen Gaines and Donald Roos and refund for Kristen Tuz as presented, Mr. Burke seconded. All in favor.

7. Old Business

TR Paul

Dave Leonard, Actuary, preparing Pension Actuarial Reports plus Interest Rate Change Impact Study for October 8th. Pension Committee will review and discuss in detail with Mr. Leonard at the October 15th meeting. Mary Griffin, President, TR Paul, submitted Revised Fee Schedule to PC for review. Fee Schedule will be discussed at October 15th meeting. In addition, a Review Meeting with TR Paul will be discussed and tentatively scheduled for the November meeting.

Trust Audits

Mrs. Whalen called Town Auditors Mahoney Sabol to discuss an independent audit for the Pension/OPEB Trusts. Did not receive return call from Mike VanDenter, Auditor in Charge. Bob Tait will contact Firm and request they contact Mrs. Whalen directly.

Documentation Review-Committee Responsibilities

Mrs. Whalen distributed to Committee Members a Draft copy of her Pension/OPEB Documentation Review. The purpose of this review is to notate Pension Committee responsibilities across ALL Pension/OPEB related documents and determine if any documents need be updated, amended and/or restated. This review and discussion will continue in the following months.

8. **New Business**

Annual Pension Contribution/Investment Allocation

The Pension and OPEB Annual Contributions were wired to the Trusts on July 31st. Investment Allocation will be as noted above.

Plan Year Benefit/Expense Payment Review

Mrs. Whalen is doing preliminary audit of Benefit Payment information from Actuary and Expense payment requests for the Plan Year 7/1/19-6/30/20 to ensure Requests vs Payments are properly documented/processed.

Status of Union Negotiations

Mrs. Whalen noted the Collective Bargaining Agreements for Police and Parks and Recreation have been finalized. All Town CBA documents now note the Pension Plan is no longer a retirement benefit available to new employees.

Pullman & Comley

Mrs. Whalen advised Committee she had discussion with George Kasper re status of Trust Agreement review. Mrs. Whalen awaits a red-lined copy of each Agreement and a list of Mr. Kasper's questions. As soon as received, Mrs. Whalen will continue her review of the Trust documents.

9. **Voter Comment**

None

10. **Next Meeting Date** – September 17, 2020, 7:30pm

**Town Hall South, 3 Main Street, Lower Meeting Room
(Subject to future COVID-19 Social Distancing Guidelines.)**

11. **Adjourn**

With no further business, Mr. Patrick Burke made a motion to adjourn the meeting. Seconded by Mr. Sam Broomer. All in Favor.

Respectfully submitted,

Ellen Whalen, Pension Committee Chair