GENERAL EMPLOYEES RETIREMENT BOARD MEETING
Friday, May 9, 2008, 9:00 A.M.

I. CALL TO ORDER

The meeting of the General Employees Retirement Board of Trustees was called to order by Chairman, Robert Garvy at 9:05 a.m. on Friday, May 9, 2008, in the Town Hall Council Chambers. Attending were Chairman Garvy, Vice Chairman Brett Madison, Trustee James Karman and Trustee Peter Elwell. Also in attendance were Board Attorney, John McCracken, Human Resources Director and Plan Administrator, William Crouse, Finance Director, Jane Struder, John Carr and Jeanne Valcik from Callan Associates.

II. OATH OF OFFICE – LISA GORMAN

Mr. Garvy stated that Mr. Luscomb had completed his term and would be replaced by Ms. Gorman. The Board welcomed and congratulated Ms. Gorman on her election to serve on the General Retirement Board of Trustees.

Mr. Garvy acknowledged the service that Jonathan Luscomb had provided to the Board for the past 6 years and presented him with a plaque commemorating his service. Mr. Luscomb thanked Mr. Garvy and the Board. He expressed appreciation for his time on this committee. Mr. Luscomb exited the chambers.

III. APPROVAL OF AGENDA

Mr. Garvy inquired whether there were any changes or additions to be made to the agenda. There were no changes to report.

Mr. Karman moved approval of the agenda. Mr. Elwell seconded. The motion carried unanimously.

IV. APPROVAL OF MINUTES

Mr. Garvy inquired if there were any comments or changes to the minutes of the Regular Meeting of February 8, 2008 and the Special Meeting of February 25, 2008. There were no changes to report.

Mr. Madison moved approval of the minutes. Mr. Karman seconded. There was no further discussion and the motion carried unanimously.

V. APPOINTMENT TO POSITION OF BOARD SECRETARY

Mr. Garvy called for nominations of Board Secretary. Nomination of Mr. Madison to serve as Secretary was made by Mr. Karman and seconded by Mr. Elwell.

Mr. Madison was elected as Board Secretary by acclamation.

VI. ADMINISTRATOR'S REPORT

Mr. Crouse stated there were no retirements to report.

VII. ANNUAL ACTUARIAL VALUATION

Mr. Armstrong provided a summary of valuation results. He described the funding progress indicators. He also discussed the most significant result as the contribution requirement and funding ratio. Mr. Armstrong explained that the aggregate public contribution requirement had decreased 1.20% of payroll since last year due to experience during the year. He commented on last year's and next year's experience indicators. Mr. Armstrong reported on supplemental pension distribution and made the recommendations of reserve transfers.

Mr. Elwell questioned the stability in the contribution rates. He expressed that the rates were consistent in early 1990's and the benefits at that time were not what they were today. Mr. Elwell stated that based on the decline off the peak at 19% how low would Mr. Armstrong expect to reach a new median from a 30- year slice of time. Mr. Elwell also questioned if it was reasonable to expect the rate of 17.35% to be average or if it would go lower to stabilize. Mr. Armstrong responded that he expected it to decrease to 17%.

Mr. Armstrong provided detailed valuation results and a summary of benefit provisions and valuation data regarding the retirement system.

Mr. Garvy thanked Mr. Armstrong and asked if there were any questions. Mr. Crouse added that the 3 Retirement Board chairs would be presenting their reports at the next Council meeting on June 10. Mr. Armstrong questioned if his presence would be needed for that meeting. Mr. Garvy responded that he would be notified if he needed to be present. Mr. Elwell reiterated that if Mr. Armstrong's attendance would be desirable that he would be contacted.

VIII. REPORT ON AUDIT

Mr. Veil presented an overview and analysis of the financial activities of the Employees Pension Trust Fund for the fiscal year ending September 30, 2007. He discussed the financial highlights and gave a financial analysis while comparing FY 2007 to FY 2006. Mr. Veil stated there was no significant change this year versus last year.

Mr. Karman requested that when submitting a report to the Board in the future, to ensure there is a cover page in order to identify the firm that prepared it. Mr. Veil acknowledged

and concurred. Mr. McCracken inquired why the general fund account was a liability. Mr. Veil responded that the plan owed the town money and that it was a function of how the bills were paid. Mr. McCracken stated that the wording, "from the Retirement Fund to the General Fund" was confusing. Mr. Elwell stated that the General Fund was our operating fund that showed expenses owed from the Retirement Fund. He explained that the General Fund of the town was most reliant on town taxes.

Mr. Elwell moved to accept the accounts report and Mr. Madison seconded. The motion carried unanimously.

Mr. Crouse added that there was one other issue to address regarding the continuation of other services to the Board. Mr. Veil responded that it was addressed on the letter of April 21, 2008 and that the Town extended its contract for 2 more years. Mr. Elwell suggested it would be helpful to align the timing of the services for this fund with the general services Mr. Veil provided in auditing the Town's books. Mr. Elwell recommended that the Board approve his services for 2 more years.

