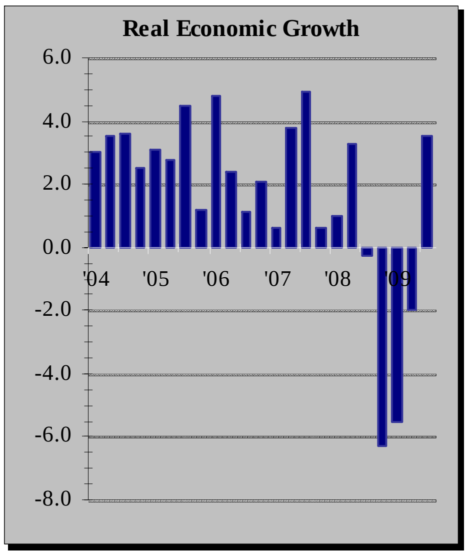
CITY OF BURLINGTON EMPLOYEES
RETIREMENT PLAN
PERFORMANCE REVIEW
SEPTEMBER 2009

ECONOMIC ENVIRONMENT

Far more than just a glimmer of hope

It has now been one year since Lehman Brothers collapsed, Merrill Lynch ceased to be an independent firm, and the US Government took over insurer AIG. Not only did these drastic events traumatize Wall Street, the global economy was shaken to its core. Not six months ago, the press was full of speculation that the financial world might just topple off a cliff. Since March, there has been a growing body of evidence that the economy has truly bottomed out and turned upward. The Fed Chairman announced on September 15th that the steepest recession since the 1930s is "very likely over at this point". An early October survey by the NABE (National Association of Business Economists) supports this view; 80% of NABE economists believe that the recession is over and that the expansion has begun.



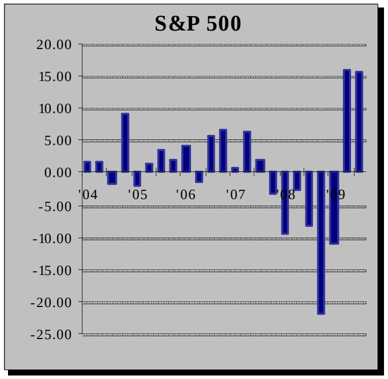
The consumer has re-emerged this past quarter due to the successful "cash for clunkers" program and improving confidence in general. Non-auto sales also proved strong last quarter, with the exception of home furnishings and building materials. Manufacturing activity rebounded during the summer as companies restocked their inventories and benefited from massive Government stimulus initiatives. Production, measured by the ISM (Institute of Supply Management), rose above the neutral expansion/contraction level and new manufacturing orders rose 24%, the highest since 2004. After fourteen consecutive quarters of sales declines, the $8,000 homebuyer's incentive helped to stabilize the housing market. Overall, the nation's GDP grew at a surprising 3.5% rate.

Nonetheless, not all economic indicators have turned up. Total third quarter job losses were 768,000 as the unemployment rate rose to a 16 year high of 9.8%. Pundits took comfort in the declining *rate* of job losses, but President Obama cautioned that unemployment would likely exceed 10% before peaking. In addition, the worst deflationary period since 1949 persisted. Producer Prices (PPI) fell 4.3% and consumer prices (CPI) dropped 1.5% through August. After adjusting for higher energy prices, core PPI and CPI still rose at the slowest pace since 2007 and 2004, respectively. Finally, the expected rebound in housing activity has yet to materialize; foreclosures continue to increase despite banks' efforts to ease up on those facing foreclosure.

Overall in the third quarter, the economic positives outweighed the negatives for investors. Prices of all major asset classes advanced and many stock and bond indices posted double digit gains. The paltry return from risk free T-bills also contributed to these favorable results. Many investors simply rejected a zero return on their parked money and switched to riskier assets.

EQUITY MARKET

The bellwether S&P 500 (+15.6%) posted its third best quarter since 1970. This marked its first quarterly back-to-back double-digit gain since the 1st quarter 1986 and the best seven-month rally (+45.8%) since 1938! Led by the cyclicals, all S&P sectors were in the black for the quarter; financials soared 31%, followed closely by basic industry names (30.9%) and consumer durables firms (21.4%). Computer technology stocks moved ahead 18.2%, while other technology businesses advanced 15.3% and other services stocks rose 18.5%. Defensive sectors lagged on a relative basis. The best performance among this group was consumer services (+13.5%). Electric and gas utilities (+5.5%) was the weakest.



REITs continued to rebound. The FTSE NAREIT index's 33.3% gain was its best on record. Hotels and related REITs rocketed 45.5%. Industrial and office REITs (+39.1%) were not far behind.

