



TOWN OF MIDDLEBURY

Retirement Plan Committee

Meeting Minutes

Thursday, April 12, 2018 – 1:00 PM

Town Hall Conference Room

1212 Whittemore Rd., Middlebury, CT 06762

Present:

Edward Asselin, Chairman
JoAnn Cappelletti
William J. Stowell

Also Present:

Lawrence Hutvagner, CFO
Brigitte M. Bessette – Recording Clerk
Connie Brunswick – Finance Assistant
James B. Dorney, CRPS – UBS
Marc A. Ciociola, CPRS – UBS

Call to Order

The meeting was called to order at 1: 00 P.M. by Mr. Asselin with the Pledge of Allegiance.

Approval of February 8, 2018 Meeting Minutes

Mrs. Cappelletti MOTIONED to approve the Minutes of the February 8, 2018 Meeting, SECONDED by Mr. Stowell, unanimous approval.

Correspondence – None

Chairman Comments – None

Public Comments – None

Old Business – None

New Business - Discussion and Action with UBS on Pension Plan Investments and Watch List

Mr. Ciociola disbursed to each member a UBS Quarterly Committee Meeting Town of Middlebury Retirement Plan – April 2018 Report (see attached). He began with an overview of this report as reflected on the Agenda on page one.

The Market Commentary on page two authored by Mark Haefele, Global Chief Investment Officer addresses the recent market volatility and daily fluctuations. There are three basic reasons for this; (1) US Inflation, (2) potential trade war with China and (3) Technology Stocks outlook. With each passing day the trade war rhetoric seems “watered down”. Although the recent outlook on technology stock reveals a lot of profit taking, this has not led the withdrawal from this sector. Some investors believe that since the technology sector has been relatively calm and positive for so long, “maybe now is a good time to start taking profits on

these technology stocks". Mr. Ciociola confirmed that in reviewing the asset allocation of the pension fund for the Town of Middlebury, it is where it should be (within 1%). The asset allocation is 60% stock / 40% bonds which adheres to the investment policy statement. Looking ahead it is recommended that investors (1) stay invested (2) consider downside protection and (3) maintain perspective. An example Mr. Ciociola used to explain maintaining perspective is when the markets reacted to President Trump's announcing sanctions against China, which may or may not happen. Although the proposed sanctions amounted to approximately 60 billion dollars, fluctuating movement in the market was over 1 trillion dollars simply as a result of that announcement. Markets are not necessarily staying within the perspective. Regardless, Mr. Ciociola confirmed that although there is a lot of volatility, he and Mr. Dorney are of the opinion that the asset allocation is sound and that the overweight in equity class is still in line with the pension fund. (60% stock and 40% bonds).

Mr. Dorney added there have been more one percent moves in the last 30 days than there were in the past 17 months. The markets went from an unusually quiet period to one where now there is volatility. When looking at the numbers it seems like huge up slides and down slides in the market when in fact, percentage wise, it is not that unusual. He further noted that in fact, it would be unusual for the market to continue on at that steady pace as seen in the previous 24 months.

Mr. Ciociola referred to the Portfolio Appraisal. The cost basis total is \$11,261,963. The market value as of two days ago (April 9, 2018) is \$17,032,801. He also pointed out the various securities indicating 100% or above growth. (Large Cap is up 102%, Large Cap Value is up 89% / Mid Cap is up 107%, Mid Cap value is up 95% etc.) The asset allocation in equities has been going from roughly 70% down to 60%, which is where it should be.

