NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD MINUTES

Minutes from Meeting
WEDNESDAY, OCTOBER 8, 2003

ATTENDANCE: James Murphy, Chair; Patricia McCormick, Don Nelson,
Larry Manzi, Charles Pirro, Timothy Scheibel,
Tom Hamilton, Rebecca Hoeffer (@ 7:00 p.m.)

STAFF: Sara LeTourneau, Personnel Director;
Fred Gilden, Comptroller

OTHERS: Michael Steinrueck, Artisan Partners; Ellen Petrino &
Karen Nolting, EAI

CALL TO ORDER

Mr. Murphy called the meeting to order at 6:15 p.m.

ARTISAN-MICHAEL STEINRUECK

Mr. Steinrueck from the Artisan Partners said that they made money though they could have made more. He said that prior to what happened in Iraq there was wonder about what was going on. When Iraq started the markets turned around. He said they have gone beyond that since July. The markets have gone very far. There has been a change to the management team. He asked the board to turn to page 5 of the portfolio he handed out. He stated that Emily Baker has recently joined the team. The analyst left and joined a competing firm. He said they are still looking for sustainable earnings gross. He said they would sell the stocks when they are two times the rate.

Ms. Petrino asked what the year-to-date is. Mr. Steinrueck said that is 12%. He asked the board to go to page 10. He said they started insurance exposure after September 11th. There are two ways to replenish capital. He said they will be put back into funds or the premiums will be reduced. He said they would also underwrite the policies and collect premiums. Last year the markets fell to low levels. As the markets fell, the equities had to be spent. He said they would have waited if they knew this. They are looking for public access to low distributions. For instance, Dell is used to cutting price before others. In Europe people are becoming more price conscious than quality conscious. Stock is seen as undervalued.

Referring to page 17, Mr. Steinrueck said they continue to be active and different from the index. Japan is one of the biggest markets they offer. China is amazing right now and has grown by 9%. Foreign exchange markets re encouraged being more flexible. The Japanese were becoming cheaper and cheaper against the Europeans. The markets added to the momentum. He said they increased the Japanese exposure six months ago. In terms of true fundamental, the best is yet to be found in Europe. In asset ratios, Japan is getting to be very expensive. Things have gotten better though. The gross is not as strong as they wanted it to be.

Mr. Murphy asked Mr. Steinrueck if he thinks that real estate is overvalued in Europe. People have a problem with others who invest in high priced apartments and condominiums. He asked if that would hurt the economy. Mr. Steinrueck said that this would not be in relative terms. Ireland was the fastest growing economy. There is massive intervention going on in Japan. China has $360b in foreign country reserves. On the inflation side there is positive outcome and there will be benefit. He said there is 70% real estate correction in Hong Kong. In relative terms, Europe is not that much more expensive. Mr. Hamilton asked if this is just a matter if what countries are liked or disliked. Mr. Steinrueck said that this was because of the companies they invest in. He said that if you like the sector, you cannot avoid the markets.

Mr. Steinrueck said that the GDP would not be increased by much and not in the foreseeable future. Mr. Murphy asked how the financial markets are. Mr. Steinrueck said they are exceeding to 3% and that is a good thing. He said the good news is that there is fiscal flexing now. The perception of CP will be a much stronger one. He said thank you and left at 6:53 p.m.

Ms. Petrino said that this was a reasonable benchmark. Mr. Gilden said that Artisan has been recovering since last year. Ms. Petrino said the gap was close to 300 basis points beyond the benchmark. Quality growth managers are trailing. They would catch on if there was a trend. Mr. Murphy said that every manager hired has had a history of being behind. Ms. Petrino said that Mr. Steinrueck has such a good record and travels very frequently. He is always available when he is called. She said that she likes the thought process and would rather not take an aggressive ride.

