Revised 3/16/2010 CITY OF NORWALK

NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD

JANUARY 13, 2010

ATTENDANCE: Michael Sweeney, Chairman; Joseph Pramer, Gerald Moran, Marilyn Maitland, NMGA:

STAFF: Fred Gilden, City of Norwalk Comptroller, John Schlosser, Personnel Administrator

OTHERS: Evaluation Associates: Ellen Petrino, Laura Kunkemueller;

Call to Order

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

Approval of Minutes for December 9, 2009.

Mr. Sweeney commented that it was rather difficult to follow the numerous electronic edits, but that the context of the changes were relatively minor, as there were no significant motions.

** **MR. PRAMER MOTIONED TO APPROVE THE MINUTES FROM DECEMBER 6, 2009 AS EDITED AND CORRECTED BY EVALUATION ASSOCIATES.**
** **MR. MORAN SECONDED.**
** **THE MOTION PASSED UNANIMOUSLY.**

APPROVAL OF PENSION APPLICATIONS

Name: Karen Dahlstrand Commencement Date: January 13, 2010
Early/Vested Standard Form

** **MR. PRAMER MOVED TO APPROVE THE PENSION APPLICATION FOR KAREN DAHLSTRAND AS SUBMITTED.**
** **MR. GILDEN SECONDED.**
** **MOTION PASSED UNANIMOUSLY.**

Mr. Sweeney took a Chairman's privilege to deviate from the agenda, and distributed copies of an article for discussion. He added that he found the article informative as it indicated that pension schemes have failed to consistently add value when changing investment managers.

Review of December Performance: Evaluation Associates

Ms. Kunkemueller presented the Evaluation Associates Report for the City of Norwalk Fund Structure as of January 11, 2010. She highlighted that the Total Marketable Equity allocation is slightly below the long term target range at 58.9% versus 61.0% and the Fixed Income allocation is at 25.5%, .5% or fifty basis points below the target.

Ms. Kunkemueller highlighted changes to the Proposed Custom Benchmark column explaining that the changes were made to bring the benchmark weights in line with the approved policy targets. Mr. Sweeney stated that as this was an improvement in the reporting format, a motion and approval vote was not needed to adopt the change.

Ms. Petino entered the meeting at 6:25 p.m.

Ms. Kunkemueller went on to review the Performance measurement by manager and highlighted that Zesiger's Domestic Equity return was 60.9% for calendar 2009 and the International Equity return was 95.2% for the same period. Mr. Sweeney asked when the best period of time would be to see the downside protection delivered by Silchester. Ms. Petrino responded that a period when the market was in flux would be best. She added that EAI would show a report at the next meeting that gave more detail into Silchester's past performance.

Discussion of Custom Benchmark

Ms. Petrino reiterated that this month's report reflected a proposed Custom Benchmark which provides a better representation of the approved policy target. She also mentioned that the Global Absolute Return portion of the portfolio is represented by the HFRI Directional Index in this proposed benchmark.

** **MR. GILDEN MOTIONED TO ACCEPT THE PROPOSED CUSTOM BENCHMARK TO BRING IT MORE IN LINE WITH THE APPROVED TARGET AND TO REPLACE THE PUBLIC MARKET BENCHMARK WITH THE HFRI (HEDGE FUND RESERVE INDEX) DIRECTIONAL INDEX FOR THE GLOBAL ABSOLUTE RETURN PORTION OF THE PORTFOLIO.**
** **MR. PRAMER SECONDED**
** **THE MOTION PASSED UNANIMOUSLY.**

Mr. Sweeney asked for the remainder of the December performance review and Ms. Kunkemueller summarized the year-to-date performance of managers by asset class. She stated that most equity managers were positive in December and on target for the year to date. She summarized that the total marketable equity allocation was 58.9%, private investments totaled 12.2%, and fixed income/cash was 25.5%.

Action Items and Discussion Topics

Ms. Petrino submitted a written report to provide a follow up and an update of items discussed at the December meeting. She highlighted the following:

Macquarie:	MIP held its final close in March 2007 and Norwalk can expect income in the second quarter 2011.
Caxton and Ssaris:	EAI agreed to have due diligence calls with Caxton, Ssaris and Phyllo.
Ivy Rising Stars:	Norwalk received $373,908 in November, representing 22%. Next payment 15% will be paid in mid-February. An additional 5% - mid-May bringing total paid out to 61%.
Spreadsheet Changes:	When EAI transitions to its new monthly reporting platform a "since inception" column will be added to the spreadsheet.
Executive Summary:	EAI will create a separate section to update the Board on the Watch List managers and a "since inception" report included.

Eaton Vance Update: Ms. Petrino presented a summary of Eaton Vance performance noting the initial investment thesis, intervening experience and recommendation. She summarized that EAI recommends that the City of Norwalk terminate its allocation to Bank Loans. She stated that values were expected to go to the 95-97 range which is only 3-5 points of available upside. She added that EAI does not anticipate LIBOR increasing significantly in the near future so dividends are not expected to increase. Consequently, EAI recommends moving the Eaton Vance investment to the PIMCO Total Return Fund.

** **MR. GILDEN MOTIONED TO TERMINATE EATON VANCE AND MOVE THE PROCEEDS TO THE PIMCO TOTAL RETURN FUND.**
** **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 cash is fine until March when another $3 million will be needed. Ms. Petrino stated that the fund is liquid and there is no need to set aside funds. This amount of the fund is accessible at very short notice.

