



Board of Trustees
Investment Subcommittee

3:30 PM
May 27, 2020
Zoom Meeting

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|---|-----------------|
| 1. Called to Order | Trustee Queenin |
| 2. Minutes | |
| a. January 14, 2020 | Trustee Queenin |
| 3. Items for Information | |
| a. FY20 Investment Performance as of 4/30/20 | Eaton Vance |
| • Executive Summary | |
| • Market Outlook | |
| 4. Items for Discussion | |
| a. Dynamic Performance Benchmarks (Year 1) | Eaton Vance |
| b. Performance Benchmarks after Transition Plan | Eaton Vance |
| c. Policy Update | Steve Taksar |
| 5. Items for Action | |
| a. None | |

Attachment(s):

- a. Minutes January 14, 2020 (Draft)
- b. FY20 Third Quarter Executive Summary
- c. FY20 Third Quarter Investment Results (Booklet)



BOARD OF TRUSTEES

Investment Subcommittee

Minutes

President's Boardroom, Horace Mann Center

January 14, 2020

MEMBERS PRESENT: Committee Chair Queenin and Trustees Sullivan (entered at 3:03 PM) and Boudreau.

TRUSTEE GUESTS PRESENT: Trustee Alvarado (entered at 3:02 PM)

Also present were Dr. Ramon S. Torrecilha, President of Westfield State University, Mr. Sheridan Carey, Foundation Board member, Mr. Stephen Taksar, Vice President for Administration and Finance, and Ms. Lisa Freeman, Associate Vice President for Administration and Finance.

Participating remotely: Mr. John Davies, Foundation Board member.

The meeting was called to order by Committee Chair Queenin at 3:00 PM, who stated that Mr. Davies was joining the meeting remotely.

MOTION made by Trustee Boudreau, seconded by Trustee Queenin, to approve the minutes of the April 10, 2019, Investment Subcommittee meeting. **Motion passed unanimously.**

Chair Queenin invited Mr. Robert Quinn and Mr. Duke Laflamme from Eaton Vance to give an overview of the FY20 second quarter investment results. They shared the following.

- Where the funds are invested
- Insight on capital markets
- The value of the funds as of today
- That 2019 was an excellent year in the market
- The asset allocation will be 60% in equities, 39% in bonds and 1% in cash over the next 12 months. Investments will be gradually and thoughtfully made every 3 months, reaching an optimum investment portfolio at 12 months.

Trustee Alvarado entered the meeting at 3:02 PM and Trustee Sullivan entered at 3:03 PM.

The initial funding of equities took place in September with additional investments in November and December. Equities now account for 38% of the portfolio. Fixed income investments are a little behind schedule. The fixed income market rates are low and the yield curve was relatively flat. It is expected to come up to the full fixed income investment level in the next few months.

The asset allocation at year end was discussed. Cash outperformed fixed income in the fourth quarter. The portfolio was valued at \$20,445,723 at year end, producing an estimated \$312,000 of income on an annualized basis. The weighted average return for the quarter was 2.8%. There were \$3,526 in investment management fees charged since the account opening.

The summary of equities showed there was 62% in large-cap, 7.3% in mid-cap, 16.1% in small-cap and 14.5% in developed and emerging markets combined.

The assets in the portfolio were reviewed as well as the current benchmark of the first quarter since 30% of the equities have been invested. The percentages in the S&P 500 and MSCI All Country World Index were discussed. There is a very small percentage in international investments.

For the benchmark, the asset allocation should be 60% for equities once fully invested. The Consumer Price Index won't be in the benchmark once cash is fully invested. It was suggested that the Consumer Price Index could be changed to US Treasuries (T-bills).

A question was raised on what the expected blended outcome would be compared to the benchmarks. The portfolio and benchmark both have a 2.8% return based on the 3 month comparison.

At the beginning of the quarter, 30% of the benchmark was in equities. If T-bills were put in there for the money market, it will be similar with two-thirds in the S&P and one-third in All Country World Index.