EAI- ELLEN PETRINO AND KAREN NOLTING

Ms. Petrino passed out an Asset Allocation Detail handout and said they stopped at 930 on the market values. Pantheon called down a little more money. They have now taken 35%. August rates have returned. She said that the first page shows the cash flow for one month. The next one is quarterly. The second to last page has rates of return. The calendar and fiscal year-to-date are up to 15.8% on the calendar rate. The fiscal is up 4.1 versus 3.5 or 2.1. The total long U. S. equities are up. The TCW is up 40.8% and the benchmark is up 15%. Zeziger is up 37%. The international equities are up 38.2%. Private managers are declining. Blackstone is up 5.9%. The international is up and the emerging is new. The GMO earned 18.6%. Zeziger earned 19.8%. The fixed income year-to-date is the return of Capstone. The fixed income did get reduced and the market has worked. Mr. Hamilton asked about Pantheon. Ms. Petrino spoke about the private equity manager, the buyouts, and venture capitals as well as secondary funds. Mr. Murphy said there was $15m invested in Pantheon. Mr. Gilden said that 35% was taken out. Ms. Petrino said that they have created a benchmark and that the fixed income has been lowered. Mr. Murphy asked if they should look at the hench funds and offset them. Ms. Petrino said they are trying to beat the benchmark for performance purposes. A custom benchmark has been created in order to look at performance. Mike Salvatore said there should be 1% in the benchmark.

Mr. Hamilton asked if the benchmark is rebalanced every month. Ms. Petrino said that this would not change. She said it serves no purpose to change. There are managers doing various things to make them money. Performance attribution was quarterly. Zeziger is in emerging and private markets. Ms. Nolting passed around an Investment Management Structure handout. She told the board to look at emerging markets and private placement. The totals come from the custodian and the pieces come from Zeziger. The custodians lump everything. Mr. Murphy asked why there are no separate totals. Ms. Petrino said that they would have to keep three different portfolios. Mr. Murphy asked why they do not just go to the custodian. Ms. Petrino said they do not do the totals for them. Ms. Nolting said that the custom benchmark would get them up to 45%. The last column reflects the preliminary total fund. 12% of the allocation is for the private fund. Mr. Murphy said the theory is right.

Mr. Murphy asked Ms. Petrino what she thought about the asset allocation. She said she thinks it is alright now. She said they needed to question whether they are too aggressive. The fixed income is not a good place to hide. Mr. Hamilton asked how many permutations fall into what approach. Ms. Petrino said they have one large cap manager. Zeziger's small cap manager tends to be small growth. There seem to be a pretty good balance. Ms. Petrino said the belief is that smaller caps will do better coming out of a recession.

Mr. Murphy asked if there was too much money in bonds. Ms. Petrino said she believes the interest rates will start rising in about a year. She said Capstone would protect them as much as they can. They will take a big hit if they move to bonds. They are not appropriate for public fund. She said they could do real estate, though they do not have a good track record in that area. Ms. Hoeffer said they do have some real estate in their portfolios. Ms. Petrino said there is a very minimal amount. Mr. Gilden said that $250m has been made as of yesterday.

A handout on cash flow projection was passed out. Mr. Hamilton stated that they would put in whatever the requirement is. Mr. Gilden said this shows the employee contributions for the year. With investment managers, the dividends are taken and put into cash. Mr. Murphy said it is a program for custodian to lender securities. 102% of security costs of values are lended for a short period of time. Securities are being lended. Ms. Petrino said they could lose with cash collateral. Mr. Gilden said the fees paid are what they pay for active managers. Mr. Hamilton questioned the account for the benefits. Mr. Gilden said there is a short-term cash account for benefits and there is money transferred from Capstone. Mr. Murphy said they take money from their assets to pay benefits. He said they take $5.5m from investments to make payments. Mr. Gilden takes the money that needs to be paid to the beneficiaries.

Ms. LeTourneau said that she has two items for future board actions. There is a method of calculating salary. She said she wants the board to determine how to do that. Once they do have an agreement on the pension document, the document needs to be formalized stating how they handle the aspect of pension evaluation. Ms. Hoeffer asked if there is a target date. Ms. LeTourneau said that once the decisions are made, there would be resolution on the dispute. Mr. Murphy asked where they stand on this cycle of the contract. Ms. LeTourneau said the pension agreement expires June 2004. Mr. Murphy said it was an administrative manual. Ms. Hoeffer asked if the board should hire a consultant. Ms. LeTourneau said outside review is recommended. It is important and beneficial. Mr. Scheibel said the board should review the forms before the consultant comes in. Mr. Murphy said a consultant is needed. Mr. Hamilton agreed. Ms. LeTourneau said she would like to see all pension business on software. Mr. Hoeffer asked if it would be appropriate to start the process without having the two issues resolved. Mr. Murphy replied yes and said it was a matter of search for procedure. He suggested a subcommittee meeting to make the proposal. Ms. McCormick said that Mr. Scheibel's idea was a good one. Having the people that already exist look at the documents before getting the consultant is a good idea. Mr. Murphy said they should just look at regulations. Mr. Nelson said the consultant could tell what the progressions are. Mr. Hamilton said it is also a matter of recognizing the process.

