

A regular meeting of the Retirement Board was held at Town Hall, Tuesday June 11, 2019 at 10AM.

Members present: Wayne Marquis, Chairman; Steve Swanson, Fifth Member; Mike Hagan, Elected Member; Joe Collins, Elected Member; Cory Grace, Ex-officio Member.

Others present: Rodney Conley (Director of Admin. and Finance); Susan Little (Retirement Manager); Isabelle Eckel (Investment Consultant); Cliff White (Investment Consultant - via conference call).

The Board unanimously approved minutes of the May 29, 2019 meeting to be accepted and signed. **(Vote: Steve Swanson motioned with Joe Collins seconding and the Board unanimously approving).**

The Board unanimously approved the April 2019 Cashbooks **(Vote: Cory Grace motioned with Joe Collins seconding and the Board unanimously approving).**

Approvals received from PERAC: **Barbara Downs**

Isabelle Eckel (in person) and Cliff White (via conference call) discussed with the Board the underperformance of Lyrical. Isabelle explained she spoke with the Morgan Stanley analyst and was told they still have positive expectations and are recommending Lyrical to their clients but said they may not be the right manager for an investor not willing to handle the wide swings in performance that a manager like Lyrical would have. Joe said I think we are late coming to the table. The approach has been to hope they would be better each month. He said I'm embarrassed as part of this Board that we held on for too long not knowing how volatile an investment style they have. The Board discussed the pro's and con's with keeping a volatile investment and voted unanimously to terminate **(Vote: Joe Collins motioned with Mike Hagan seconding and the Board unanimously approving liquidating out of Lyrical and investing \$2.5 Million in the Systems Rhumblin Russell 1000 account with the balance of the Lyrical liquidation, approximately \$6.5 Million+ being invested in the System's Rhumblin S&P account)**

Isabelle Eckel (in person) and Cliff White (via conference call) discussed the underperformance of the Danvers System versus other Mass. Public Pension Systems and PRIM. Cliff explained investors are seeing a 10-year bull mkt – the longest in history. Cliff apologized for the underperformance and reviewed what he believes caused the CY2018 underperformance. Cliff said the first issue was manager selection. He said the shift to value was the correct approach however Lyrical, although they are a good manager, was not the correct type of manager for the Danvers System. Wayne asked what has happened to make Graystone change the recommendation from Lyrical. During prior monthly discussions the recommendation was to be patient, now a short time later the recommendation to liquidate feels like a shoot from the hip approach. Cliff said the difference is that they didn't know how they would perform in May. In April we thought they would turn things around and their investment strategy, which they have not wavered from, would be rewarded. That didn't happen and they were down significantly in May. Cliff said the concern is we liquidate just as they are being rewarded but given the volatility of this type of manager and the need for a long-term approach there is probably not going to be enough of an upswing anytime soon, so we think it's best to reevaluate. Cliff said the second reason for the underperformance of the portfolio is the over-weight to Value style. Steve said, so you are saying part of the underperformance was because we had a hedge against growth, but other Mass. Systems didn't. Cliff said yes, and we are still recommending a tilt to value we just don't think Lyrical is the right type of value manager for Danvers. Rodney said if it is the tilt to value and manager selection causing the underperformance is this is an approach we are comfortable with? Cliff said given various global issues, for example trade wars, we think it prudent to be cautious and stay with a tilt to value. Cliff explained, the third reason for the System's underperformance is too much weighting to International and Emerging. Mike said this all sounds like a band aide approach. Why didn't we see this coming? Cliff said one year can cause a big problem. I can't speak to the 34-yr. figure, but 2018 results are causing the issue in 5 and 10 years. Cliff explained they have a plan. They recommend moving closer to the investment policy, issue an RFP in the future for a value manager to replace Lyrical, and increase the exposure over time to private equity. Cliff said we had previously recommended a \$2 million commitment to the VY19 but given the current size of the portfolio he would recommend a \$3 million commitment to VY20. Steve asked if we can increase the private equity exposure in the short term. Cliff said we approached PRIM and they have already locked VY19 and issuing an RFP for private equity and having quality firms respond in Massachusetts is difficult given all the restrictions.

The Board unanimously approved rebalancing the portfolio and investing the appropriation funds when they are received. **(Vote: Cory Grace motioned with Steve Swanson seconding and the Board unanimously approving transferring \$1 Million from PRIT Emerging, \$2 Million from PRIT Intl. and transferring \$1 Million to PRIT Hedge and \$2 Million to PRIT R.E.; investing the \$8.2 Million appropriation payment by adding \$2 Million to BMO, \$2 Million to Barings and \$4.2 Million to Hillswick).**

Cliff explained to the Board he will call Lyrical today and Danvers will need to follow up with an official letter. He said he expects to see the performance numbers improve over the balance of the year. The May official results are not in yet, but he will forward them to the Board when they are completed. He also said, given the time constraints of this meeting he would suggest moving the presentation of asset allocation study results to the July 31st meeting and the Board agreed. Steve requested, and the Board agreed, as part of the asset allocation study, Graystone provide historical information for 3, 5 and 7 years for comparison.

Meeting Adjourned: 11:45AM **(Cory Grace motioned with Steve Swanson seconding and Board unanimously approving).**

NEXT MEETING: July 31, 2019

Joseph Collins, Elected Member

Michael Hagan, Elected Member

Corinna Grace, Ex-Officio Member

Wayne P. Marquis, Chairman

Stephen Swanson, Fifth Member