NEPC, LLC

To: Trustees and Professionals of the FELRA & UFCW Pension Fund

From: Mike Sullivan

Date: March 8, 2013

Subject: 2013 Asset Allocation and Manager Implementation

As part of our annual planning process, we wanted to review the current positioning of the Pension Fund. With fewer attractive relative value ideas (trades) in the current market environment, our focus is on adding diversifying asset classes and reviewing the investment manager line-up.

The multi-sector fixed income approach that was discussed in early 2012 is still something that we would like to explore. The more credit focused managers posted double digit returns last year, so some of the lower hanging fruit has been picked. However, many of the strategies that we discussed still offer very attractive diversification and risk/return benefits. The PIMCO Unconstrained Bond Fund is a very low duration offering that should offer protection in a rising rate environment. The custom solution from Loomis Sayles can exploit credit opportunities while keeping the duration profile lower than typical core bond strategies. We are working with managers to construct other solutions that could be added to this discussion as well.

With the recent rally in the US and developed international equity markets, we recommend that the Trustees consider a dedicated emerging equity allocation. The growth prospects for emerging economies far outpace those of developed markets. We are in favor of adding to the exposure that is currently in the Fund through GAA and Risk Parity managers. This theme of emerging growth extends to the debt markets as well. With global bond and US yields at historic lows, we are finding emerging debt strategies to offer better incremental return benefits as well.

The last asset allocation consideration would be to consider a global equity mandate to bolster alpha expectations for the equity program. While no guarantee of excess performance in the future, the global investment platform has allowed many managers to deliver superior net of fee returns, as compared to using style box strategies (large vs. small, us vs. international, etc). We would recommend funding this by reducing domestic and international equity exposure.

In summary, we would like to spend time discussing and implementing the following ideas:

1. Multi-Sector Fixed Income

2. Emerging Equity

3. Emerging Debt

4. Global Equity

From a manager implementation perspective, we have very few concerns about the line-up. We would support spending more time with Lazard and NWQ to better understand how they think about the markets and build portfolios. With the spread compression in the high yield market, a high quality manager like Lazard may be someone worth retaining despite their poor performance recently. We spent considerable time discussing NWQ at the last meeting, but we would recommend an account review in the near future. Revisiting their process and attribution information should help to reset expectations.

The final manager implementation consideration that we would recommend is thinking about adding a dedicated Global Macro Hedge Fund strategy to the hedge fund program. The constantly looming macro themes / news are likely going to remain in the market, so we think a modest restructuring of the hedge fund portfolio makes sense. There would be an added tactical benefit to the total fund as well. Traditional hedge fund of fund managers like EnTrust and Mesirow are usually under allocated to this sleeve of the market.

We would like to discuss these recommendations with you and IPS at the next meeting, but wanted to share our initial thoughts in advance. Please do not hesitate to call (617.395.7338) if you have questions prior to the April meeting.