Memo

To: Bill Jensen

From: Rich Sichel

CC: Barry Slevin, Harry Burton, Mike Sullivan

Date: March 7, 2013

Re: FELRA & UFCW Pension Fund - Recommendations

INVESTMENT PERFORMANCE SERVICES, LLC

The IPS investment committee has several recommendations to communicate to the Board of Trustees of the FELRA Pension Fund. The recommendations for the Trustees consideration are listed below.

(1) Lazard Asset Management ($18.8m high yield) – In a letter dated January 11, 2013, Lazard reported the retirement of Bill Charlton effective December 31, 2012. Tom Dzwil will be lead portfolio manager and has been a member of the high yield team since 2002. The recommendation for Lazard has been "monitor performance for improvement". The manager had a very poor 4Q return and lagged the benchmark for 2012. IPS recommends the termination of this manager. Given the current interest rate environment, we recommend the hire of a short duration high quality high yield manager. The suggested manager is Chartwell Investment Partners. Chartwell's effective duration is 1.9 years compared to 3.0 years for Lazard.

(2) Income Research & Management ($21.7m investment grade bonds) – The manager is benchmarked to the Barclays Aggregate Index which has an effective duration of 5.2 years. To help preserve principal and potentially avoid losses in a rising interest rate environment, IPS recommends changing the manager's index to the Barclays Intermediate G/C which has an effective duration of 3.0 years.

(3) Segall Bryant & Hamill ($18.2m investment grade bonds) - The manager is benchmarked to the Barclays Aggregate Index which has an effective duration of 5.2 years. To help preserve principal and potentially avoid losses in a rising interest rate environment, IPS recommends changing the manager's index to the Barclays Intermediate G/C which has an effective duration of 3.9 years.

(4) Putnam ($41.7m risk parity) – In an email dated February 1, 2013, Putnam reported the departure of Jeffrey Knight, head of GAA. Jeffrey reported directly to the firm's Chief Investment Officer. Rather than replace Jeffrey, Putnam has named four co-heads of their GAA organization. We believe the changes at Putnam are significant and the manager should move to the "watch list". I previously recommended that the manager attend the April 4th meeting and have scheduled them for a presentation.

(5) Windhaven ($73.3m GTAA) – The organization continues to have significant personnel departures. Windward (now Windhaven) was purchased by Schwab in November, 2010. Based on discussions we have had with the manager at on site due diligence meetings, it appears additional departures are expected. While performance has not suffered, many departures involved key Windward employees as Schwab becomes more involved in the process. We recommend the manager move to the "watch list" and become a greater source of cash flow needs for benefit payments. Windhaven currently represents the largest component of the GTAA/RP strategies.

(6) Risk Parity (Putnam - $41.7m/AQR - $44.3m) – We believe that we are in a slowing rising interest rate environment for 2013 with the possibility of more dramatic rising rates in 2014. In that environment, we do not believe risk parity investing will generate strong absolute returns. The Fund's 14.3% allocation to that strategy is expected to be a drag on the Total Fund returns. As we get into the second half of 2013, this should be a topic of discussion as it relates to the Fund's asset allocation.

We would also like to continue discussions regarding the Fund's asset allocation. Information was provided on a couple of occasions during 2012. We continue to suggest a significant allocation to core real estate due to the high income relative to fixed income. There are also additional ideas relating to opportunistic fixed income that we would like the Trustees to consider.

I look forward to discussing the recommendations listed above with you and the Trustees.