Revised 7/15/2009 **CITY OF NORWALK**
NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD
JUNE 10, 2009

ATTENDANCE: Michael Sweeney, Chairman; Joseph Pramer (7:50), Gerald Moran, Charles Piro, Fred Gilden,

STAFF: Thomas Hamilton, Director, Finance Department; Fred Gilden, Comptroller, NASA;

OTHERS: Evaluation Associates: Ellen Petrino, Laura Kunkemueller; Howard Potter, Capstone Asset Management Company;

Call to Order

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

Personnel Committee of the Pension Board-Disability Pension Application

Ms. Parker provided a background summary on the application and submitted additional paperwork as requested from the last meeting and stated that the award letter has been requested. Mr. Hamilton stated that a possible retroactive award was pending further review by the Personnel Committee, and Mr. Piro agreed to come in to the Personnel Office to review the file with Ms. Parker.

** **MR. HAMILTON MOVED TO APPROVE THE APPLICATION FOR LINDA WILLIAMS-PAULIN AT THE COMMENCEMENT DATE OF FEBRUARY 8, 2008.**

** **MR. PIRO SECONDED.**
** **THE MOTION PASSED UNANIMOUSLY.**

Approval of Minutes for May 13, 2009.

The following changes were noted to the red-lined version as edited by Ms. Kunkemueller:
Page 4, 2nd paragraph: "the 33-year relationship" should be changed to "22-year."
Page 5, last paragraph, "the primary issue" should be changed to "one of the issues".

** **MR. PIRO MOTIONED TO APPROVE THE EDITED MINUTES OF THE MAY 13, 2009 MEETING AS SUBMITTED WITH CORRECTIONS NOTED.**
** **MR. MORAN SECONDED.**
** **THE MOTION PASSED UNANIMOUSLY.**

Review of May Performance: Evaluation Associates

Ms. Kunkemueller presented the Evaluation Associates Performance Measurement Report dated May 31, 2009, and highlighted Zesiger Capital Group as the top performer with 15.0% in May and 50.2% in the latest three months. She summarized that the Eaton Vance Bank Loan fund is coming back nicely at 26.4% calendar year to date.

Capstone Financial Service's Fixed Income Portfolio

Mr. Hamilton welcomed Howard Potter and introduced the members of the Board. Mr. Potter provided a background on the organization of Capstone Asset Management Company and presented the Portfolio Review.

He stated that the account guidelines reflect the Barclay's Capital Aggregate Index with the investment objective of stability of return and preservation of capital. The authorized investments include U.S. Treasuries and Agencies, BAA or higher-rated domestic corporate bonds, A or higher rated Canadian/Yankee/Euro dollar bonds, and A or higher rated mortgage backed or asset backed securities. He added that the maximum of any non-U.S. government security is 5% at cost and there is a 10% maximum in any one security at market.

Throughout the entire presentation Mr. Potter referred to the sections of the presentation that provided the detailed responses to answer the Board members' questions on the firm's management objectives, philosophy and investment allocation strategies. Mr. Sweeney asked what type of solutions Capstone recommends for municipal clients, and Mr. Potter answered that the process starts with a diagnostic analysis of client objectives and investment expectations.

Mr. Sweeney asked what unique advice they would provide in response to their experiences with the City of Norwalk Pension Funds. Mr. Potter referred to a chart in the presentation that outlined the fixed income investment process, and stated that Capstone employs a disciplined four-step process that has provided clients with above market returns with lower than market risk for over 20 years. The client objectives and portfolio construction are a synergy of duration selection, evaluation of the interest rate outlook, risk/return analysis and an identification of the optimal position along the yield curve, considering current vs. historical sector spreads. Issue selection that combines an analysis of credit quality and security structure is also important.

Mr. Hamilton asked, in response to the lessons learned of last year, if there was a way to flush out an overall improved strategic philosophy for our investment strategy. Mr. Potter answered that over the years they have always sought to create portfolios that have more yield than the benchmark while taking less risk, as defined primarily by duration and sector rotation. While Treasuries dominated returns in 2008, they are likely to underperform from here, as they have historically.

Mr. Pramer arrived at 7:50.

Mr. Sweeney asked Mr. Potter to do a synopsis of the portfolio review and he provided a summary of the report, highlighting the portfolio characteristics and performance section summary on page 15.

<u>Discussion on Investment Guidelines, Asset Allocation, and Real Estate Opportunities</u>

Ms. Petrino distributed The Current Investment Opportunities Review Report, highlighted the overview of traditional and alternative investments and listed the favorable, neutral and unfavorable positions for each asset class. Mr. Sweeney asked for their position on real estate investments and Ms. Petrino referred to the neutral position statements for both US and Global REITS.

She added that Morgan Stanley has an excellent opportunistic fund and Cohen & Steers is a gold standard in REITS with both domestic and global strategies. She suggested they focus on REIT opportunities for the next meeting. She added that this discussion is part of the solution and tailored customization for the Pension Fund along with asset allocation and classification, understanding of the guidelines and review of the investment policy statement.

<u>Discussion regarding the S&P 500 Index Fund weighted vs. non-weighted.</u>

Ms. Petrino asked what the committee's interest was in pursuing the asset-liability study, and Mr. Sweeney responded that at this point he does not have enough information to engage in a decision-making discussion. Ms. Petrino suggested that this type of analysis has the objective of showing the trade-offs between minimizing the level of volatility of cash contributions while seeking to maximize the investment return. She summarized if she provides the asset allocation, without tying in the liabilities, that basically the result shows the trade-off between higher risk, higher return or lower risk, lower return These asset solutions are not tied to the level of liabilities or contribution, both of which would be worthwhile in an analysis. She added that the value of the liabilities is determined by the actuary's acceptable level of discount rate. If the assets do not keep pace the City must come up with more contributions.

Mr. Piro responded that this is an issue for the City and does not impact the Board's role in making sound investment decisions. Mr. Moran added that this is a critical issue that the committee has a responsibility to bring to the concerned members of the Common Council and eventually should be addressed in a formal recommendation relative to the future solvency of the Pension Board. Mr. Piro suggested that a statement be addressed by the Board after the City elections that the targeted rate of return is artificially high..

Mr. Gilden asked what the predicted rate of return is, and Ms. Petrino answered 8.25% based on the actuary determination of asset allocation. Mr. Pramer asked what the Fund had earned over the last ten years, and Ms. Petrino stated that through May the since inception return was 7.5 %. Mr. Pramer stated that the results speak volumes relative to the continued direction the Board should be taking to make sound investments of the City's Pension Fund.

Mr. Sweeney suggested the Board continue to evaluate investment recommendations as proposed by Evaluation Associates, based on a balanced portfolio with the objective of reaching the targeted rate of return, once the investment policy guidelines are determined and approved. Ms. Petrino suggested this should be done after the asset allocation and investment strategy was determined and presented at next month's meeting.

ADJOURNMENT

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

The meeting was adjourned at 8:30 p.m.

Respectfully submitted,

Marilyn Knox
Telesco Secretarial Services