

CHESHIRE RETIREMENT BOARD

WEDNESDAY, NOVEMBER 2, 2011
CHESHIRE TOWN HALL – ROOM 210
84 SOUTH MAIN STREET @ 6:00PM
CHESHIRE, CONNECTICUT 06410

In attendance were Chairman Michael Evans, members Tom Denne, Michael Caron, William Freitag, and Paul Shay; Police Department representatives Joseph Mazzini and Tim Rodgers; Finance Director James Jaskot; Deputy Finance Director Gina DeFilio; and Ross Charkatz of Graystone Consulting.

1. CALL TO ORDER

Chairman Michael Evans called the meeting to order at 6:06pm.

2. ROLL CALL AND DETERMINATION OF A QUORUM

Chairman Michael Evans called the roll and a quorum was determined.

3. PLEDGE OF ALLEGIANCE

All present recited the Pledge of Allegiance.

4. APPROVAL OF MINUTES FROM THE SEPTEMBER 7, 2011 MEETING

Corrections: Page 4: Bob Shay should be Paul Shay. Mike Evan should be Mike Evans.

MOTION: William Freitag made a motion to approve the minutes from the meeting on September 7, 2011 as corrected. Motion seconded by Tom Denne. Minutes were unanimously approved by members present.

5. OLD BUSINESS

a. REVIEW OF INVESTMENT POLICY STATEMENTS

Ross Charkatz of Graystone Consulting will provide a recap of where things stand with the Investment Policy statements – they have not been finalized yet. There were a couple of issues that needed to be resolved. We want to make sure the documents are generally consistent.

Ross Charkatz of Graystone Consulting explained there are four new trust documents – Master Trust, VEBA Trust & Plan (Police Healthcare), Rabbi Trust (Volunteer Firefighters) and OPEB Plan; all are identical except for the Master Trust, which involves a larger pool.

James Jaskot stated the goal to get the Rabbi Trust up and running at the first of the year.

b. UPDATE ON PENSION TRUSTEE TRANSITION

Mr. Jaskot and Mr. Charkatz reported a kickoff meeting was held today with Marshall and Ilsley (M&I). Due to the delays in getting the trust established, a January 1, 2012 transition is planned. Pension recipients will be notified via letter by Thanksgiving of the changes in the trustee from Bank of America to M&I. There are approximately 180 retirees. In response to questions from Mr. Evans and Mr. Carron, Mr. Jaskot reported the retirees would only receive one 1099 form if the transition is on January 1st, and there was not a need to run parallel. M&I will calculate the benefits they would pay and give us a chance to review it in December (similar to a parallel). Retirees receiving direct deposit of their pension will need to complete new direct deposit documents for M&I, but M&I can float with Bank of America's documents for a few months. M&I will send out notices and reminders to the retirees and also provide phone contact. Mr. Jaskot felt M&I's sample letters and cover letters were well written and very clear. This transition will not interrupt any checks or direct deposits as of January 2012.

At today's meeting with M&I, Mr. Jaskot and Mr. Charkatz discussed how the investments would be set up in the new system. A good amount of time was spent discussing how to get the Rabbi Trust out of the Master Trust in an equitable manner. Mr. Charkatz explained that all the investment funds except the VEBA are in "one big pot" and the percentage ownership of each plan is proportional to its interest in the current Master Trust arrangement with Bank of America. The set-up at M&I will be similar in concept, however due to the nature of the Firefighters Trust as a Rabbi Trust, this portion of the assets cannot mix with the rest of the retirement funds and will need to be extracted prior to the transfer to its own account at M&I. In order to effect the proper allocation and transfer of the Firefighters Trust assets, they (Bank of America, with direction) will "freeze" time at the end of the month to obtain the value of each entity in the portfolio at that time. For the three plans involved, the month-end value that is attributed to each will be determined as normally done, and that will provide the

