

JOINT RETIREMENT INVESTMENT BOARD MEETING

Monday, June 14, 2010

5:00 pm

**Second Floor Conference Room
Independence Hall-725 Old Post Road
Fairfield, CT 06824**

FINAL MINUTES

Members Present: Michael Holland, Paul Hiller, Ken Flatto, Robert Malarkey, Erik Kalapir (via phone), Rose Sandick, Jean Sturges, Jack Leahy, Brian Vahey, Fred Schaefer, Noradeen Farlekas, Bonne McWain

Members Absent: Joe Rigoglioso, Scott Bartlett, Barry Rosen

Others Present: Frank DeAngelo, Ellen Petrino

I. Call to Order

Chairman Bob Malarkey called the meeting to order at 5:04 pm. Mr. Malarkey passed out a copy of Article III from the Town Charter although it is outdated and has been amended since.

II. Approval of Minutes

Fred Schaefer made a motion to approve the minutes. Rose Sandick seconded the motion. Paul Hiller made a friendly amendment to correct Meridian to Iridian in the first paragraph in the Asset Allocation section. The motion carried unanimously.

III. Discussion of Portfolio Allocation Policies

Ellen Petrino of Evaluation Associates gave the Board two reports on supplemental asset allocation analysis dated September 2009 and June 2010. Ms. Petrino reviewed the June 2010 report. She discussed the summary and noted that the current portfolio shows the Plan's allocation as of March 31, 2010. Ms. Petrino reviewed Capital Market Assumptions and said that the following selected asset classes— Non US Equity, US Equity, Global REITs and Commodities—are somewhat close together in risk and return. Ms. Petrino reviewed new allocation proposals with 0% hedge funds and discussed the target return, present return and recommended return as well as the recommended standard deviation. The baselines suggested are portfolios three and four and the current portfolio. Brian Vahey asked why Evaluation Associates isn't looking at portfolio two. Ms. Petrino said that portfolio had a lower expected return. Given the same assumptions with ten year horizon, portfolio two gets a 6.45% average return. Ms. Petrino reviewed another proposal allocation proposal with 10% hedge funds. Ms. Petrino noted the recommended return and recommended risk. Noradeen Farlekas asked if hedge fund returns realistic. Ms. Petrino said they are and that's why Evaluation Associates had recommended hedge fund of funds because they are diversified. Mr. Flatto asked Ms. Petrino to clarify standard deviation and forecast of returns. Ms. Petrino explained the goals. The Board discussed whether or not they were comfortable with the 10% hedge fund threshold. Mr. Vahey said he does not like hedge fund of funds because it's very expensive and he would rather see a transparent direct hedge fund manager.

Mr. Schaefer said hedge fund of funds in theory give more comfort on operational due diligence and help avoid big negatives, but may have some mediocrity.

Mr. Hiller said the question is whether the Board goes direct or go fund of funds. Mike Holland asked if the Board didn't go with fund of funds, how many funds would be selected. Mr. Petrino said ideally, diversification should be in the funds with \$5 million in each at the most. Mr. Malarkey asked for each member's opinion on the 10% threshold. Mr. Holland, Jean Sturges, Mr. Hiller and Mr. Schaefer want the 10% threshold; Mr. Flatto prefers 5-10%, Mr. Leahy wants 10% but wants to see transparency; Bonnie McWain is comfortable with 5-10% and agrees with Mr. Leahy on seeing transparency; Ms. Farlekas prefers 0%; Erik Kalapir prefers 10%; Rose Sandick prefers 5-10% and fund of funds; Mr. Vahey prefers 10 or 20%; and Mr. Malarkey prefers 5-10% but would be closer to 10% if direct as he doesn't like fund of funds because of the fees. The Board's majority vote is to invest 10% in direct hedge funds and not use fund of funds. Ms. Petrino discussed the term custody which is where assets are held. Assets are typically held at a prime broker. The Town's assets are held at People's Bank. Hedge funds select the prime broker, not the Board. Ms. Farlekas asked Evaluation Associates to review and recommend a banded range for each portfolio allocation. The Board then discussed the recommended mix of asset classes with the 10% threshold. Mr. Flatto made a motion to approve adjusting the Core Fixed Income and High Yield Fixed asset classes to: Core Fixed Income of 30% and reduce High Yield to 0% and to approve Evaluation Associates' recommended portfolio allocation on page 10 of the June 2010 supplemental asset allocation analysis report with 10% direct hedge fund investments. Mr. Schaefer seconded the motion which carried unanimously. The Board discussed commodities which Ms. Petrino said will start at the recommended 3% and then the policy could be changed to 5% later.

IV. Discussion regarding Portfolio Managers

Mr. Hiller discussed Seix. Mr. Flatto said the Board needs to meet with managers by the end of July.

V. Update on Insurance Policy

Mr. Hiller said he filed papers with Travelers and spoke to the broker today. Mr. Hiller said by July 1, 2010, there will be a policy in place.

VI. Adjourn

Mr. Leahy made a motion to adjourn the meeting at 6:50 pm. Mr. Hiller seconded the motion which carried unanimously.

Respectfully submitted,

Jennifer S. Carpenter
Recording Secretary