

NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD MINUTES

SEPTEMBER 13, 2006

ATTENDANCE: James Murphy, Chairman; Michael Sweeney; Gerald Moran; Charles Pirro; Etta Jones; Larry Manzi; Frank Nash (6:05 p.m.); Patricia McCormick (6:10 p.m.)

STAFF: H. James Hasselkamp, Jr., Director of Personnel and Labor Relations; Fred Gilden, Comptroller

OTHER: Ellen Petrino, EAI, (6:10 p.m.); Christopher Cowie, Ronald Dorneau, Silchester

CALL TO ORDER

Chairman Murphy called the meeting to order at 6:05 p.m. He introduced Mr. Hasselkamp as the new Director of Personnel and Labor Relations. He said that Mr. Michael Salvator was unanimously approved as a member of the Board.

Mr. Nash arrived at 6:05 p.m.

SILCHESTER INTERNATIONAL, CHRIS COWIE, PORTFOLIO REVIEW

Mr. Cowie, Managing Director, and Mr. Dorneau, Vice President, from Silchester provided their portfolio review. Mr. Cowie said that they have been managing the Norwalk Employee Pension Board money for three years now. The product that Norwalk is invested in is the only product that Silchester has. He said that Silchester is an independent firm controlled by the principals. At the end of June, they were managing about \$18B. The funds are commingled. They reached a number that they considered appropriate, which was \$5B of book cost, so they stopped taking net new assets.

Mr. Cowie said that there haven't been any significant changes on the investment side. There are two new employees that have joined on, which makes the third generation of investors at Silchester. The employees listed on Page 3 of the report are all shareholders in the firm and are all invested in the program. Mr. Cowie is a founding partner of Silchester.

Mr. Cowie said that Silchester builds the portfolio stock by stock, and the goal is to keep good companies in the portfolio, those with long histories of good businesses, strong franchises, and strong financial structures.

Ms. McCormick and Ms. Petrino arrived at 6:10 p.m.

Chairman Murphy was called out of the meeting at 6:15 p.m., so Mr. Pirro became Acting Chairman. Chairman Murphy said that he spoke with Mr. Salvator regarding the Pantheon money, and he said that Mr. Salvator's recommendation is to go with \$15M. Mr. Salvator wanted the Board to be aware of the consequences of the European fund.

Mr. Cowie said that they try to have about 100 companies in the portfolio. Over the life of the program, they have held companies for about 4 years, and they have seen a 25% turnover annually. He said he feels the portfolio is the strongest it's ever been. Mr. Dorneau said they have added about 28 new names to the portfolio, and they have sold out of 8 names. He said that the top 10 securities listed on page 9 make up just under 25% of the portfolio. The top 50 names make up just about 75% of the portfolio. He said that on page 10, they have a market multiple, with the dividend yield of just under 3%. The return on equity of the portfolio is just under 13%. The debt to equity in the portfolio is about 20%, where the index is just shy of 60%. They have 14 times the interest cover, vs. 9 times for the index. He further stated that they have robust businesses. The opportunity is on the quality side, not the pricing side. He said they are striving to bring down the price to book number.

Mr. Dorneau continued, saying that on page 13, the portfolio activity over the last 6 months shows that they were selling stocks in aggregate at 20 times earnings, and book value of 3 times earnings. When allocating capital into new names, they are buying at 13 times earnings and 1 ½ times book value.

Mr. Cowie pointed out that on page 17, the performance indicates that it was compounded over 3 ½ years at 22%. Historical equity returns were less than half of that, and their own returns were under 16%.

Acting Chairman Pirro asked Mr. Cowie to elaborate on what he is seeing for the future. Mr. Cowie said that they will be at peak earnings, most likely, with profitability and return on equity to remain at their current level. He said they feel the capital markets are financially stretched with all the debt. He said it could be a rough period ahead, but they have strength in the underlying businesses that their companies are in. Mr. Cowie, in response to Mr. Nash's question, said that they don't have cash to speak of, and business returns are better than cash returns over time. Some discussion took place regarding the yen, sterling, and euros. Mr. Cowie said they are overweight in the UK vs. the index, and since they think the currency is vulnerable, they have hedged Sterling to the yen, the cheapest major currency. They have bought yen forward contracts, not futures.

