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TOWN HALL
238 Danbury Road
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Investment Committee Meeting
April 14, 2010
Meeting Room B

Present: Robert Kelso, Paul Burnham, Robert Schultz, Warren Serenbetz , Absent: Chris Frankenhoff

Others: Sandy Dennies, Carol Misus of Vanguard, Sarah Taffel, Mr. Wehrmann,

Approval of Minutes: The January 20, 2010 minutes were approved as amended: Mr. Burnham is “is thinking about retiring from the Investment Committee” and Mr. Wehrmann’s name was misspelled.

Discussion with Vanguard

- Review of 1st quarter performance
- Performance vs benchmarks
- Vanguard outlook
- Vanguard recommendations

Carol Misus from Vanguard reviewed the portfolio performance she pointed out that the Total Stock was in line with the benchmark tracking at 6.30 while the benchmark was 6.29 this month. Exceptional for year over year numbers and performing in line with expectations. As far as International, shares were transitioned out of Total International into FTSE account. Emerging Markets were up but in Vanguard’s eyes there is still too much exposure to Emerging Markets. International performed at 7.12 while the benchmark trailed at 6.69, so the Emerging Markets did help this month. Emerging Markets is about 20% of the fund. Total Fixed Investment Grade performed better than the benchmark, but had less earnings this month due to the decline in the Extended Duration Treasury Index Fund Institutional Shares. Total portfolio is up this quarter 3.6 vs. the benchmark of 3.16. So we are performing slightly better than the market with the one year number looking quite nice.

Mr. Kelso asked if the split between equities and fixed income was 62% to 38% and Ms. Misus confirmed that it was.

Vanguard discussed that at the prior meeting there was discussion as to the performance of the fund relative to the actuarial benchmarks to which they indicated that Vanguard would return this month with a Efficient Frontier Analysis that would allow the Committee to see if the Fund could meet the 7.8% annual return on investment. Ms. Misus referred to a Performance Overview Presentation (which had been provided to the Committee members) of various models, pointing out that “Portfolio B” was one they recommended because it had the ability to offer potential returns to the Town of 7.8% which the Committee was looking to obtain. She said that they might want to get into REITS from domestic equity and get out of Emerging Markets. She reviewed the results of the analysis for the mean return over the next 10 years indicating that the Committee could also achieve that return with less volatility.

Bob Kelso asked her what changes this would suggest for the fund. Carol said that Vanguard would shift most of the Domestic Equity exposure to REITS ; we should add an asset class for REITS as that is where the excess in Domestic Equity would be redirected to; International would take a slight reduction and we would get out of Emerging Markets (Vanguard suggests we have a more market proportional approach). As for Fixed Income, related to the return expectations we have and inflations expectations eliminate exposure in Extended Duration and TIPS and Short Term Bonds and suggested that we move into the Intermediate area where we believe that we will have better returns than we have now.

Bob Kelso asked Sandy Dennies to pass out copies of the assumptions that the actuary based his assumptions on for the pension valuation. Sandy indicated the Hooker & Holcombe (H&H) uses the parameters to determine Town contributions to the Plan. If we change the parameters we would have to change the return on investment from the 7.8% annual return on investments and income increases from the 4.5% used today. The Trust was provided information at their last meeting by Ron Schlee of H&H after which the Trust decided to leave the parameters as they had been used to prepare the plan in prior years. Carol indicated that the parameters relative to the return on investment may not be needed at this time, as she had just demonstrated how our plan might be tweaked to provide for that return.

Bob Shultz indicated that we would not have to hit 7.8 each year but that overall that would be our goal. Bob Kelso indicated that based upon our past performance, our returns on investment over the years had varied substantially. The 7.8 is not consistent. Over the past 10 years the full return was significantly less than 7.8%. Warren Serenbetz indicated that we had two economic declines in that ten year period as well.

Mr. Schultz also thought that REITS were something they might want to consider if they wanted to diversify but maybe not 10% right away. Ms. Misus concurred with him, saying that it was something to go into slowly.

Mr. Schulz asked Ms. Misus if in the future she could send the members of the Committee Vanguard’s performance information so that they would have time to review it a few days prior to the meeting and Ms. Misus said that she would.

In response to questions on various investment choices, including on going into more International Bond Funds (re: currency risk and interest rate parity that is going on right now with

international currencies), or if we increase our US Equity and had a 3% investment in REIT as opposed to a 10% in REITS would it impact us that much? Warren suggested that if we changed our distribution by going more in Equity than in REIT that you don't change the returns but you change the volatility.

It was suggested that the 3.75% of the funds now in the market in Emerging Markets could be used to initiate investment in REITS. Upon Bob Kelso's request for a motion, no one volunteered to make the case for reducing Emerging Markets.

After a brief discussion the Committee decided not to make any changes at this time and to further discuss getting into REITS and out of Emerging Markets and making changes to fixed income at the next meeting. Carol indicated she would get the information requested by the Committee regarding REITS to everyone. The type of properties in the REITS Carol was suggesting was reviewed briefly by Warren Serenbetz by reviewing the information provided. The Committee will go back to look at the potential alteration at the July meeting.

Sandy Dennies indicated that at the July meeting the Trust would identify the parameters to be used by the actuaries which would then assist the Committee in making its decisions. Ron Schlee was also asked to change the employee salary increase that is based upon something closer to actual as it will have the possibility to reduce the contribution. Bob Kelso asked if we should reduce the return to reduce the volatility; to which the Committee indicated that that would not be advisable at this time. Sarah Taffel commented in response to Bob Kelso's inquiry as to the accuracy of the salary increase of 4.5 % annually; to which she indicated that at this time we have only 6 Police, 3 AFSCME, 2 FIRE that have steps and everyone else has completed their steps. New employees get steps and so they do get a higher salary increase, so that Ron Schlee of H&H would have to look at each employee each year and would base his actuarial calculation on actual employees as opposed to being based upon an average increase on all employees. A brief study by Ron Schlee indicated that he could reduce the contribution by over \$362,000 using actuals as opposed to the 4.5% estimated average.

The Committee reaffirmed that it would not make any changes at this time and would take another look in July. Look at the changes on the Fixed Income side as well as the REIT.

Ms. Misus said that Vanguard was giving investment forums that would be beneficial to the Committee members and that Paul Connors would be sending information to them.

Relative to the short term, inflationary pressures i.e. increasing wages, pricing, typically have an impact but at this time, organizations cannot take on more business without taking on more people so Vanguard indicated that it don't see any lurking inflation at this time. In the long term with the deficit and potential demand issues, it may have an impact.

Mr. Kelso introduced Richard Wehrmann who works for Blackrock for about 15 years in the cash base. He is interested in serving on the Investment Committee. Mr. Wehrmann (a Democrat), discussed his background with the members saying that he would like to be more active in the Town. He said that he would need to understand time commitment because he travels a fair amount. He was assured that the Investment Committee only meets quarterly and therefore would not be very demanding of his time.

Next meeting is July 14 at 6:00pm.

Meeting was adjourned at 6:55 PM.