Mr. Karman moved to approve the proposal for a 2-year retention of Caler Donten. Mr. Madison seconded and the motion carried unanimously.

IX. CALLAN ASSOCIATES REPORT

John Carr presented the quarterly report. He gave a market overview and discussed asset allocation and performance. He recommended not making any changes to asset allocation.

Mr. Garvy inquired how he classified the Mesirow absolute return fund. Mr. Carr responded that the fund was considered as a fixed income substitute. Mr. Garvy inquired upon the fund's status versus the real estate market and if that is an area that needed to be reflected upon to increase diversity. Mr. Carr replied that the typical allocation real estate would be on the private side where benefits would be experienced. He stated that he would not recommend real estate to be added to the plan at this time. Mr. Carr explained that the fund was well-served with having an absolute return manager which acted like a bond substitute. He stated that private real estate was also known as a bond substitute or a hedge against inflation. Mr. Carr suggested real estate would not be high on the priority list in terms of adding new asset classes or exposures to the plan. Mr. Garvy agreed that it was not something to be thought about presently, but certainly to be discussed in the future. Mr. Carr concurred that this was a topic that could be reviewed by next year. Mr. Garvy stated that much volatility had been experienced and the Board had hired managers to improve the diversification. He suggested the Board might want to consider diversification be increased if the opportunity presented itself favorably.

Mr. Carr continued his report and examined the fund's historical performance relative to funds with similar objectives. He presented a summary of the holdings of the fund's investment managers and the returns of those managers over various recent periods. Mr. Carr reviewed total fund ranking and analysis. He discussed the historical quarterly and cumulative manager returns versus the market benchmark. Mr. Carr explained the investment managers' positive and negative returns.

Mr. Garvy called attention to page 14 of the Callan report in that it was most unfavorable data and requested Mr. Carr explain that information. Mr. Carr responded that the numbers were being influenced by the last six months, however the results were heavily influenced by overall stock performance. He explained that there had been a slow and steady decline in the rate of return in that we were in a period of low interest rates from the traditional asset classes. Mr. Garvy inquired that as a result of the negativity of the data, if this would be a cause to alter the allocation recommendations. He also questioned what Mr. Carr foresaw in other public funds and if the 8 % return was too high or too low. Mr. Carr responded that he did not think 8 % to be unrealistic in that it was the average for public funds and would be taking on too much short term volatility. Ms. Valcik added that they were confident and comfortable with the correction of allocations to various asset classes of fund at the current time as 8% was met.

Mr. Elwell referred to page 12 and stated that he was concerned that the fund's status was 30 points below the target for the 5-year period and requested more light be shed upon it. Ms. Valcik replied that it was driven by the last quarter. Mr. Carr explained that it was a 6 or 7 standard deviation event and that 90% of active bond managers underperformed the Lehman Agg for the quarter. He stated that considering these factors, perspective had to be made instead of having overweighed a credit or securitized sectors.

Mr. Carr reported on the quarterly summary and highlights of Analytic Investors and NYLIM. He recommended the Board keep Roanoke on the watch list and discussed Mesirow absolute return strategy.

*Technical difficulties prevented further disclosure at this point

GOLDMAN SACHS REPORT

Mr. Byrne, Client Service Manager introduced Mr. Robert Leggett, Portfolio Manager, who gave the report via conference call. Mr. Leggett offered his apologies that he could not deliver his report in person. He stated that he was disappointed that the results were not what was expected in the portfolio and he recognized that there was work to do to restore confidence. Mr. Leggett gave a performance review and an overview of recent market events. He explained that what commenced as isolated concerns in the subprime market morphed into a larger liquidity and credit story. Mr. Leggett gave an overview of recent market events and explained that deterioration in the non-agency ARM's market has been more extreme than other notable market crashes in recent history.

Mr. Carr requested explanation as to what had attracted Mr. Leggett and his team to the non-agency mortgage market. Mr. Leggett stated that they had a negative view on mortgages in general and that view was translated in the portfolio by the types of instruments owned and types of enhancements sought in the portfolio. Mr. Garvy stated

