**Revised 5/26/2009** **CITY OF NORWALK**

**NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD**
**REGULAR MEETING**
**MARCH 11, 2009**

**ATTENDANCE**: Michael Sweeney, Chair; Joseph Pramer, Gerald Moran, Charles Pirro, Fred Gilden, Francis Nash, Michael Salvator

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

**OTHERS**: Ellen Petrino, Evaluation Associates; Laura Kunkemueller, Evaluation Associates; Mark Murphy, ABS Investment Management; Laurence Russian, ABS Investment Management.

CALL TO ORDER

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

APPROVAL OF PENSION APPLICATION

**** MR. PRAMER MOVED TO APPROVE THE FOLLOWING PENSION APPLICATION:**
**DONNA TOTH, COMMENCING AUGUST 15, 2009**
**** MR. PIRRO SECONDED.**
**** THE MOTION PASSED UNANIMOUSLY.**

APPROVAL OF MINUTES FOR JANUARY 14, 2009
AND FEBRUARY 11, 2009 MEETINGS

The following changes were noted to the February 11, 2009 Minutes:

Correct the names that were misspelled throughout the minutes:
Praemer should be Pramer, Slosser should be Schlosser,
Kunkmueller should be Kunkemueller
Page 5, paragraph 5: 8 ½ % should be 8 ¼ %.

**** MR. PIRRO MOVED TO APPROVE THE MINUTES OF FEBRUARY 11, 2009 AS AMENDED.**
**** MR. NASH SECONDED.**
**** THE MOTION PASSED UNANIMOUSLY.**

January 14, 2009 Minutes

After some discussion, it was decided that the edited minutes of the January 14, 2009, as submitted by Ms. Petrino were still very difficult to follow. It was suggested that a detailed review would be done by the committee members outside of the meeting so that members could be prepared to discuss and approve. Mr. Sweeney suggested the approval of the January minutes should be tabled until next month, and it was agreeable to all.

PERFORMANCE REVIEW

Ms. Petrino distributed copies of the ABS Global Portfolio Review for the Norwalk City Employees Pension System by ABS Investment Management, and introduced Mr. Laurence Russian, Portfolio Manager and Mr. Mark Murphy, Client Services. Mr. Murphy began the presentation, highlighting the characteristics of ABS as an experienced team of fund managers who specialize in the concentration of equity long/short hedge funds; targeting early investing with managers across the globe.

Mr. Murphy reviewed the ABS investor profile base of institutional (60%) and high-net-worth (32%), and geographic breakdown of firm-wide Hedge Fund Managers representing total assets of $2.11 billion. He highlighted the Management Committee chart describing Risk Management, Portfolio Management and Research, Operations and Client Service and Business Development.

Mr. Sweeney asked about ABS' take on the Madoff situation. Mr. Russian answered that their due diligence teams have and will continue to focus on qualitative, quantitative and operational policies and procedures to scrutinize the underlying funds. Mr. Nash followed up asking for clarification of their position on how to avoid this type of fraud. Mr. Murphy responded that unfortunately, Bernie Madoff has tainted the global market for hedge fund practices. He added that potential regulation of the hedge fund industry should impact equity long/short funds less in comparison to other strategies, as funds already are required to disclose long positions and invest in securities that trade on regulated exchanges.

Mr. Sweeney asked about the investment strategy, and Mr. Russian said that ABS' equity long/short strategies remain intact. Their strategies depend on leverage to generate performance, and generally equity long/short funds are able to service redemptions without putting up gates, suspending redemptions or side-pocketing assets.

Mr. Salvator asked about the overall goals for fund. Mr. Russian said the portfolio currently has low gross and net exposure with larger allocation to funds with a flexible portfolio management style. Using equity/long/short funds as an equity replacement has proven to be a way to invest in equity markets.

Mr. Nash mentioned low-leverage, high liquidity, exchange-traded securities, and substantial transparency, and asked how this strategy could survive in this market upheaval. Mr. Murphy stated that equity long/short funds should be able to generate strong returns on capital without high levels of market exposure or position concentration.

Mr. Salvatore asked about their maximum exposure per underlying fund, and Mr. Russian answered that it is generally 10%. He added that there is considerable quantitative and qualitative evaluation that goes into the process, and basically if they don't understand how a group makes money, ABS passes on them. In summary, ABS has principals working together and investing globally since 1994, and in the equity long/short specialization for over ten years. They are an independent firm focused on performance and personalized client services.

