

Town of Old Saybrook Pension and Benefits Board
Special Meeting, August 25, 2016
Meeting Minutes
Town Hall Conference Room

Members Present: Suzanne Taylor, Lynn Dallas, Ray Muratori, Eileen Torrenti, Carol Voigt.
Others present: Accounting Liaison Sharon Migliaccio, Finance Director Lee Ann Palladino,
Secretary Timothy Kellogg. Financial Consultants: Tom Forma, Kevin Nichols (Morgan Stanley).
Absent: Carl Fortuna, Paul Tracey.

Welcome

Chairperson Taylor welcomed board members and guests to the meeting. The meeting opened at 4:05 PM.

Pension Reform Study

Chairperson Taylor reported on the pension reform study and noted that it's pretty much done. The report addressed the town's current situation. Chairperson Taylor noted that the DB plans of existing employees and the Old Saybrook Fire Department will not change.

Tom Forma reviewed the performance of the pension and healthcare funds in relation to the findings of the pension reform study. Discussion was had about other community pension plans.

Lee Ann Palladino gave her presentation on the pension reform study. The goal of the research was to assess the long-term liabilities of the pension plan. A meeting took place with Milliman to determine long term projections and implications for stakeholders. The meeting was held to refine details of a prior presentation on the study. Milliman has been paid, as the study was completed.

The three key components of Lee Ann Palladino's presentation were town contributions, employee contributions, and investment earnings to the pension plan. It was obvious that the current contributions haven't been enough for the needs of the pension plan.

Finance Director Palladino continued her presentation. She shared details of the ADC and reported on the past cost plus interest and normal cost. The town is supposed to contribute \$828,000 this FY. Contributions should represent about 21% of payroll and they don't. Employee contributions are as they should be.

Finance Director Palladino noted that the last five years have been good, but the long term numbers are too low. She shared potential contribution scenarios. If the town continues to do what it's doing with contributions, the town will run out of money to fund the pension plans. Increasing employee contributions will help. In conclusion, contributions don't fit the cost. Action

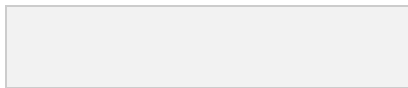
has to be taken sooner than later. Negotiations have to take place before changes can be made.

The first step of the Pension and Benefits Board is to share these findings and scenarios with the Board of Finance, which is planned for Sept. 6th. Board members were invited to accompany Suzanne, when Lee Ann makes the pensions reform study presentation to the Finance board. Further discussion was had on the subject for the next hour with no one solution suggested.

A **Motion** was made by Lynn Dallas and seconded by Carol Voigt to include the report handouts in the minutes. Motion approved.

A **Motion** to adjourn was made by Eileen Torrenti and seconded by Lynn Dallas. Meeting adjourned at 5:24 PM.

Respectfully submitted,

A rectangular box with a light gray background, used to redact the signature of Timothy Kellogg.

Timothy Kellogg,
Pension and Benefits Board Secretary

Enc.
Pension and Healthcare Funds Performance Summaries,
Pension Reform Study Report

TOWN OF OLD SAYBROOK PENSION STUDY

AUGUST 2016

1

OBJECTIVE OF THE PENSION STUDY

- To Assess the long term liabilities of the pension plan
- To Assess the town's obligation and budget implications
- To review the pension plan design and its current options
- To understand the implications that have been, or may be, placed on the employees

PENSION STUDY

- Hired Milliman to perform an actuarial study of the Town and Police pension plans
- The Fire Dept pension plan is not part of this study
- Milliman created an actuarial model based on the Town's data capable of modeling infinite scenarios
- The outcome was refined to 9 scenarios to provide sufficient information to analyze the current DB and assess hybrid and defined contribution plan design options
- Analyzed the sensitivity of the 9 scenarios in terms of funded status and the risk to the three major sources of contribution to the pension plan (town, employee and return)

KEY FACTS

- Study based upon July 2015 valuation
- Covered payroll = \$5,236,577 (FY17)
- Past service cost + interest = \$436,223; Net normal cost = \$392,351, combined together = ADC \$828,573
- Contributions (town/employee) should represent 21% of covered payroll
- Return assumption on portfolio should equal 7.75%

Sources of return: expected vs. actual

Contribution	Actuarial	%*	Actual	%*	Difference
Town	\$828,573	16%	\$395,670	7%	(\$432,903)
Employee	\$351,423	5%	\$351,423	5%	\$0
Return	\$1,552,370	7.75%	\$713,058	3.63%	(\$839,311)
Total	\$2,732,366		\$1,460,151		(\$1,272,215)