In response to Mr. Asselin, Mr. Ciociola confirmed that the Town of Middlebury does not pay federal taxes on profits. In light of Mr. Ciociola's insight as to recent "taking of profits" but not leaving those areas, Mr. Asselin asked if they had any recommendation to perhaps take some of those profits and lock them in that would benefit the plan long term. Mr. Ciociola clarified that he was referring to "technology stocks" only. It is recommended to stay invested, regardless of the recent "selling off" due to prolonged growth. Mr. Dorney reminded the board that in the past the town plan did take profits when there was 72 – 73% in equity. It was recommended last year to take profits on equities to keep in line with the investment policy statement. At one point in the past it was 60/40 but equity grew and bonds did not. Bonds represent more of a "shock absorber" when markets go down significantly. Although 10% in equity was "taken off the table", equities have continued to grow and the plan asset allocation remains 60/40.

In summary, the economy is “still in a pretty good position”. The chances of recession are “still pretty low right now”. In light of interest rates, equities are a good place to be. Mr. Ciociola and Mr. Dorney are of the opinion this is not a time to de-risk whereby significantly changing allocation. Mr. Ciociola noted that if something significant happens, the Board will be contacted. They will continue to watch and monitor.

Mr. Ciociola then referred to and explained the Executive Summary (page five) pie chart and graph. These indicate where the money is, amounts of contributions and account values.

Mr. Dorney offered a brief summary for the previously instituted “watch list”. The added new subadvisors warranted a careful watch during past months. The long term history shown on page five reflects in 1999 the price was just over 5 million, the asset pool is now 17 million. This pool of assets has done exceedingly well. During 2017 (including the “watch” time frame) the Town of Middlebury rate of performance is 16.12% vs. the comparative index (60% S&P 500 / 40% Barclays Govt. Credit) of 13.59% (outperformed by approx. 3%) It is Mr. Dorney’s opinion the subadvisors did “pretty good”. Mr. Ciociola also pointed out the three year, five year, seven year, ten year and since inception bench marks.

Mr. Dorney also explained the process, collection of data, and potential red flag risk alerts while monitoring numerous subadvisors. The subadvisors Willmington Trust chose are “by in large pretty good”. Mr. Dorney concluded that 2017 was an excellent year for performance. Values continue to hold up.

Lastly, both gentlemen discussed page seven which refers to the Town of Middlebury Investment Policy bands (minimum / maximum). At times there can be problems with investment policy bans since some are too restrictive making it difficult to manage. As shown on this page, for example the Town of Middlebury Investment Policy Statement allows for Intermediate term bond fund minimum of 0, target is 15, maximum is 50 and actual is 14.19%. Discussion continued regarding staying within minimum and maximum. It is their opinion that the Investment Policy Statement is being followed, which is this board’s fiduciary responsibility.

Mr. Stowell brought to their attention an error in this report (two columns with “policy target allocation” headings). Mr. Ciociola apologized for this error. He will inquire and resubmit this report as soon as possible.

The Retirement Plan Committee Members thanked both Mr. Ciociola and Mr. Dorney for their time and professionalism.

Retirement Plan Committee
April 12, 2018
Page Four

Adjournment

Mrs. Cappelletti MOTIONED to adjourn the meeting at 1:45 P.M., SECONDED by Mr. Stowell, unanimous approval.

These minutes are submitted subject to approval.

Respectfully submitted,

Brigitte M. Bessette
Recording Clerk

Cc: Retirement Plan Committee Members
Connie Brunswick – Finance Assistant
Lawrence Hutvagner – CFO
Town Clerk
Web Master

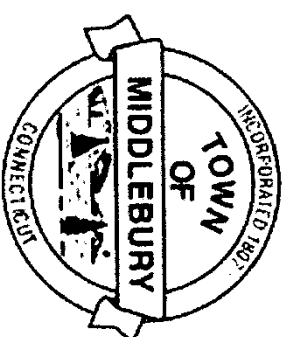


Quarterly Committee Meeting

Town of Middlebury Retirement Plan

April 2018

EastRock
wealth management
UBS Financial Services Inc.
265 Church St
New Haven, CT 06510
203-498-3311



Agenda

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- Market Commentary pgs.2&3
- Portfolio Flash Report pg.4
- Asset Allocation pg.5
- Account Performance pg.6
- Vs. IPS Guidelines pg.7



1

Deeper Dive Putting equity volatility into perspective



Mark Haefele

In the first quarter, equity volatility returned with a vengeance. The S&P 500 fell 10% in just nine trading days from 26 January to 8 February and in March US equity markets once again led a global equity rollercoaster.