Mr. Russian and Mr. Murphy left the meeting (8:05 pm)

PERFORMANCE/ASSET ALLOCATION REVIEWAND OUTLOOK FOR 2009

Ms. Petrino presented the Evaluation Associates White Paper Review of 2008 and Outlook for 2009. She highlighted their 2008 scorecard of positioning equity portfolios for slower growth and emphasizing more defensive sectors. Distressed investments, particularly those implemented in the hedge fund area, were hard hit. The HFR Distressed Index declined to 24.95% for the year, the worst experience ever.

Mr. Hamilton left the meeting at 8:15 p.m.

Ms. Petrino added that the outlook for 2009 is bleak on the financial front, with declining earnings and lack of credit availability keeping pressure on equity and debt securities. With access to capital impaired, more businesses will default on outstanding debt and will be forced into bankruptcy. The US government stands ready to do its part to stop the cycle by pumping additional liquidity into the system. Until the cycle of more negatives than positives turns around, they expect all risky assets will remain under pressure.

Mr. Pramer asked about treasury bonds. Ms. Petrino stated that riskless assets – gold and Treasuries – will behave similarly; risky assets usually move in tandem with each other. This increase in correlation across asset classes is a big issue that investors face today. At market extremes, correlations tend to increase, thus reducing market diversification characteristics. When the sentiment and economic backdrop changes, the demand for riskier assets will be considerable. For investors, eventually sentiment will start to shift, and EAI expects some financial assets to start to show signs of life after the middle of the year. Conditions change quickly and the storm has yet to play out.

Ms. Petrino then presented the City of Norwalk Fund Structure as of March 10, 2009. Mr. Pramer questioned the classification ofBank Loans as fixed income, and said this was not a true balanced portfolio. He added that by making equity-like investments in a fixed income vehicle we made a mistake, and that is okay, but to continue staying in that approach is wrong. Mr. Nash asked what constitutes risk. Ms. Petrino proposed that an asset liability study be done relative to clarify risk in the portfolio and pair it with the Pension's liabilities. Ms. Petrino clarified for the record that the City of Norwalk Pension Paln was down 27.8%, which was average for public funds.

The allocation discussion continued relative to risk management and Treasury Bills. Mr. Salvatore commented that we have a responsibility to protect private equity, and there are liquidity issues that are experienced with true fixed income rather than commodities. Mr. Nash noted that if the default level continues, the yield to maturity is 15%-18% and marks are unofficially producing yields that are better than equities. We would still recover 60 cents on the dollar at underlying collateral.

** **MR. PRAMER MOTIONED THAT THE PENSION BOARD CHANGE ITS PRACTICE OF REINVESTING INTO THE FUND, AND TO EXPLORE REDEMPTION RATHER THAN FUND ADDITIONS.**
**** MR. PIRRO SECONDED.**
3 VOTES WERE IN FAVOR (J. Pramer, C. Pirro, and F. Gilden)
4 VOTES OPPOSED:(M. Salvator, J.Schlosser, G. Moran, F. Nash)
1 ABSTENTION (MR. HASELKAMP).
**** THE MOTION DID NOT PASS.**

Ms. Petrino concluded her presentation by stating that an Investment Policy Statement has been re-drafted and would be presented for review next month. As an aside, Ms. Petrino told Mr. Gilden that the RFP for the investment management was sent by UPS and should be received by tomorrow.

Mr. Sweeney then asked when Capstone would be coming in for a review. Ms. Petrino stated that Eaton Vance had been scheduled, but was rescheduled. It was decided to have Zesiger next month and Capstone the following. Ms. Petrino mentioned that there are only two meetings before they break for the summer months. Mr. Moran suggested that in view of the current conditions with the market volatility that the Board may consider not having a break in meetings until things settle down a bit.

Mr. Sweeney asked about the status of the formal proposal for the asset liability study and stated that Mr. Salvator, Mr. Pirro and Mr. Nash had volunteered to serve on the subcommittee to handle this. Mr. Pramer stated that this was a key element to have to be able to address the fixed asset allocation equation. This would form the basis for the investment goals and objectives relative to an asset allocation strategy.

## DISCUSSION OF COMMODITIES

Mr. Sweeney suggested that due to the extended discussion of the asset allocation issues and the amount of time taken for the ABS review, that the commodities discussion be tabled to next month. All were agreeable.

## OTHER BUSINESS/ADJOURNMENT

Mr. Sweeney restated that it was decided to have performance reviews done by Zesiger next month and Capstone the following month. There was no other business to report on at this time.

**** MR. PRAMER MOVED TO ADJOURN**
**** MR. PIRRO SECONDED.**
**** THE MOTION PASSED UNANIMOUSLY**.

The meeting adjourned at 8:25 p.m.

Repectfully submitted,

Marilyn Knox
Telesco Secretarial Services