* Town and employee is % of covered payroll; return is % of market value

SCENARIOS – EXISTING PLAN

- Baseline = existing defined benefit (“DB”) plan no change:
 - Town contributes 8%: Assumed rate 7.75%
 - Range of annual contributions **\$457k to \$544k**, funded ratio 2042 = **54%**
 - Town contributes 8%: Assumed rate 5.00%
 - Range of annual contributions **\$457k to \$544k**, funded ratio 2042 = **0%**
 - Town makes Actuarial Determined Contribution (“ADC”): Assumed rate 7.75%
 - Range of annual contributions **\$540k to \$850k**, funded ratio 2042 = **97%**
 - Town makes Actuarial Determined Contribution (“ADC”): Assumed rate 5.00%
 - Range of annual contributions **\$1.349k to \$2.116k**, funded ratio 2042 = **97%**

Conclusion: existing DB plan is sensitive to performance of pension plan. Risk borne by Town when paying ADC is highly correlated to the long-term return of pension assets

SCENARIOS: EMPLOYEE IMPLICATIONS

- Baseline: Town makes Actuarial Determined Contribution ("ADC"): Assumed rate 7.75%
 - Range of annual contributions **\$540k to \$850k**, funded ratio 2042 = **97%**
- Soft (participation) freeze (no future employees, existing employees participate): assumed rate 7.75%
 - Range of annual town ADC **\$133 k to \$732k**. This scenario represents the cost of the plan that the town is committed to pay
- Employees keep existing plan and increase their contribution from 5% to 8%: assumed rate 7.75%
 - Range of annual town ADC **\$390k to \$661k**

Conclusion: A large part of the Town's expense is due to past service costs. Increasing Employee contributions will help, and serve to reduce the Town's expense by about 30%. This scenario does not anticipate pension performance less than 7.75%

CONCLUSION

- The Town's current funding policy is to put aside 7% of salary for Fiscal Year 17 and to raise the amount by .25% each year.
- As demonstrated in this analysis there is a disconnect between benefits and funding. As a result one of two paths, or a combination thereof, must be taken:
 - Increase the Town's funding to the ADC
 - Change the plan design to fit within the Town's financial means

Pension Plan

Prepared on August 26, 2016

Prepared For: **TOWN OF OLD SAYBROOK**

TOWN OF OLD SAYBROOK DEF BEN
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Please review the disclosures and definitions throughout this Document.
Various sub-sections of this Document may not contain information on all accounts/positions covered in this Document.

ACCOUNT(S) INCLUDED IN THIS REPORT

TOWN OF OLD SAYBROOK

Reporting Currency: USD

ACCOUNT(S) DETAIL

Account Name and Address	Account Type/Manager Name	Advisory/ Brokerage	Account Number	Date Opened	Date Closed
CHECKING ACCOUNT 302 MAIN STREET OLD SAYBROOK	Non Consulting Services - Monitor Only RPM	Advisory	875-013911	10/30/14	
EATON VANCE LCV 302 MAIN STREET OLD SAYBROOK	Single SMA Strategy	Advisory	875-013904	10/30/14	
Great Lakes All Cap 302 MAIN STREET OLD SAYBROOK	Great Lakes All Cap Core	Advisory	875-013902	10/30/14	
INVESCO INTL GROWTH 302 MAIN STREET OLD SAYBROOK	Single SMA Strategy	Advisory	875-013905	10/30/14	
JOHN HANCOCK LLC 302 MAIN STREET OLD SAYBROOK	Single SMA Strategy	Advisory	875-013912	10/30/14	
LONDON SMALL CAP 302 MAIN STREET OLD SAYBROOK	RPM	Advisory	875-013903	10/30/14	
Reinhart Partners FI 302 MAIN STREET OLD SAYBROOK	Reinhart Partners Int Duration	Advisory	875-013901	10/30/14	