Asset Allocation Discussion

Ms. Petrino distributed The Asset Allocation Review Report, and stated that based on the approved Asset Allocation, the fund has a favorably structured portfolio. She highlighted the review of capital markets, investment strategies by economic scenario and total fund performance comparisons. She stated that the market environment review through 2009 was provided and would go into the detail if the Board felt it was necessary.
Ms. Petrino stated that to date, TIPS have matched or outperformed commodities and noted the low inflation rates experienced over the last ten years. She added that the swap

curve, reflective of corporate bond yields, has steepened during 2009 and the sector spreads have narrowed throughout the year. Relative to alternatives, Ms. Petrino highlighted that the 70/30 index shows the better risk-reduction properties of the hedge fund strategies vs. long-only benchmarks but also shows the challenge of keeping pace in up markets. She added that private equity funds, both venture and buyout, were affected in the downturn, and small stocks outperformed large stocks through 2006.

Ms. Kunkemueller stated that value outperformed for most of the decade, and within developed international markets, large cap outperformed small cap. Ms. Petrino stated that information technology materials and consumer discretionary stocks led the rally. Mr. Sweeney commented that this seemed odd due to the marketplace, and Ms. Petrino responded that she agreed, but that surprisingly, it was true. She added that utilities and telecom are the only sectors with single digit 12-month returns through 11/30/09 while energy and consumer staples lagged the market.

Ms. Petrino then provided an outline of economic scenarios and stated that it was based on an approach developed by "think tank" Greenwich Roundtable, a non-profit group that issued a report: Best Practices in Alternative Investing, Portfolio Construction. The report examimes disinflation vs. inflation and growth vs. contraction scenarios. . Mr. Pramer stated that it was very informative and a good analysis of the true marketplace factors.

Ms. Petrino summarized that the conclusions based on EAI's capital market assumptions are that the current allocation is expected to return 9.0% with a standard deviation of 12.3%. There is a 50% probability of earning 8.25% in any one, three or five year period. She outlined the following points:

- The portfolio has exposure to inflation strategies through PIMCO Commodity Real Return, the infrastructure managers Alinda and Macquarie and opportunistically through PIMCO All Asset (9% in commodities at June 30). In addition, any of the fixed income managers may invest in TIPS. As of 9/30/09, PIMCO Commodities Real Return was allocated 1l% to precious metals including gold.
- Emerging markets equities, which the City of Norwalk has through Zesiger and GMO, also provide exposure to commodities.
- PIMCO Total Return currently has 50% in Treasuries, an historic high. EAI has confidence they will structure the portfolio appropriately if deflation becomes a major risk.
- Ivy Rising Starts has been terminated, and EAI recommends Eaton Vance be terminated. Areas EAI thinks the Board should consider next include inflation and skill based strategies.

Ms. Petrino suggested they continue to monitor the performance of the fund as currently allocated and consider looking at opportunities for the next review period. 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, based on the approved guidelines and investment policy statements.

Other Business

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 EAI would schedule Blackstone or PIMCO for the next meeting,

Mr. Gilden added that there should be an OPEB review on the calendar for March.

Mr. Sweeney stated that the next meeting is scheduled for February 10, 2010.

ADJOURNMENT

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

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

Respectfully submitted,

Marilyn Knox
Telesco Secretarial Services

Revised 3/16/2010 **CITY OF NORWALK**

OPEB COMMITTEE MEETING

WEDNESDAY, DECEMBER 9, 2009

ATTENDANCE: Michael Sweeney, Chairman; Gerald Moran; Frank Nash; Charles Pirro; Joseph Pramer; Etta Jones, Custodial Union; Marilyn Maitland, NMEA

STAFF: H. James Haselkamp, Jr., Director of Personnel & Labor Relations; John Schlosser, Personnel Administrator; Fred Gilden, Comptroller; Tom Hamilton, Director of Finance

OTHER: Laura Kunkemueller, EAI, Senior Consultant; Ellen Petrino, EAI, Principal/ Senior Consultant;

CALL TO ORDER AND APPROVAL OF MINUTES FOR JULY 8, 2009

Chairman Sweeney called the meeting to order at 7:02 p.m.

Minutes of July 8, 2009

**** MR. PIRRO MOVED TO APPROVE THE MINUTES OF JULY 8, 2009 AS SUBMITTED.**

**** MR. GILDEN SECONDED.**

**** MOTION PASSED UNANIMOUSLY.**

REVIEW OF PRELIMINARY NOVEMBER PERFORMANCE BY EVALUATION ASSOCIATES

Mr. Gilden said that the three tranches will be completed as of Friday, December 11, 2009. The full amount will be invested on Friday, December 11, 2009, and the money is expected to stay in the fund for at least 10 years.

REVIEW AND APPROVAL OF THE INVESTMENT POLICY STATEMENT

It was suggested that "Withdrawal Not Expected Until 2020" be added to the general portion of the Investment Policy Statement. It was agreed upon that the OPEB Committee will continue to meet on a quarterly basis.

More discussion took place regarding the revision of the Investment Policy Statement. Mr. Sweeney confirmed that this will be tabled until the Committee wants to invest in commodities and when the next $5M is available to invest.

It was decided to table the discussion of commodities and possible changes to the target asset allocations until January. No action was taken.

OTHER BUSINESS

None.

ADJOURNMENT

**** MR. GILDEN MOVED TO ADJOURN.**

**** MR. PIRRO SECONDED.**

**** MOTION PASSED UNANIMOUSLY.**

The meeting was adjourned at 7:17 p.m.

Respectfully submitted,

Carolyn Marr
Telesco Secretarial Services