

From: Susan Mazurski August 2, 2012 2:50:17 PM
Subject: Pension Committee Minutes 06/08/2012 Special Meeting
Approved
To: SimsburyCT_PensionMin
Cc:

PENSION SUB-COMMITTEE
SPECIAL MEETING
JUNE 8, 2012

I. Call to Order

Thomas Cooke, Administrative Chairman, called the special meeting of the Pension Sub-Committee to order on Friday, June 8, 2012, at 7:30 a.m. in the Main Conference Room, Simsbury Town Hall, 933 Hopmeadow Street, Simsbury, Connecticut. The following members were present: Paul McAlenney, Lisa Heavner, Paul Henault, Nicholas Mason and Philip Schulz. and Burke LaClair. Also present were Tom Cooke, Director of Administrative Services, Burke LaClair, Business Manager for the Board of Education, Mary Ann Harris, Finance Director/Treasurer, and Janis Prifti, Commission Clerk.

II. Acceptance of Minutes

a. April 3, 2012

Mr. Henault made a motion to approve the minutes as written. Mr. Mason seconded the motion, and it was approved unanimously.

III. Adoption of proposed Regular Meeting dates for the remainder of calendar year 2012

a. Thursday, September 20, 2012, at 7:30 a.m.

b. Thursday, November 15, 2012, at 7:30 a.m.

Mr. Mason made a motion to approve the meeting dates. Mr. Henault seconded the motion, and it was passed unanimously.

IV. Fiduciary Investment Advisors presentation on Town of Simsbury Pension Plans,

Executive Summary - First Quarter, 2012

Christopher Kachmar of Fiduciary Investment Advisors provided Sub-Committee members with 2 booklets, including an Executive Summary of the plan. He discussed market activities, including the macroeconomic situation, the situation in Europe, index results, the performance of domestic and international equities, and the performance of fixed income products. Mr. Kachmar discussed the performance of the Town's pension funds in the first quarter and challenges faced in the second quarter. Sub-Committee members discussed with Mr. Kachmar the pros and cons of investments in real estate. Discussion ensued concerning the Town's asset allocation choices and the use of indexing as an alternative approach.

V. Fiduciary Investment Advisors: Introduction to the Diagnostic Review being undertaken for the Town's Pension Plans

Regarding the current extensive manager roster in the diagnostic, Mr. Kachmar suggested that there are probably too many managers and fees. In the Executive Summary, he said pension assets as of March 31st have the same strategic allocation of 65/35 which will probably not work anymore to get a 7 ½ - 7 ¾% return. He said now that there is a functional Pension Committee meeting on a regular basis, a longer-term view with different solutions can be put in place. He does not see getting to 7 ¾% for the fiscal year; this quarter is down about 5% with favorable movement in recent days, but the quarter will basically remain flat. He stated the framework needs to be much longer term to evaluate structurally what numbers can be reached. The Sub-Committee members discussed the possibility of lowering the investment rate assumption and the need to approach this in an orderly manner as they do not want a large mill rate increase for voters. Mr. Cooke will email the members applicable materials from a recent meeting with the Town actuary, Rebecca Sielman of Milliman, who suggested moving to 7 ½%. Mr. Kachmar stated the need to reframe the portfolio in terms of incremental return with a possible 7 ¾% return. The Committee discussed the possibility of implementing a gradual approach to reduction of the interest rate assumption, noting that such an approach would need to be discussed with the actuary.

VI. Discussion and next steps on the summary observations contained in the FIA Diagnostic Review

Regarding the diagnostic review, Mr. Kachmar said FIA believes that the Town is better served having an open architecture approach to invested assets. He said the asset allocation should be reviewed with a view to making some changes and reconstituting the portfolio with 10-12 specialty managers who are more accountable. He said that between Russell Investments and Wells Fargo (the fund custodian), the Town is paying approximately 75 to 80 basis points in administrative fees. Mr. Kachmar said a portfolio can be built at 70 basis points on the \$44 million in total funds. At the request of the Committee, FIA will also look at the possibility of an increased use of indexing, with the understanding that the right balance will be discussed at a future meeting. Mr. Kachmar stated most clients are 20-30% indexed with the balance actively managed. He said in the diagnostic on pages 11 and 12, the current portfolio shows the allocation with Russell at 60% equity, 35% fixed, 5% real estate. He said it is highly unlikely there would be a negative return over a 10-year period. The Committee discussed the status of the Town's investment policy, potential revisions to the policy and the timing of those revisions in relation to adoption of a different architecture for investment.

VII. Identification of agenda items for next Pension Sub-Committee Meeting

The Sub-Committee members stated the need to change the 20-year old policy which is too complicated; they are interested in seeing a specific proposal

and knowing what the changes are and their implication and risk. Mr. Kachmar can get this information together in a month, revising materials and addressing specifically what has been discussed; he was asked to provide this information two weeks in advance of the next meeting for Sub-Committee members to study.

Mr. Cooke will send out information on another meeting date. Ms. Harris indicated the actuary has completed her latest evaluation and the Sub-Committee would like to hear from her with a focus on actuarial changes and specifics. The Sub-Committee members asked Mr. Cooke to circulate to them draft investment policy materials developed by FIA and the prior Pension Committee members. Mr. McAlenny stated once there is a recommendation we need to consider what could be done with the same asset classes to the maximum extent using identified index funds. Mr. Kachmar said he will have all that information. The Sub-Committee members noted that the Charter Revision Commission has proposed wording that this Sub-Committee is the fiduciary. A discussion ensued concerning the fiduciary status of the Committee and how it is affected by the assumption of fiduciary risk by FIA.

Ms. Heavner made a motion to adjourn at 9 a.m. Mr. Mason seconded the motion, and it was passed unanimously.