Revised 6/17/2009 **CITY OF NORWALK**

NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD

MAY 13, 2009

ATTENDANCE: Michael Sweeney (6:15), Chairman; Joseph Pramer, Gerald Moran, Charles Pirro, Fred Gilden, Francis Nash (6:50),

STAFF: Thomas Hamilton, Director, Finance Department; Fred Gilden, Comptroller, NASA; John Schlosser, Personnel Administrator

OTHERS: Chris Kashmar, Financial Investment Associates; Ellen Petrino, Evaluation Associates; Bryan Decker, Evaluation Associates

Call to Order

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

Personnel Committee of the Pension Board-Disability Pension Application

** **MR. PIRRO MOVED TO TABLE THE APPLICATION FOR LINDA WILLIAMS-PAULIN UNTIL ADDITIONAL INFORMATION IS RECEIVED BY THE PERSONNEL COMMITTEE.**

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

Approval of Minutes for January 14, 2009, March 11, 2009 and April 8, 2009 Meetings

** **MR. MORAN MOTIONED TO APPROVE THE MINUTES OF THE JANUARY 14, 2009, AND FEBRUARY 11, 2009, AND APRIL 8, 2009 MEETINGS AS SUBMITTED WITH CORRECTIONS.**

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

Mr. Sweeney arrived at 6:15 p.m.

Discussion and possible action regarding the S&P 500 Index Fund with Northern Trust

Mr. Pirro presented an overview of the Northern Trust situation and indicated that Evaluation Associates has recommended taking the money out of the fund. Mr. Hamilton asked if it had a security component and how the gate issue occurred. Mr. Gilden responded that this happened as a result of Lehman Brothers structured investment vehicle that initially did not provide full disclosure. Mr. Pramer suggested it be moved out for more flexibility using the same asset mix, and he asked which fund it should be moved into that was equally rated. Mr. Moran indicated that the problem of moving it is that it would be less liquid because returns with equal weight would not mirror the S&P index and suggested they have a discussion with the full Board and the consultant.
.
Mr. Sweeney asked about the cash balance and if cashwas currently needed. Mr. Gilden responded that it was between $14-15 million and that the fund did not need that amount of cash for pension payments at this time.

** **MR. PIRRO MOVED TO START THE PROCESS OF WITHDRAWING THE S&P 500 INDEX FUND WITH NORTHERN TRUST AND PUT IT INTO A CASH FUND.**

** **MR. PRAMER SECONDED.**
Following further discussion the motion was amended.

** **MR. GILDEN MOVED TO AMEND THE MOTION TO WITHDRAW THE S&P 500 INDEX FUND WITH NORTHERN TRUST AND PUT IT INTO A FUND WITH EXACTLY THE SAME MARKET CAP WEIGHTING, PENDING FURTHER REVIEW AND DISCUSSION WITH THE CONSULTANT.**
** **MR. MORAN SECONDED THE AMENDED MOTION.**

** **THE MOTION AS AMENDED PASSED UNANIMOUSLY**.

Mr. Sweeney noted that it was agreed to add the above item to the next meeting agenda for further discussion and recommendation by the consultant of cash vs. other recommended investment options for replacing.Northern Trust.

Other Business

Mr. Sweeney stated that he wanted to briefly move Other Business up to next on the agenda prior to the consultant presentations. He stated that he had attended the Town of Darien Pension Board Committee public meeting and mentioned that their board meets once per quarter and provided a report of their pension funds for general information for the Board.

Mr. Nash arrived at 6:50 p.m.

Discussion and Decision Regarding the Choice of a Consultant
to the Pension Board based upon the Two Remaining RFPs

Mr. Sweeney stated that the Board would then have presentations by the two final consultants as recommended by the sub-committee that had evaluated fourteen RFPs.

Fiduciary Investment Consultants Presentation

Mr. Hamilton welcomed Chris Kashmar and introduced the members of the Board. Mr. Kashmar provided background on the organization and presented the proposal for consultant services for the City of Norwalk Municipal Pension Fund.

He stated that municipal accounts represented a significant share of their business with neighboring cities and towns in Fairfield County, with the City of Stamford being one of their most long-standing accounts and one that is similar to the City of Norwalk. He added that their qualified management team has impressive credentials and years of experience in the industry, especially with municipalities; they have never lost a consultant, and they have consistently been ranked as providing the best client services with their research and resource teams.

Throughout the entire presentation Mr. Kashmar 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 they recommend for municipal clients, and Mr. Kashmar answered that the process starts with a diagnostic analysis of client objectives and investment expectations. Their approach begins with a of broad definition of global opportunities at 55% overseas, 45% U.S. and from a growth-value emphasis of 70% market as Large Cap, 20% Mid Cap and 10% Small Cap, incorporatingactuary analysis, asset allocation strategies, and a fully transparent investment platform. He summarized that a median allocation around the state is a 60-40 equity/fixed income split, which, with their capital assumptions, would generate a 7 ¾% - 8% return.

