

# MASC/MASS

## **Massachusetts Association of School Committees Fall Conference**

Presented by:

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Where Each Relationship Matters®

## Portfolio Manager

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Brian Callow has worked in the investment management industry since 1992 and has been with Rockland Trust for 13 years. As a senior portfolio manager, Brian manages client portfolios, performs asset allocation, securities analysis, and sets investment policy.

Brian is responsible for investing municipal client portfolios at Rockland Trust with expertise in managing Stabilization, Trust Fund and OPEB assets. He delivers customized OPEB solutions for municipalities initializing OPEB programs as well as more mature plans. Brian assists municipalities with the creation of plan documents such as the Investment Policy Statements (IPS) and OPEB trust documents. He also collaborates with actuaries on behalf of municipal clients and their OPEB plans. Brian is a frequent speaker at conferences and seminars concerning investing for municipalities.

As the Director of Fixed Income and is responsible for fixed income research, trading, quantitative analysis, and external manager selection for the fixed income sectors. Brian performs credit analysis on municipalities nationwide and is in contact with municipal finance rating agency analysts.

Prior to joining Rockland Trust, Brian was a Vice President with Income Research & Management (IR&M), where he held the position of Senior Fixed Income Analyst. He was head of quantitative analysis and co-managed the convertible bond portfolios.

Brian holds a B.A. in Finance from Florida State University and is a cum laude graduate of Babson College's Olin School of Business MBA program. He is a CFA charterholder and is a member of the CFA Institute and the Boston Security Analyst Society.

# OPEB Planning Steps

## Adoption of M.G.L. Chapter 32B, Section 20

Establish OPEB Liability Trust Fund

Assets held to meet current or future health insurance benefits for retirees

Expendable by appropriation

Designate Trustee-Treasurer or 5-13 member board

MA Legal List for investing unless Prudent Investor Rule (Chapter 203C) is authorized

## Establishing Formal Trust Agreement

Implement and carry out provisions of M.G.L. Chapter 32B, Section 20

Name Trustees and define powers

Expendable for beneficiaries (retirees and their dependents)

IRS Section 115(c) Special-purpose government trust

## Investment Policy Statement

Road map for municipality, advisors, boards/trustees

Designed to avoid "trustee risk"

Establish Clear Goals and Objectives

Outline Measurement, Evaluation and Reporting

## Funding

Establish initial funding

Establish a written funding plan

Define achievable annual funding along with source of funds

Fund for new hires

## Payments

Pay as you go for current payments

Future payments when fully funded

# Investment Policy Statement

*A **roadmap** for municipality, advisors and boards/trustees*



## Establishes clear goals & objectives

- Asset allocation and diversification
- Rebalancing

## Outlines measurement & evaluation

- Performance measurement
- Reporting and meetings

## Designed to avoid “trustee risk”

- Minimize risk of changes during turbulent markets
- Maintain portfolio strategy

## OPEB Planning Goals

1. Increase discount rate
2. Decrease Net Liability
3. Maintain or improve rating

### Impact of 1% Change in Discount Rate

	Discount Rate	Net OPEB Liability
Current Rate	4.00%	\$10,250,000
1% Increase	5.00%	\$8,791,500



## GASB 74/75 Coming Fiscal Year 2018

- Net OPEB liability will move to balance sheet from notes section
- Notes to include affect of discount rate change of 1% higher or lower
- Discount rate calculation
  - Pay as you go – 20 year municipal bond index
  - Partially Funded – single blended rate
    - Asset rate of return to crossover date
    - 20 year municipal bond index rate after crossover date
  - Fully Funded – long term return rate on current assets
- Rating Agencies
  - Increasing focus on OPEB benefits, liabilities and funding plans
  - Now viewing OPEB as a “management” factor for individual municipalities
  - Emphasis on more forward-looking components of rating

## Recommended Asset Allocations

Type	Horizon	Recommended Objective	Asset Allocation
General/Enterprise Funds	Short	Capital Preservation	Money Market/ 100% Fixed Income
Stabilization	Short	Conservative Income	85% Fixed Income/ 15% Equity
Stabilization	Intermediate	Income & Growth	70% Fixed Income/ 30% Equity
Trust	Long	Balanced	45% Fixed Income/ 55% Equity
OPEB	Long	Growth	25% Fixed Income/ 75% Equity

## Annual Calendar Returns

Annual Returns	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
RTC Income & Growth	8.55%	6.97%	-6.82%	13.01%	9.88%	3.15%	7.15%	6.35%	3.63%	-1.01%	5.70%
RTC Balanced	11.15%	7.85%	-19.69%	18.72%	12.64%	0.97%	10.39%	13.79%	5.45%	-0.81%	7.05%
RTC Growth	13.36%	7.95%	-26.12%	21.72%	14.25%	-0.09%	12.48%	19.84%	6.66%	-0.86%	7.81%