Other colleges have a weighted benchmark. We can put a blended benchmark in the new investments.

Investing in equity themes takes a longer view period and monitoring them will help outperform the benchmark. Current themes are:

- Robot Revolution
- Pet Parents
- Financial Technology
- Transportation Evolution

When asked if trends affected the investment approach, it was stated that the portfolio is not overweight in themed investments/equities dramatically, but when looking out over three years, the ability to be right over that time frame is much higher.

Eaton Vance has an outside management committee to track other Eaton Vance mutual funds and private funds. Their goal is to identify after-fee returns outperforming benchmarks for particular managers. The three year on small-cap is three stars. They don't add funds until they have met the criteria and have met the manager.

Fixed income class has 51% in corporate bonds and 49% in US Treasuries. It is thought that corporate bonds will outweigh the US Treasuries in the near future and Eaton Vance will start to extend maturities as the yield curve is monitored. In equities, the majority of funds are in large cap, which is a conscious decision relative to performance over the last five-to-ten years. At some point, the percentages will reverse with more in small-to-mid cap. This strategy is being thoughtful in long-term investments to catch the longtime trend.

Going forward, the reports will show a comparison of weights in the portfolio sector.

The total returns for year-end were reviewed. The investment strategy focuses on three-to-five years and it will be different from the benchmark from quarter to quarter. The 2.8% benchmark will be changed to what the committee decides is appropriate.

A question was asked whether any of the University investments were controversial. Eaton Vance stated that they were running socially responsible portfolios and do think about that when investing.

It was stated that it is important to see the after-fee performance of the investments and it was requested to add the net-of-fee performance to the report next time.

A question was asked what the outlook for 2020 was with regard to the high-level performance of the portfolio and income to be generated. Eaton Vance is still very positive on equities and prefer them over bonds.

- Over the long term, earnings drive stock prices
- During 2019, earnings look like +2%
- Over 2-year period, earnings up 24% and market up 24%
- Expectations for the market in 2020 is that earnings will be up 10%
- On equity side, expectation is small increase in dividend growth
- On bond side, there won't be considerable change in estimated fixed income. Will start to see this rise as bonds start to mature
- A chart shared showed 79% of republicans and 33% of democrats think the economy is good. A split government is most helpful for the economy

Committee asked whether to have a blended benchmark given the current transition year. Eaton Vance will bring suggested benchmarks to the next meeting where the merits of each choice should be discussed. They will also adjust the cash per Mr. Carey's request. Mr. Taksar stated that until the portfolio is fully invested in cash, the benchmarks are temporary. Once fully invested and after a full year, the investment policy will be revised to reflect the final benchmarks.

The methodology for drawdown of interest income was discussed with the following points:

- These funds consist of operating cash from the University and should be thought of in terms of an endowment. It needs to be determined what the balance is between growth in the portfolio as opposed to removing funds for campus initiatives.
- The goal is to see appreciation of the funds and develop a strategy for a 12-quarter moving average with an annual draw, which shouldn't be started until at least a year into the process.
- If helpful, Eaton Vance can put data behind a plan that states if the growth rate is 4% or less based on historical figures, the principal will not be invaded.
- A guideline should be established and made part of the investment policy that 100% of a single year's income will not be withdrawn.
- At the next meetings, discuss how other institutions are using their invested funds.
- It was requested to add this item to the next meeting's agenda to discuss further.

There being no further business, Trustee Boudreau made a **MOTION** to adjourn, seconded by Trustee Queenin. **Motion passed unanimously.**

Meeting adjourned at 4:13 PM.

Attachment(s):

- a. Minutes 4-10-2019 (Draft)
- b. FY20 Second Quarter Investment Results (Booklet)

Secretary's Certificate

I hereby certify that the foregoing is a true and correct copy of the approved minutes of the Westfield State University Board of Trustees Investment Subcommittee meeting held on January 14, 2020.

Paul Boudreau, Secretary

Date

Draft Minutes Pending Approval

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