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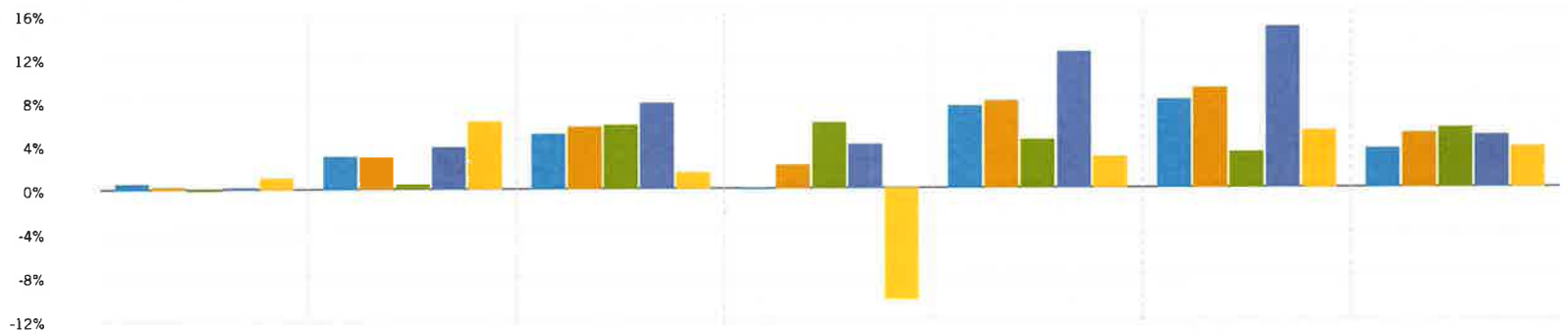
All content within this Document applies to the accounts listed above or a subset thereof, unless otherwise indicated.

TIME WEIGHTED PERFORMANCE SUMMARY

TOWN OF OLD SAYBROOK

As of August 25, 2016 | Reporting Currency: USD

RETURN % (NET OF FEES) VS. BENCHMARKS



	Month to Date 07/31/16 - 08/25/16	Custom Period 06/30/16 - 08/25/16	Year to Date 12/31/15 - 08/25/16	Custom Period 06/30/15 - 06/30/16	Last 3 Years 08/31/13 - 08/25/16	Last 5 Years 08/31/11 - 08/25/16	Performance Inception 06/30/99 - 08/25/16
Beginning Total Value	\$20,398,505.32	\$19,999,470.66	\$20,175,347.54	\$20,321,240.64	\$17,252,024.00	\$15,873,535.00	\$13,952,438.00
Net Contributions/Withdrawals	-100,000.00	-200,000.00	-748,235.57	-298,428.57	-938,043.95	-2,364,445.95	-3,630,810.83
Investment Earnings	104,681.50	603,716.16	976,074.85	-23,341.42	4,089,206.77	6,894,097.77	10,081,559.65
Ending Total Value	\$20,403,186.82	\$20,403,186.82	\$20,403,186.82	\$19,999,470.66	\$20,403,186.82	\$20,403,186.82	\$20,403,186.82
Return % (Net of Fees)	0.51	3.02	5.03	-0.09	7.48	8.05	3.55
50%S&P500 15%EAFE 35%AggUSBond	0.19	2.89	5.63	2.14	7.91	9.11	4.94
Barclays Aggregate	-0.17	0.46	5.80	6.00	4.39	3.24	5.42
S&P 500 Total Return	0.16	3.85	7.84	3.99	12.40	14.73	4.79
MSCI EAFE Net	1.03	6.15	1.45	-10.16	2.82	5.22	3.69

The investment returns shown on this page are time-weighted measurements which exclude the effect of the timing and amount of your contributions and withdrawals.

TIME WEIGHTED PERFORMANCE DETAIL

TOWN OF OLD SAYBROOK

As of August 25, 2016 | Reporting Currency: USD

RETURN % (NET OF FEES) VS. BENCHMARKS

Account Name/Benchmark	Account Number	Performance Inception Date	Total Value	% of Portfolio	Year to Date 12/31/15 - 08/25/16	Custom Period 06/30/16 - 08/25/16	Year to Date 12/31/15 - 08/25/16	Custom Period 06/30/15 - 06/30/16	Last 3 Years 08/31/13 - 08/25/16	Last 5 Years 08/31/11 - 08/25/16	Performance Inception to 08/25/16
ADVISORY											
TOWN OF OLD SAYBROOK (Reinhart Partners Int Duration) - Reinhart Partners FI <i>BC Agg Intm</i>	875-013901	04/30/07	\$20,403,186.82	100.00%	4.58%	3.02%	4.58%	0.56%	7.66%	8.25%	3.60%
TOWN OF OLD SAYBROOK (Single SMA Strategy) - JOHN HANCOCK LLC <i>S&P 500 Total Return</i>	875-013912	01/30/03	4,701,629.66	23.04	3.92	0.14	3.92	4.36	3.40	2.53	4.31
TOWN OF OLD SAYBROOK (Single SMA Strategy) - EATON VANCE LCV <i>Russell 1000 VL</i>	875-013904	06/30/99	4,153,507.37	20.36	7.84	3.85	7.84	3.99	12.40	14.73	9.25
TOWN OF OLD SAYBROOK (Great Lakes All Cap Core) - Great Lakes All Cap <i>Russell 3000</i>	875-013902	10/31/05	2,976,389.20	14.59	9.89	3.38	9.89	2.86	10.66	14.36	5.84
TOWN OF OLD SAYBROOK (Single SMA Strategy) - INVESCO INTL GROWTH <i>MSCI AC World ex US Net</i>	875-013905	02/29/08	2,485,492.54	12.18	8.03	4.25	8.03	2.14	11.83	14.50	8.02
TOWN OF OLD SAYBROOK (Non Consulting Services - Monitor Only RPM) - CHECKING ACCOUNT	875-013911	06/30/99	0.22	0.00	5.45	6.53	5.45	-10.24	2.35	3.50	0.11