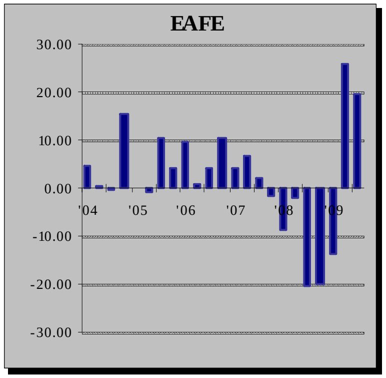
Size and style mattered among stock groups. Smaller-cap indices bested larger-caps. Specifically, the Russell 2000 (+19.3%) outperformed the Russell 1000 (+16.1%) by over 3%. Across all market caps, value stocks did better than their growth counterparts. Mid-cap value (+23.6%) and small-cap value (+22.7%) indices ranked at the top. Yet growth trumped value on a year-to-date basis. The best nine-month index performer was mid-cap growth (+37.1%).

The dividend yield on the S&P 500 at quarter end was 2.9% and the p/e was 14.4. Both figures are very close to the long-term norms.

INTERNATIONAL EQUITIES

International stocks performed strongly. Returns were buoyed by a falling US dollar (losing an average of 4% value against other major currencies) as well as commodity demand in the resource-rich emerging markets. Latin American markets topped the charts, reflecting much less fallout from the global financial implosion.

The MSCI EAFE Index returned 19.5%. Markets in 20 of the 21 economically mature EAFE countries advanced more than 10%. Japan (+6.6%) was the lone exception, despite positive news: its national political election swept into power the DPJ (Democratic Party of Japan) and its economic growth statistics appeared solid. Continental Europe (+25.4%) was the best-performing region. The two largest regional economies, Germany (+23.2%) and France (+26.7%), were the stock market drivers.



Emerging markets stocks gained 21% last quarter. Two of the four BRIC countries performed particularly well. The Brazilian market soared 27.5% and Russia was up 27.1%. India gained a substantial 19.6%. China, a stellar performer through June, added a much lower 7.9% during the third quarter as investors in the China market were uncomfortable with the Central

Government's tightening monetary policy. Asian markets other than Japan moved ahead smartly, led by the healthy economies of Indonesia (+38.1%) and South Korea (+34.5%).

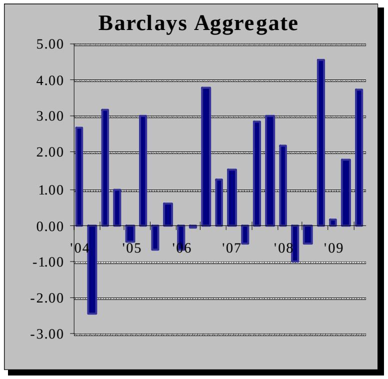
BOND MARKET

Interest rates declined during the quarter and the yield curve flattened a bit. Both were due to low to negative core inflation and the likely deferral of significant future inflation. These factors pushed down interest rates all along the yield curve. Distinctly lower Treasury yields and investor appetite for higher return increased demand for investment grade corporates and especially for high yield or "junk" bonds.

The Barclays Aggregate Index gained an above average 3.7%. Yet relative to some bond sectors and virtually all equity indices, this advance was ho-hum. The low 2.1% performance by the Treasury component was key to the index's overall return. By comparison, investment grade corporates climbed 8.1%. Spread narrowing among financials outpaced that of industrial and utility bonds. As the banking sector continued to stabilize, bonds in this group gained an average of 9.4%.

The mortgage sector (+2.3%) was an also-ran. The rationale was that Government intervention in the housing market earlier this year limited further price appreciation. Since mortgages represent three-eighths of the Aggregate Index, the sector's low performance was even more influential than Treasuries.

Two minor components of the index provided outsized results. Asset-backed issues (ABS) collateralized by home equity loans gained an unprecedented 28.9%. Investors chose higher quality home collateral, given the current housing environment. CMBS (commercial mortgage-backed securities) also performed extremely well (+12.7%). The US Treasury and Federal Reserve support for the highest quality CMBS issues fueled this sector's advance. Lower quality/longer maturity CMBS performed better still, but came with high risk in the currently depressed commercial real estate marketplace.



Investors in high yield or below investment grade bonds had a field day - the lower the credit quality, the higher the payoff. For example, BAA bonds returned a credible 9.2%. However, CAA names (three full credit ratings lower) returned 20.6%. Closer to bankruptcy CA-rated and D-rated bonds averaged a stupendous 34.8% return. While unsustainable, these spectacular results speak to renewed investor confidence in corporate America.

CASH EQUIVALENTS

T-bills returned an essentially zero return (+0.04%). Investors holding these risk-free investments garnered only 0.2% for the latest 12-months.

