

NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD MINUTES

Minutes from Meeting

SEPTEMBER 3, 2003

ATTENDANCE: Jim
Murphy, Chairman;
Charles Pirro;

Michael Salvator, Patricia
McCormick; Rebecca
Hoefer; Ron Nelson; Vicki
Bove

STAFF:

Frederic Gilden, Comptroller; Tom Hamilton,
Finance Director; Sara LeTourneau,
Director of Personnel & Labor

OTHERS:

Ellen Petrino, Consultant; EAI; Karen Nolting,
Consultant, EAI

CALL TO ORDER

Mr. Murphy called the Special Meeting to order at 6:30 p.m. He then introduced Mr. Tom Hamilton as the new Finance Director for the City.

Mr. Anton Jacob, a City retiree, submitted a written request that the Pension Board of Trustees authorize a 1 ½% COLA increase for all retirees as per the City Employees Pension Plan. The Board concurred that the request will not be acting on this request this evening but will bring it up at a future meeting.

CAPSTONE – ED JAROSKI AND HOWARD POTTER

Mr. Jaroski gave an overview of the investment environment and performance. Mr. Potter then reviewed the sources of the performance. He stated that in the third quarter, Capstone began reducing mortgages. He continued that the portfolio now has a lower duration than the benchmark because Capstone underweighted mortgages whose duration has lengthened while their duration has stayed the same. He stated the reasons for Capstone's outperformance since July 1st was that bank paper spreads have collapsed as the economy has improved and industrial spreads have also come in. He reported that utilities spreads have not come in so they will consider utilities and mortgages within the

next year and expect a 50 basis point increase in mortgage rates. He reported that they will not reduce the corporate exposure as the economy expands, but will reduce Treasuries. He continued that they expect the economy to expand about 3.5%, a modest recovery, and they have no inflation concerns over the next year. He noted that a lot of money is sitting in cash at low rates and could fuel a rally in either stocks or bonds or both.

APPROVAL OF MINUTES – JUNE 11, 2003

It was discussed that the Board Members in attendance was incomplete. Ms. LeTourneau stated she would check with the Recording Secretary for the Board Members that were in attendance. The Board agreed to table the approval of the minutes.

DISCUSSION REGARDING REQUEST FOR PROPOSALS

FOR ACTUARIAL SERVICES

Mr. Murphy stated that he found out that the City had put together an RFP for an actuary and interviews had taken place and the Pension Board was not involved in the interviews or invited to any of the meetings pertaining to a new actuary. He stated he was very upset and that there was never a problem before and the Pension Board always did the hiring of the actuary. He stated that the process was flawed as far as the terms of what the City was doing and that the City and the Pension Board should have the same actuary. Mr. Gilden then handed out information on the "Summary of Pension Contributions Under Various Assumptions" prepared by the actuary and stated that the Mayor and Finance Director had discussed it to alert them of any potential outlay hitting the City.

Mr. Hamilton stated that this was only his first day however, in his experience, it was not uncommon for the Finance Director to meet with the actuary and run scenarios about assumptions and the impact on the City and funding of the Plan. He stated that it looked like this was prepared in response to a request from the Finance Director. Mr. Murphy stated that the Board asked for the scenarios from the actuary through Mr. Gilden and never received them and they were never shared with this Board. Mr. Hamilton stated that there were two interested parties to these issues, the Pension Board and the City, and there was no reason to have two sets of actuaries. He stated that they both have involvement and there is a middle ground that can be reached and the opportunity to work together going forward.

Mr. Pirro stated that the Board had a fiduciary responsibility to maximize the fund and if someone from the outside says that they have to use their set of assumptions there will be no control as a fiduciary. He stated that if someone dictates how to manage the money the Board will get all the blame and take all the risk and will not be able to control that. He stated he was unsure he would

want to serve on the Board under those conditions. Ms. Hoefer questioned why it was felt to be a need to possibly change the actuary. Mr. Hamilton replied he thought their contract had expired. He also stated that no decision had been made to change the actuary and whether there were other issues he did not know.

Mr. Nelson stated that they should structure a 50/50 arrangement laying out the responsibilities of the City and the Pension Board because one hand does not know what the other is doing and that is dangerous and illegal. He stated that they all have the same objective and should find a way of formalizing who does what and move forward. Mr. Hamilton stated that the process is that RFP's go through the Selection Committee, who is appointed by the Mayor.