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DISCLOSURES

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Performance: Performance results are annualized for time periods greater than one year and include all cash and cash equivalents, realized and unrealized capital gains and losses, and dividends, interest and income. The investment results depicted herein represent historical performance. As a result of recent market activity, current performance may vary from the figures shown. Please contact your Financial Advisor for up to date performance information. Past performance is not a guarantee of future results.

Market values used for performance calculation do not include performance ineligible assets and thus may differ from asset allocation market values. Common examples of performance ineligible assets include life insurance, some annuities and assets held externally. Unless otherwise indicated, performance is a composite calculation on the entire portfolio and may include brokerage and

TOWN OF OLD SAYBROOK

Prepared on August 26, 2016 | Reporting Currency: USD

investment advisory accounts, as well as assets for different accounts included in this report. The accounts included in the composite may have (or have had) different investment objectives and strategies, been subject to different restrictions, and incurred different types of fees, markups, commissions and other charges. Accordingly, performance results may blend the performance of assets and strategies that may not have been available in all of the accounts at all times during the reporting period. In addition, accounts in the composite may have changed from brokerage to advisory or vice versa. Accounts may also have moved from one advisory program to another (including from a discretionary program to a non-discretionary program).

Performance information may cover the full history of the account(s) or just the performance of an account(s) since the inception of the current program(s). Performance results on individual accounts will vary and may differ from the composite returns. Your Financial Advisor can provide you with individual account portfolio composition and performance information. For investment advisory accounts, please see the Morgan Stanley Smith Barney Form ADV Part 2 or applicable disclosure brochure and any applicable account statement for more information on transaction costs, fees and expenses. Your Financial Advisor will provide those documents to you upon request. For brokerage accounts, please speak to your Financial Advisor for more information on commissions and other account fees and expenses. Performance inception date does not necessarily correspond to the account opening date. Where multiple accounts are included in performance calculations, the inception date is the oldest performance inception. Performance data may not be available for all periods as some accounts included in performance may have more recent performance inception dates. Consequently, the actual performance for a group of accounts may differ from reported performance. Please ask your Financial Advisor for the performance inception date for each account.

Indices: Benchmark indices and blends included in this material are for informational purposes only, are provided solely as a comparison tool and may not reflect the underlying composition and /or investment objective(s) associated with the account(s). In some circumstances, the benchmark index may not be an appropriate benchmark for use with the specific composite portfolio. For instance, an index may not take into consideration certain changes that may have occurred in the portfolio since the inception of the account(s), (e.g., changes from a brokerage to an advisory account or from one advisory program to another, asset class changes, or index changes for individual managers). The volatility of the index used for comparison may be materially different from that of the performance shown. Indices are unmanaged and not available for direct investment. Index returns do not take into account fees or other charges. Such fees and charges would reduce performance. Please see the Benchmark Definitions section of this material for additional information on the indices used for comparison.

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Dollar-Weighted Return (Internal Rate of Return): A return calculation that measures the actual performance of a portfolio over the reporting period. Since dollar weighted returns include the impact of client contributions and withdrawals, they should not be compared to market indices or used to evaluate the performance of a manager, but can be used to evaluate progress toward investment goals.

Investment Earnings: A combination of the income received and total portfolio value increase or decrease, excluding net contributions and withdrawals, over the reporting period.

Net Contributions/Withdrawals: The net value of cash and securities contributed to or withdrawn from the account(s) during the reporting period. Net contributions and withdrawals may include advisory fees for advisory accounts.

Net of Fees: Performance results depicted as "net" of fees shall mean that any wrap fee, investment management fees, trade commissions, and/or other account fees have been deducted. Any other fees or expenses associated with the account, such as third party custodian fees, may not have been deducted. Please see the Morgan Stanley Smith Barney LLC Form ADV Part 2 Brochure for advisory accounts and/or any applicable brokerage account trade confirmation statements for a full disclosure of the applicable charges, fees and expenses. Your Financial Advisor will provide those documents

TOWN OF OLD SAYBROOK

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to you upon request.

