

The Regional School District 13 Board of Education Educational Resources Committee met in regular session on Tuesday, December 10, 2019 at 6:00 PM in the Library at Coginchaug Regional High School, 135 Pickett Lane, Durham, Connecticut.

Committee members present: Mr. Moore and Mr. Roraback

Committee members absent: Dr. Friedrich, Mrs. Geraci and Mr. Yamartino

Administration present: Dr. Veronesi, Superintendent of Schools and Mrs. Neubig, Director of Finance

Guests present: Mr. Forma and Mr. Matthews from Morgan Stanley

There was not a quorum present at tonight's meeting.

## **Morgan Stanley**

### **A. Year-end performance update**

Mrs. Neubig introduced Tom Forma and Joe Matthews from Morgan Stanley. Mr. Matthews is a CFA (Chartered Financial Analyst) and CFP (Certified Financial Planner) and teaches at Fairfield University as well as being the manager of Morgan Stanley's Fairfield office.

Mrs. Neubig stated that the year-end performance of the pension was already reviewed at the Pension Committee where they discussed a potential investment manager change. She explained that Mr. Forma will review that and she would then like the committee to recommend to the full board to approve the investment manager change.

Mr. Forma explained that the strategy has been to have below-market risk portfolio management firms, but a higher allocation to stocks than normal. A typical allocation for a pension would be 60 percent stocks and 40 percent bonds, but they feel that as interest rates rise, bonds drop. There is a huge variation within the S&P 500 as far as stability of growth in the kinds of companies that are available. They have looked for companies that are still growing, but with less downside risk.

The question of growth came up at the Pension Committee meeting and Morgan Stanley believes that growth can be seen in emerging markets. There is a lot of tech built around the world and emerging markets are very different than they were 20 years ago.

Mr. Forma explained that relative to all pensions nationwide, the district's pension was in the first percentile for the last fiscal year because it was up about 9.7 percent and the national average was 6.3 percent. That happened with 70 percent of the investment in stocks, rather than the 60 percent.

Mr. Forma reviewed how the district's pension is doing. As of yesterday, the stocks were about 72 percent. The fund is up 18.88 percent year-to-date, net after all fees. It is almost \$230,000 projected for the next 12 months. There are currently eight portfolio managers and the largest single stock (Apple) is 2.4 percent of the portfolio. Mr. Forma noted that they would get concerned if a single stock represented more than 5 percent of the portfolio. Microsoft is 2.1 percent, Johnson & Johnson is 1.2 and Berkshire Hathaway is 1.1. He also reviewed that, of the whole portfolio, only 1.4 percent is invested in emerging markets. They are recommending adding an emerging markets manager with 5 percent of the portfolio, bringing that to 6.4 percent. He did note that emerging markets are up 1 percent in the first nine days of December as people get excited about the possibility of China and the US doing something about the trade wars and tariffs.

**B. Suggested investment change**

Mr. Forma then went on to review audit details about Lazard. Their strategy is very oriented toward foreign markets with a big specialization in emerging markets. They are opportunistic, but also worried about the down side. The analysts feel that the team at Lazard has had enough time together to be able to believe their track record.

Mr. Matthews added that a key advantage in emerging markets can occur because relationships are developed in emerging markets with the executive officers in the companies as opposed to companies like Amazon, where everybody knows when they will report their earnings and it is very difficult to gain an advantage.

Mr. Forma reviewed that Lazard Asset Management has \$213 billion of assets, but the emerging markets strategy has only \$630 million which is a relatively small amount of money and allows them to be more flexible and buy smaller companies. They were ahead of the index for several years before fees, but not every year.

The top 10 holdings are major companies, including Taiwan Semiconductor, Alibaba and Unilever. They do tend to invest heavily in large companies. Mr. Matthews commented that a Russian company is the sixth largest in the fund and that it is important to be able to take money out of a country without restrictions. Mr. Forma reviewed that emerging markets have a lot of unpredictability and they looked for someone who could provide decent returns. They recommend to move 5 percent of the holdings to Lazard and take it from each of the US managers. The fund is at about 12 percent in foreign markets right now and would go to about 17 percent. Mr. Forma explained that they monitor all of the managers, but they are dependent on politics at this point with trade wars and tariffs.

Mr. Moore stated that they will recommend the change in investments to the full board at the meeting tonight.

**Financing Update****A. Energy Conservation Group (ECG)**

Mrs. Neubig would like the committee's approval to create an RFP for financing, including a capital lease, and she would then present it to the full board for approval in January. Mr. Moore explained that she did not need the committee's permission, so she will move forward with the RFP with a two-week turnaround. Mr. Moore reviewed that this will be a net zero on the budget as it will be paid for with money that would have been paid out for utilities.

Mr. Moore agreed to move this forward at tonight's full board meeting.

**Budget Calendar/Process Review**

Dr. Veronesi wanted to hear any ideas that the committee has about the budget presentation and process this year. Mr. Roraback reminded everyone that Dr. Taylor had asked to start the process earlier and identify priorities with steps to act on them.

**Public Comment**

None.

**Adjournment**

The meeting was adjourned at 6:55 PM.

Respectfully submitted,

Debi Waz

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