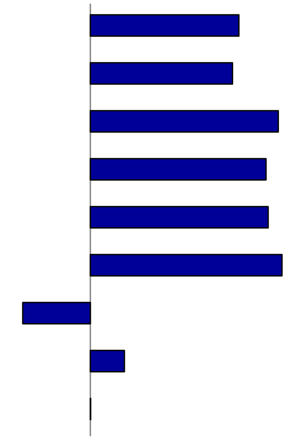
MARKET SUMMARY

ECONOMIC STATISTICS

	CURRENT QTR	LAST QTR
GDP	3.5	-2.0
Unemployment	9.8	9.5
CPI Year/Year	-1.29	-1.40
Fed Funds Rate	0.25	0.25
Industrial Capacity	70.5	68.3
US Dollars per Euro	1.46	1.41

MAJOR INDEX QUARTER RETURNS

INDEX	PERFORMANCE
Russell 3000	16.3
S&P 500	15.6
Russell Mid	20.6
Russell 2000	19.3
MSCI EAFE	19.5
MSCI Emg Mkts	21.0
NCREIF ODCE	-7.4
Barclays Agg	3.7
90 Day Tbills	0.0



EQUITY RETURN DISTRIBUTIONS

QUARTER

	VAL	COR	GRO
LC	18.2	16.1	14.0
MC	23.6	20.6	17.6
SC	22.7	19.3	16.0

TRAILING YEAR

	VAL	COR	GRO
LC	-10.6	-6.1	-1.9
MC	-7.1	-3.5	-0.4
SC	-12.6	-9.5	-6.3

MARKET SUMMARY

* The equity markets continued to climb, pushing the dow to near 10,000.
* The nation's GDP grew at a surprising 3.5% rate, the likely effect of massive federal stimulus.
* The unemployment rate increased to 9.8%, and is expected to edge slightly higher.
* Industrial capacity utilization rose for the first time since September 2008.

INVESTMENT RETURN

On September 30th, 2009, the City of Burlington Employees Retirement System was valued at $108,273,297, which represented a $14,705,842 increase over the June quarter's ending value of $93,567,455. Last quarter, the Fund posted $619,883 in net contributions and net investment returns of $14,085,960. Barring income receipts during the third quarter, the portfolio's net investment return was the result of $14,085,960 in realized and unrealized capital gains.

Since December 2001, the fund has recorded net withdrawals totaling $14.3 million in addition to net investment gains of $23.7 million. Since December 2001, if the total fund had earned a compounded nominal rate of 8.0% it would have been valued at $157.6 million or $49.3 million more than its actual value as of September 30th, 2009.

RELATIVE PERFORMANCE

Total Fund

In the third quarter, the Composite portfolio gained 15.0%, which was 3.2% above the Burlington Policy Index's return of 11.8% and ranked in the 6th percentile of the Public Fund universe. Over the trailing twelve-month period, this portfolio returned 2.6%, which was 0.5% below the benchmark's 3.1% return, ranking in the 27th percentile. Since December 2001, the portfolio returned 3.4% annualized and ranked in the 98th percentile. For comparison, the Burlington Policy Index returned an annualized 4.6% over the same period.

EXECUTIVE SUMMARY

PERFORMANCE SUMMARY

	Quarter	Y-T-D	12 Months	Annualized 3-Years	Annualized Since 12/2001
Total Portfolio	15.0%	24.5%	2.6%	- 0.7%	3.4%
PUBLIC FUND RANK	(6)	(2)	(27)	(64)	(98)
POLICY INDEX	11.8	16.9	3.1	0.3	4.6
LEGACY INDEX	11.8	16.9	3.1	0.3	3.8
VPIC INDEX	11.6	16.8	- 3.5	- 1.3	4.4
Diversified	15.6	28.4	10.3	- - - -	- - - -
BALANCED RANK	(19)	(10)	(23)		
60 MSCI/40 WGBI	12.9	16.9	5.8	2.0	6.4
Equity	19.1	30.1	- 3.0	- - - -	- - - -
BROAD EQ RANK	(31)	(29)	(33)		
RUSSELL 3000	16.3	21.2	- 6.4	- 5.1	1.6
Foreign Equity	19.7	28.9	4.5	- - - -	- - - -
INTL EQ RANK	(44)	(53)	(48)		
MSCI EAFE	19.5	29.6	3.8	- 3.1	7.0
MSCI EMG MKTS	21.0	64.9	19.4	8.3	17.8
Private Equity	0.9	- - - -	- - - -	- - - -	- - - -
CAMBRIDGE PE	0.0	1.0	- 14.6	1.8	10.6
Real Estate	- 5.5	- 32.4	- 31.0	- - - -	- - - -
NCREIF ODCE	- 7.4	- 27.7	- 35.6	- 7.7	4.3
Timber	7.7	- - - -	- - - -	- - - -	- - - -
NCREIF TIMBER	0.3	- 0.2	2.5	11.3	10.3
Fixed Income	9.1	22.1	14.0	- - - -	- - - -
BROAD FIXED RANK	(24)	(18)	(45)		
BARCLAYS AGG	3.7	5.7	10.6	6.4	5.6

