

Town of Andover Investment Committee
Minutes of the Thursday, January 25, 2024, Meeting
Virtual Meeting to be Broadcast on Andover TV

Members Present: Andrew Gribbel, Chair, Nancy Kimelman, Aidan Forde, Andrew Betts, and Brian Carbone.

Also Present: Chief Financial Officer, Patrick Lawlor, Town Treasurer, Michael Morse, and Town Accountant/Assistant Finance Director, Hayley Green

Call to Order: Mr. Gribbel called the meeting to order at 7:30 P.M.

Updates from Staff

Review of Quarterly Results

Patrick began the meeting with an “Update on Retirement Fund Status” (1/25/2024) to bring the Committee up to date on the fourth quarter fund performance.

Patrick noted that although results of a few funds have not been finalized, preliminary results for the fourth quarter show a 7.5% return, bringing the year-to-date return to about 12.1%. This is exclusive of real estate and private equity information which will be coming out in the next few weeks. The portfolio composition as of 12/31/23 included PRIT, RhumbLine both mid- cap and small-cap, and MMDT for a total of \$371,837,920.04.

After the final 2023 return is reviewed by the Retirement Board it will be shared with the Investment Committee.

The Portfolio Composition is as follows: \$305M invested with PRIT; \$21.2M invested with RhumbLine mid- cap and \$19.4M invested with RhumbLine small-cap. The Massachusetts Municipal Depository Trust (MMDT) had \$26.1M cash as of 12/31/2023, earning a little better 5.65 %.

Michael then talked about “Performance Summary” for the quarter ending 9/30/2023. Although the third quarter showed stocks were down between 3 and 5%, cash did surprisingly well with 5.6% returns in MMDT. Value added fixed income was up 1.2%.

For the 10-year period, the portfolio puts us in the top percentile of all public funds in America at 8%.

Nancy asked about the 8% and top one percentile.

Discuss and Review Asset Allocation

Patrick discussed the slide “Asset allocation” for the portfolio which is based on the target and actual allocation:

42% target for global equity vs actual at 42.3%

10% target for private equity vs actual 11.4%

18% target for real estate vs actual of 15%

20% target for fixed income vs actual of 18%

5% target for cash vs actual of 7.4%

Michael noted that at the November Retirement Board meeting, there was some discussion about waiting until the real estate bottom solidified before bringing that allocation back up, while also getting out of value added (high yield) fixed income.

Nancy also recalled this meeting and said she was concerned about the talk of increasing exposure to real estate and is happy with the situation now.

Patrick further noted that because of the funded status at about 100 % the system has a bit more of a conservative posture relative to PRIT which is funded at 70%. Also, the low discount rate with a higher allocation of cash makes the portfolio not only more conservative but also more flexible, compared to most public pension plans where cash is usually less than 5%.

Based on MMDT earnings, we are in a good place with the cash allocation, and we are almost at our discount rate,

Nancy agreed that the allocation to cash has been good as cash accounts are paying good returns these days, but at some point, it may have to be reduced. For now, it looks good.

Andy B. asked about intermediate to longer term plans if rates were to come down noting that at some point the Retirement Board might have to think about moving some cash.

Patrick agreed this is something the Investment Committee might be thinking about in terms of making a potential recommendation to the Retirement Board regarding a change in interest rates and subsequent re-allocation of cash into equities or other target allocations.

Andy G. said that with a 5.6% rate for cash, he agreed with Nancy but may need to think about at what point investment elsewhere should occur.

Hayley said the Retirement Board looks at interest rates monthly because they need to hit the discount rate as well.

Patrick then presented “Fund Fees” and said Andover’s fees for the overall plan are 5th lowest in the State.

Massachusetts performance comparisons as of 12/2022 out of 107 retirement systems:

1 year-- 8th best

3 year—8th best

10 year-- 18th best

Patrick credited the partnership between the Retirement Board and Investment Committee as well as changes made by the Retirement Board with Hayley as Chair of the Board.

Aidan commented that although the fund status is strong, two-thirds of the portfolio is in risk assets, a somewhat aggressive posture. He added It may be worth looking at asset allocation at some point for the longer term, maybe 10 years out.

Andy G. said he thought the fund may be more conservative than some pension funds and endowments, but it is not overly risky. Nancy added that we haven’t done market timing which so far has been successful, so she wouldn’t advise changing that now. She said the portfolio is structured to handle different market conditions.

Andrew B. suggested looking at duration allocations such as short duration bonds or treasuries noting the Federal Reserve may be forecasting rate cuts. Nancy said we shouldn’t be in a hurry to lengthen duration from cash adding that the U.S. is

in better shape with its economy and inflation than Europe. Nancy asked to have a conversation about private debt at the next meeting, although she is not in favor of that as a new asset class.

Patrick said this would be an agenda item for the next meeting and there may be someone to present that issue. Hayley said she discussed private debt with the Retirement Board's Investment Consultant who did not recommend it due to the large amount of money needed to invest, high fees, and the fact that there is already some exposure through PRIT for private debt.

Andy G. suggested members watch Retirement Board meetings or review meeting minutes before the next Investment Committee meeting. Hayley said the Retirement Board website posts the minutes as well as a lot of information including Dahab Investment reports.

Nancy asked about scheduling a year-end meeting with the Retirement Board when numbers are available. Patrick agreed a joint meeting would be a good idea especially as there is a new Retirement Board member.

Andy G. asked Michael when finalized numbers might be available and the response was we should have the Q1 2024 numbers after April. Also, Dahab will be presenting at the Retirement Board meeting in February.

Nancy asked about correlation between private equity and standard equity indices and asked about reviewing returns before we get private equity numbers. Andy G. said there is less volatility as they are not priced daily like equities. Even with a strong correlation in returns he was hesitant to predict returns. Nancy clarified that they could look at portfolio returns before private equities numbers are considered ie. exclude private equity and real estate from the analysis even though that would leave out roughly 26% of the portfolio.

Aidan asked about an earlier conversation regarding OPEB and Patrick said there had been talk about having Rockland Trust come in and reviewing the allocation.

Nancy asked if there were any PRIT monthly or annual reports available and Patrick will look into sending these to the Investment Committee.

Next Meeting: The next meeting date will be sent to members as the April 18th is during School Vacation. It will be at 7:30 PLACE TBD.

Adjourn:

It was moved by Mr. Gribbel, seconded by Mr. Betts, and voted 4-0 to adjourn the meeting at 7:58 P.M.

Documents:

1. Update on Retirement Fund Status Slide (1.25.2024)
2. Performance Summary Slide
3. Asset Allocation Slide
4. Fund Status Slide
5. Fund Fees Slide