Time-Weighted Return: A return calculation that measures the investment performance of a portfolio over the reporting period. Time weighted returns do not include the impact of client contributions and withdrawals and therefore, may not reflect the actual rate of return the client received. Time weighted returns isolate investment actions and can be compared to benchmarks and used to evaluate the performance of a manager.

Total Value: Total Value represents the Market Value of the portfolio or of a given Asset Class inclusive of interest and dividend accruals. Total Value for Asset Allocation before January 2014 does not include accruals. Total Value for Morgan Stanley & Co. and Externally Held accounts may not include accruals.

BENCHMARK DEFINITIONS

50%S&P500 15%EAFE 35%AggUSBonds: The current allocation is comprised of 50.00% S&P 500 Total Return, 35.00% BC Agg Intm, 15.00% MSCI EAFE Net.

BC Agg Intm: Barclays Capital Intermediate Aggregate Bond Index is composed of securities from the Barclays Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, with maturities between one and 9.99 years

S&P 500 Total Return: The S&P 500 has been widely regarded as the best single gauge of the large cap U.S. equities market since the index was first published in 1957. The index has over \$5.58 trillion benchmarked, with index assets comprising approximately \$1.31 trillion of this total. The index includes 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities. This index includes dividend reinvestment.

MSCI EAFE Net: The MSCI EAFE Index - Europe, Australasia, Far East - is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US and Canada. The MSCI EAFE Index consists of the following 21 developed market country indexes: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom (as of June 2014). Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

Barclays Aggregate: The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

Russell 3000 Gr: The Russell 3000 Growth Index is representative of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. The stocks in this index are also members of either the Russell 1000 Growth Index or the Russell 2000 Growth Index.

Russell 1000 VL: The Russell 1000 Value Index is representative of the U.S. market for large capitalization stocks containing those companies in the Russell 1000 Index with lower price-to-book ratios and lower forecasted growth.

MSCI AC World ex US Net: The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates (as of June 2014). This index is excluding the United States. Performance is showing net withholding tax. Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. For historical purposes the AC World ex US Gross returns are being used from 1/29/1988 - 1/1/2001 and the net returns begin as of 1/1/2001.

Russell 3000: The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

Healthcare

Prepared on August 26, 2016

Prepared For: **TOWN OF OLD SAYBROOK**

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DELAWARE INT. AGG. DUR. 302 MAIN STREET OLD SAYBROOK	Single SMA Strategy	Advisory	875-013909	10/30/14	
HEALTHCARE AB/JPM/EPOCH 302 MAIN STREET OLD SAYBROOK	Select UMA RPM	Advisory	875-013913	10/30/14	
TOWN OF OLD SAYBROOK 302 MAIN STREET OLD SAYBROOK	RPM	Brokerage	875-013908	10/30/14	

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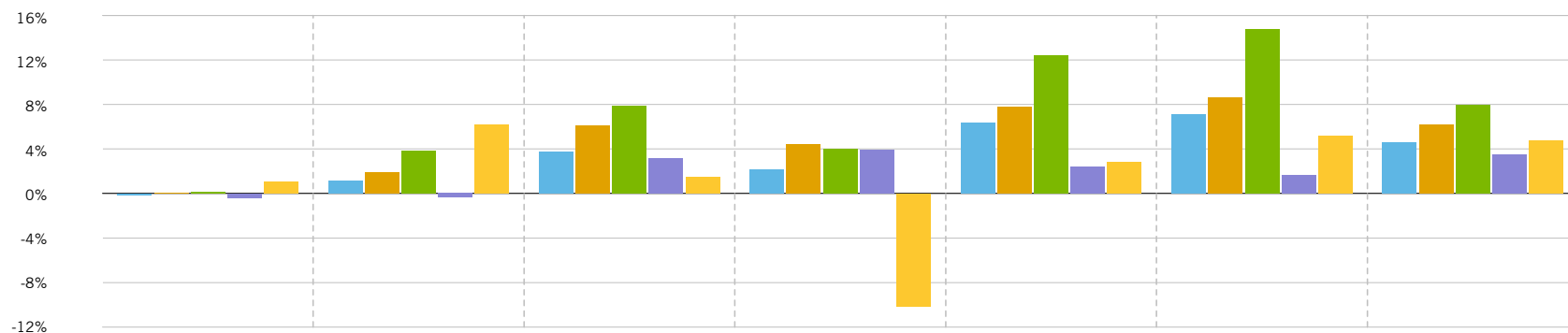
All content within this Document applies to the accounts listed above or a subset thereof, unless otherwise indicated.