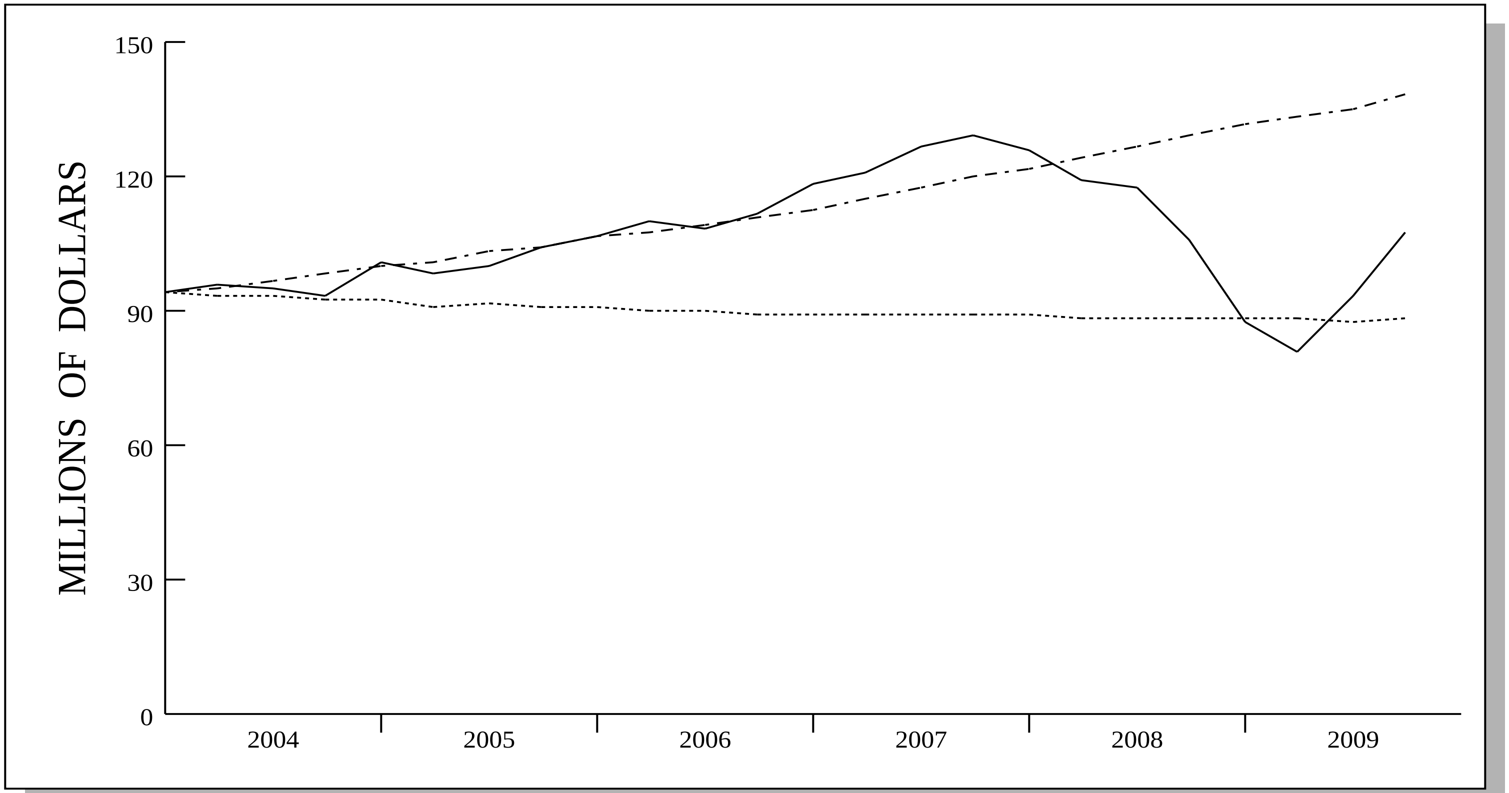
ASSET ALLOCATION

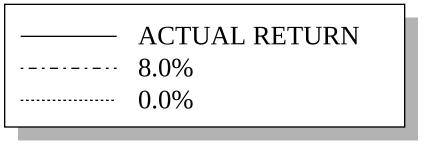
Diversified	10.2%	$ 11, 015, 721
Equity	29.6%	32, 073, 115
Foreign Equity	18.6%	20, 124, 222
Private Equity	0.5%	491, 859
Real Estate	4.2%	4, 558, 845
Timber	3.2%	3, 448, 825
Fixed Income	33.7%	36, 521, 382
Cash	0.0%	39, 328
Total Portfolio	100.0%	$ 108, 273, 297

INVESTMENT RETURN

Market Value 6/2009	$ 93,567,455
Contribs / Withdrawals	619,883
Income	0
Capital Gains / Losses	14,085,959
Market Value 9/2009	$ 108,273,297