In absolute terms, volatility has reached high levels. The VIX index hit 50.3 during February's equity correction, a level previously only reached on two occasions: in August 2015, and during the global financial crisis. Recent volatility also feels more pronounced because of the period of abnormal calm that preceded it. Apart from two days prior to Christmas in 1993, all the top 20 record low closes in the VIX (of 9.55 or less) occurred between July 2017 and January this year, with an average for that period of just 10.7. Since the start of February the VIX has averaged 20.7, slightly above its average since inception of 19.4.

Fears of higher US inflation prompting faster monetary tightening by the Federal Reserve, a potential trade war between the US and China, and concerns about the outlook for technology stocks have been the principal causes behind the volatility. Faced with these threats investors might be tempted to withdraw from risk assets. But we believe it's important to put the dangers to the equity rally into perspective.

Trade war rhetoric may be worse than reality. US steel and aluminium tariffs have been significantly watered down with numerous country exemptions and, behind the tough talk from both sides, negotiations are going on between the US and China. The decline in technology stocks has been partly fuelled by tariff concerns, but also reflects profit-taking on negative news headlines after a long period of outperformance relative to the wider market. But the technology sector's strong secular growth prospects (cloud, e-commerce, online advertising and

cybersecurity) remain intact. And the inflation threat has abated since February's stark sell-off as benign inflation data and new Fed chair Jerome Powell's statements suggest there is no need for significantly faster tightening.

So, looking ahead, we recommend investors:

- ▶ Stay invested while global growth and corporate earnings fundamentals remain supportive of further equity gains. An early exit can have a high opportunity cost. Since 1992, missing just the top 10 trading days in the S&P 500 would have reduced cumulative total returns by 37%.
- ▶ Consider downside protection and countercyclical positioning to protect against tail risks. Within our portfolios we hold positions, such as our overweight to 10-year US Treasuries and our preference for the Japanese yen over the New Zealand dollar, which can perform well in both our base case and in case of a market downturn.
- ▶ Maintain perspective. Initial market reaction, swayed by tough rhetoric may be exaggerated. To date the Trump administration has proposed potential tariffs on Chinese imports with a value up to USD 60bn, yet in the week of the announcement the S&P 500's market capitalization declined by USD 1.4trn.

While we believe it's prudent to manage against downside risks and are monitoring the potential for escalation in trade conflict, we maintain a risk-on stance and are overweight global equities.

Mark Haefele
Global Chief Investment Officer, WMI

Strategy and performance

TAA and market returns: US equity sectors

Sector	Tactical Deviation in %*	Total return in %			Annualized total return in %			Benchmark
		1-week	1 month	YTD	1-Year	5-Year	10-Year**	
S&P 500		0.93	-6.40	-2.07	12.75	12.58	9.54	S&P Index
Consumer Discretionary	0.0	2.28	-4.86	2.44	17.08	15.50	14.71	SPCONDD Index
Consumer Staples	-1.0	2.26	-3.35	-7.35	-1.29	8.38	9.52	SPCONS Index
Energy	+1.0	1.93	-0.85	-5.97	-0.86	-0.24	1.33	SPENRG Index
Financials	+1.0	0.77	-0.25	-2.32	17.43	14.98	5.30	SPFINL Index
Health Care	-1.0	0.43	-7.33	-2.86	9.38	13.25	12.18	SPHITH Index
Industrials	0.0	0.03	-6.87	-3.57	11.51	13.73	8.95	SPINDU Index
Information Technology	0.0	0.23	-9.27	1.19	25.47	20.40	14.21	SPINFT Index
Materials	+1.0	1.32	-7.32	-6.16	9.41	9.95	5.88	SPMATR Index
Real Estate	0.0	0.66	0.36	-5.59	0.41	4.06	3.48	SPRE-RT Index
Telecom	0.0	2.58	-2.29	-6.47	-3.83	3.71	5.98	SPTELS Index
Utilities	-1.0	0.63	2.53	-3.42	1.59	8.78	7.77	SPUTIL Index