EVALUATION ASSOCIATES, ELLEN PETRINO

2nd Quarter performance review
Update on private equity
Update on infrastructure investing

Ms. Petrino provided copies of her report. She said that small cap stocks fell behind large cap stocks. Value dramatically outperformed growth, energy was strong in the 2nd quarter, international markets suffered increased volatility but still came in ahead of the US, although Japan fell. Emerging markets lagged for the first time in a long time. The yield curve shifted up, so they had negative returns in bonds. Basically it was a negative quarter for most things, except for cash, which they had just gotten into in May. She said YTD was strong through June. She said the fiscal year results were outstanding at 14.5%. In response to Mr. Sweeney's question, she said that the performance results and information about other pension funds are provided by Mellon Trust, a major custodian that is part of Mellon Bank, and are not necessarily complete, but they appear to be representative.

Regarding asset allocation, Ms. Petrino said the master trust is very diversified, and despite trimming equities, the fund remains heavily equity-oriented at an effective exposure of 64% in equity.

She further stated that Zesiger has a big impact on the portfolio, both on the upside, which helped in the fiscal year, and on the downside, which hurt in the quarter. Silchester did well in the 2nd quarter.

Ms. Petrino discussed some recommendations regarding the private investments. She thought they should be discussing whether the bonds should be managed recognizing the liabilities of the portfolio, rather than managing on a total return basis to try and earn the most possible. There is a mismatch in duration of the bond portfolio relative to the liabilities. Some discussion followed regarding the duration of the portfolio.

Ms. Petrino said that Bear Stearns and Armstrong Shaw underperformed the benchmark, which is the Russell 1000 value index, but they are above the median value manager for the quarter. She said that Zesiger is a big driver of the volatility of the portfolio.

Ms. Petrino said that Blackstone Park Avenue underperformed in the quarter, which affected their year to date, cumulative number. Ivy did relatively better in the quarter, better than Blackstone. She mentioned that Blackstone now has a global equity portfolio, and she felt it might be worthwhile to look into when they present to the Board in December.

The discussion then focused on what account to put the cash in (the \$23M cash total is 6.9% of the fund), and Ms. Petrino said she would like them to commit to private equity. She said that she and Mr. Salvator did the due diligence with Pantheon. Pantheon is a private equity fund of funds, and Norwalk is already invested in two of their other funds, #4 and #6, on the US side. The firm started in Europe. As stated earlier, Ms. Petrino said Mr. Salvator is recommending that they go with Pantheon, and they would be making the commitment in euros. The amount they commit will change in dollar terms. She said there are three Pantheon funds that they were considering, one is a US fund, one is an international fund, and the third is the secondary fund, which was approved at the last meeting. The secondary

fund consists of partnerships that were previously owned by other people and are appropriately valued. She clarified for everyone that Mr. Salvator meant that 1/3 each would go into the US Fund, the International Fund, and the Secondary Fund and that he was recommending \$15 million whereas she had initially been recommending \$20 million. The committee reviewed the money amounts that been discussed at the last meeting, and they agreed that it was not voted on. It was confirmed that they have a \$30M commitment in the two prior funds. More discussion followed regarding the money commitment, and if they have \$345M in the account already, and make an additional commitment totalling \$50M, they are committing 14% of the funds. Mr. Nash said he was opposed to this, as he is not in favor of illiquidity. He said that they stand the chance of having an enormous amount of the pension plan committed to illiquid assets. Mr. Pirro clarified that it would be slightly lower than 14%, as part of the original commitment has already been paid. The discussion continued among all the Board members regarding the commitment level. Acting Chairman Pirro requested Ms. Petrino make a presentation to the Board regarding the commitment decision. He asked that it be a subcommittee meeting, prior to the next meeting, and to have Mr. Salvator attend.