INVESTMENT GROWTH

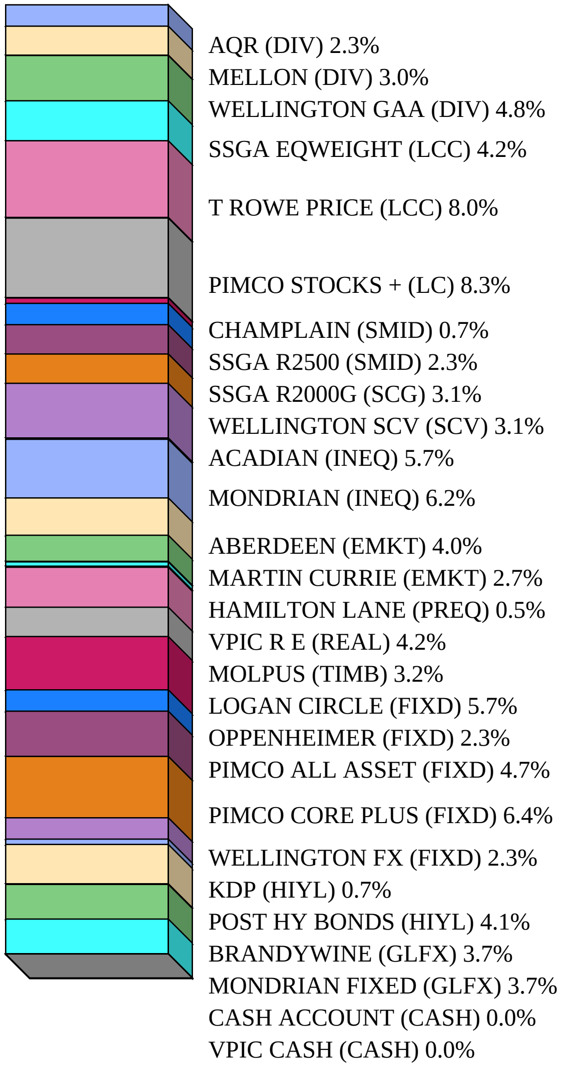




VALUE ASSUMING
8.0% RETURN
$ 138,901,700

	LAST QUARTER	PERIOD 12/03 - 9/09
BEGINNING VALUE	$ 93,567,455	$ 94,895,952
NET CONTRIBUTIONS	619,883	- 6,527,761
INVESTMENT RETURN	14,085,959	19,905,106
ENDING VALUE	$ 108,273,297	$ 108,273,297
INCOME	0	8,600,452
CAPITAL GAINS (LOSSES)	14,085,959	11,304,654
INVESTMENT RETURN	14,085,959	19,905,106

MANAGER ALLOCATION SUMMARY



Name	Market Value	Percent
AQR (DIV)	$2,490,000	2.3
Mellon (DIV)	$3,279,268	3.0
Wellington GAA (DIV)	$5,246,453	4.8
SSgA EqWeight (LCC)	$4,536,516	4.2
T Rowe Price (LCC)	$8,656,718	8.0
Pimco Stocks + (LC)	$8,976,262	8.3
Champlain (SMID)	$750,006	0.7
SSgA R2500 (SMID)	$2,481,213	2.3
SSgA R2000G (SCG)	$3,315,796	3.1
Wellington SCV (SCV)	$3,356,604	3.1
Acadian (INEQ)	$6,173,315	5.7
Mondrian (INEQ)	$6,664,308	6.2
Aberdeen (EMKT)	$4,339,495	4.0
Martin Currie (EMKT)	$2,947,104	2.7
Hamilton Lane (PREQ)	$491,859	0.5
VPIC R E (REAL)	$4,558,845	4.2
Molpus (TIMB)	$3,448,825	3.2
Logan Circle (FIXD)	$6,151,214	5.7
Oppenheimer (FIXD)	$2,541,438	2.3
Pimco All Asset (FIXD)	$5,119,364	4.7
Pimco Core Plus (FIXD)	$6,940,035	6.4
Wellington FX (FIXD)	$2,517,542	2.3
KDP (HIYL)	$750,006	0.7
Post HY Bonds (HIYL)	$4,448,230	4.1
Brandywine (GLFX)	$4,037,451	3.7
Mondrian Fixed (GLFX)	$4,016,102	3.7
Cash Account (CASH)	$13,796	0.0
VPIC Cash (CASH)	$25,532	0.0
Total Fund	**$108,273,297**	**100.0**