information as to how much to move into a segregated Firefighter's Trust account. Mr. Caron asked whether the assets in the Rabbi Trust had to be truly identified, or if it was simply a matter of value. The Board members had questions about the movement of funds, asset allocation, evaluation process, and liquidation of assets, which Mr. Charkatz addressed. In sum, according to Mr. Charkatz, the answer is primarily one of value and fairness. The primary issue is that the Firefighter's Fund receives the correct value, which is primarily an accounting issue. The additional issue that usually comes up when plan assets are transferred in this way is one of fairness; is one plan giving up a "good" asset, or receiving a less desirable asset. In this case, the transfer from the Master Trust is a relatively minor amount in relation to the whole, and the Firefighter's Trust can only hold certain types of investments due to its size. In addition, the Firefighter's Trust currently owns a sizable portion in cash instruments, so the transfer from the Master Trust is a portion of the total funds that need to end up in the Firefighter's account. Hence, the immediate and eventual assets held in the Firefighter's Trust will not be identical to the Master Trust, and will be managed according to its own liquidity needs and investment requirements.

Mr. Jaskot said the majority of the discussions with M&I recently surrounded this issue, and one of the key issues is that the auditors must be able to understand the transactions that establish the Volunteer Firefighter Plan and trace assets transferred dollar for dollar and determine that the correct value was received. Mr. Charkatz stated there would be two steps in making the transfers because the amount will be as-of the end of November, however approximately 20% of the Master Trust value is not known until later in December because they are alternative investments that provide month-end prices on a lag: the first step will estimate the value as of November 30th, and transfer what they believe is 95% of the month-end value based on information obtained from the underlying investments; the second step will allocate the remaining 5% in December based on the final tally. By the next Retirement Board meeting, these transactions will have taken place. At that time, the Firefighters' trust will be 100% in one account. Mr. Charkatz reported that at future meetings, the Board will receive four sets of reporting numbers for the four trusts/plans. He recommended to the Board that they take action with respect to the prospective amounts that will be in the Firefighter's Trust account. Over the summer, in anticipation of this transfer, the Board approved investment allocations for the Firefighter's Trust with its own investment policies. Heretofore, the investment policies were rolled into the overall investment policy document. Mr. Charkatz recommended that the Firefighter's Trust invest initially in index funds that relate to the target asset allocation in the investment policies. In doing so, the Firefighter's Trust will remain invested rather than sit in cash until the next time the Retirement Board could meet. It would also be most consistent with the investment policies, such that the plan would remain in compliance with the stated objectives. While in the future the underlying mix may change, it is acceptable practice during a transition period to engage market-oriented investments unless or until managers are

identified. In the VEBA plan, there are some managers and some index funds. Mr. Charkatz recommended the Retirement Board authorize the asset allocation of the transferred funds into index funds that are consistent with the US Stock Market, International Stock Market, and US Bond Market, as described in the investment policies. Mr. Jaskot said they spoke about doing a valuation as of November 30th to give Mr. Charkatz time to think about what assets to move to the new trust. Mr. Jaskot reported that they plan to have a conference call with Bank of America, M&I, and Mr. Charkatz to continue discussing the situation and the best way to proceed managing the transactions. Everything will be done on or before January 1, 2012.

MOTION: To allow Mr. Charkatz to instruct investment in index funds during the Volunteer Firefighters Plan transition from the Master Trust to the separate Rabbi trust according to the investment policy statement; and, to utilize an index which corresponds to the asset allocation. Moved by Michael Caron, seconded by Tom Denne. All members present were in favor of the motion.

Mr. Jaskot reported on the remainder of the meeting with M&I, which involved timing of reports for what they need internally (monthly, quarterly and annual statements). There was also a discussion of the ancillary things M&I provides, including participant services (customer service number) and on-line access to pension information. The Town will also have on-line access to pension information. It was also noted that M&I has a process to check social security numbers to ensure a retiree is not deceased.

6. NEW BUSINESS

a. INVESTMENT UPDATE AND MARKET COMMENTS

Mr. Charkatz distributed a Performance Update through 9/30/2011 (Attachment 1). As of 9/30/2011, the markets were down 6%, but were up for October. The Board authorized some changes to the investments that took effect at the beginning of October 2011, so this activity was not reflected in the 9/30/2011 Performance Update.

