

Newtown Pension Committee
Minutes
May 18, 2010

The Newtown Pension Committee met on Monday, May 18th, 2010 in Town Hall South. The meeting was called to order at 7:28pm.

Present: Tom Murtha, Barbara Bloom, Dunham Smith, Mark Korotash, Frank Krasowski.
Also in attendance: Carole Ross

Public Participation: None

Approval of Minutes – March 15th, 2010 – Mr. Smith made a motion to amend the minutes as follows: “The Pension Committee will recommend to the Board of Selectmen for the next fiscal year beginning in July, the **assumed** rate of return be reduced...” Motion approved. Minutes accepted as written with the amendment. The letter sent to the Board of Selectmen will be amended to reflect that change.

Approval of Bills: Invoice #30145 - \$2031
Invoice #30150 - \$680

Reports or requests from retirees: None

Correspondence: An email was received from Mary Roland regarding recommended changes to the investment policy previously requested. In a letter from John Vaccaro of November 2009, Westport Resources had requested this change however, the committee had not resolved this. The request reads as follows: “Permit an increase of no more than 10% of the equity portion of the portfolio to be positioned in one or more commodity mutual funds and Permit that the equity portion of the portfolio may invest in mutual funds that “short” and/or use leverage on the condition that the entire equity portion of the portfolio is NOT net “Short” and not net leveraged.” A motion was made to recommend the changes as set forth in the letter from Mr. Vaccaro dated November 10th, 2009. Passed as presented. Mr. Vaccaro’s letter attached.

The Committee discussed the request from the First Selectman to attend the Board of Finance’s meeting on May 27th to discuss the questions asked and answers given (attached). Several members of the committee will attend.

Meeting adjourned at 7:56

Carole Ross
Clerk

November 10, 2009

Mr. Tom Murtha, Chairman
Newtown Pension Committee
215 Main Street
Newtown, CT 06470

Dear Tom:

Please find attached Westport Resources' recommended revisions to the Newtown Defined Benefit & Money Purchase Pension Plan Investment Policy Statement, as discussed at the Newtown Finance Committee meeting on September 21, 2009.

We respectfully recommend the following changes:

Permit an increase of no more than 10% of the equity portion of the portfolio to be positioned in one or more commodity mutual funds. (IPS currently permits "up to 5%").

Permit that the equity portion of the portfolio may invest in mutual funds that "Short" and/or use leverage on the condition that the entire equity portion of the portfolio is NOT net "Short" and not net leveraged. (The intention is to use these investment tools only to hedge the portfolio and provide a level of asset protection in declining markets thereby reducing exposure as well as potentially avoiding penalties imposed by some mutual fund families for liquidating positions within a restricted holding period.)

Fixed income securities held in the portfolio shall have had a Moody's, Standard & Poor's and/or a Fitch's credit quality rating of no less than "BBB" at time of purchase. No more than 20% of the market value of the fixed income portfolio shall be rated less than single "A" quality. (The intention is not to reduce the quality of the fixed income portfolio, rather to better time any sales of bond positions whose ratings may have declined subsequent to purchase to avoid a requirement to sell into a market with temporary illiquid conditions.)

These changes are being proposed in order to provide the investment manager with additional investment tools which avoid the risks of potential inflationary environments and inopportune liquidations due to temporary market illiquidity which, in turn, may provide additional opportunity to attain the portfolio's established target rate of return.

Please feel free to contact us with any questions.

Sincerely,

John Adams Vaccaro, CFP®

Board of Finance Questions

1. What is the total compensation of our advisors based on? i.e., percent of funds invested, fee plus, etc.+ ?

*The compensation is based on the total assets under management
The rate is First \$8,000,000 @ .60% per annum paid quarterly
Balance of account @ .50% per annum paid quarterly in arrears.*

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Avg Assets Mgd*	\$ 22,648,780	\$ 25,347,729	\$ 23,534,561
Mgmt Fees	\$120,867	\$135,247	\$126,277
Brokerage Comm	<u>\$38,971</u>	<u>\$12,635</u>	<u>\$13,475</u>
Total	\$ 159,838	\$ 147,882	\$ 139,752

2. How does this compare to pensions of like size?

Ridgefield and Easton invest in mutual funds. Costs are unknown.

