TOWN OF STONINGTON
RETIREMENT BOARD
May 1, 2012

The Stonington Retirement Board held a regular meeting on this date at 9:00 a.m., at the Stonington Public Schools Administration Building. Board members present were: Maryanna Stevens, Chairman; John O'Brien and Judy Samokar. Absent were June Strunk and Frank Todisco. Also present were Cheryl Morgan, SVP, Sr. Retirement Relationship Manager Institutional & Retirement Benefit Solutions, Bank of America Merrill Lynch; Han Yik, Senior Portfolio Strategist, Bank of America Institutional Advisory Solutions – Investments; and Evan Wollacott, Jr. from Hooker & Holcombe, Inc.

The meeting was called to order at 9:05 a.m.

Analysis of Alternative Plans:
Mr. Wollacott briefly reviewed an Income Replacement Ratios analysis that he presented to the Board on February 14, 2012. The analysis compared the current defined benefit plan (DB) with a proposed defined contribution plan (DC). It was based on both the July 1, 2010 and July 1, 2011 Valuations using various assumptions, plan provisions and Social Security data.

Mr. Wollacott then reviewed two reports dated April 25, 2012 that he prepared for the Board. Both analyses were done using the 1.75% current plan benefit for contributory employees and used Age at Hire and Age at 07/01/2011 as identifiers. The first analysis entitled "Income Replacement Ratios" projected pension benefits to age 65 and compared those benefits to the projected final pay. The Exhibit attached to his report showed the income replacement ratio for each employee in the DB plan. The total average income replacement ratio for the DB Plan equaled 83%.

The second analysis, entitled "Income Replacement Ratios - Defined Contribution (DC)", calculated income replacement ratios for a proposed DC pension program. The calculations were based on closing the DB plan at 07/01/2011 for all employees and moving to a DC plan. The analysis projected pension benefits to age 65 and compared those benefits to the projected final pay. The Exhibit attached to his report showed the income replacement ratio for each participant. The total average income replacement ratio for the proposed DC plan equaled 70%.

Some discussion ensued regarding retention of the DB plan for current employees, offering a DC plan to new employees but allowing employees currently in the DB plan to elect to transfer their accrued benefit into the DC plan. Ms. Stevens confirmed with Mr. Wollacott that the DC Plan can be wrapped into the current DB plan until the assets of the new plan are large enough to break out. It was noted that the Town would get the DC plan forfeitures when non-vested employees terminated. Mr. Wollacott noted that the Town could create a graded plan based on years of service, i.e. 0-4 years, 4% Town contribution; 5-10 years, 5% contribution; 10 years +, 6% contribution.

Mr. Wollacott indicated that the Town could set up a 401A plan pre-tax, since the Board of Education currently offers a 457 and 403b and the Town currently offers an optional 457 plan.

Review of Fund Performance:
The Board was given the quarterly Investment Portfolio Review, ending March 31, 2012, prepared by Bank of America/Merrill Lynch. The report is on file in Administrative Services.

Mr. Yik reviewed the Portfolio's Investment Strategy Overview located in the report, which included Portfolio and asset allocation and macro strategy. He also reviewed equity market performance, fixed income market performance and portfolio positioning. Attached is the Investment Strategy Overview portion of the report that Mr. Yik reviewed.

Mr. Yik reviewed the investment performance as of 03/31/2012. The market value of the portfolio as of 03/31/2012 was $21,893,704. The portfolio outperformed the benchmark for the 1 year, 2 year, and 5 year period. The portfolio underperformed the benchmark for the 3 months and 3 year period. Attached is the Investment Performance portion of the report that Mr. Yik reviewed.

Mr. Yik indicated that the portfolio remains overweight in cash as some equity risk is removed. In a market downturn, the cash could then be used to reallocate and rebalance the portfolio.

Mr. O'Brien asked Mr. Yik if he expected a double dip recession. Mr. Yik stated that the odds are slim between now and the election, since Congress is gridlocked and won't pass any substantial legislation.

Old Business:

a. Discussion of Due Diligence Review:

It was the consensus of the Board to table the discussion until the August 7, 2012 meeting, since Mr. Todisco and Ms. Strunk were not able to attend this meeting. Ms. Stevens indicated that Mr. Todisco had raised concern to her that the Board had no fee schedule from other consultants to compare Fiduciary Investment Advisor's fees. Ms. Stevens will contact other municipalities to see if she can get fee quotes from other consultants for comparison.

New Business: None conducted.

Approve February 14, 2012 Minutes:

Mr. O'Brien made a motion to approve the Minutes. Ms. Samokar seconded and it was unanimously voted.

There being no further business to come before the Board, the meeting was adjourned at 9:55 a.m.

Respectfully Submitted,

Maryanna Stevens

Maryanna Stevens
Chairman

sak

attachments

Investment Strategy Overview

Portfolio strategy and asset allocation

- Solid economic data, steady profits and central bank liquidity support have provided a tailwind for equity markets recently. We believe it is still too early in the calendar year for the "policy cloud" to rain on the market's parade. Our year-end target of 1350 was based on an early-year positive trend that could extend S&P 500 gains to 1375 before pulling back in the summer as earnings-per-share (EPS) growth slows down, European financial stress persists and political transitions enter the equation. If equities pull back, a resumption of the positive trend during the second half of the year would most likely be based on better prospects for financials and residential real estate. This, of course, assumes the geopolitical equation remains relatively stable as well.

- As the S&P 500 hovers around our year-end target of 1350 for this year, we would advise removing some equity market risk in our portfolios. We recently lowered our overall equity allocation from overweight to neutral relative to the strategic targets across all of our all-asset portfolio models and would advise reallocating to high yield and cash/short-duration fixed income. Importantly, rebalancing should be measured and should occur over the course of weeks, not on any single day.

