

Burlington Employees Retirement System
Board Meeting Minutes
September 19, 2013

Board Members Present: James Strouse Bob Hooper
Munir Kasti Matthew Dow
Richard Goodwin John Federico
Jeff Wick (9:45 AM)

Others Present: Marina Collins Matthew Considine
Katie Green Stephen Wisloski
Steve Rauh Beth Pearce
Kimberly Sturtevant Karen Paul
Barry Bryant Kim Sturtevant (10:30 AM)

James Strouse convened meeting at 9 AM.

1. Agenda: No Changes.
2. Approval 08/07/2013 and 8/15/2013 Minutes: Mr. Dow moved to approve, seconded by Mr. Goodwin. Motion carried 6:0.
3. Approval of Bills: Mr. Hooper moved to approve, seconded by Mr. Goodwin. Motion carried 6:0
4. Consideration of Retirement Applications: Mr. Hooper moved to approve, seconded by Mr. Kasti. Motion carried 6:0.
5. Ratify Refund/Rollover of Contributions: Mr. Kasti moved to approve, seconded by Mr. Hooper. Motion carried 6:0.
6. VPIC Presentation: State Treasurer Beth Pearce introduced herself and her staff and talked about how the three state retirement systems were moved into one, producing a savings of about \$900,000. Then in 2007 BERS joined VPIC to take advantage of economies of scale. Ms. Pearce talked about the competitive bid process in selecting a new custodian, which resulted in about \$150,000 in savings. The VPIC board also developed proxy policies around green initiatives. Ms. Pearce opined that the past year has been economically difficult, there was a lot of volatility in the market and that VPIC has taken a balanced approach to the ups and downs to preserve the long term success of the retirement system. Mr. Considine presented a handout to the BERS board, noted past year highlights; Custodian change to JP Morgan, new allocation to Private Equity, ESG policy creation, updated proxy voting guidelines, High Yield manager transition, Real estate allocation increase and updated the Mission and Core Processes statement.

Mr. Considine presented the evolution of asset allocation with target policies and expected returns. He discussed how the Fed has pushed down interest rates we have adjusted our 5-7 year expected return downward (see page 4). Mr. Considine talked about how VPIC continually re-balances the portfolio to run tightly within the target to actual allocation. He pointed out that on page 6 you can see the reaction to the market. Ms. Pearce discussed the history of re-balancing the VPIC portfolio to manage risk, moving away from a high concentration of equity and now equity is performing well. She opined that VPIC was not performing as well because they have changed our focus to a more balanced portfolio, not weighted heavily in equity; with the hope that we will weather bad markets and not to repeat what happened in 2008. Mr. Rauh opined that VPIC had disastrous results in 2008 and we had a wakeup call. We tried gradually to change the risk in the portfolio, by reducing risk through broad diversification. He mentioned that last fall VPIC adopted the principles (on page 16) based on our experience of the market meltdown and of our funded status. The funded status of our systems was clobbered during the market meltdown. Now we are focusing on the liabilities and less exposure to market volatility. Jeff Wick entered at 9:45 AM. Mr. Rauh pointed out that they will be dropping quarters from September 2008 and we will be looking at a different end point. Ms. Pearce wants to preserve money for public pensions, she would like to minimize risk to the DB plans, and look at liquidity. She said that VPIC is continually analyzing to maintain a disciplined approach. She believes that DB plans are responsible, that municipalities are going to be around forever, they are not private entities that can just close their doors, that it is important to provide retirement security to the workforce and that if you don't you will just spend tax payer money on other programs to support people that don't have enough in their retirement years. Mr. Dow left the meeting at 9:50 AM. In addition she said that by providing sound retirement to the workforce comes back to the economy in the form of consumer spending, etc. Mr. Kasti asked about the difference in BERS 8% rate of return allocation and VPIC's rate of return and whether they (VPIC) thought that this was a problem. Ms. Pearce responded that she didn't think 8% was out of line with VPIC, which uses the Select and Ultimate, which recognizes short term lower rates. She noted that we use the same Actuary and that currently the rate of return is just south of 7.9%. She also pointed out that chasing return based on actuarial assumptions may cause you to take more risk and that is not what VPIC formulates their investment decision on. Mr. Strouse thanked the group for coming.

7. Fund Performance 6/30/13 – Barry Bryant: Mr. Bryant discussed the performance of AQR for the quarter which was down 10%. Mr. Bryant opined that the economy was growing at a slower pace than would be expected after a recession and that unemployment was still hovering around 7.5%. Mr. Bryant continues to work on the alternative portfolio and wants to spend more time looking at this, especially fee's. Mr. Wick asked about how the fees are paid at VPIC, whether through the investment or by check, etc. Mr. Bryant responded that it could be either and Katie Green would be a good person to ask. On 6/30/13 the BERS system was valued at \$145,993,259, a decrease of \$2,378,002 from the March ending value of \$148,371,261. For the second quarter, the composite portfolio returned -2.3% and ranked in the 99% percentile. Over the trailing year, this portfolio returned 8.2%, which was 0.2% above the benchmark's 8.0%, ranking in the 94th percentile. Since June 2003, the account returned 6.6% on an annualized basis. Mr. Bryant inquired about the December meeting and it was decided it would be the 3rd Thursday, on December 19th. Martin Currie will present to the board. Mr. Federico and Mr. Bryant had a discussion about the unfunded liability and the difference between the normal contribution and the past service contribution. The discussion centered around how lowering your expected rate of return causes the funding entity to pay more and increasing the expected

rate of return causes the funding entity to pay less. Mr. Dow returned to the meeting at 11 AM.

8. Executive Session: Mr. Hooper moved to go into executive session to discuss legal matters for which premature disclosure may put the BERS at risk at 11 AM, seconded by Mr. Wick. Motion carried 7:0. The board moved out of executive session at 11:15 AM. Mr. Federico moved to accept the John Preston request for a continuance, if necessary, and if in fact he has hired an Attorney, that we communicate with the Attorney and Mr. Preston that the hearing be within 30 days, seconded by Mr. Hooper. Motion carried 7:0.

9. Other Business: Mr. Hooper moved to send Mr. Federico to the 2013 Public Safety Employees' Pension and Benefits Conference through NCPERS in October, seconded by Mr. Goodwin. Motion carried 7:0.

10. Adjournment: Mr. Wick moved to adjourn at 11:25 AM, seconded by Mr. Dow. Motion carried 7:0.