Mr. Pramer asked if they would consider themselves a concentrated portfolio, and asked if there is a discipline to identify when something is going wrong and when to cut your loss and alter the investments or "pull the trigger." Mr. Kashmar replied that there was no hard and fast rule and the firm tends to be patient with under-performers to work out over time, with each situation specifically evaluated, and they will always re-examine and make changes, in consideration of what is happening domestically and globally.

Mr. Sweeney asked what percentage was asset allocation versus manager selection, and Mr. Kashmar indicated 90%. Mr. Kashmar summarized the hallmark of their strategy, which tends to result in a conservative approach, and emphasized that they can seek growth and investment opportunities and allocate the portfolio in such a way so they can achieve above average investment returns, which is one of the reasons there has been such a long-standing relationship between their firm and other Connecticut municipal clients.

Mr. Sweeney asked how long it would take to do the diagnostic analysis, and Mr. Kashmar responded that the due-diligence work usually takes about two months to gear up new clients. Mr. Nash asked for a list of their investments in their portfolio, and Mr. Hamilton responded that should be given to Gerald Foley to forward on to the Pension Board as part of the RFP.

Evaluation Associates Business Proposal

Ms. Petrino presented the Evaluation Associates Business Proposal in response to the RFP dated April 8, 2009. She highlighted the 22-year business relationship with the City of Norwalk and introduced Bryan Decker who provided a background of the management team and presented the philosophy and client management strategy.

Mr. Sweeney asked what unique advice they would provide in response to their experiences with the City of Norwalk Pension Funds. Ms. Petrino referred to a chart in the proposal that outlined key achievements over the years and a time-line of their track record with the City. She reminded the Board Members that over the years and the fund has earned money during their outperformance years, as this trend has occurred many times. Mr. Nash asked about the Ivy situation and gated funds. Ms. Petrino responded that everything happened so fast, and the Board had not agreed on their recommended redemption until it was too late. In hindsight, they should have been more proactive in recommending a switch, as Ivy was flat for a long term and been underperforming in their peer group.

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, and Ms. Petrino said Evaluation Associates continues to provide their strength with client-oriented servicing. She looks forward to a revaluation of the risk assessment process to reducing the volatility with more stable managers, as over the years the Pension Board has evolved to be more risk averse with the strategy. Mr. Nash asked for a synopsis of the best/worst outcomes of their tenure with the City, and Ms. Petrino listed that she is proud of the hedge funds that produced high returns and reduced volatility, the private equity infrastructure that provides the possibility for increased generation for returns, and the addition of commodities. On the negative side, she said they have struggled with value manager selection that has not balanced the other managers until recently, and the increased risk with global bonds.

Mr. Sweeney asked what differentiates EAI from others, and Ms. Petrino responded that they are local, which is cost effective for attendance of meetings, there is senior management on the account, and the firm is one of the most experience in the industry at generating customized solutions tailored to client needs. In summary, she added that going forward in a continuation of the client relationship, she recommends a formal discipline of annual asset allocation, investment policy statement review, and the creation of sub-committee meetings to focus on understanding of asset classifications.

Evaluation and Decision of Consultants

A further discussion took place in reaction to the presentations and in examination of the final two presentations. Mr. Pramer stated that the primary negative on Evaluation Associates was the lack of an annual review of the investment portfolio, and Mr. Pirro clarified that there was a continual review process with each meeting and regular performance reviews provided. Mr. Sweeney agreed, and added that it was only recently that crisis management seemed to be the primary objective, and that the Board needs to be more proactive with the risk review recommendations that Ms. Petrino provides.

Mr. Moran complimented the sub-committee group's efforts with evaluations of the fourteen firms that responded to the RFPs, and was highly complimentary of the work and diligence with the process of narrowing down the choices to two. Mr. Hamilton stated that he found very little difference with the proposals, as both companies had similar investment management philosophies and track records. He added that he strongly agreed with this review discipline and the outcome of the RFP process as the appropriate fiduciary responsibility of the Board.

Mr. Sweeney stated that the one of the issues between the two presentations was the money factor, as FIA has proposed a 40% higher fee than EA. This was very difficult to justify in view of the budget situation, and along with the time involved to transition to a new consultant, switching now was not in the best interests of the City.

** **MR. MORAN MOTIONED TO RETAIN EVALUATION ASSOCIATES, LLC AS THE CONSULTANT FOR THE CITY OF NORWALK PENSION BOARD.**
** **MR. PRAMER SECONDED.**
** **MOTION PASSED UNANIMOUSLY.**

ADJOURNMENT

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

The meeting was adjourned at 9:00 p.m.

Respectfully submitted,

Marilyn Knox
Telesco Secretarial Services