TIME WEIGHTED PERFORMANCE SUMMARY

TOWN OF OLD SAYBROOK

As of August 25, 2016 | Reporting Currency: USD

RETURN % (NET OF FEES) VS. BENCHMARKS



	Month to Date 07/31/16 - 08/25/16	Custom Period 06/30/16 - 08/25/16	Year to Date 12/31/15 - 08/25/16	Custom Period 06/30/15 - 06/30/16	Last 3 Years 08/31/13 - 08/25/16	Last 5 Years 08/31/11 - 08/25/16	Performance Inception 10/29/04 - 08/25/16
Beginning Total Value	\$1,136,188.36	\$1,121,625.06	\$1,093,233.99	\$1,098,036.29	\$943,034.00	\$804,064.00	\$659,955.00
Net Contributions/Withdrawals	0.00	23.24	22.96	30.52	-375.45	-375.45	6,621.29
Investment Earnings	-1,666.19	12,873.87	41,265.22	23,558.25	191,863.62	330,833.62	467,945.88
Ending Total Value	\$1,134,522.17	\$1,134,522.17	\$1,134,522.17	\$1,121,625.06	\$1,134,522.17	\$1,134,522.17	\$1,134,522.17
Return % (Net of Fees)	-0.15	1.15	3.77	2.14	6.37	7.13	4.59
50 Barclays Govnt Int / 50 S&P 500	-0.03	1.95	6.08	4.42	7.80	8.60	6.17
S&P 500 Total Return	0.16	3.85	7.84	3.99	12.40	14.73	7.95
BC Gov Intm	-0.40	-0.37	3.17	3.93	2.41	1.65	3.52
MSCI EAFE Net	1.03	6.15	1.45	-10.16	2.82	5.22	4.72

The investment returns shown on this page are time-weighted measurements which exclude the effect of the timing and amount of your contributions and withdrawals.

TIME WEIGHTED PERFORMANCE DETAIL

TOWN OF OLD SAYBROOK

As of August 25, 2016 | Reporting Currency: USD

RETURN % (NET OF FEES) VS. BENCHMARKS

Account Name/Benchmark	Account Number	Performance Inception Date	Total Value	% of Portfolio	Year to Date 12/31/15 - 08/25/16	Custom Period 06/30/16 - 08/25/16	Year to Date 12/31/15 - 08/25/16	Custom Period 06/30/15 - 06/30/16	Last 3 Years 08/31/13 - 08/25/16	Last 5 Years 08/31/11 - 08/25/16	Performance Inception to 08/25/16
ADVISORY		10/29/04	\$1,134,522.17	100.00%	3.77%	1.15%	3.77%	2.14%	6.37%	7.13%	4.59%
TOWN OF OLD SAYBROOK (Select UMA RPM) - HEALTHCARE AB/JPM/EPOCH <i>Custom Account Index</i>	875-013913	10/29/04	577,973.27	50.94	4.52	2.44	4.52	0.53	9.00	11.91	3.45
					8.50	4.31	8.50	0.69	-	-	-
TOWN OF OLD SAYBROOK (Single SMA Strategy) - DELAWARE INT. AGG. DUR. <i>BC Gov Intm</i>	875-013909	02/28/07	556,548.90	49.06	2.88	-0.16	2.88	3.59	3.34	2.18	4.21
					3.17	-0.37	3.17	3.93	2.41	1.65	3.69

The investment returns shown on this page are time-weighted measurements which exclude the effect of the timing and amount of your contributions and withdrawals.

DISCLOSURES

Explanatory Notes and Disclosure: This document is designed to assist you and your Financial Advisor in understanding portfolio positions, composition and subsets thereof. It is designed solely for your individual use, is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. Do not take action relying on this information without confirming its accuracy and completeness. Please read carefully all accompanying notes and disclosures provided in this Document.

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Additional information about your Floating Rate Notes: For floating rate securities, the estimated accrued interest and estimated annual income are based on the current floating coupon rate and may not reflect historic rates within the accrual period.

Important Information About Auction Rate Securities: For certain Auction Rate Securities there is no or limited liquidity. Therefore, the price(s) for these Auction Rate Securities are indicated as not available by a dash "-". There can be no assurance that a successful auction will occur or that a secondary market exists or will develop for a particular security.

Important Pricing Information: Prices of securities not actively traded may not be available, and are indicated by a dash "-".

Morgan Stanley Wealth Management: Morgan Stanley Wealth Management (custodian type "Morgan Stanley Wealth Management") refers to Morgan Stanley Smith Barney LLC.

