NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD MINUTES

PENSION BOARD
NOVEMBER 9, 2005

ATTENDANCE: Jim Murphy, Chairman; Lisa Biagarelli; Charles Pirro; Ken Whitman; Frank Nash; Gerry Moran;
Michael Salvator (6:11 p.m.); Larry Manzi (6:12 p.m.); Patricia McCormick (6:51 p.m.)

STAFF: Sara Letorneau, Director of Labor & Personnel Relations; Fred Gilden, Comptroller;

OTHER: Ellen Petrino, EAI; Jackie Shea, EAI; Howard Potter, Capstone; Al & Barrie Zesiger, Zesiger; Bobby Winters, Zesiger;
Sanjeev Sami, Zesiger

CALL TO ORDER

Chairman Murphy called the meeting to order at 6:03 p.m.

6:00 P.M. – CAPSTONE FINANCIAL SERVICES – HOWARD POTTER

Ms. Petrino gave some background information on Capstone Financial Services, and Mr. Howard Potter.

Ms. Petrino said Capstone is a core fixed income manager. They buy investment grade securities, and they are limited to investment grade. Their benchmark is the Lehman Brothers aggregate index. Capstone has a preference for corporates because of the higher yields and treasuries. They do buy mortgages. In the last year and a half, they have taken the portfolio shorter than the benchmark. Performance reports show that the three and five year period indicates they are even with the benchmark. In 2003, they did a major asset allocation, and decided they needed to have more equity to have a higher return. They eliminated the fixed income manager and simplified with Capstone, because they were representative of the benchmark, with a low fee.

Chairman Murphy introduced the two new board members, Ms. Lisa Biagiarelli, who will be the new NASA Rep from one of the unions, and Mr. Ken Whitman.

Mr. Howard S. Potter, from Capstone, reported that there is a restriction that they keep 5% of any nine US Government names as a maximum, and 10% of any one particular security. The interest rates have stayed in a tight range, at 4%-41/2% over the last three years. He thought that there were very positive things taking place. He noted on page 8, the performance is through October, not September. He said they had moved ahead of the benchmark.

Mr. Salvator arrived at 6:11 p.m.

Mr. Manzi arrived at 6:12 p.m.

Mr. Potter explained that the procedure to putting together a portfolio is on page 11. He said that the goal was to outperform the overall broad US investment grade market. They determine where they want to be in terms of interest rates and exposure. The portfolio had a duration which ranged from 5%-12% short of what the overall market was, to protect the overall value of the portfolio. On page 12, the basic characteristics show where the portfolio is. The yield is 5.28, and the overall market is 5.16. The bond portfolio is set up defensively so it will be protected when the rates go higher. It has variable rate securities that allows them to reinvest at the higher interest rates. Tab 5 shows the actual holdings of the portfolio. There is 7% of the portfolio now that is invested in Corporate issues that change their coupons monthly, based on the inflation rate as measured by the CPI. Since investing a few years ago, the coupon rate has changed based on the CPI. The portfolio is about $300, which is fairly typical for bond management. Yankee bonds and foreign bonds are something to look at in the future. The Federal Reserve Board determines the level of the interest rates. Their job is to promote economic business but protect the economy at the same time. The market anticipates at least 2 more rate increases, in December and January, which would raise money market rates to 4.5%. The core inflation is still very steady and does not show signs to date of rampant inflation. The economy will slow down this Winter. There will be a new Chairman at the beginning of the year.

Chairman Murphy thanked Mayor Knopp for his efforts in increasing the support of people attending the meetings for the last two months. He said that the Board is made up of six individuals who are appointed by the Mayor and approved by the Council. The other members on the Board are represented by the Finance Director's Office. Mr. Gilden is the Comptroller, and the others are the representatives of the public Unions, some with 100 employees, and one who represents the Unions that have less than 100 employees.

6:30 P.M. – ZESIGER CAPITAL GROUP – AL & BARRIE ZESIGER

Ms. Petrino introduced Mr. Al Zesiger, head of the Zesiger Capital Group, which he founded in 1980. It was formerly BEA. He has always run the portfolio in a benchmark-free way. They are invested in US equities, emerging markets (primarily Asian), and some private equity. There is a guideline that says no more than 10% in private placements, and they might be at 15%. The maximum of 30% is in international equities. The US component tends to be small cap growth. They created a portfolio benchmark for him, which is 70% of the Russell 2000 and 30% broad emerging markets. Mr. Zesiger said that the portfolio is compounded at 11.7% per year. The S&P 500, which is an internal benchmark, is compounded at 9.3%. They are almost 2 ½% ahead of the benchmark. Year to date for 2005 is up 7.9%. Since 2002 they've gone up faster than the index and held it, and gone up on the EFA index. The emerging markets, mostly Southeast Asia, that they are in are growing 8-10% annually. Mr. Zesiger said that the pension plan is up $32.2M. The yield on the total portfolio is 1.4%. The international equities that they have are yielding 1.5% as opposed to 1% in the US Equities.

