



Town of Simsbury

933 HOPMEADOW STREET

P.O. BOX 495

SIMSBURY, CONNECTICUT 06070

Thomas F. Cooke - Director of Administrative Services

Retirement Plan Sub-Committee
Special Meeting
Minutes

Wednesday, December 21, 2016 at 7:30 A.M.
Board of Education Conference Room
Simsbury Town Hall – 933 Hopmeadow Street

I. Call to Order

The meeting was called to order at 7:30 by Administrative Chair Thomas Cooke. Sub-Committee members Tom Doran, Mike Goman, Rob Pomeroy, Kevin Prell, Cheryl Cook, Chris Kelly, Phil Schulz and Paul McAlenney were present. Also in attendance were: Burke LaClair, Board of Education Business Manager; Christopher Kachmar, Tyler Polk and Richard Carey from Fiduciary Investment Advisors; Becky Sielman from Milliman; and Michael Scheetz from MassMutual.

II. Review of Minutes

a) Regular Meeting, September 7, 2016

There were no changes to the minutes of the September 7, 2016 Regular Meeting.

III. Approval of 2017 Meeting Dates

Mr. Prell made a motion to approve the proposed meeting dates for 2017. Mr. Kelly seconded the motion and it passed unanimously. The approved meeting dates for 2017, which will be held in the Board of Education Conference Room at 7:30 a.m., are as follows:

Wednesday, February 15, 2017
Wednesday, May 17, 2017
Wednesday, September 13, 2017
Wednesday, November 15, 2017

IV. Third Quarter Capital Markets Review and Flash Update Through November

Mr. Kachmar reviewed a document entitled “Simsbury Pension Monthly Performance Flash – November 30, 2016.” He noted that economic performance in the first three quarters of 2016 was generally good, interest rates started to spike in the fourth quarter and the performance of U.S. equities overtook that of emerging markets. Aggregate Bonds were significantly down in November and December. Equities, and in particular small capitalization stocks were strong post-election. Upon questioning from Mr. Pomeroy, Mr. Kachmar noted that the market had built in expectations for two more raises in interest rates by the Federal Reserve Bank and stated that while interest rates are likely to go higher, he did not expect them to continue at the

same pace. Managers generally concur that Treasuries are likely approaching fair market value. Mr. Kachmar noted that economically sensitive sectors, including industrial, financial and energy, were sharply higher. By contrast, international markets are not performing as well.

V. Defined Benefit Plans

a) Third Quarter Performance Update

Mr. Kachmar stated that the flash update information was more current and relevant than the information in the “Town of Simsbury Retirement Plans – Executive Summary – Third Quarter 2016” handout and recommended moving on to a discussion of the current allocations.

b) Review of Standing Allocations

Mr. Kachmar proceeded with an asset allocation review, concluding that for performance return goals, the asset allocation is on target. He noted that some of the “defensive” investments such as BlackRock Strategic Income Opportunities Fund in the Fixed Income category had performed well, and that Domestic Equity holdings were properly balanced. Total plan performance for November was up 70 basis points. He noted that while active managers struggled in 2016, performance started to improve in the third quarter and the current lineup of managers is on “maintain” status.

c) Discussion of and possible action on “Alternative” Investments

At the request of the Sub-Committee Mr. Kachmar presented an overview of “alternative” investments in the public sector, noting that FIA currently works with thirty Connecticut municipalities, nine of which – including Simsbury – use some form of alternative investments. Referencing a survey by Greenwich Associates, Mr. Kachmar stated that smaller retirement plan markets (in the \$250 to \$300 million range – significantly larger than Simsbury’s holdings) include alternative investments such as hedge funds and private equities at approximately 7% of their holdings. He noted that nine of FIA’s municipal clients, including Simsbury, use alternative holdings such as real estate, hedge funds and small private equities. Towns with significantly larger pension holdings, including Manchester, Stamford and Westport were included in the review, holding such investments as approximately 4% to 6% of total holdings. He pointed out that there is a potential “exposure” issue with some products in the alternative space.

Mr. Kachmar agreed to provide the Sub-Committee with some potential products in the alternative space at the February Sub-Committee meeting. A discussion ensued concerning existing holdings in the Barings Core Property Fund which has been performing at 9.5% on an annualized vacation.

d) Discussion of and possible action on Interest Rate Assumptions

Ms. Sielman stated that Milliman determines appropriate interest rate assumptions, as required by GASB 69, based upon the actual investments in the plan. As of June 30, 2016, based on the target allocations, Milliman projects an interest rate assumption of 6.62%.

Ms. Sielman noted that this does not account for positive performance by active management and that it is conservative in nature. She added that she is comfortable with the current 7% interest rate assumption for the coming year, noting that the town should keep a close eye on this and that it would likely make sense to move to 6.75% at some point in the future. Ms. Sielman agreed to provide information on the financial impact of a move to 6.75% once the valuation has been completed. She also stated that 2016 had been a disappointing year from a performance standpoint and that this would be reflected in the required contribution for 2017-2018.

Ms. Sielman noted that the interest rate assumption for the OPEB Trust had also been lowered to 7% and that it made sense to move forward with changes to the Trust's allocation to more closely resemble those of the pension plans. Mr. Cooke and Mr. Kachmar agreed to provide the Sub-Committee with recommendations on moving the OPEB Trust to active management at the February meeting.

VI. Defined Compensation Plans

- a) Third Quarter Governance and Plan Updates**
- b) MassMutual Update**

Referring to Section 4 of the Third Quarter Executive Summary, Mr. Polk discussed a trend in the market towards automatic re-enrollment policies for supplemental retirement plans. Mr. Scheetz then discussed sections of the "Retirement Plan Review" for Simsbury's deferred compensation plan for the period of November 1, 2015 to October 31, 2016. His discussion focused on the increase in plan assets from \$8.3 to \$8.8 million, the number of participants, and the number of participants investing in only one option. A discussion ensued concerning the level of education available to employees in 2015 and 2016, as well as plans for 2017. Mr. Polk discussed the upcoming "fiduciary rule" for ERISA plans noting that for a variety of reasons the town's defined compensation plans were not impacted.

A discussion followed concerning the best practices regarding the frequency of review of record-keepers. Mr. Scheetz noted that there were no contract terms defining the length of the engagement and that a review could be conducted at any time. He provided additional information concerning steps taken in September to reduce the fees paid by participants by 20 basis points.

Finally, Mr. Scheetz provided information on Cyber Security measures taken by MassMutual to safeguard customer information.

VII. Adjourn

Mr. Pomeroy made a motion to adjourn the meeting. Ms. Cook seconded the motion and it passed unanimously. The meeting adjourned at 8:47 a.m.

Respectfully submitted,

Thomas F. Cooke
Director of Administrative Services