Mr. Charkatz was asked if there were other areas of concern regarding our investments. Mr. Charkatz recommended placing one trust manager on the watch list -- Brandywine. Brandywine is an all-cap, primarily domestic equity portfolio. The current market is macro-driven. Brandywine's trust manager's style is a micro-manager, resulting in much turnover (a lot of trading) in their portfolio; they may not be the right manager at this time. The Board has discussed this manager for over a year. Mr. Freitag asked Mr. Charkatz for his confidence in their process, and if this manager could be compared to others because their process is so different. Mr. Charkatz responded that he does have confidence in this manager but has identified these concerns: 1) The issue with this manager needs to be monitored in the future; 2) is this a manager that we

feel comfortable with considering their management style and flexibility in a macro environment?

Mr. Charkatz made the following Market Observations and Portfolio Thoughts from his handout:

Section 2, Page 11: The market cycle is occurring all over again. The market becomes weak; government policy makers step in, they reflate markets, they pull the stimulus away, the market collapses, etc. Corporate balance sheets are in much better position than in 2008. The banking system is much stronger than it was in 2008. It's moved from a financial credit issue to a sovereign credit issue.

Section 2, Page 13: Current Themes: High quality companies are most attractively valued in terms of equity markets. Bond yields are artificially low and no longer a credible investment. High yield corporate bonds are becoming more interesting. Emerging markets (vs. developed markets) may be a long term preferable market but with bumps along the way. Real over nominal assets.

Section 2, Page 15: We are in a "range-bound" market.

Section 2, Page 18: Global equities continued to be range bound (fell off from April 2011).

Section 2, Page 21: From a valuation prospective, high quality stocks have underperformed. "US mega-cap stocks relative to the rest of the market are very cheap...however, low-beta defensive stocks have become relatively inexpensive."

Section 2, Page 26: Just using average P/Es is misleading, because it depends on what type of market you are in. Our market may deserve to have lower than average P/Es (regime dependent evaluations).

Section 2, Page 27: A 10 year P/E basis suggests that equities are still relatively expensive. The 2000 NASDAQ is such an anomaly that it should probably be taken out.

Section 2, Page 29: S&P500 daily volatility is pretty high.

Section 2, Page 33: This is what a bull market looks like. You can see where emerging markets have been in relationship to developed economies.

Section 2, Page 35: Valuations country by country in emerging markets. In this part of the world, these valuations are good; the type of valuations you look for.

Section 2, part 39: The US is probably the best of all the developed countries showing a strong relationship between the age distribution of the U. S. population and stock market performance. We are good in emerging markets.

Section 2, Page 45: This chart shows yields paid by smaller companies versus what high bonds are yielding.

Mr. Charkatz made the generic statement: When we find managers like IVA, we want more of them but they are not easy to find. He would like to put a fund on our radar. Mr. Charkatz asked the Board to look at a mutual fund (FPA Crescent Fund). The fund is run by Steven Romick and was founded in 1993. Mr. Charkatz feels this is the right type of manager for our funds and will provide more information for consideration at a future meeting.

Mr. Charkatz responded to a question from Mr. Evans about private equities. The return on your investment is realized when some of the holdings are sold. The benefits to these investments are: 1) Illiquidity premiums – return enhancers and 2) Hedge Fund – risk reducers. These are long term timeframes. The execution would be to build up to a 5% position over 7 years by adding to your initial investment every year. You want broad exposure because you do not know which are the best funds (in excess of their market value). The average returns in private equity are in excess generally of a fair margin versus the median return. These investments are very common for pension funds. Mr. Freitag asked how you get valuations on private equity funds. Mr. Charkatz responded it is like getting appraisals. He did caution that this does add more administrative burden because of valuation issues. You don't know valuations on 6/30; you must wait for the audited financial statements.

b. PENSION DISBURSEMENTS

The Board reviewed new pension disbursements.

c. SUMMARY OF BILLS

The Board reviewed invoices paid since the last meeting.

d. 2012 MEETING DATES

Mr. Evans proposed the following meeting days for the upcoming year: February 1, 2012; May 2, 2012; August 1, 2012; November 7, 2012, and February 6, 2013.

MOTION: Michael Evans made a motion to approve the 2012 meeting dates are presented. Motion seconded by William Freitag. All members present were in favor of the motion.