Ms. McCormick said she was given documentation with description of the Pension Board. She questioned where that is now. Mr. Murphy said the board has been asking for finalized negations for four years. He said they are administering a plan without a proper SPD. Ms. McCormick questioned what needed to be done. Ms. LeTourneau said there is two items in litigation that need to be resolved. She said the general description has to do with optional forms and whether or not the cost of living form is available to the retiree. Mr. Murphy said they are not paying the cost of living to those individuals at this time. He said it is very difficult not having the SPD. Mr. Scheibel said there were obviously agreements that were met in the past. Mr. Murphy said their job is to administer a plan. Mr. Scheibel said the provision has lasted for 17 years. Mr. Murphy said it is hard to administer a plan to the beneficiaries without documentation and knowledge of the terms. The union people are not receiving good information. The retirees are the ones suffering because of the lack of information.

** MR. MURPHY MOVED TO REFER THE MATTER TO THE SUBCOMMITTEE FOR REVIEW.
** MOTION PASSED UNANIMOUSLY.

APPROVAL OF PENSION APPLICATION

** MR. SCHEIBEL MOVED TO APPROVE NANCY JOYCE'S NORMAL FORM PENSION APPLICATION IN THE AMOUNT OF $3,511.50 MONTHLY AND $42,138.00 ANNUALLY.
** MS. HOEFFER SECONDED.

** MOTION PASSED UNANIMOUSLY.
APPROVAL OF MINUTES

Minutes of September 3, 2003

Pg. 7- “bad” should be “back.”

** MR. PIRRO MOVED TO APPROVE THE MINUTES OF SEPTEMBER 3, 2003 WITH CORRECTION.
** MOTION PASSED UNANIMOUSLY.

DISCUSSION ON ROLE OF PENSION BOARD AND FINANCE BOARD RE: ACTUARY

Mr. Pirro said he is concerned about the process. He said he did not know how 3 finalists were selected. He said he was concerned about this not being included in the selection process. Another town terminated the current actuary. The total costs seem to be the same. Norman has been accepted as the new actuary. Mr. Murphy asked what they are doing as an orderly transfer. Mr. Gilden said he gave the information to Ms. LeTourneau. Mr. Hamilton said he looks forward to the ongoing relationship with Seigel. Ms. LeTourneau said the city is using Buck to assist them. He is being used for an isolated contractual issue. Mr. Gilden said there have been contributions and assumptions through June 30, 2004. Mr. Hamilton said the work needed to be done in time for the budget process. Mr. Murphy asked when the most current consensus would be given. Ms. LeTourneau said right away. Mr. Murphy said there would be nothing holding up the actuaries and Mr. Gilden said that was correct. Ms. LeTourneau said she would need an update.

Mr. Hamilton said the board does not have a right to challenge the assumptions of the city. The city is the client of the actuary and entity most affected by the results of the evaluation. He said he did not think it is the Pension Board’s right and responsibility to set assumptions. Ms. Murphy disagreed and said the board had always done this. The rate of return has been changed and there have been assumptions and increases in payroll. Mr. Hamilton said he would go back and look at the minutes. He said that he understood the city to be the ones who set assumptions. Mr. Pirro said that fiduciary responsibility is the key. The way the assumptions are set will off set how they make investment decisions. He said he wanted to be part of the decisions. Mr. Hamilton said their fiduciary responsibility is to invest funds according to the investment rule. Mr. Murphy said the board moved the assumptions from 8 ½ to where they are today. Mr. Nelson said they needed to find a way to work together.

Ms. LeTourneau passed out a memo of the pension buy-back. She said there are specific provisions. There is a former city employee wants to buy back the pension funds. The request for the buy-back is that it be done by $500 per pay period installments.

** MR. SCHEIBEL MOVED TO APPROVE THE PENSION BUY-BACK REQUESTED BY THOMAS HAMILTON IN THE AMOUNTOF $8,015.84.
** MS. HOEFFER SECONDED.
** MOTION PASSED UNANIMOUSLY.

Mr. Gilden said the interest assumption is the time of the buy-back. Ms. LeTourneau said it is for anyone who has left and come back to the city. She said it only applies to the city of Norwalk pension provider.

The meeting was adjourned at 8:15 p.m.

Respectfully Submitted,

Michelle Joseph
Telesco Secretarial Services