Note: Tactical deviations are intended to be applicable to the US equity portion of a portfolio across investor risk profiles.
 ** As of last month end
 Source: UBS as of 9 April 2012

Market moves

	Level	1-w chg	YTD chg
S&P 500	2,614	-1.38%	-2.10%
DJIA	23,933	-0.71%	-2.62%
Nasdaq	6,915	-2.10%	0.47%
Nikkei 225	21,568	1.93%	-5.26%
Eurostoxx 50	3,408	1.39%	-2.74%
MSCI EM	1,162	-0.68%	0.30%
MSCI World	2,083	-0.65%	-2.41%
MSCI EAFE	2,013	0.55%	-1.83%

Matrix Trust Company
PORTFOLIO APPRAISAL
Town Of Middlebury Ret. Plan
71442
April 9, 2018

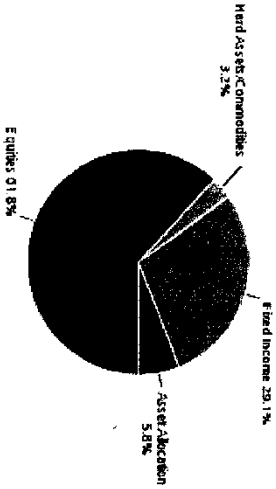
Security Symbol	Comp	Quantity	Security	Total Cost	Total Cost	Price	Market Value	Pct. Assets	Unrealized Gain/Loss	Pct. Gain/Loss	Annual Income	Cur. Yield
COLLECTIVE FUNDS												
00001	002100439	3,609,090	BlackRock Emerging Markets Equity Index Fund Cl 0	105,56	387,317.38	134.46	493,345.84	2.9	106,028.26	27.38	0.00	0.0
0126F	9718JH230	3,350,200	BlackRock Equity Index Fund Class O/M	251.91	843,945.08	330.28	1,106,842.43	6.5	262,897.34	21.15	0.00	0.0
90014	90263X704	58,122,402	Core Plus Fixed Income Fund Cl 0	30.40	1,766,824.27	40.89	2,376,566.90	14.0	609,742.63	34.51	0.00	0.0
90040	90263X832	40,833,108	Global Allocation Fund Cl 0	20.13	821,800.90	24.06	981,316.24	5.8	160,723.34	19.56	0.00	0.0
90020	90263X397	15,525,535	International Prudential Value Fund Cl 0	44.17	685,761.49	66.23	1,028,195.27	6.0	342,433.78	49.93	0.00	0.0
90011	90263X631	24,713,397	International Growth Fund Cl 0	23.58	582,658.95	32.33	799,082.98	4.7	216,424.03	37.14	0.00	0.0
90003	90263X209	82,099,310	Money Market Fund Cl 0	1.00	82,099.31	1.00	82,099.31	0.5	0.00	0.00	0.00	0.0
90008	90263X407	28,246,122	Multi-Manager Core Fixed Income Fund Cl 0	43.28	1,226,700.97	48.21	1,566,481.50	8.0	339,780.53	11.39	0.00	0.0
90030	90263X662	91,806,067	Multi-Manager Large Cap Growth Fund Cl 0	9.64	883,113.19	19.56	1,791,722.97	10.5	908,609.78	20.29	0.00	0.0
90007	90263X795	9,064,313	Multi-Manager Large Cap Value Fund Cl 0	96.17	871,722.46	181.78	1,647,781.64	9.7	776,059.18	89.03	0.00	0.0
90045	90263X738	40,738,430	Multi-Manager Mid-Cap Value Fund Cl 0	13.99	569,828.26	28.98	1,180,558.67	6.9	610,730.41	207.17	0.00	0.0
90029	90263X720	38,023,831	Multi-Manager Mid-Cap Growth Fund Cl 0	23.20	580,242.80	29.81	1,154,340.15	6.7	574,097.36	93.39	0.00	0.0
90031	90263X696	2,879,890	Multi-Manager Small Cap Growth Fund Cl 0	123.72	301,137.28	213.26	650,039.68	3.8	348,902.40	112.82	0.00	0.0
90034	90263X589	23,372,331	Multi-Manager Small Cap Value Fund Cl 0	12.84	300,024.75	29.88	608,435.37	4.1	308,410.62	132.79	0.00	0.0
90037	90263X670	9,790,602	REIT Fund Cl 0	39.82	389,850.43	54.40	532,559.80	3.1	142,709.37	36.61	0.00	0.0
90041	90263X605	79,213,768	Smart Dividend Fund Cl 0	12.19	963,333.42	14.66	1,101,232.48	6.8	137,907.06	20.30	0.00	0.0
					11,261,652.15		17,623,801.22	100.0	5,770,918.09	51.21	0.00	0.0
CASH AND EQUIVALENTS												
				Cash	8,684.15		8,684.15	0.1			0.00	0.0
				Transferee Account	-8,683.91		-8,683.91	-0.1			0.00	0.0
					0.24		0.24	0.0			0.00	0.0
TOTAL PORTFOLIO					11,261,953.37		17,622,801.46	100.0	5,770,918.09	51.21	0.00	0.0



