Burlington Employees Retirement System
Board Meeting Minutes
May 16, 2013

Board Members Present:	James Strouse	Jeff Wick
	Bob Hooper	Munir Kasti
	Ben O'Brien (phone)	Ray Nails (9:35 AM)

Others Present:	Marina Collins	Springer Harris
	Matthew Dow	John Federico (9:15 AM)
	Barry Bryant	

James Strouse convened meeting at 9:00 AM.

1. Agenda: No need for Executive Session.

2. Approval of 05/02/2013 (April) Minutes: Mr. Hooper moved to approve, seconded by Mr. O'Brien. Mr. Kasti discussed that he would like the minutes to reflect the conversation around the funded level of BERS and that Mr. Driscoll thought that BERS was not so unusual, that other plans were less funded and how the new GASB rules will affect credit ratings. The motion was withdrawn and the Retirement Administrator will amend the draft minutes to reflect the discussion and bring to the next meeting for approval. This was friendly to all.

3. Approval of Bills: Mr. Hooper moved to approve, seconded by Mr. O'Brien. Motion carried 5:0. Mr. Wick commented that he would like the Buck Consultant bill to be more detailed, reflecting hourly rates for different services, etc. Mr. Strouse asked that the Retirement Administrator contact Mr. Driscoll and ask for more detailed bills.

4. Consideration of Retirement Applications: Mr. Kasti moved to approve, seconded by Mr. Hooper. Motion carried 5:0.

5. Ratify Refund/Rollover of Contributions: Mr. Kasti moved to approve, seconded by Mr. Hooper. Motion carried 5:0.

6. Barry Bryant – Dahab Associates – Performance for Q1 3/31/2013: Mr. Bryant discussed the current economic environment; that the standard is around 3% and current economic growth is about 2.5%. You would like to see growth of 4-5% to sop up the unemployment but we are not in that type of environment currently. Mr. Bryant pointed to pages 5 and 6, relative performance. He said that this was not a good quarter; that BERS has an extremely complex and diversified portfolio and as a point of example, a typical 60/40 portfolio would have returned about 7.5%. He went on to say that we had a return of 3.2% in the first quarter and we ranked in the 95th percentile. He went on to say that the ranking indicates that 95% of similar portfolios

outperformed us. Mr. Bryant went through each category; Diversified Assets, Equity, Absolute Return, Real Assets and Fixed Income and explained what each category does and how it performed in relation to the total portfolio. Mr. Wick commented that being in the 95th percentile is not where we want to be. Mr. Bryant reminded him that VPIC changed the strategy, changed the portfolio and that we really have not seen how it will react in a down market. Mr. Bryant encouraged members to attend the VPIC meetings. Mr. Wick stated that the board needs to strongly consider whether we stay in VPIC and he thought that there is a lot to be said about simplicity. Mr. Kasti asked how this quarter is looking. Mr. Bryant commented that the fed was the only central bank that stimulated the economy. He expected that other countries would follow suit and pointed to page 9 and 10 and went through individual equity fund performance and rankings to illustrate.

7. Discussion – VPIC contract extension: Mr. Strouse pointed out that since the last time Mr. Bryant visited the board to discuss whether we stay with VPIC or we go to a self-constructed portfolio that members came up with some questions and concerns, one being; how close was the portfolio you constructed to the VPIC portfolio. Mr. Bryant said it was close in terms of asset allocation very close in sub-allocation but it wasn't intended to be apples to apples. It indexed the stocks, pulled out the PIMCO strategy to replicate the diversified and hedge fund managers. He explained that the fees with hedge fund strategies and the fees for fund of fund managers, that they tend to be quite high. Mr. Nails entered at 9:35 AM. Mr. Bryant told the board that he didn't think that BERS needs a complicated asset allocation; if you invested properly you could have relatively the same investment management fees. He went on to say that he used PIMCO, which is what VPIC uses. Mr. Bryant said that there is no way he can tell the board that if you do X, you will have returned Y. He said that PIMCO helped along the way but not in this quarter. Mr. Hooper said he wants to make sure that the comparison used was functionally the same. Mr. Bryant responded that we wouldn't have as many diversified managers, that he likes PIMCO and AQR. In the reconstructed portfolio you can have diversified, but not 7 managers. Equity is no problem; real estate he wasn't sure about and went on to say that VPIC has 2 core funds, we may do just one. He thinks we can find a similar strategy. At 9:42 AM Mr. O'Brien left the meeting. Mr. Nails asked more questions about the diversification and Mr. Bryant responded that there are 35 investment strategies in the VPIC portfolio, that if we did it with Dahab it would be maybe 12. Mr. Wick pointed out to Mr. Nails the performance of equity this quarter was poor. Mr. Bryant said that if you were to take this money back from VPIC, keep in mind that everyone has to come to meetings, that there would be a lot of time spent interviewing managers, deciding on what investments to make, and that the board must be educated and act responsibly. He pointed out that VPIC meetings are public and that it is like having free education. Mr. Kasti talked about a traditional portfolio of 60/40 and Mr. Bryant said that 70/30 is aggressive. Mr. Kasti asked what is the ratio of domestic to foreign equity? Mr. Bryant said 2-1 or 3-1. Mr. Hooper left at 9:48 AM. The board recognized that they no longer had a quorum but that the meeting can continue with no voting. Mr. Strouse opined that he thought that many of the board members thought that (at the February 2013 meeting) you were saying that VPIC is fine and we should stay there but as he reviewed the minutes he sees that what you were really saying is that the prospective portfolio has the potential for higher returns, less risk, greater simplicity, all of which, I think ought to be the objectives of this board. The other thing that Barry gave us was you showed us 5 year returns, one of them was the VPIC net of fees, the other one was your alternative portfolio, net of fees and the difference in the return was 3% vs. 5.9%. Now that is 2.9% per year compounded over 5 years; that is pretty significant. Mr. Byrant agreed that that is significant and talked about the differences among managers and strategies.

Mr. Bryant went on to say that there is probably a 60-70% chance that we can do better but that also means there is a 30-40% chance that we can do worse. If we do worse, there will be political hell to pay. Mr. Bryant joked that the best thing to do is for BERS to stay with VPIC, to pay lower fees to Mr. Bryant, and then he can blame VPIC if the numbers are bad. Mr. Strouse said that this board cannot consider the political ramification of our decisions, that we have to act strictly on behalf of the employees. Mr. Bryant said that it is very important to maintain confidence in the funding entity, because if you lose the confidence of the funding entity bad things happen. They could cut benefits, take your authority away so in that sense it is important. Mr. Bryant also talked about the time involved in making manager selections, discussed the process of listening to 3-4 managers for each strategy that you engage. Mr. Wick commented that he has heard that indexed funds outperformed active management with the benefit of lower fees and asked Mr. Bryant, shouldn't we put our money in indexed funds? Mr. Bryant replied that reasonable people can differ in the equity space. There is more opportunity to make money in the small cap space and he mentioned that he likes Champlain, our home-town team. He would have to think about the international space and with diversified you would have to pick an active manager, there is no index for the diversified space. With real assets we already have Timber and he might pick one more commodity and one real asset. Mr. Kasti asked what we would have returned this quarter had we used the prospective portfolio? Mr. Bryant replied we would have returned 5.73% and ranked in the 37th percentile and this is a good exercise. Mr. Bryant discussed that the VPIC contract is structured so that BERS can really get out at any time. He suggested that BERS study the problem, run a parallel portfolio and see how we do in comparison with our recommended portfolio and wait to see how both perform in a down quarter.

8. Adjournment: The meeting adjourned at 10:30 AM with no vote.