CITY OF NORWALK
MUNICIPAL EMPLOYEES' PENSION BOARD
TUESDAY, OCTOBER 7, 2008

ATTENDANCE: Michael Sweeney, Chairman; Gerald Moran; Charles Pirro; Larry Manzi

STAFF: John Schlosser, Personnel Administrator; Fred Gilden, Comptroller

OTHER: Laura Kunkemueller, EAI, Senior Consultant; Ellen Petrino, EAI, Principal/ Senior Consultant; Whit Porter, Michaela Sved, Macquarie Infrastructure (via phone); Debbie Troy; Rebecca Bieler, NFEP; Etta Jones, Custodial

CALL TO ORDER

Chairman Sweeney called the meeting to order at 6:00 p.m.

APPROVAL OF MINUTES FOR MAY 14, 2008, JUNE 11, 2008, AND SEPTEMBER 10, 2008

** **MR. MORAN MOVED TO APPROVE THE MINUTES OF MAY 14, 2008 AND JUNE 11, 2008 AS AMENDED.**

The corrections to the minutes of June 11, 2008 are as follows:

On page 1, under Discussion of Pension Consultant Contract, the first two sentences should read:

"Mr. Sweeney said that the last time a provider was selected was some time ago and that he would like to see the Board perform its due diligence on selecting and using a pension consultant. He then suggested that the contract be renewed for one year and then the Board issue an RFP (Request for Proposal)."

On page 1, under Approval of Minutes for May 14, 2008, the first three sentences should read:

"Mr. Sweeney said that there had been a discussion regarding the inadequacy of the last month's minutes and that Mr. Haselkamp had written a letter to Telesco Secretarial Services about this.

** **MR. PIRRO SECONDED.**

** **MOTION PASSED UNANIMOUSLY.**

** **MR. MORAN MOVED TO APPROVE THE MINUTES OF SEPTEMBER 10, 2008 AS AMENDED.**

The corrections to the minutes of September 10, 2008 are as follows:

On page 1, under Call to Order, 2nd paragraph, the second sentence should read:

"Some discussion took place regarding having the actuaries in for a meeting with the Pension Board after their report to the City comes in."

On page 1, under Address Allocation of OPEB, the 1st sentence should read:

"The Board members discussed the OPEB asset allocation, stating that the actuarial expected rate of return is 8.25%."

**** MR. PIRRO SECONDED.**

**** MOTION PASSED UNANIMOUSLY.**

APPROVAL OF PENSION APPLICATIONS

Barbara Alvord, Health Department Public Health Nurse II, 12 yrs, 7 months of service, 72 years of age, regular pension, final average salary $73,884.54, annual benefit $18,589.32, monthly benefit $1,549.11, commencement date October 1, 2008.

Nan Peschel, Public Works Engineering Aide II, 11 yrs, 1 month of service, 55 years of age, early vested pension, final average salary $40,884.60, annual benefit $7,519.80, monthly benefit $626.65, commencement date October 1, 2008.

Bradford J. Hanlon, Code Enforcement Deputy Building Official, 13 years, 11 months of service, 62 years of age, regular pension, final average salary $91,709.28, annual benefit $25,531.92, monthly benefit $2,127.66, commencement date October 1, 2008.

**** MR. PIRRO MOVED TO APPROVE THE THREE PENSION APPLICATIONS AS LISTED ABOVE.**

**** MR. MORAN SECONDED.**

**** MOTION PASSED UNANIMOUSLY.**

PRIVATE EQUITY UPDATE

Ms. Kunkemueller said that the pension board needs to decide if they want to continue to commit to private equity and at what pace. The target for private equity is currently 5%, which was brought down from 10% because they invested in infrastructure. She explained that they are over the target allocation because equities are down. She provided private equity information, and a discussion followed regarding commitment, returns, allocations, and distributions. She said that they would typically recommend a steady commitment that would build up to a point where the portfolio matures and starts to even out when calls and distributions balance each other out. She offered an example of starting out in 2009 with $7.8M in commitment that would even out at 5% in 2017. Ms. Petrino said that they estimated the growth in the portfolio to be 5%. Ms. Kunkemueller said they would recommend Pantheon from a due diligence standpoint. Mr. Gilden asked if she would recommend using just Pantheon. She said that there are many different options, but there is diversity with Pantheon.

Mr. Moran asked where the Board was in terms of liquidity. Mr. Gilden responded that they have $10M in cash. Some discussion followed regarding future planning. Ms. Petrino said that the information provided on private equity was a fairly complete presentation, and that it most likely wouldn't change, except for the page showing where they stand.

MACQUARIE INFRASTRUCTURE – MANAGER REVIEW PRESENTATION AND DISCUSSION

Mr. Whit Porter said he has been with Macquarie for 2 years in the private placement group. Ms. Michaela Sved has been with Macquarie for 8 years and is in Investor Relations for the North America fund. They joined the meeting via conference call, and Ms. Sved discussed Macquarie's Infrastructure information from a provided report.

Ms. Sved said the Macquarie Infrastructure Partners I fund (MIP 1) is invested in infrastructure in the US and Canada, in which they are building a portfolio of investments and the focus of the fund is on growth and total returns rather than any particular level of current yield. MIP 1 held its final close in March 2007 with 94 investors and total commitment of $4.0 billion dollars. The fund is 87% committed and has committed to acquire 13 separate portfolio investments, with numerous other well advanced opportunities.