**TOTAL ACCOUNT
EXECUTIVE SUMMARY***
December 31, 2017

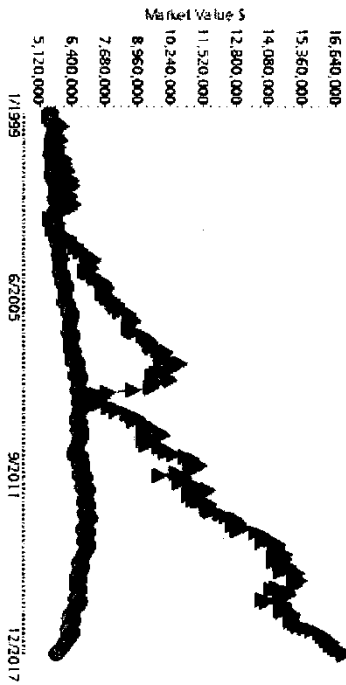
The pie chart provides an illustration of the asset allocation of your current plan holdings. The graph illustrates the sources of change in your account's market value.

ASSET ALLOCATION



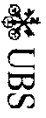
	Value	Percent
Equities	10,471,660	61.81
Fixed Income	4,930,437	29.10
Asset Allocation	989,980	5.84
Hard Asset: Commodities	550,406	3.25
Cash & Equivalents	1,197	-0.01
TOTAL	16,940,865	100.00