APPROVAL OF MINUTES FOR MAY 10, 2006 AND JUNE 14, 2006

** MR. NASH MOVED TO APPROVE THE MINUTES OF MAY 10, 2006 AS REVISED AND PROVIDED BY MS. PETRINO.

** MR. SWEENEY SECONDED.

** MOTION PASSED UNANIMOUSLY.

** MR. NASH MOVED TO APPROVE THE MINUTES OF JUNE 14, 2006 AS REVISED AND PROVIDED BY MS. PETRINO.

Further corrections to the minutes of June 14, 2006 are as follows:

On page 4, under PENSION APPLICATIONS, the annual benefit figures should be the monthly benefit figures.

Vilma Campos, annual benefit \$36,696, monthly benefit \$3,058.

Dorothy Frank, annual benefit \$37,302, monthly benefit \$3,108.50.

Francis Gay, annual benefit \$35,376, monthly benefit \$2,948.

Lynda Ann Kendy, annual benefit \$13,866, monthly benefit \$1,155.50.

Janet Green, annual benefit \$15,582, monthly benefit \$1,298.50.

Mary Ann English, annual benefit \$8,040, monthly benefit \$670.

Timothy Scheibel, annual benefit \$45,030, monthly benefit \$3,752.50.

** MR. SWEENEY SECONDED.

** MOTION PASSED UNANIMOUSLY.

APPROVAL OF PENSION APPLICATIONS

**** MR. NASH MOVED TO APPROVE THE FOLLOWING PENSION APPLICATIONS:**

Ms. Emma Bestercy, BOE, 34 yrs, 10 mos service, 86 years old, Regular Pension, final average salary \$54,950.00, standard form, annual benefit \$38,280.00, monthly benefit, \$3,190.00, commencement date Sept. 1, 2006.

Some discussion took place regarding Ms. Bestercy's pension application and whether she had made an informed decision. Some discussion followed about educating the retirees about the ramifications of their choices. Some discussion followed regarding the beneficiary information on the pension application for Ms. Bestercy.

**** MR. MORAN MOVED TO APPROVE THE PENSION APPLICATION FOR MS. BESTERCY.**

**** MR. SWEENEY SECONDED.**

**** MOTION PASSED UNANIMOUSLY.**

**** MR. NASH MOVED TO AMEND THE ABOVE MOTION, MAKING IT SUBJECT TO REVIEW AT THE NEXT MEETING TO REAFFIRM THE ABOVE LISTED NUMBERS, OR TO CHANGE THEM.**

**** MS. MCCORMICK SECONDED.**

**** MOTION PASSED UNANIMOUSLY.**

Ms. Ruth Atkins, BOE, 25 yrs, 4 mos service, 66 years old, Regular Pension, final average salary, \$32,120.00, standard form, annual benefit \$16,272.00, monthly benefit \$1,356.00, commencement date Sept. 1, 2006.

Ms. Elvira Barrett, BOE, 27 yrs, 2 mos service, 67 years old, Regular Pension, final average salary \$51,318.00, Opt. #1, annual benefit \$25,908.00, monthly benefit \$2,159.00, commencement date Sept. 1, 2006.

Mr. Carlos Hernandez, OMI, WWTP, 19 yrs, 11 mos service, 55 years old, Early Pension, final average salary \$62,665, standard form, annual benefit \$20,724.00, monthly benefit \$1,727.00, commencement date July 1, 2006.

**** MR. NASH MOVED TO APPROVE THE PENSION APPLICATIONS FOR MS. ATKINS, MS. BARRETT, AND MR. HERNANDEZ.**

**** MR. MANZI SECONDED.**

** MOTION PASSED UNANIMOUSLY.

OTHER BUSINESS

Ms. McCormick spoke about the upcoming pension meetings for retirees. She has received one response, and she asked who would be making the presentations. She suggested that the attendees submit their questions prior to the meeting, so that the Staff can present the information to them at the meeting.

ADJOURNMENT

** MR. NASH MOVED TO ADJOURN.

** MR. MORAN SECONDED.

** MOTION PASSED UNANIMOUSLY.

The meeting was adjourned at 8:45 p.m.

Respectfully submitted,

Carolyn Marr
Telesco Secretarial Services

