

**PENSION
BOARD**



Town Hall
5866 Main Street
Trumbull, Connecticut 06611

Date: September 19, 2017
To: Timothy M. Herbst, First Selectman
Subject: Pension Board Update

Below is a brief update on the performance, activities and initiatives for calendar year ending 2016.

Executive Summary:

(All numbers calendar year based)

- A new investment consultant, Beirne Wealth Consulting, LLC, (Beirne) was selected through a competitive request for qualifications process. More details are provided on this process later in this update.
- The biennial Actuarial Study was completed.
- Net cash flows for calendar year 2016 were positive, because of large make-up contributions, as they were in 2012 through 2015.
- The fund returned 7.4% for 2016. This compares with the U.S. public pensions median returns of 6.7 % as reported by Investor Force Public DB.
- The funded ratio is 38% for 2016, as compared to 39% for 2015 and 35% for 2014.
- We continue to receive monthly "flash reports" on how investments are performing and follow an annual governance calendar to guide quarterly meeting agendas.
- An Investment Policy Statement is in effect and is reviewed annually.

Pension Investments:

Investment returns for 2016 were 7.4% which was slightly lower than the assumed return rate of 7.5%; the annualized 3 and 5 year results for this same period were 3.7% and 8.0% respectively.

Calendar Year	2016	2015	2014	2013	2012
Investment Performance	7.4%	(0.5%)	4.5%	17.2%	12.5%
Plans Assets (millions)	\$30.3	\$27.9	\$27.5	\$24.9	\$20.5
Town Contributions	\$ 4.2	\$ 4.2	\$ 4.8	\$ 4.1	\$ 3.3
a. Current	\$ 1.0	\$ 1.0	\$ 0.9	\$ 1.1	\$ 1.1
b. Make-up	\$ 3.2	\$ 3.2	\$ 3.9	\$ 3.0	\$ 2.2
Employee Contributions	\$ 1.0	\$ 1.0	\$ 0.9	\$ 0.9	\$ 0.9
Less: Payments	\$ 5.0	\$ 4.6	\$ 4.3	\$ 4.2	\$ 3.9
Net Cash Flow (thousands)	\$ 250	\$ 616	\$1,379	\$779	\$264

The performances of the investment managers were reviewed quarterly by the Pension Board along with its investment consultant. The following changes in investments were made by the Pension Board based on the recommendations of Beirne at the end of 2016:

- Liquidate BlackRock Strategic Income by \$4.6 MM
- Reduce MainStay Large Cap Growth by \$750K
- Reduce Diamond Hill Large Cap by \$750K
- Add Vanguard Small Cap Index by \$750K
- Add Vanguard Mid Cap Index by \$750K
- Add DFA Inflation Protection Securities by \$500K
- Add ACA Boyd Watterson by \$1 MM
- Add ACA East Bay by \$500K
- Add ACA DCM Partners by \$750K
- Add ACA Coherence by \$750K

The purpose of the above changes is to enhance investment returns with an acceptable level of risk.

Actuarial Report:

The plan actuary, Bryan, Pendleton, Swats, & McAllister, LLC (BPS&M), performed the biennial valuation in July 2016. See the chart below for previous valuation results:

	July 1, 2016	July 1, 2014	July 1, 2012	July 1, 2010
Participants				
Active	406	376	436	453
Deferred Vested	79	68	74	69
Receiving Benefits	355	340	325	320
Total	840	784	835	842
Total Liabilities	\$80,087,551	\$71,162,375	\$67,905,000	\$62,863,043
Actuarial Value of Assets	\$30,705,246	\$24,997,527	\$19,096,003	\$16,807,159
Funded Status (unfunded)	(\$49,382,305)	(\$46,164,848)	(\$48,808,997)	(\$46,055,884)
Funded Ratio	38.3%	35.1%	28.1%	26.7%

Based on BPS&M recommendations, the following technical plan changes were approved unanimously by the Pension Board:

- The actuarial funding method was changed to the entry-age normal method.
- The amortization of unfunded liabilities was changed to utilize 100% of accrued liabilities.
- The amortization period was changed to a closed period.

Operations:

The Pension Board previously had advanced the quarterly schedule of meetings one month to match quarterly reports in a more timely way. The change was helpful as is a monthly "Flash Report" to provide more timely information on investment performance.

The governance items, shown below for your information, indicate items reviewed at quarterly meetings as required:

- Portfolio Investment Review and Market Environment Overview
- Administrative Fee and Portfolio Expense Analysis
- Investment Policy Statement Review
- Legislative Update (as needed)
- Actuarial Review (biennial report)*

*Additional review dependent on town need for actuarial input.

During 2016, the Pension Board conducted a Request for Qualifications for investment consultants to the fund. A dozen companies submitted proposals and, after all proposals were reviewed, three firms were “short listed” and interviewed over a two day period. Beirne Wealth Consulting, LLC was unanimously selected by the Pension Board. Beirne began immediately to analyze the portfolio and recommended the aforementioned changes at a special meeting in December 2016.

The Investment Policy Statement received its annual review with the addition of alternative investments added to the policy.

Along with its actuary and investment consultant, a review of the Assumed Rate of Return of 7.5% was discussed in December 2016. The nationwide trend is to reduce this rate; the State of Connecticut now uses 6.9%. Reduction of this rate of return increases the dollar amount required to fund the Annual Rate of Contribution. After discussion the Pension Board decided to maintain the 7.5% for another year.

Mr. Patrick Clark replaced Mr. Michael Knight on the Pension Board during 2016.

The Pension Board understands the need for the administration to weigh all town financial concerns and it appreciates the ongoing support for the Retirement Plan. We welcome the opportunity to meet with you and accept ideas and recommendations for improvement.

Respectfully submitted,

The Pension Board

James Lavin
Chairman

Anthony Musto

Maria Pires

Donna Pellitteri

James Daly
Secretary

James Meisner

Patrick Clark