his concern about the direction of the U.S. housing market and how he thought it would turn. He relayed that credit agencies required less credit enhancements for the bond to get a triple A rating so he was concerned about that as well. Mr. Leggett responded that they bought bonds at the capital structure as a result to absorb the losses. He stated that extra credit enhancement from the bonds owned in the form of subordination was required. He explained that other sectors of the market were rich and thought that non-agencies offered value versus other sectors. Mr. Garvy inquired what we should expect. Mr. Leggett responded that he was happy how the portfolio was positioned today. He informed the Board that the assets owned offered great economic value. Further, he stated that given the unlimited selling and deleveraging and how these assets have been marked offered a great opportunity for investors. Mr. Leggett stated that there were many distressed funds that used this opportunity in the marketplace to buy high quality assets at distressed prices. His expectations were that these funds would yield double digit returns over the next 3 to 5 years. Mr. Garvy inquired if deleveraging would not continue. Mr. Leggett responded that there would be volatility in the home prices and that those prices were critical to the financial stability of the U.S. economy, however it would not happen overnight. Mr. Garvy stated that the fund showed 52% of the portfolio in mortgages as of March 31st and if Mr. Leggett expected to maintain that percentage going forward. Mr. Leggett responded that the index had 44% and that it would be in the economic best interest of the fund if weight was maintained. Mr. Garvy stated that if there was another meltdown in the real estate market, the portfolio would suffer as a result. Mr. Leggett responded that if there was another mortgage or housing decline, all sectors of the market would be affected and not just the mortgages. He explained that declines in corporate and high yield were broader issues for the U.S. economy. Also, he explained that by stress testing the bonds owned, the cash flows would get paid back going forward. Mr. Garvy stated that 164 basis points were recouped in April and inquired if Goldman had a forecast for the remainder of the year. Mr. Leggett responded that they did not since it was difficult to forecast changes in interest rates as well as market sentiment, however he was confident that the next 2 years, they would recover much of the underperformance. Mr. Leggett reiterated that he was disappointed in their performance but confident in their position, the profits and the team.

Mr. Garvy inquired if there were any questions. There were none.

REVIEW OF STATE STREET'S PERFORMANCE / RECOMMENDED ACTIONS

Mr. Carr gave a memo update. State Street lost 31 different accounts equating to 4.5 billion dollars in total asset losses which began December 15, 2007. He stated that the outflows have continued throughout January and February. Mr. Carr relayed that State Street added 5 new members to their investment team, however they did not have the hands-on experience the team that was lifted out last year had. He stated his concern and advised there was an increase sense of urgency to make a change.

Mr. Garvy inquired if Mr. Carr recommended SSGA be terminated and what he advised in terms of a substitution for those assets. Mr. Carr responded a formal search for replacement should be started and that assets could be moved to their purely passive

product which would replicate the index as a holding pattern. He explained that this should be a short-term fix until the Board could review candidates. Ms. Valcik interjected that the team that got lifted to Lazard had managed this fund had expected the model would not suffer decay until six to nine months. Mr. Garvy stated that the reports received weekly during this high intensity watch have indicated continuing losses of accounts getting up to 31 accounts now having been lost is a substantial number, they underperformed in the first quarter while Callan's benchmark was up during that period. Mr. Garvy stated that the recommendation was to terminate SSGA and to put the funds temporarily in their passive vehicle while the search for an international manager was conducted.

Mr. Karman made a motion to Mr. Garvy's recommendation and it was seconded by Mr. Elwell. The motion carried unanimously.

Ms. Gorman inquired how long the search for a new manager would take. Mr. Carr replied approximately six weeks and they would narrow the search down to four candidates. The Board agreed they were comfortable with four. Mr. Elwell inquired if screening the candidates was recommended prior to having them present at the August meeting. Mr. Garvy responded that the screening would be performed before then. Mr. Garvy asked Mr. Carr what parameters he would use in the selection for the four prospects. Mr. Carr replied that Callan will present the international equity search parameters at the August meeting for approval by the Board prior to starting the formal manager search. He relayed that they sought broad representation and flexibility to tap into the mid-cap international market. Ms. Valcik explained as part of their search, they would be looking at candidates with rolling three year returns. She stated that the characteristics of a low-tracking error manager would be in favor so that their deviation from the benchmark would be a smaller amount. Mr. Garvy requested if there was further discussion about the motion. There being none the motion carried unanimously.

Mr. Carr added that NYLIM had named a new President and CEO of the asset management division on April 14, his name was John Kim. Mr. Garvy recognized that this was Ms. Valcik's last meeting and relayed his appreciation for her service over the years.

X. REPORT ON QUARTERLY EXPENDITURES

Ms. Struder presented the Cash Flow Projection report. She explained that as of July 31st. 2008 there should be at least $57,536.78 left in the cash fund and that no transfers from the money managers was needed for the quarter. She stated that through April 30, 2008, the expenses totaled to $166,457.37.

Mr. Garvy thanked Ms. Struder for her report.

XI. ANY OTHER MATTERS

Mr. Crouse requested permission from the Board to pay for Mr. Luscomb's recognition plaque fee of $38.98.

Mr. Elwell made a motion and Mr. Madison seconded. The motion carried unanimously

XII. ADJOURNMENT

Mr. Garvy asked if there were any other questions before concluding the meeting. There being no further business, the meeting adjourned at 1:00 pm.

Approved: ______________________
Brett Madison, Secretary