SOURCES OF MARKET VALUE CHANGE



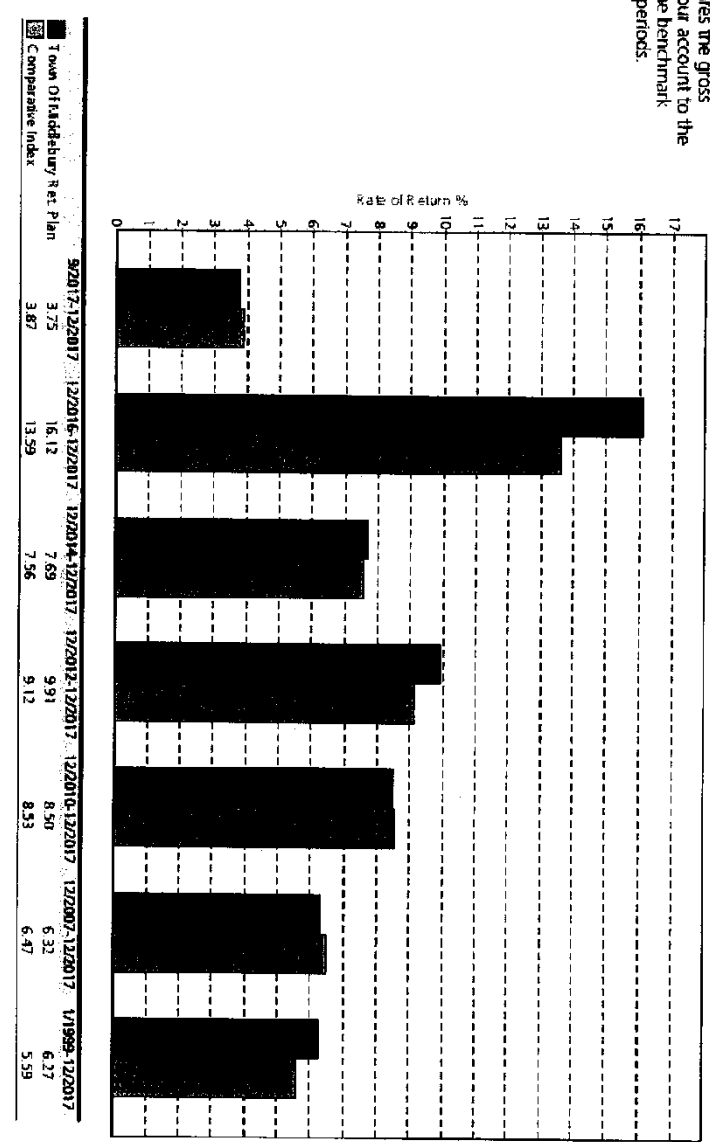
	Dollars	
	Latest Quarter	Since Inception
Beginning Market Value	16,617,205	5,616,944
Net Contribution	-262,985	149,983
Investment Results	586,646	11,173,937
Ending Market Value	16,940,865	16,940,865

*Investment Results include Program Fee
** Please note percentages may not sum due to rounding.



**TOTAL ACCOUNT
PERFORMANCE ANALYSIS***
1/31/1999 through 12/31/2017

This graph compares the gross performance of your account to the performance of the benchmark over various time periods.



*Please refer to the Quarterly Performance Monitor Reference Guide and the Wilmington Trust Fiduciary Services Company Collective Investment Trust Portfolio Information and Disclosure for additional information.
**Please refer to Total Account Summary of Investment Benchmarks for information on the Comparative Index.

Asset Class	Policy	Policy	Policy	Policy	Middlebury
	Minimum Allocation	Target Allocation	Target Allocation	Maximum Allocation	
Cash	0	4	5 (+1)	20	0.00%
Inflation Adjusted Bonds	0	4	4	50	0.00%
Intermediate Term Bond Funds	0	15	15	50	14.19%
Multisector Bond Funds	0	9	8.5 (-0.5)	25	14.92%
High Yield Bond Funds	0	10	10(+0)	15	0.00%
International Bond Funds	0	7	8.5 (+1.5)	15	0.00%
US Large Cap Equity	0	20	18 (-2)	50	26.73%
US Mid Cap Equity	0	8	6 (-2)	20	13.62%
US Small Cap Equity	0	0	0 (+0)	10	8.08%
International Equity Funds	0	10	8 (-2)	30	13.37%
REIT Funds	0	8	3 (-5)	15	3.25%
Commodity Funds	0	5	4 (-1)	15	0.00%
Alternative	0	0	10 (+10)	25	5.84%

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Past performance is no guarantee of future results. All total returns are stated in nominal, U.S. dollar terms. Source: Morningstar Direct.

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