Mr. Murphy stated that he was in disagreement with not being part of the process and being excluded because they do have a fiduciary responsibility for hiring the actuary of one of these plans. Mr. Hamilton agreed that the Pension Board should be involved in the selection process. Mr. Murphy stated that there should be one actuary in the City and this Board should be part of that process. Mr. Pirro asked how many members served on the Selection Committee and Mr. Hamilton replied a Mayor representative and 4 others. Mr. Murphy commented that there should be at least two people from the Pension Board on that Committee because of their experience. Mr. Hamilton stated that he would bring that message back. Mr. Murphy stated that they should find a process to do the RFP and for interviews to take place as part of this process.

Mr. Hamilton stated that they can get there with goodwill on everyone's part. Mr. Murphy stated that the Board needed to have input on what the actuary is doing and to get guidelines on who will represent who.

EAI – ELLEN PETRINO AND KAREN NOLTING

Ms. Petrino reviewed the performance of the fund for the period ended 6/30/03. She reported that the total fund ended the quarter and fiscal year with \$262.8 million in assets and ended July with \$265 million. She reported that the fund's asset allocation by manager assignment as of June 30, 2003 was 70% equities, 26% fixed income, 2% cash, and 2% private investments, which were within policy range. Ms. Petrino continued that in the second quarter, both asset allocation and manager performance contributed to outperforming the benchmark. She noted that asset allocation was favorable in all asset classes except U.S. long equity, which was underweighted. She reported that most of the outperformance came from manager outperformance of benchmark indices in the long U.S. equity and international equity segments of the portfolio, with slight underperformance in fixed income and there was major underperformance of the hedge funds in the last quarter. She noted that as compared to the Russell/Mellon Public Trust Fund Universe, the pension fund ranked 10th percentile for the quarter, 6th percentile for the year to date, 14th percentile for the

fiscal year, 42nd percentile for three years, 1st percentile for five years, and 40th percentile for ten years. She stated that the Boston Company underperformed the benchmark slightly in the quarter and she is watching them because of that.

Ms. Petrino concluded her report by stating that they should talk about bonds and inflation (real assets) and if the fund should have any assets to benefit from rising inflation.

Mr. Gilden next distributed projected cash flows for FY 2004 and reviewed how the plan looked today. He stated that as of today they have \$271M in assets. He noted that they were still getting dividends from investing managers and questioned if they should continue using Capstone for transfers. Mr. Petrino asked how much money was going to be drawn down from the fund in the next twelve months. Mr. Murphy suggested that the cash flow sheet show pension benefits and income. Mr. Salvator asked what the fee paid for \$1.6 million was for and Mr. Gilden replied it was for investment management fees. Mr. Murphy suggested maybe taking cash from bonds and gradually reduce bonds.

APPROVAL OF PENSION APPLICATION(S)

Ms. LeTourneau distributed seven pension applications for consideration from the Board.

****MS. HOEFER MADE A MOTION TO APPROVE THE APPLICATIONS.**

****MR. PIRRO SECONDED THE MOTION.**

****MOTION PASSED UNANIMOUSLY.**

Ms. McCormick asked about the retroactive pay for retirees who retired before the age of 62 under the old contract. Ms. LeTourneau replied that all checks have gone out and she was not certain about the retroactive portion. Ms. McCormick stated that she had knowledge that the checks have not been received. Ms. LeTourneau stated that this was based on contractual adjustments and needed no action by the Board. She told Ms. McCormick she would review the files with her after the meeting.

OTHER BUSINESS

It was discussed if the meeting day should be changed because of conflicts. The Board concurred to keep the same meeting day for the month of October. Mr. Murphy stated that the next meeting will be held on Wednesday, October 8th at 6:00 p.m. He also recommended that asset allocation be discussed at that meeting.

ADJOURNMENT

****MS. McCORMICK MADE A MOTION TO ADJOURN.**

****MR. SALVATOR SECONDED THE MOTION.**

****MOTION PASSED UNANIMOUSLY.**

The meeting was adjourned at 8:20 p.m.

Respectfully Submitted,

Donna DeVito

Telesco Secretarial Services