MANAGER VALUE ADDED

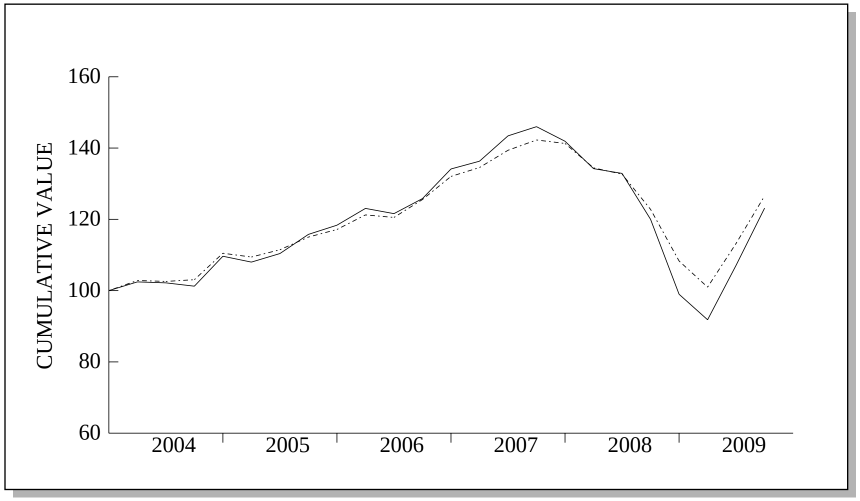
Most Recent Quarter

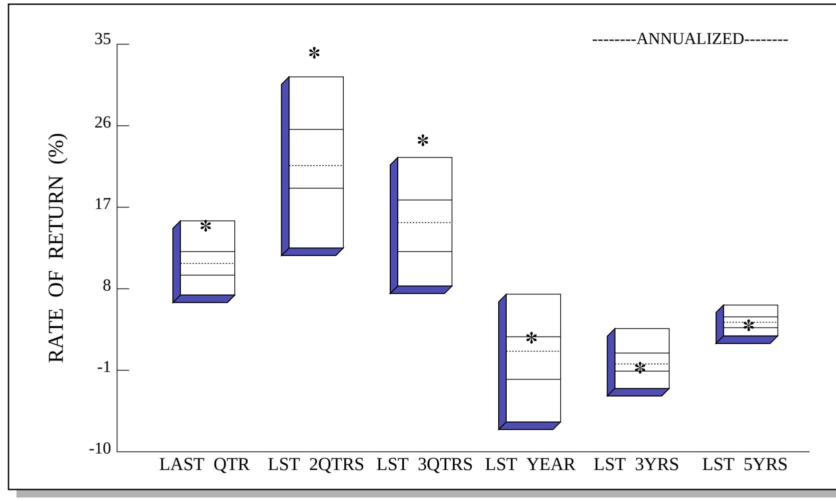
Manager	Benchmark	Value Added Vs. Benchmark
Mellon	60 MSCI/40 WGBI	6.0
Wellington GAA	65World/35Agg	-0.2
SSgA EqWeight	Equal Wtd S&P	0.1
T Rowe Price	S&P 500	-0.1
Pimco Stocks +	S&P 500	5.3
SSgA R2500	Russell 2500	-0.3
SSgA R2000G	Russell 2000G	-0.1
Wellington SCV	Russell 2000V	-0.5
Acadian	EAFE Net	-0.3
Mondrian	EAFE Net	-1.1
Aberdeen	MSCI Emg Mkts	1.3
Martin Currie	MSCI Emg Mkts	-1.3
Hamilton Lane	Cambridge PE	0.0
VPIC R E	NCREIF ODCE	1.9
Molpus	NCREIF Timber	7.5
Logan Circle	Barclays Agg	7.6
Oppenheimer	Barclays Agg	3.0
Pimco All Asset	Barclays Agg	6.2
Wellington FX	Barclays Agg	0.0
Post HY Bonds	CSFB High Yield	-4.4
Brandywine	Citi WGBI	4.3
Mondrian Fixed	Citi WGBI	1.2
Total Portfolio	**Policy Index**	3.2

Trailing Twelve Months

Manager	Benchmark	Value Added Vs. Benchmark
Mellon	60 MSCI/40 WGBI	2.3
Wellington GAA	65World/35Agg	8.7
SSgA EqWeight	Equal Wtd S&P	0.9
T Rowe Price	S&P 500	2.9
Pimco Stocks +	S&P 500	4.7
SSgA R2500	Russell 2500	-0.6
SSgA R2000G	Russell 2000G	-0.3
Wellington SCV	Russell 2000V	7.8
Acadian	EAFE Net	-5.7
Mondrian	EAFE Net	-0.3
Aberdeen	MSCI Emg Mkts	8.3
Martin Currie	MSCI Emg Mkts	N/A
Hamilton Lane	Cambridge PE	N/A
VPIC R E	NCREIF ODCE	-6.3
Molpus	NCREIF Timber	N/A
Logan Circle	Barclays Agg	6.1
Oppenheimer	Barclays Agg	-0.5
Pimco All Asset	Barclays Agg	0.8
Wellington FX	Barclays Agg	2.3
Post HY Bonds	CSFB High Yield	-4.4
Brandywine	Citi WGBI	2.3
Mondrian Fixed	Citi WGBI	2.3
Total Portfolio	**Policy Index**	-0.5

