Revised 12/30/2009 **CITY OF NORWALK**

NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD

NOVEMBER 18, 2009

ATTENDANCE: Michael Sweeney, Chairman; Joseph Pramer, Gerald Moran, Francis Nash; Larry Manzi, NASA; Marilyn Maitland, NMGA: Curtis Newman, Local 1042

STAFF: James Hasselkamp, Director, Personnel Department; John Schlosser, Personnel Administrator

OTHERS: Evaluation Associates: Ellen Petrino, Laura Kunkemueller;

Armstrong Shaw Associates (6:30 – 7:30 p.m.)
Jeff Shaw, Chief Investment Officer, Portfolio Manager;
Terry Newman, Director of Marketing and Client Services

Call to Order

Mr. Sweeney called the meeting to order at 6:05 p.m.

Approval of Minutes for October 14, 2009.

Mr. Sweeney commented that the minutes did not completely reflect the portfolio review by Pantheon, and he requested a more in-depth summary. Ms. Petrino stated that Pantheon has a strong team, with lots of depth and should remain a strong private equity partner for the fund, and she would research her notes and prepare a statement to better capture a synopsis of the presentation.

** **MR. MORAN MOTIONED TO TABLE THE MINUTES FROM OCTOBER 14, 2009 UNTIL NEXT MONTH'S MEETING**
** **MR. NASH SECONDED.**
** **THE MOTION PASSED UNANIMOUSLY.**

** **MR. MORAN MOTIONED TO AMEND THE AGENDA TO INCLUDE DISCUSSION OF THE MEETING AND APPROVAL OF MINUTES FROM THE NOVEMBER 11, 2009 MEETING AT EVALUATION ASSOCIATES.**
** **MR. NASH SECONDED.**
** **THE MOTION PASSED UNANIMOUSLY.**

Discussion of Meeting: November 11, 2009

Mr. Sweeney suggested the group review the minutes as background for the discussion on cash needs later in the agenda. Also, Ms. Petrino reminded the members that a vote would be taken to permit Zesiger to invest up to 50% of the publicly traded equity assets in its portfolio in Emerging Markets.

** **MR. GILDEN MOTIONED TO UP THE CONSTRAINTS TO PERMIT ZESIGER TO INVEST UP TO 50% OF THE PUBLICLY TRADED EQUITY ASSETS IN ITS PORTFOLIO IN EMERGING MARKETS WITH A TARGET EFFECTIVE MIX OF 50% INTERNATIONAL AND 50% DOMESTIC.**
** **MR. NASH SECONDED.**
** **THE MOTION PASSED UNANIMOUSLY.**

Approval of Minutes from November 11, 2009 Meeting

Mr. Moran requested the date be corrected in the footer to reflect November 11, 2009.

** **MR. MORAN MOTIONED TO APPROVE THE MINUTES OF THE MINUTES OF THE NOVEMBER 11, 2009 MEETING WITH CORRECTION NOTED.**
** **MR. NASH SECONDED.**
** **THE MOTION PASSED UNANIMOUSLY.**

Approval of the Pension Board Applications

Mr. Schlosser stated that there were no issues regarding the application for Barbara Millar, and it was a standard form.

** **MR. PRAMER MOVED TO APPROVE THE PENSION APPLICATION FOR BARBARA MILLAR, AS SUBMITTED, AS LISTED BELOW:**
** **MR. GILDEN SECONDED.**
** **THE MOTION PASSED UNANIMOUSLY.**

COMMENCEMENT DATE	NAME
NOVEMBER 15, 2009:	BARBARA MILLAR

Review of October Performance: Evaluation Associates

Ms. Kunkemueller presented the Evaluation Associates Report for the City of Norwalk Fund Structure as of November 17, 2009. She highlighted that the Total Market Equity was within the long term target range and the Fixed Income fund is at 25%.

Mr. Sweeney suggested the review by manager be tabled until after the Armstrong Shaw presentation, and he requested a focused review of only the Armstrong Shaw's performance.

Ms. Kunkemueller stated that Armstrong Shaw has struggled relative to peers; its performance is primarily attributable to stock selection. Ms. Petrino suggested that the portfolio review be done at this time and a more in-depth discussion could take place following the presentation.

Presentation by Armstrong Shaw Associates, Inc.

Ms. Petrino introduced Jeff Shaw, Chief Investment Officer and Portfolio Manager and Terry Newman, Director of Marketing and Client Services with Armstrong Shaw Associates, Inc.

Ms. Newman distributed the portfolio review presentation and outlined the company profile. She stated that the firm was founded in 1984, is employee owned, has $3.5 billion under management, uses a disciplined, absolute value approach, and employs nine investment professionals with an average of twenty years experience.