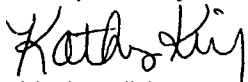
7. PUBLIC COMMENT

None

8. ADJOURNMENT

The next meeting is scheduled for Wednesday, February 1, 2012. William Freitag made a motion to adjourn the meeting at 8:03pm. Seconded by Tim Rodgers. All members present were in favor of the motion.

Respectfully submitted,



Kathy Kirby
Recording Clerk

Town of Cheshire Retirement Plans: Investment Performance Update, As of September 30, 2011

Portfolio Performance

Managers	Account Balance	Percent Of Total	Current Month	Fiscal YTD/ Third Quarter	Calendar YTD	Last 12 Months	Last 3 Years	Last 5 Years	Last 6 Years	Last 7 Years	Last 10 Years	Since Inception	Since Incep. Date
Snow Capital - All Cap Value	\$ 4,559,008.13	9%	-11.34%	-23.59%	-19.12%	-8.01%	-2.10%	-4.74%	-2.13%	N/A	N/A	-0.83%	12/31/04
Russell 3000 Value			-7.83%	-16.64%	-16.64%	-2.33%	-1.63%	-3.50%	-1.63%	N/A	N/A	0.18%	
Akstar Large Value			-7.83%	-16.22%	-11.47%	-2.41%	-0.67%	-3.19%	-0.82%	N/A	N/A	-0.13%	
Neuberger Berman - Large Cap	\$ 6,093,521.20	12%	-8.06%	-13.57%	-10.23%	-0.48%	2.28%	2.51%	3.20%	5.80%	5.96%	11.51%	10/31/91
Russell 1000			-7.46%	-9.25%	-9.25%	0.91%	1.00%	-0.92%	0.80%	2.68%	3.28%	7.80%	
Akstar Large Blend			-8.03%	-15.80%	-11.30%	-1.95%	0.30%	-1.83%	-0.07%	1.74%	2.19%	6.26%	
Brandywine	\$ 4,588,473.67	9%	-11.09%	-24.94%	-19.96%	-3.45%	-7.29%	-5.29%	N/A	N/A	N/A	-5.29%	9/30/06
Russell 3000 Growth			-7.70%	-13.91%	-7.90%	3.39%	4.49%	1.56%	N/A	N/A	N/A	1.56%	
Akstar Large Growth			-8.45%	-15.64%	-10.88%	-0.51%	2.15%	-0.36%	N/A	N/A	N/A	-0.36%	
Neuberger Berman - International	\$ 3,226,282.40	6%	-11.48%	-19.14%	-13.69%	-6.40%	2.55%	-2.79%	-0.02%	4.69%	7.42%	6.68%	11/30/94
MSCI EAFE			-9.53%	-19.01%	-14.97%	-9.34%	-1.14%	-3.46%	-0.01%	3.32%	5.03%	3.87%	
Akstar Foreign Large Blend			-11.79%	-20.92%	-17.57%	-11.47%	-2.00%	-3.68%	-0.36%	2.97%	4.24%	3.77%	
Thornburg International Value 6	\$ 3,136,841.44	6%	-10.29%	-20.84%	-16.42%	-9.81%	N/A	N/A	N/A	N/A	N/A	19.15%	2/28/09
MSCI EAFE			-9.53%	-19.01%	-14.97%	-9.34%	N/A	N/A	N/A	N/A	N/A	16.74%	
Akstar Foreign Large Blend			-11.79%	-20.92%	-17.57%	-11.47%	N/A	N/A	N/A	N/A	N/A	16.00%	
IYA Worldwide	\$ 4,569,738.39	9%	-6.47%	-10.69%	-5.59%	1.45%	N/A	N/A	N/A	N/A	N/A	6.07%	12/31/09
PC Aggregate Bond Index			-6.22%	-12.04%	-7.83%	-2.40%	N/A	N/A	N/A	N/A	N/A	0.87%	
Akstar Multi-Sector Bond			-7.07%	-10.42%	-7.47%	-2.37%	N/A	N/A	N/A	N/A	N/A	1.52%	