- Within the domestic equity asset class, we remain overweight large caps due to their greater exposure to global growth and have moved to a neutral weight in small cap and mid cap equities.

- We continue to expect the U.S. market to outperform the Euro zone and Japanese markets, as macroeconomic headwinds are more severely restraining growth and profits in those regions. Thus, we remain underweight international developed equities. We have adjusted emerging market equities slightly lower, but we remain overweight relative to strategic benchmarks, mainly based on value.

- We remain underweight fixed income. Within fixed income, we continue to prefer credit over Treasuries, with an emphasis on investment-grade and high-yield corporate bonds, mortgage-backed securities (MBS), and specific non-U.S., non-European sovereign bonds for their yield and currency advantages. Within fixed income-only models, we would recommend shifting some percentages from Treasuries and agencies to corporate high-yield credit.

Investment Strategy Overview

Portfolio strategy and asset allocation (continued)

- We remain neutral weight commodities as an asset class. The fundamental forces behind the commodity bull market remain intact, including strong global growth trends in emerging markets and lower than- normal real interest rates across the globe. However, in the near term, commodities are vulnerable to the recession "winds" blowing from Europe and a cyclical slowdown in China. We will look for more attractive valuation levels to increase our tactical weightings.

- Our macro view implies that the dollar has ended its downtrend against other major (rich country) currencies and even has potential to rise substantially against the euro and yen. Commodity currencies (Canada and Australia) remain the most likely to prove an exception. The macro view (global rebalancing) provides the most scope for emerging Asian currencies to rise against the dollar.

- Global rebalancing should create significant opportunities for long/short, distressed debt, and event-driven managers in the hedge fund space. We remain neutral weight with a focus on managers of diversified strategies who invest in liquid securities, understand the drivers of balance sheet repair around the world, and use leverage responsibly.

- We are neutral on private equity and recommend vintage year diversification among managers who have a strong track record in the full private equity cycle over multiple market cycles, from fundraising to deal sourcing to exit.

- We remain underweight real estate as an asset class, given our preference for other assets.

- In the event that we experience a sizable drawdown in equities toward midyear, we will revisit the fundamentals within the context of our most up-to-date investment strategy thought leadership (and forecasts) and assess whether tactical asset allocation changes are necessary.

Investment Strategy Overview

Macro strategy

- There is growing evidence that a global recession has been averted and our basic global outlook seems to be on track for 2012. A confluence of factors have come together to reignite momentum in global trade and manufacturing over the past few months. In addition, financial stress indicators have been improving and monetary policy has reversed course in emerging markets and remains highly accommodative in the U.S.

- The U.S. is leading the rest of the world. Unlike the situation in most other countries, and especially that in Europe, U.S. manufacturing is rising from a low point set during the fall crisis that was still in growth territory. While there are clearly subpar areas in the recovery to date, they remain concentrated in the obvious areas: government and housing. Outside of these healing areas, the economy is performing much more normally despite the entrenched pessimism.

Investment Performance - As of 03/31/2012

	Market Value	Allocation (%)	3 Months (%)	1 Year (%)	2 Years (%)	3 Years (%)	5 Years (%)	Since Inception(%)	Inception Date
Total Portfolio	$21,894,086	100.0	6.67	6.27	9.20	16.08	4.43	9.33	01/1980
Custom Blend*	--	--	7.95	5.50	9.02	17.67	3.78	--	--
Equities	$13,910,155	63.5	9.94	5.50	10.56	21.27	2.41	10.68	01/1980
S&P 500	--	--	12.59	8.53	12.04	23.41	2.02	11.38	--
[redacted]									
Russell 1000 Index	--	--	12.90	7.86	12.19	24.03	--	1.51	--
[redacted]									
Russell 2000 Index	--	--	12.44	-0.18	12.05	26.90	--	3.36	--
[redacted]									
MSCI EAFE Index (Net)	--	--	10.86	-5.77	2.00	17.13	--	-5.59	--
[redacted]									
MSCI Emerging Markets Free Index (Gross)	--	--	14.14	-8.52	--	--	--	-2.14	--
Fixed Income	$6,777,292	31.0	1.62	8.32	7.45	9.15	6.97	8.35	01/1980
Barclays Capital Aggregate Bond Index	--	--	0.30	7.71	6.41	6.83	6.25	8.63	--
[redacted]									
JP Morgan Non-US Gvt Unhedged Index	--	--	-0.71	4.25	7.00	7.39	--	6.37	--
[redacted]									
Merrill Lynch High Yield Master Index	--	--	5.05	5.70	9.84	23.38	--	9.83	--

Past performance is no guarantee of future results. Returns for periods greater than one year are annualized.
*** Custom Blend benchmark components: 42% Russell 1000, 3.5% Russell 2000, 12% MSCI EAFE, 4% MSCI Emerging Markets, 34.5% Barclays Aggregate, 4% Merrill Lynch High Yield**

Investment Performance - As of 03/31/2012

	Market Value	Allocation (%)	3 Months (%)	1 Year (%)	2 Years (%)	3 Years (%)	5 Years (%)	Since Inception(%)	Inception Date
Real Estate	$139,845	0.6	8.12	29.71	28.10	48.96	--	12.63	12/2007
NAREIT Equity Index	--	--	10.49	11.29	17.95	42.20	--	3.45	--
Cash/Currency	$1,066,794	4.9	0.09	0.22	0.31	0.52	1.73	6.05	01/1980
Merrill Lynch 90 Day T-Bill	--	--	0.01	0.06	0.11	0.13	1.23	5.33	--

Past performance is no guarantee of future results. Returns for periods greater than one year are annualized.