Mr. Shaw discussed the stock specific analysis used by the strategy highlighting the focus on franchises with barriers to entry; dominant brand names; the ability to generate above average returns; low risk of technical obsolescence; maintenance of a proven business model; and being a low-cost provider or niche player. He explained various charts on Armstrong Shaw's performance in different market environments and noted consistent absolute returns.

Mr. Nash asked about rankings based on the Russell versus S&P 500, and Mr. Shaw referred to charts that showed the annual relative ranking of ASA Composite, Russell 1000 Value and S&P 500. He stated that over ten years, the ASA Composite has only trailed both the S&P 500 and the Russell 1000 Value once in the same calendar year, and he added that the annual Compound return from 1999-2008 was 2.6%.

Mr. Nash questioned the history of underperformance, and Ms. Newman stated that their current portfolio of industry leading companies trading at 12x next year's earnings, offers compelling value and significant upside over the next few years. Mr. Nash asked if the numbers were net of fees, and Ms. Newman stated that they were gross. Mr. Shaw stated that their strategy is more likely to underperform during periods when lower credit quality companies significantly outperform high quality companies and when highly cyclical companies outperform based on macro trends.

Ms. Newman summarized the outlook and stated that if they can continue to construct a portfolio that is less expensive than the benchmark but has higher growth, less leverage and higher return on equity, she believes they can outperform the market over the long term.

Mr. Shaw referred to the portfolio update, reviewed performance against benchmarks, and provided summaries by the various key funds. Mr. Pramer asked questions on the firm's management objectives, philosophy and investment allocation strategies.
Mr. Shaw highlighted the historical performance of the fund by segment and referred to sections of the presentation that provided the detailed responses. Mr. Pramer asked what type of solutions they recommend for municipal clients, and Mr. Shaw answered that the process is an on-going analysis of client objectives and investment expectations.

Mr. Nash asked why they should be paid for continued underperformance, Mr. Shaw answered that it was a valid point, but to take into consideration the longer term performance. He reiterated that if they can continue to construct a portfolio that is less expensive than the benchmark but has higher growth, less leverage and higher return on equity, he believes they can outperform the market over the long term.

Mr. Sweeney thanked Mr. Shaw and Ms. Newman for the portfolio review.

<u>Discussion of Cash Needs</u>

Mr. Sweeney asked Mr. Gilden what the cash needs were for the City pension distributions, and he responded $6 million. Ms. Petrino suggested that $3 million could come from Artisan and $3 million from Silchester.

**** MR. GILDEN MOTIONED TO SELL $3M FROM ARTISAN AND $3M FROM SILCHESTER TO TRANSFER $6M TO THE CASH ACCOUNT.**
**** MR. MORAN SECONDED**
**** THE MOTION PASSED UNANIMOUSLY.**

Mr. Sweeney asked for a strategic overview of the upcoming cash needs for the next six months, and Mr. Gilden responded that it is $12 million per year. Ms. Petrino stated that the fund is fine through June and suggested the Board should look at different options such as Eaton Vance, or reconsider bank loans, dividends, or reallocation of co-mingled funds. Mr. Nash suggested that the target allocation for cash be raised from 1% to 4%. Mr. Sweeney suggested that the Pension Board examine cash needs on a quarterly basis; Ms. Petrino said EAI would add this to the quarterly review.

Other Business

Mr. Sweeney requested a summary of the Armstrong Shaw review, and Mr. Nash asked if they would be put on a watch list. Ms. Kunkemueller stated that based on the policy statement, with their track of underperformance, Armstrong Shaw should be put on watch. Ms. Petrino suggested that EAI create a watch list to include Eaton Vance, Capstone and now Armstrong Shaw.

Mr. Sweeney asked for the remainder of the Performance Measurement October review and Ms. Kunkemueller reviewed the year to date performance of managers by asset class. She stated that most equity managers were negative in October, but on target for the fiscal year to date. She summarized that the total marketable equity was 59%, private investments were 13%, Commodities were 4% and total fixed income/cash was 24%.

Mr. Sweeney asked if there were any issues to add to the agenda for next month's meeting or if there should be any portfolio reviews scheduled. Ms. Petrino commented that there should be an OPEB review... Ms. Kunkemueller distributed an OPEB Performance Measurement report for October, and Mr. Sweeney asked the Board members to take this as a preview to look at for next month's meeting.

ADJOURNMENT

** **MR. MORAN MOVED TO ADJOURN.**
** **MR. NASH SECONDED**
** **MOTION PASSED UNANIMOUSLY.**

The meeting was adjourned at 8:15 p.m.

Respectfully submitted,

Marilyn Knox
Telesco Secretarial Services