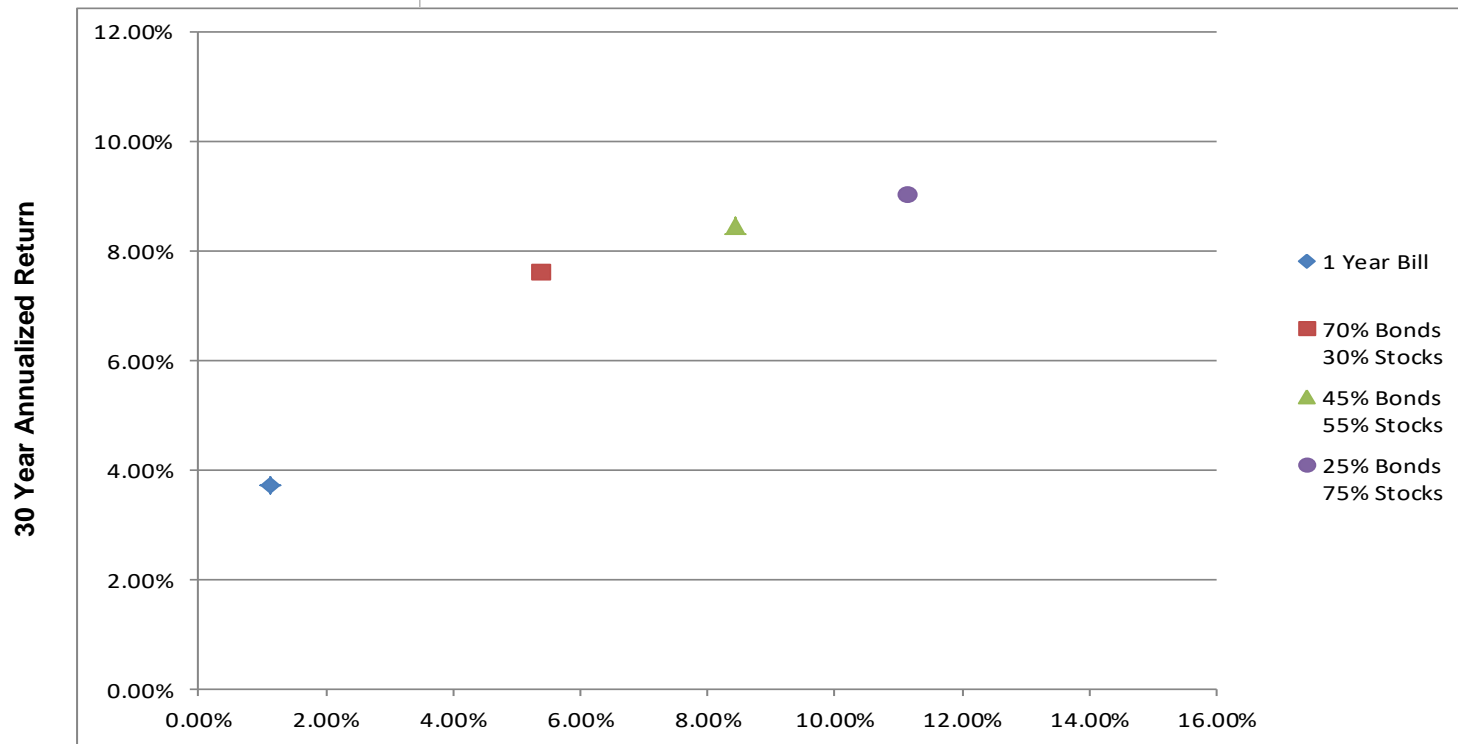
Past performance does not guarantee future results. The value or income associated with a security or an investment may fluctuate. There is always the potential for loss as well as gain. Asset allocation and diversification do not assure or guarantee better performance and cannot eliminate the risk of investment losses.



# Risk/Return




30 years ending 6/30/2017

Type	Horizon	Recommended Objective	Asset Allocation
OPEB	Long	Growth	25% Fixed Income/ 75% Equity



As of 6.30.17

## What does the “Return” in Risk / Return mean? Growing Municipalities’ Assets

Amount	Time	Invested at	Return
\$1,000,000	30 Years	 3.72%	\$2,991,405
		 7.62%	\$9,052,940
		 8.46%	\$11,431,099
		 9.03%	\$13,377,666

*Investing \$1,000,000 at an average annualized return of 7.62% over 30 years would result in having \$9,052,940 at the end of the period.*

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