Asset Classification: We classify assets based on general characteristics such as: income generation, underlying capital structure, or exposure to certain market sectors. As many assets contain characteristics of more than one asset class, allocations may be under or over inclusive. These classifications do not constitute a recommendation and may differ from the classification of instruments for regulatory or tax purposes. In addition, the Other asset class contains securities that are not included in the various asset class classifications. This can include, but is not limited to, non-traditional investments such as some Equity Unit Trusts, Index Options and Structured Investments issued outside of Morgan Stanley. Additionally, investments for which we are unable to procure market data to properly classify them will appear in the Other category.

Performance: Performance results are annualized for time periods greater than one year and include all cash and cash equivalents, realized and unrealized capital gains and losses, and dividends, interest and income. The investment results depicted herein represent historical performance. As a result of recent market activity, current performance may vary from the figures shown. Please contact your Financial Advisor for up to date performance information. Past performance is not a guarantee of future results.

Market values used for performance calculation do not include performance ineligible assets and thus may differ from asset allocation market values. Common examples of performance ineligible assets include life insurance, some annuities and assets held externally. Unless otherwise indicated, performance is a composite calculation on the entire portfolio and may include brokerage and

investment advisory accounts, as well as assets for different accounts included in this report. The accounts included in the composite may have (or have had) different investment objectives and strategies, been subject to different restrictions, and incurred different types of fees, markups, commissions and other charges. Accordingly, performance results may blend the performance of assets and strategies that may not have been available in all of the accounts at all times during the reporting period. In addition, accounts in the composite may have changed from brokerage to advisory or vice versa. Accounts may also have moved from one advisory program to another (including from a discretionary program to a non-discretionary program).

Performance information may cover the full history of the account(s) or just the performance of an account(s) since the inception of the current program(s). Performance results on individual accounts will vary and may differ from the composite returns. Your Financial Advisor can provide you with individual account portfolio composition and performance information. For investment advisory accounts, please see the Morgan Stanley Smith Barney Form ADV Part 2 or applicable disclosure brochure and any applicable account statement for more information on transaction costs, fees and expenses. Your Financial Advisor will provide those documents to you upon request. For brokerage accounts, please speak to your Financial Advisor for more information on commissions and other account fees and expenses. Performance inception date does not necessarily correspond to the account opening date. Where multiple accounts are included in performance calculations, the inception date is the oldest performance inception. Performance data may not be available for all periods as some accounts included in performance may have more recent performance inception dates. Consequently, the actual performance for a group of accounts may differ from reported performance. Please ask your Financial Advisor for the performance inception date for each account.

Indices: Benchmark indices and blends included in this material are for informational purposes only, are provided solely as a comparison tool and may not reflect the underlying composition and/or investment objective(s) associated with the account(s). In some circumstances, the benchmark index may not be an appropriate benchmark for use with the specific composite portfolio. For instance, an index may not take into consideration certain changes that may have occurred in the portfolio since the inception of the account(s), (e.g., changes from a brokerage to an advisory account or from one advisory program to another, asset class changes, or index changes for individual managers). The volatility of the index used for comparison may be materially different from that of the performance shown. Indices are unmanaged and not available for direct investment. Index returns do not take into account fees or other charges. Such fees and charges would reduce performance. Please see the Benchmark Definitions section of this material for additional information on the indices used for comparison.

IRA and Retirement Accounts: By providing you this report, neither Morgan Stanley nor your Financial Advisor or Private Wealth Advisor is acting as a fiduciary for the purposes of the Employee Retirement Income Security Act of 1974 ("ERISA") or section 4975 of the Internal Revenue Code (the "Code"), as amended, with respect to any qualified retirement plan or individual retirement account. Furthermore, unless otherwise provided in a written agreement between you and Morgan Stanley, Morgan Stanley, its affiliates and their respective employees, agents and representatives, including your Financial Advisor or Private Wealth Advisor, (a) do not have discretionary authority or control with respect to the assets in any qualified retirement plan or individual retirement account, (b) will not be deemed an "investment manager" as defined under ERISA, or otherwise have the authority or responsibility to act as a "fiduciary" (as defined under ERISA or the Code) with respect to such assets, and (c) will not provide "investment advice", as defined by ERISA and/or section 4975 of the Code, as amended, with respect to such assets. Any information presented herein with respect to any qualified retirement plan or individual retirement account merely reflects historical performance and allocation information, is for general education and information purposes only, and should not be viewed as fiduciary investment advice or specific recommendations with respect to any particular investment or asset allocation under the Investment Advisors Act of 1940, ERISA, the Code or any other applicable law (in particular, it should not be relied upon as a primary basis for any investment decision with respect to the assets in any such account).