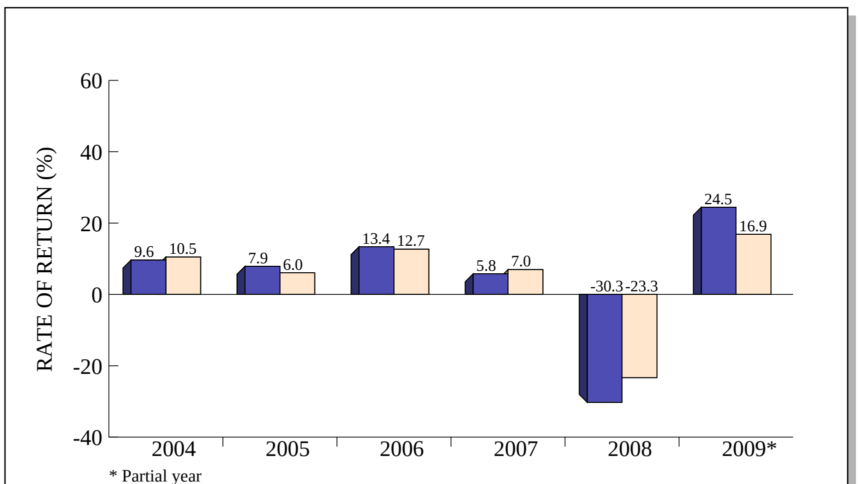
TOTAL RETURN COMPARISONS





Public Fund Universe

PORTFOLIO
POLICY INDEX



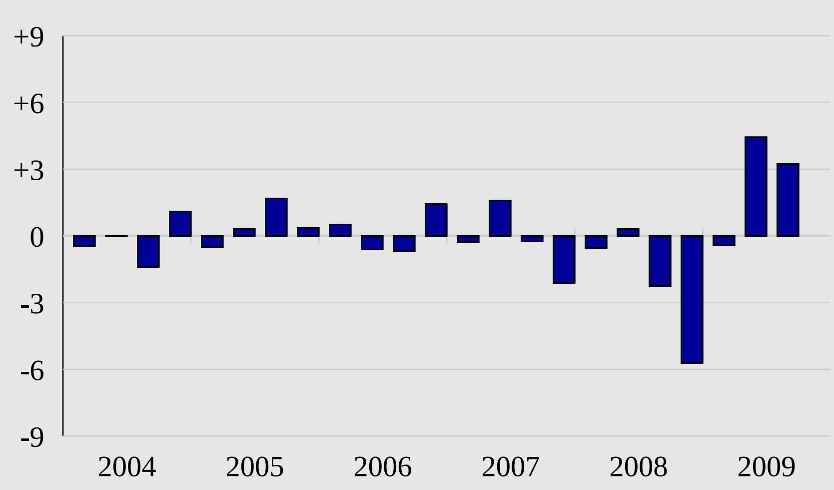
	LAST QTR	LST 2QTRS	LST 3QTRS	LST YEAR	--------ANNUALIZED-------- LST 3YRS	LST 5YRS
RETURN	15.0	34.1	24.5	2.6	-0.7	4.0
(RANK)	6	4	2	27	64	66
HIGHEST	15.5	31.4	22.5	7.4	3.6	6.2
25TH %ILE	12.1	25.6	17.8	2.7	0.9	4.9
MEDIAN	10.8	21.6	15.3	1.1	-0.3	4.3
75TH %ILE	9.5	19.1	12.1	-2.0	-1.1	3.7
LOWEST	7.3	12.5	8.3	-6.7	-3.0	2.8
Policy Index	***11.8***	***25.4***	***16.9***	***3.1***	***0.3***	***4.2***

Public Fund Universe

TOTAL PORTFOLIO QUARTERLY PERFORMANCE SUMMARY

COMPARATIVE BENCHMARK: BURLINGTON POLICY INDEX

VARIATION FROM BENCHMARK



Total Quarters Observed	**23**
Quarters At or Above the Benchmark	**11**
Quarters Below the Benchmark	**12**
Batting Average	**.478**

Date	Portfolio	Benchmark	Difference
3/04	2.4	2.9	-0.5
6/04	-0.3	-0.3	0.0
9/04	-0.9	0.5	-1.4
12/04	8.3	7.2	1.1
3/05	-1.5	-1.0	-0.5
6/05	2.2	1.9	0.3
9/05	4.9	3.2	1.7
12/05	2.2	1.8	0.4
3/06	4.0	3.5	0.5
6/06	-1.2	-0.6	-0.6
9/06	3.5	4.2	-0.7
12/06	6.6	5.2	1.4
3/07	1.6	1.9	-0.3
6/07	5.2	3.6	1.6
9/07	1.8	2.1	-0.3
12/07	-2.8	-0.7	-2.1
3/08	-5.4	-4.8	-0.6
6/08	-1.0	-1.3	0.3
9/08	-9.7	-7.4	-2.3
12/08	-17.5	-11.8	-5.7
3/09	-7.2	-6.8	-0.4
6/09	16.6	12.2	4.4
9/09	15.0	11.8	3.2

