

Burlington Employees Retirement System  
Board Meeting Minutes  
December 22, 2011

Board Members Present: James Strouse Robert Hooper  
Munir Kasti Ray Nails  
William "Chip" Mason Ben O'Brien

Others Present: Marina Collins Stephen Rauh  
Elizabeth Pearce Stephen Wisloski  
Matt Considine Barry Bryant  
Karen Paul via phone at 8:55 AM

James Strouse convened meeting at 8:35 AM.

1. Agenda: Hamilton Lane postponed and there will be no expected executive session.
2. Barry Bryant, Dahab Associates – Fund Performance: Mr. Bryant made a presentation analyzing "Risk-on vs. Risk-off" portfolio elements relative to our portfolio. Mr. Bryant described the elements that tend to do better in a growing economy and that risk-on portfolio elements respond positively to a rising stock market; risk-off elements do better in a falling market. Mr. Bryant outlined the market summary, found on page 4 of the Dahab 9/30/11 report. For the third quarter, the Composite portfolio returned -7.1% and ranked in the 25<sup>th</sup> percentile of the Public Fund universe. Mr. O'Brien asked what percentage of the total BERS portfolio is now in original 10% allocation we reserved. Mr. Bryant responded that we are about at 7.5% of that 10% allocation but reminded the board that we have not fully funded the Private Equity strategy. Karen Paul joined the meeting by phone at 8:55 AM. The discussion turned to assumed rate of return and Ms. Pearce shared that VPIC went through a process with the assumed rate of return. They hired Buck Consultants and NEPC to perform independent analysis with regard to recommending a rate of return. She added that both model's came up with a remarkably similar rate (7.9%-8.2%) and VPIC adopted the "Select & Ultimate" model which is typically used in the private sector. This model looks at short (5-7 year range) and long term rates and smoothes them. It proved to be a positive exercise and the rating agencies were enthusiastic about the model. The short-term rates were around 6.2%. The discussion continued around how the assumed rate of return is adopted, that the Actuary typically performs an Experience Study (BERS each 5 years) that recommends the rate of return based on the experience of the system. Mr. Nails commented that the recommendation continues to be that 8% is in the range for BERS. Mr. Bryant explained the balancing act of changing the rate, as the rate goes down there needs to be higher contributions or reduction in benefits, broadly speaking.
3. VPIC Presentation: Ms. Pearce made opening remarks. She came as the Deputy Treasurer in 2003 and VPIC came into fruition in 2005 and that the consolidation saved about 10 million dollars in fees. There were 17 members at that time, since 2009 there are 6 members and an independent Chair. BERS joined in 2007 and that allowed us to share in "economies of scale", not just in fee reduction but this also allowed BERS to be invested in markets they may not have

been able to invest in. In 2008 we had abysmal results, just after BERS joined. VPIC worked to re-balance the portfolio to reduce risk and volatility by reducing equity exposure and broadly diversifying to a number of alternative strategies. Mr. Rauh commented that using Barry's model, prior to 2007 we were using a very risk-on model. The discussion continued about the funded ratio's of each of the State Retirement systems. Mr. Rauh explained that VPIC tried to adapt the portfolio to a more evidence-based approach. Mr. Rauh referred to tab 4 of the handout, an Up/Down Analysis and explained the methodology of that analysis, comparing median monthly returns over three periods and after re-balancing efforts was in place. The analysis shows improvement, however, more time is needed to analyze the re-balanced index. The analysis also showed that Active Management is making a relative contribution. Mr. Wisloski was glad to be visiting and would like to arrange to visit on an annual basis. Mr. Wisloski also extended an invitation for BERS members to come to VPIC monthly meetings, which are open to the public. He mentioned that the February meeting will look at the outlook for 23-30 asset classes which will become the basis for the asset allocation process. Ms. Pearce offered to share the plan that Mr. Wisloski and Mr. Rauh developed with regard to asset allocation. Mr. Bryant also urged BERS members to attend the VPIC meetings, which would provide education and insight into the investments portfolio. Mr. Nails asked if BERS could become part of VMERS. Discussion continued with regard to the cost of that type of transaction. Mr. Wisloski mentioned that up until now the contract between the City and VPIC has been annual, but it would be possible to renew for longer periods of time. Mr. Bryant would like the board to make a decision after a full 5 years of data, so the earliest would be February 2013. Ms. Pearce indicated that VPIC decided to hire JP Morgan for Custodial Services beginning July 1<sup>st</sup>. She believes that the change will improve cash management, reduce fees and a more favorable fee structure with regard to Securities Lending. Mr. Wisloski defined securities lending and how the fee structure works in general. Mr. Wisloski discussed the current asset allocation (tab 2). In September 2009 VPIC made big changes to the portfolio, it has come more complex; if you look at the number of managers and the types of strategies we selected. At last count, there were 35 asset strategies in VPIC and you will see that some have a relatively small portion allocated. On the back of that page, Mr. Wisloski pointed to a history of the changes to the VPIC portfolio since September 2009. In summary, the portfolio has become more complex, in the process of trying to make it more diversified and more defensible. Mr. Rauh opined that VPIC is largely done with the restructuring and that the consensus is to let the portfolio sort of cook for a while to see how it does. Mr. Bryant asked some questions about the structured Alpha and about the role of hedge funds in the VPIC portfolio. Mr. Rauh replied that in general, we are looking for a lower volatility with a higher return that we would get with fixed income. Mr. Strouse thanked VPIC for coming; the board was very appreciative of them taking the time to meet. Karen Paul also thanked everyone and also invited the BERS membership to attend VPIC meetings.

4. Approval of Minutes 11/17/11: Mr. Hooper moved to approve, seconded by Mr. Nails. Motion carried 6:0.

5. Approval of Bills: Mr. Hooper moved to approve, seconded by Mr. Nails. Motion carried 6:0.

Mr. Nails entered 8:35 AM.

6. Consideration of Retirement Applications: Mr. Nails moved to approve, seconded by Mr. O'Brien. Motion carried 6:0.

7. Ratify Refund/Rollover of Contributions: Mr. Nails moved to approve, seconded by Mr. O'Brien. Motion carried 6:0.

8. Other Business: Mr. Hooper moved to go into executive session, see below. After executive session – Mr. Hooper would like to see the Dahab report reflect earnings on the money managed by NEPC and the money managed by Dahab broken out separately.

9. Executive Session: Mr. Hooper moved to go into executive session to discuss matters which, for which premature disclosure could put the City at risk, seconded by Mr. Nails. The board entered at 10:45 AM. The board moved to come out of executive session at 10:50 AM.

10. Adjournment: Mr. Nails moved to adjourn. Mr. Kasti seconded. Motion carried 6:0 at 10:55 AM.