GENERAL DEFINITIONS

Dollar-Weighted Return (Internal Rate of Return): A return calculation that measures the actual performance of a portfolio over the reporting period. Since dollar weighted returns include the impact of client contributions and withdrawals, they should not be compared to market indices or used to evaluate the performance of a manager, but can be used to evaluate progress toward investment goals.

Investment Earnings: A combination of the income received and total portfolio value increase or decrease, excluding net contributions and withdrawals, over the reporting period.

Net Contributions/Withdrawals: The net value of cash and securities contributed to or withdrawn from the account(s) during the reporting period. Net contributions and withdrawals may include advisory fees for advisory accounts.

Net of Fees: Performance results depicted as "net" of fees shall mean that any wrap fee, investment management fees, trade commissions, and/or other account fees have been deducted. Any other fees or expenses associated with the account, such as third party custodian fees, may not have been deducted. Please see the Morgan Stanley Smith Barney LLC Form ADV Part 2 Brochure for advisory accounts and/or any applicable brokerage account trade confirmation statements for a full disclosure of the applicable charges, fees and expenses. Your Financial Advisor will provide those documents

TOWN OF OLD SAYBROOK

Prepared on August 26, 2016 | Reporting Currency: USD

to you upon request.

Time-Weighted Return: A return calculation that measures the investment performance of a portfolio over the reporting period. Time weighted returns do not include the impact of client contributions and withdrawals and therefore, may not reflect the actual rate of return the client received. Time weighted returns isolate investment actions and can be compared to benchmarks and used to evaluate the performance of a manager.

Total Value: Total Value represents the Market Value of the portfolio or of a given Asset Class inclusive of interest and dividend accruals. Total Value for Asset Allocation before January 2014 does not include accruals. Total Value for Morgan Stanley & Co. and Externally Held accounts may not include accruals.

BENCHMARK DEFINITIONS

50 Barclays Govnt Int / 50 S&P 500: The current allocation is comprised of 50.00% S&P 500 Total Return, 50.00% BC Gov/Cr Intm.

Custom Account Index: The Custom Account Index is an investment benchmark based on your historical target allocations and/or manager selection that you may use to evaluate the performance of your account. The Custom Account index does take into consideration certain changes that may have occurred in your portfolio since the inception of your account, i.e., asset class and/or manager changes. However, in some circumstances, it may not be an appropriate benchmark for use with your specific account composition. For detailed report of the historical composition of this blend please contact your Financial Advisor.

Custom Account Index: 875013913 Custom Account Index. The current allocation began as of 03/31/2016, and is comprised of 19.00% Russell 1000 Gr, 40.00% Russell 1000 VL, 41.00% MSCI AC World Net.

S&P 500 Total Return: The S&P 500 has been widely regarded as the best single gauge of the large cap U.S. equities market since the index was first published in 1957. The index has over \$5.58 trillion benchmarked, with index assets comprising approximately \$1.31 trillion of this total. The index includes 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities. This index includes dividend reinvestment.

MSCI EAFE Net: The MSCI EAFE Index -Europe, Australasia, Far East - is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US and Canada. The MSCI EAFE Index consists of the following 21 developed market country indexes: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom (as of June 2014). Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

Russell 1000 Gr: The Russell 1000 Growth Index is representative of the U.S. market for large capitalization stocks containing those companies in the Russell 1000 Index with higher price-to-book ratios and higher forecasted growth.

MSCI AC World Net: The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates (as of June 2014). Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. For historical return purposes the AC World gross returns are being used from 1/31/1988 to 12/31/1998 and the net returns begin as of 1/31/1999.

Russell 1000 VL: The Russell 1000 Value Index is representative of the U.S. market for large capitalization stocks containing those companies in the Russell 1000 Index with lower price-to-book ratios and lower forecasted growth.

BC Gov/Cr Intm: The Barclays Government/Credit Bond Index contains bonds that are investment grade and that have at least one year to maturity. The Barclays Intermediate Government/Credit Bond Index is composed primarily of bonds covered by the Barclays Government/Credit Bond Index with maturities between one and 9.99 years.

90-Day T-Bills: The 90-Day Treasury Bill is a short-term obligation issued by the United States government. T-bills are purchased at a discount to the full face value, and the investor receives the full value when they mature. The difference of discount is the interest earned. T-bills are issued in denominations of \$10,000 auction and \$1,000 increments thereafter.

BC Gov Intm: The Barclays Government Bond Index is composed of all publicly issued, nonconvertible, domestic debt of the U.S. government or any agency thereof, quasi-federal corporations, or corporate debt guaranteed by the U.S. government. Flower bonds and pass-through issues are excluded. The Barclays Intermediate Government Bond Index is composed of all bonds covered by the Barclays Government Bond Index with maturities between one and 9.99 years.