Loomis Sayles Bond	\$ 4,110,336.50	8%	-4.06%	-4.90%	1.23%	3.35%	12.84%	6.60%	N/A	N/A	N/A	6.60%	9/30/06
PC Aggregate Bond Index			0.73%	3.82%	6.65%	5.26%	7.97%	6.52%	N/A	N/A	N/A	6.52%	
Akstar Intermediate Term Bond			-2.05%	-3.24%	-0.03%	1.05%	8.28%	4.80%	N/A	N/A	N/A	4.80%	
Metro West Total Return	\$ 6,788,232.97	13%	0.01%	1.62%	4.93%	4.49%	11.52%	8.18%	N/A	N/A	N/A	8.18%	9/30/06
PC Aggregate Bond Index			0.73%	3.82%	6.65%	5.26%	7.97%	6.52%	N/A	N/A	N/A	6.52%	
Akstar Intermediate Term Bond			-0.18%	-1.53%	4.39%	3.50%	8.23%	5.12%	N/A	N/A	N/A	5.12%	
Templeton Global Bond7	\$ 3,911,606.90	8%	-7.97%	-7.73%	-3.76%	N/A	N/A	N/A	N/A	N/A	N/A	-3.76%	12/31/10
(in World Gov't Bond			0.85%	3.03%	6.48%	N/A	N/A	N/A	N/A	N/A	N/A	3.44%	
Akstar World Bond			-3.09%	-1.13%	2.58%	N/A	N/A	N/A	N/A	N/A	N/A	2.58%	
Ironwood 1	\$ 3,373,656.39	7%	-1.28%	-3.18%	1.59%	5.80%	1.65%	1.24%	2.30%	N/A	N/A	2.95%	5/31/05
HFRF FOF Conservative			-1.88%	-3.73%	-3.42%	-0.92%	-0.51%	-0.04%	1.03%	N/A	N/A	1.59%	
SCS Opportunities Fund	\$ 2,062,796.09	4%	-1.75%	-5.18%	-3.43%	-0.36%	N/A	N/A	N/A	N/A	N/A	0.81%	12/31/09
HFRF FOF Diversified			-1.72%	-3.73%	-3.86%	-0.43%	N/A	N/A	N/A	N/A	N/A	0.81%	
UBP Multi-Strategy 1	\$ 402,236.05	1%	-0.45%	-1.33%	0.15%	4.03%	2.55%	2.21%	N/A	N/A	N/A	3.71%	5/31/05
HFRF FOF Diversified			-1.72%	-3.73%	-3.86%	-0.43%	0.60%	0.60%	N/A	N/A	N/A	2.47%	
Berens Capital 1	\$ 3,379,675.73	7%	-1.09%	-3.25%	-2.99%	1.19%	2.99%	N/A	N/A	N/A	N/A	-0.14%	1/5/08
HFRF FOF Strategic			-3.58%	-6.29%	-6.63%	-2.76%	0.14%	N/A	N/A	N/A	N/A	-3.47%	
S&P 500			-7.03%	-13.87%	-8.68%	1.14%	1.23%	N/A	N/A	N/A	N/A	-3.11%	
Abbey Capital7	\$ 1,285,301.21	2%	1.92%	3.43%	-4.47%	N/A	N/A	N/A	N/A	N/A	N/A	-4.47%	12/31/10
TOTAL	\$ 51,487,707.06	100%	-6.18%	-11.60%	-7.60%	-0.72%	2.96%	0.69%	1.78%	4.19%	5.35%	11.88%	06/30/79
Net Dollar Appreciation			(\$3,391,500)	(\$6,255,691)	(\$4,187,882)	(\$218,721)	\$4,350,190	\$2,002,236	\$5,937,057	\$15,029,548	\$24,865,043	\$63,700,374	
Policy Index 2			-5.10%	-9.56%	-5.22%	0.89%	2.85%	0.89%	2.28%	3.69%	4.41%	9.99%	
Akstar Moderate Allocation			-5.35%	-10.42%	-6.62%	-0.72%	3.18%	0.67%	1.79%	3.01%	3.57%	N/A	
UBP Cash	\$ 124,245.97												
Reserve Cash	\$ 1,843,067.43												
Merrill Lynch - Private Equity 3	\$ 150,451.21												
PLAN TOTAL	\$ 53,605,471.67												
VEBA PLAN	\$ 894,283.40		-6.55%	-12.76%	-9.10%	-0.60%	4.29%	0.45%	1.41%	3.50%	4.78%	3.73%	8/31/01