Mr. Zesiger introduced Mr. Bobby Winters, who presented information on the domestic and international equities, which are broken down by industry sectors. Basic industry, biotech, conglomerate, etc., continue to be significant pieces of the portfolio. Energy represents the largest portion, 16.4%, of the entire portfolio. It is positioned domestically and is considered positive. Energy and energy infrastructure represent 42% of the domestic portfolio. Global positioning might include water now. General Cable is in the portfolio and has been for about four years. Uranium Resources is one of two companies that processes uranium. It is priced on an exchange, and it trades over the counter. The market cap is $120M for the company and the firm is 30%. The average daily volume in stock trades is $1M shares on a day. Zesiger doesn't have a seat on the Board. The total invested capital for all of Zesiger in this company is $6.5M. The price of uranium is $35./36./lb. It is an unusual situation that they have mines in NM and Texas, and they have water rights, which you need to have to do that kind of mining. Prices could be locked in for 10 years or so. New nuclear power is being built in foreign countries.

Mr. Zesiger said that international is 31% of the portfolio, and is on the way up. They want it to go into the 40's. The largest international holding is India. He introduced Mr. Sanjeev Sami. There is a belief that international markets offer a much better growth. Petro Brass is in Brazil. It shows faster growth and is one of the cheapest companies. In China, there is a lot of growth in agriculture and organic forming. In India, they have the largest bank, and the largest oil, gas, and petro chemicals company in the country. The best performance in the portfolio has been from Indonesia. The pipeline company in Indonesia is doing very well. Telecom Indonesia is focused on the growing cellular phone network. In Japan, the NEC Corp will have good years in 2006 and 2007. There is a home goods chain in Thailand, and they are doing very well. Multiplexes are a growing business in India. Meikong Leisure, a Vietnamese investment, started out as a water park, and with rezoning of the land, it will now become a planned community. Zesiger is now involved in building multiplexes in Vietnam. Zesiger owns 49% of the Meikong joint venture, and the joint venture owns 80%. They recently received $20M in mezzanine financing from Prudential.

A suggestion was made to add a column to show what percentage of public companies they own, or make it a separate sheet. Zesiger's total assets under management is about $800M. The board members had a discussion about Zesiger. It had underperformed for a while. Chairman Murphy said that decisions need to be made over the next two months about asset allocation. They will have subcommittee meetings, and then be ready to make a decision in February.

7:00 P.M. – EAI – ELLEN PETRINO & JACKIE SHEA

Ms. Petrino said her report shows a category called Real Return Assets, and she added the Pimco All Asset Fund and the Pimco Commodity Real Return Fund. They took $25M at the end of April. Some discussion followed regarding the report. 18% in fixed income is not enough for a public plan. It should be more at 30 or 35. Ms. Petrino will put together some dates for the meeting and will email them to everyone, the week after Thanksgiving.

APPROVAL OF MINUTES FOR JUNE 8, FOOD SERVICES FOR JUNE 8, SEPTEMBER 14, FOOD SERVICES FOR SEPTEMBER 14, AND OCTOBER 12, 2005

June 8, 2005

** MR. PIRRO MOVED TO APPROVE THE MINUTES OF JUNE 8, 2005.

Corrections:

On page 1, under Pantheon Ventures, 5th paragraph, the 2nd sentence should read "It had been drawn down."
On page 2, under EAI, 5th sentence, the word Commodity should be added before Real Return.
On page 2, under EAI, 7th sentence, the word fixed should be added before income.
On page 4, on the third pension approval, it should be Mr. Gregory Bitondo.

** MOTION PASSED UNANIMOUSLY.

Food Services for June 8, 2005

** MR PIRRO MOVED TO APPROVE THE FOOD SERVICE MINUTES OF JUNE 8, 2005.
** MOTION PASSED UNANIMOUSLY.

September 14, 2005

** MR. PIRRO MOVED TO APPROVE THE MINUTES OF SEPTEMBER 14, 2005.

Corrections:

On page 2, 5th paragraph, 4th sentence, it should read other "areas", not "companies".
On page 3, 2nd paragraph, 2nd sentence, it should read "Capstone is getting 14 basis points, not percentage".
On page 3, 2nd paragraph, 5th sentence, it should read "The cash flow puts about $7M annually into the fund; $12M goes out; it's about a $5M net outflow".

** MOTION PASSED WITH ONE ABSTENTION (MURPHY)

Food Services for September 14, 2005

** MR PIRRO MOVED TO APPROVE THE FOOD SERVICE MINUTES OF SEPTEMBER 14, 2005.
** MOTION PASSED UNANIMOUSLY.

October 12, 2005

** MR. SALVATOR MOVED TO APPROVE THE MINUTES OF OCTOBER 12, 2005.

Corrections:

On page 4, at the top, the entire paragraph outlining the background information of the Pension Board members should be deleted.

** MOTION PASSED UNANIMOUSLY.

APPROVAL OF PENSION APPLICATIONS

Craig A. Reichenbach, Board of Education Data Processing, 25 yrs, 1 month of service, 61 years, early pension, $114,662.41 final average salary; standard form option selected, 5 year certain, $56,940.00 annual $4,745.00 monthly. The commencement date is January 15, 2006.

OTHER BUSINESS

The new SPD (Summary Plan Document) book will be available soon.

The Board members discussed Ms. Petrino's contract, which expired last June. Last month, the Board discussed and agreed to a 3% increase for two years. Her annual salary is $85,000 for a full service consultant. After more discussion, the Board has now agreed to a 5% increase per year for the next three years, retroactive for six months.

** MR. PIRRO MOVED TO AMEND MS. PETRINO'S CONTRACT TO BE AN INCREASE OF 5% PER YEAR FOR THE NEXT THREE YEARS.
** MOTION PASSED UNANIMOUSLY.

ADJOURNMENT

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

The meeting adjourned at 9:15 p.m.

Respectfully submitted,

Carolyn Marr
Telesco Secretarial Services