Below are the results of various similar town pension returns over the past 4 years.

TOWN OF NEWTOWN PENSION PLAN
Comparison of pension trust account yields

<u>FYE</u>	<u>Newtown</u>	<u>Ridgefield</u>	<u>Easton</u>	<u>City of Port Orange, FL*</u>
06/30/2006	6.7%	9.0%	11.6%	6.8%
06/30/2007	10.8%	16.2%	15.6%	12.8%
06/30/2008	3.4%	-6.9%	-4.7%	-12.0%
06/30/2009	-9.8%	-16.1%	-21.0%	-16.2%
Four Year Yield (Simple Total Return Net)	10.26%	-1.07%	-2.87% (45 mos.)	-6.70%

* City of Port Orange, FL is a 9/30 fiscal year end.
The value shown for 6/30/09 is a valid 12 month figure for 7/08-6/09.

3. How do other towns select pension fund advisors? (i.e., RFP, RFQ, other?)

Don't know

4. What criteria / standard have been used to employ the pension administrator companies?

The administrator is TR Paul

We interviewed about 5 advisors. (3 interviews were conducted with Westport Resources with tough fee negotiations)

Looked for length of time in business

Consistency of returns of assets under management

Compensation

Proof of the ability to produce returns

5. What annual review process has been employed to review the success of the pension administrator companies, i.e., comparisons to whom or what?

The pension advisor provides a comparison of a comparable custom benchmark which consists of indices of comparable proportion to the committee's assets under management as stated in the town's current Investment Policy Statement.

6. Does the Board of Selectmen implement such standard and / or reviews, the pension committee, or both?

The Board of Selectmen review monthly, quarterly and annual reports which show the value of the pension fund verses the funds blended benchmark and the 8% targeted return.

7. Are any conflict checks included for any town Board or Committee members (i.e., is the name of the coordinator publicized in any manner other Boards or committee members to make sure there are no conflicts, etc?)

No.

8. Your investment assumption is 8% annually, yet the actual annualized return over the last ten years is approximately 4.5%. How can you continue to use an 8% investment assumption based on the ten year record?

The annualized return from inception to 12/31/07 was 8.42% compounded annually.

During 2008 the markets deteriorated, actually the drop was the worst since the Great depression and the committee does not react to short term market movements. The advisor is authorized to adjust the mix of Cash, Bonds, or Equities according to market conditions.

In November 2008, at the Pension Committee meeting, the advisor was asked if 8% was still achievable given the current market downturn. The answer was yes; the return 09/30/99 thru 06/30/08 was 7.75% (IRR).

The committee asked the Actuary to provide a table of town contributions if the town lowered the rate of return several years ago (July 1, 2006). The recommended June 30, 2008 contribution @ 8% was \$757,564. If the return was changed to 7% the town contribution would be \$1,367,941 an 81% increase.

9. What changes to your investment approach might increase your return?

We have chosen a mix of approximately 60% equities and 40% fixed income. Changing the mix to favor equities will increase the risk of the portfolio and possibly the return.

10. How often do you review your investment policy statement?

*When necessary or when the advisor suggests making changes.
The IPS statement was prepared 09/30/99 and amended on:*

04/23/02

05/05/03

11/25/03

10/18/05

11/03/08

11. Are your investment options too limited to reach your desired return?

No.

12. Have you considered hiring firms that specialize in various asset categories (equity, bonds, international Vs. Westport Resources that handles the entire fund?

No, and we do not recommend considering multiple advisors.

Westport Resources' Global Tactical Asset Allocation Strategy moves assets among asset categories to utilize the best performing managers at any given time. This strategy eliminates the need for a consultant, (+ fees) delays in decision making by our volunteer committee, and puts the responsibility of a dynamic asset allocation in the hands of our professional asset manager who is highly ranked by the third party analysts (i.e. Morningstar, Thompson Reuters, Nelsons).