APPENDIX - MAJOR MARKET INDEX RETURNS

Domestic Equity	Style	QTR	YTD	1 Year	3 Years	5 Years
Russell 3000	Broad Equity	16.3	21.2	-6.4	-5.1	1.6
S&P 500	Large Cap Core	15.6	19.3	-6.9	-5.4	1.0
Russell 1000	Large Cap Core	16.1	21.1	-6.1	-5.1	1.5
Russell 1000 Growth	Large Cap Growth	14.0	27.1	-1.9	-2.5	1.9
Russell 1000 Value	Large Cap Value	18.2	14.8	-10.6	-7.9	0.9
Russell Midcap	Midcap	20.6	32.6	-3.5	-4.1	3.9
Russell Midcap Growth	Midcap Growth	17.6	37.1	-0.4	-3.1	3.8
Russell Midcap Value	Midcap Value	23.6	27.6	-7.1	-5.6	3.5
Russell 2000	Small Cap	19.3	22.4	-9.5	-4.6	2.4
Russell 2000 Growth	Small Cap Growth	16.0	29.1	-6.3	-2.6	2.9
Russell 2000 Value	Small Cap Value	22.7	16.3	-12.6	-6.7	1.8

International Equity	Style	QTR	YTD	1 Year	3 Years	5 Years
MSCI EAFE	Developed Markets	19.5	29.6	3.8	-3.1	6.6
MSCI EAFE Growth	Developed Markets Growth	16.8	24.7	-0.4	-2.8	6.1
MSCI EAFE Value	Developed Markets Value	22.2	34.6	8.1	-3.5	6.9
MSCI Emerging Markets	Emerging Markets	21.0	64.9	19.4	8.3	17.7

Domestic Fixed Income	Style	QTR	YTD	1 Year	3 Years	5 Years
Barclays Aggregate Index	Core Fixed Income	3.7	5.7	10.6	6.4	5.1
Barclays Gov/Credit	Gov/Credit	4.2	4.7	11.5	6.2	4.9
Barclays Capital Gov’t Bond	Treasuries	2.0	-1.2	6.7	6.8	5.2
Barclays Capital Credit Bond	Corporate Bonds	8.1	17.3	22.0	6.6	5.2
Intermediate Aggregate	Core Intermediate	3.2	5.9	9.7	6.4	5.0
Intermediate Gov/Credit	Gov / Credit Intermediate	3.3	4.9	10.0	6.1	4.7
ML 1-3 Year Treasury	Short Term Treasuries	0.8	0.8	3.5	5.2	4.0
CSFB High Yield	High Yield Bonds	14.1	45.2	17.9	4.7	5.7

Alternate Assets	Style	QTR	YTD	1 Year	3 Years	5 Years
Global Ex-US	International Treasuries	7.2	6.5	15.7	10.1	7.1
NCREIF NFI-ODCE Index	Real Estate	-7.4	-27.7	-35.6	-7.7	2.0
HFRI FOF Composite	Hedge Funds	4.6	10.3	1.0	1.1	4.1
HFRI FOF Conservative Index	Hedge Funds - Conservative	4.4	9.0	-0.5	0.6	3.1

APPENDIX - DISCLOSURES

* The Burlington Policy Index is a policy-weighted passive index constructed as follows:

35% S&P 500	10% Russell Midcap	15% MSCI EAFE
35% Barclays Aggregate	5% 91-Day TBills	

* The Burlington Legacy Index represents the actual returns of the Burlington Employees Retirement System for all periods through 12/31/2007. For all periods since then, it is the Burlington Policy Index.
This index approximates what the portfolio's performance would have been if it never entered into the VPIC program.

* Returns presented in this report for periods prior to September 2004 have been incorporated into Dahab Associates performance databases from sources prior to our employment by the System. We believe these returns are reliable and accurate, but they have not been calculated directly by Dahab Associates, and may not necessarily reflect the capability of our performance measurement processes.

* Dahab Associates utilizes data provided by a custodian and other vendors it believes are reliable. However, it cannot assume responsibility for errors and omissions therefrom.

* All returns were calculated on a time-weighted basis, and are net of fees unless otherwise noted.

* Because of the large number of index funds present in the large cap core universe, there was a very large cluster of near-index returns occupying the 35th through the 65th percentiles of the universe during the most recent quarter.

* All returns for periods greater than one year are annualized.

* All values are in US dollars.