

Burlington Employees Retirement System
Board Meeting Minutes
January 17, 2013

Board Members Present: James Strouse (via phone) Jeff Wick
Bob Hooper (via phone) Paul Sisson (8:36 AM)
Munir Kasti Ben O'Brien

Others Present: Marina Collins Springer Harris
Christopher Talbert Barry Bryant

James Strouse convened meeting at 8:32 AM.

1. Agenda: Mr. Hooper moved to approve, seconded by Mr. O'Brien. Motion carried 5:0.
2. Approval of 12/20/12 Minutes: Mr. O'Brien moved to approve, seconded by Mr. Hooper. Motion carried 5:0.
3. Approval of Bills: Mr. Kasti moved to approve, seconded by Mr. Hooper. Motion carried 5:0.
4. Consideration of Retirement Applications: Board included a disability application and decided not to go into executive session. Mr. Sisson arrived. Mr. O'Brien moved to approve, seconded by Mr. Kasti. Motion carried 5:0 with Mr. Hooper abstaining.
5. Ratify Refund/Rollover of Contributions: Mr. Kasti moved to approve, seconded by Mr. O'Brien. Motion carried 6:0.
6. Executive Session: There was no need for executive session as all retirement were approved in #4.
7. Tar Sands Resolution: The board discussed the practicality of the resolution and Mr. Bryant presented a background of exclusionary investing. Mr. Hooper opined that there is really no mechanism for BERS to carve out what they don't want in the VPIC portfolio; we are either "all in" or "all out". Mr. Strouse asked that at this point all we need to do is report back. Mr. Wick would like the report to be factual in nature and intelligent in its answer. Mr. Sisson opined that if the City Council wants to effect change it would have to be with the State Treasurer and perhaps with VPIC. Mr. Bryant stated that there are reasons to engage in exclusionary investing and those are entirely legitimate. His work indicates that exclusionary investing does not achieve social good, it does not influence corporate behavior. Mr. Talbert said that when he attended a VPIC meeting this discussion came up and the discussion entailed that it may not be in the best interest of the shareholder to divest in such an investment, that it may increase the risk

and lower the returns of the portfolio. Mr. Bryant urged caution as it may open up discussion for other types of investments that are controversial, such as, tobacco, liquor, guns and nuclear weapons and he reiterated what Mr. Hooper said, which is to say that BERS does not have the ability to dictate what investments VPIC holds in the portfolio.

8. Board Resolution – Interpublic Group of Companies: Mr. Strouse briefed the board that during the transfer of assets to the VPIC portfolio we later found that there were 92 shares in Interpublic Group which did not get transferred and rather than have this small investment it would be a good idea to sell the shares and consolidate the funds as we intended. Mr. Wick moved that a resolution be signed by Mr. Hooper to effectuate the sale, seconded by Kasti. Motion carried 6:0.

9. Barry Bryant – Alternative Investments: Mr. Bryant first brought up that Hamilton Lane Fund II is asking for an amendment, seeking approval for a six-month period in which they would have the opportunity to make new investments on behalf of the fund. Mr. O'Brien moved to approve the amendment, seconded by Mr. Kasti. Motion carried 6:0. Mr. Kasti asked Mr. Bryant what the return was on the Hamilton Lane Fund? Mr. Bryant said the IRR last quarter was 22.5% and that he is going to go over that in more detail. Mr. Wick asked if that was net of fees? Mr. Bryant responded that is was.

Mr. Bryant began with explaining that next month he would be back to take an overall look at the VPIC portfolio to help the board prepare for a decision as to whether they should continue with VPIC as they requested. Mr. Bryant wanted to come today to go over the alternative part of the portfolio, or the non-VPIC part of the portfolio (the 10%) so that it would be easier to focus on the VPIC portion next month. He said that next month we will look at overall performance, costs, returns, etc. so the board analysis can begin. Mr. Bryant referred the board to page 19 of the 9/30/12 performance booklet. It showed that Martin Currie, the emerging market investment, was at 19.3% since March of 2009; that Hamilton Lane, the private equity investment, (all 3 investments BERS has) is at 24.7% and Molpus, the timber investment, has returned 1.1%. He reminded that board that the 10% mandate to invest in alternatives wasn't done as a means to compete with VPIC, that it was intended to enhance and diversify. Mr. Bryant explained the characteristics of each type of investment. Mr. Wick asked if Martin Currie invests in relatively liquid public securities. Mr. Bryant agreed, it is a plain vanilla emerging market manager. Hamilton Lane is a private equity fund of funds, they invest in general partners, who in turn invest in private equity companies. We are in three Hamilton Lane funds. Mr. Wick asked how much we have committed to Hamilton Lane and how much have they called? Mr. Bryant didn't have the actual numbers but BERS committed 3.4 million at that time. He explained that as the investment matures it makes distributions. Mr. Wick asked how they value the portfolio? Mr. Bryant said that we are placing faith in how these companies value the investments. He suggested that we spend a day with the manager's talking about these things. Mr. Bryant went on to discuss the timber investment and presented a hand out, one for Sustainable Woodlands Fund II and one entitled Investment Possibility Set (see handouts). Mr. Bryant asked if the February meeting could be changed to February 22nd? Everyone agreed. Mr. Sisson asked Mr. Bryant what we could do about getting the Hamilton Lane statements more timely, that with the new payroll system in place we should be able to get the valuation done earlier if we can get June 30th statements finalized earlier? Ms. Collins said that she spoke with the accounting firm for HL and they said we could and some clients do adjust for capital calls and distributions for accounting purposes. Mr. Bryant explained that because of the general partners it takes several

months for the valuation to be complete but he will check with other clients to see how they handle this. Mr. Bryant asked all of the board members to be present at the next meeting to begin the discussion of the VPIC portfolio, it is very important. Mr. Hooper asked if Mr. Bryant could talk a little about pension obligation bonds. Mr. Bryant said there are two things people are talking about today, liability driven investing and pension obligation bonds, and they make sense but they are both really bad ideas 90% of the time. Liability driven investing means you are funding with bonds and while you are taking the risk off the table you are funding it at 2 and 3% return. The one time you want to do this is when interest rates are at a peak. Anyway, about pension obligation bonds; interest rates are the lowest they have been. Pension obligation bonds are a very bad idea unless you can borrow the money cheaply. Mr. Bryant said there are a lot of details but now would be the time to look at this perhaps. Mr. Wick thought it was like a false sense of security, sort of like "doubling down". Mr. Bryant said, you have to fund it the way you would have anyway, you have to not increase your benefit level and you have to borrow, including your fixed costs. He said that if there is a time when this would ever work, this is the time, when interest rates are so low. Mr. Sisson thanked Mr. Bryant for the information. Mr. Hooper wanted to know more about what the Mayor and City Councilors are doing, are they working on relieving the unfunded liability? In the spring the Mayor will be dealing with the whole retirement issue as he said in his campaign. Mr. Sisson didn't know if pension obligation bonds would be on the table, it will depend on a lot of things.

10. Other Business: Paul Sisson wanted to bring up the concern that was raised at the last meeting about having the City fund the additional unfunded liability associated with the over 65 group being added and to say that the general fund will not pay for the additional unfunded associated with the folks we added who were over 65 however, the Mayor is willing to put it in with the overall retirement tax rate next year, which he estimates will add another penny to the rate. The board agreed that this was good and they were happy to hear that.

11. Adjournment: Mr. O'Brien moved to adjourn at 9:49 AM, seconded by Mr. Kasti. Motion carried 6:0.