She continued to review information from the presentation, saying that MIP 1 is a balanced portfolio across multiple sectors. She listed the MIP 1 assets as Duquesne Light (6%), Aquarion (4%), and Puget Energy (25%) under Utilities, which makes up the bulk of the portfolio; US Toll Roads (22%), and A-25 Completion Project (6%), under Toll Roads, which has seen some underperformance; Global Tower Partners (13%) under Communications Infrastructure; Halterm Limited (2%), Fraser Surrey Docks (3%), and Penn Terminals (2%) under Ports; and Waste Industries (4%) under Other. Mr. Moran asked what they do if a Toll Road is not performing up to expectations. Ms. Sved replied that they put a marketing plan in place to begin electronic ticketing, and they can also combine the back office functions of those roads. Mr. Sweeney asked how the worldwide lack of liquidity and credit have affected their investments. Ms. Sved replied that the portfolio is at about 56% debt and should be at about 75% over the next few years. She explained that Macquarie has about 65 people worldwide and has a good reputation in the marketplace for due diligence so there has been no shortage of financing, albeit at higher interest rates than in the past few years.

Ms. Sved continued to present information about Macquarie. She explained that it is an advisory business, and they arrange equity for third party clients, they arrange debt for funds, and they arrange debt for Macquarie. They have a wide variety of clients. In 2006, they had $70B in Australian dollars. In 2007, there was $72B in Australian dollars, and since August of 2007, they had arranged $90B in debt in Australian dollars. 40% of that was to third parties, and about 60% of that was paying to Macquarie funds or businesses. Mr. Sweeney asked how much was being drawn, and what the timing is for additional draws on what they expect to purchase. She said that today they have drawn for all assets, except for Puget, in the amount of $2.6B. The Puget deal is expected to happen in November. She mentioned that other opportunities are expected to happen at the end of the year. Mr. Gilden asked the relationship between Fund 1 and Fund 2. Ms. Sved explained that they are crossover assets. She said the infrastructure is still on target and is a healthy investment environment with expected returns.

SECURITIES LENDING UPDATE

Mr. Sweeney provided copies of a recent Wall Street Journal article, expressing concern about the Securities Lending program and whether Northern Trust was lending out securities. It has to do with the short-term investments, when money was withdrawn from money market funds about two weeks ago. Mr. Sweeney asked Ms. Petrino to explain securities lending. She explained it from a provided report, saying that lending agents are hired by the client who has securities that are available for loaning from separately managed portfolios. The lending agent initiates the loan, negotiates the term, and receives the collateral. When the borrower borrows a security, they have to give the lending agent 102% of the market value of the security on the day they are giving it. The lending agent then invests the collateral in the collateral pool, which earns money. With that money, the lending agent gives a rebate to the borrower and the remainder is split 60%/40%. She continued to explain, saying the problem lies within the liquidity of investments in the collateral pool and Lehman Brothers declaring bankruptcy. Northern Trust experienced several withdrawals. On September 18, a deficiency was declared in the fund. She said there were three calculations, one being a deficiency for the open loans, a deficiency for the term loans, and an impairment for Lehman Brothers. The securities lending program earned over $100,000 last year, and it has earned $600,000 since it started in 2001. The deficit in the open cash collateral pool is $200,000, there is $31,000 in term loans, and the impairment of Lehman Brothers holdings is $4,000. The loss could be between $2,000 and $2,500 on the Lehman Brothers holdings assuming a typical recovery rate. There was $62B in open collateral at the end of August, another $10B or $11B in the term portion, for a total of $73B. The average credit quality is A1+. If they were to withdraw today, they would get their securities back plus a pro-rata share of the collateral pool. If they participated in the staged withdrawal program, a portion of the cash collateral would be returned over 12 weeks at the market value of the fund at that time (not at par). At this point, few funds have elected the staged withdrawal, but the deadline for participating in the first week's withdrawal was October 10. The committee discussed whether it should remain in lending and asked for a presentation from Northern Trust.

DISCUSSION OF RETURNS, INVESTMENT ENVIRONMENT

Ms. Kunkemueller distributed copies of a preliminary performance report, saying that there were negative returns for the manager numbers in September. She will have more information at the next meeting. The S&P 500 Sectors were all negative for September. She said the Total Fund was down 7.3% for the month, vs. the custom benchmark of 8.3%. For the quarter, the Total Fund was down 10.3% vs. the custom benchmark of -9.0%.

OTHER BUSINESS

2009 Pension Board Calendar

Copies of the 2009 Pension Board calendar were distributed, and it was approved as submitted.

ADJOURNMENT

**** MR. MORAN MOVED TO ADJOURN.**

**** MS. JONES SECONDED.**

**** MOTION PASSED UNANIMOUSLY.**

The meeting was adjourned at 8:10 p.m.

CALL TO ORDER

The Board members then reconvened at 8:15 p.m. to discuss the OPEB (Other Post Employment Benefits) information.

OPEB DISCUSSION

Mr. Sweeney explained that the OPEB is a fund to take care of health care expenses. Initially, the allocation is $2M from last year, and $4M for this year. Ms. Kunkemueller recommended a long-term asset allocation through Vanguard of 40% U.S. Equity, 30% International Equity including Emerging Markets, and 30% Fixed Income. The committee discussed this allocation and options for implemention at Vanguard. Mr. Gilden said that the money is in the Northern Trust cash reserve account, which is different than their collateral account. The cash reserve account has no securities lending. Ms. Petrino said it returns slightly below the level of T-bills.

The Board agreed that they would review the asset allocation again at next month's meeting.

**** MR. MORAN MOVED TO ADJOURN.**

**** MR. PIRRO SECONDED.**

**** MOTION PASSED UNANIMOUSLY.**

The meeting was adjourned at 8:25 p.m.

Respectfully submitted,

Carolyn Marr
Telesco Secretarial Services