MINUTES OF THE INVESTMENT ADVISORY COMMITTEE MEETING
HELD ON FRIDAY, AUGUST 17, 2018

I. CALL TO ORDER AND ROLL CALL

The Investment Advisory Committee meeting was called to order on Friday, August 17, 2018, at 2:30 p.m., in the Town Council Chambers. On roll call, all members were found to be present, except for Committee Members McCluskey (excused absence) and Storkerson; a quorum was present.

II. PLEDGE OF ALLEGIANCE

Chairman Andrews led the Pledge of Allegiance.

III. APPROVAL OF AGENDA

Chairman Andrews asked for approval of the agenda dated August 17, 2018. Committee Member Frazier made a motion and Committee Member Anderson made a second.

IV. COMMUNICATION FROM CITIZENS – *None*

V. APPROVAL OF MINUTES

a. MINUTES FROM MAY 18, 2018 MEETING

Committee Member Frazier made a motion for the approval of the May 18, 2018 minutes. Committee member Anderson seconded that motion. No discussion, minutes were approved.

VI. ANDCO CONSULTING – [Dave West, AndCo, Consulting]

a. QUARTERLY PERFORMANCE REPORT

Mr. West reported on the June quarter. Andco has been trying to decrease international equities and increase domestic equities along with minimizing investment grade fixed income, but the capital call process has been very slow. Committee Member Frazier asked for a "refresher" on a previous discussion with regard to Dodge & Cox. Mr. West said that despite the changes with Dodge & Cox they are still in good standing and are still on their recommended list of managers. Committee Member Frazier concluded with a comment in asking Mr. West to watch it closely. For non-traditional assets - eliminated all the commodity and emerging markets and added Crescent Direct Lending which is middle market debt with LIBOR based loans. Dr. Andrews reconfirmed with Mr. West that all the nontraditional assets have been eliminated except for Forrester which cannot be eliminated at this point due to a long lock out period. Fixed income has been brought to target witht he addition of Met West Total Return Bond Fund. The cash flows in the June quarter began with $31,049,070. Two capital calls were received, one from Crescent Direct Lending Fund $73,694 and Intercontinental US refund $882,595. Expenses totaled $39, investment earnings totaled $103,181 for the quarter, and the appreciation was $256,719. Ending balance for the quarter is $31,408,930. Dr. Andrews asked for a comparison of the quarter ending June 30, 2018 vs. the quarter that we are currently in with regard to estimated returns. Mr. West agreed that markets have been productive and Andco has the Town in position to capture the benefits ahead, especially with more stable real estate returns. Real estate came in for the quarter at 2.75%, which annualizes around 10%. Mr. Frazier inquired on what our commitment is to which Mr. West reviewed the real estate commitments. $2,000,000 allotted of which $882,000 is invested to date. Dr. Andrews asked what happens to the cash not invested. Mr. West explained that the capital calls will be satisfied by liquidating the Vanguard fund until such time that the Forrester investment can be liquidated. Dr. Andrews asked for confirmation on the liquidation of Forrester will take place next June.

Investment returns were up 1.17% for the quarter. FY to date is 3.45%. The year-over-year is 7.03% and the 3 year annualizes at 4.32%. The new asset allocation policy is at 4.16% for the fiscal year so there was some underperformance. Underperformance was due to Dodge & Cox as well as having a modest overweight in international equites and fixed income. On a positive note, real estate, Intercontinental was up 2.75%. Chairman Andrews inquired upon the timeframe for when everything would be fully invested. Mr. West expects the real estate to be fully invested come the end of December while the Crescent funds should be invested by the end of the first quarter. Committee Member Frazier asked for the future reports to reflect a naïve policy index (ex 60% S&P/40% Barclays).

VII. PFM ASSET MANAGEMENT – [Scott Stitcher, PFM Asset Management]

a. QUARTERLY PERFORMANCE REPORT

Mr. Stitcher touched on the market's performance. The GDP was up 4.1% making it 2.9% for an annual rate, which is also what the target is at year-end. The FED expects two more rate hikes before year-end, possibly three. The portfolio ended the quarter at $18,617,000. The yield at cost is 1.81%. Duration is 2.27 years. All investments are within policy guidelines.

b. BENCHMARK COMPARISON

The income earned on our portfolio to date is $90,829. Added to the portfolio are Ally at 3.09% and Hershey Comp 3.38%. In the 1-5 year benchmark, Supranationals outperformed both agency and treasury. Supranationals are at 11.2%; Corporates 30.4% and asset backs at 6.4% of the portfolio. The portfolio is up .27% while the benchmark returned .13%; a 14 basis point overperformance. 1-year is down (.16%) vs. the benchmark at (.33%) 17 basis points of over performance. Committee Member Frazier asked for more in-depth report on the Supranationals and what the criteria is used in choosing them. Issuance has dropped according to the account manager, particularly with technology. Expect the next quarter to be low in issuance.

VIII. JUNE INVESTMENT REPORT

Amy Wood, Asst. Finance Director, reported that the invested funds were $130,113,556 and the fiscal year-to-date return was $730,625. Committee Member Frazier asked if the recommendation to council was accepted. Finance Director Jane Struder explained that the council accepted the recommendation for a 6.5% assumed rate of return for the OPEB fund. She added that the Town Manager recommended that the amortization be reduced from 25 years to 15 years for the retirement fund.

IX. QUARTERLY REPORT FOR OVERSITE OF ONE-CENT SURTAX

Chairman Andrews would like some diversification in the use of the proceeds, would Ms. Struder please ask the Council to consider that possibility.

X. 2018 PROPOSED MEETING SCHEDULE

a. NEXT MEETING: November 16, 2018 AT 2:30PM

XI. ANY OTHER MATTERS

XII. ADJOURNMENT

There being no further business, the August 17, 2018 Investment Advisory Committee meeting was adjourned at 3:53 p.m.

-APPROVED:

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Dr. Michael F. Andrews, Chairman