

NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD MINUTES

Revised 10/3/06 CITY OF NORWALK
MUNICIPAL EMPLOYEES' PENSION BOARD
JUNE 14, 2006

ATTENDANCE: James Murphy, Chairman; Charles Pirro; Gerald Moran;
Michael Sweeney; Larry Manzi; Patricia McCormick (6:10 p.m.)
Michael Salvator (6:20 p.m.)

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

OTHER: Dave Silk, Jim Mylett, Bear Stearns;
Dave Branam, Pantheon Ventures;
Ellen Petrino, EAI (6:10 p.m.); Chris Bendlak, EAI (6:10 p.m.)

CALL TO ORDER

Chairman Murphy called the meeting to order at 6:00 p.m.

BEAR STEARNS
Dave Silk and Jim Mylett, Managing Directors

Mr. Dave Silk introduced Mr. Jim Mylett who joined Bear Stearns from the Levin Group to shore up Bear Stearn's large cap value team.

Mr. Silk and Mr. Mylett then reviewed their written report. He said that on Page 4, the 8.5% listed under the "Since Inception" column is the gross rate of return for the City of Norwalk portfolio. The net minus fees would be a little less than ½ of 1% under that, compared to the Russell 1000 Value index, which returned 11.4%. He said they were not happy with that return over the last year. He said they are well aware they underperformed, and they were ready to discuss how they are positioned to take advantage of it. Since the beginning of the month, they've made almost half of that underperformance back, with 2 ½% between the index and the portfolio.

Mr. Mylett said that the biggest non-contributor in the portfolio were financials, two of them being Freddie Mac and Marsh and McLennan. He said they recently sold Marsh and McLennan, but they still own Freddie Mac, where there are questions of who will be the government regulator and if there will be a cap put on their ability to issue mortgages.

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

Mr. Mylett referred to Mr. Silk alluding to the catching-up they have done since March. They were at 350 basis points under the benchmark, and after today, they are 120 basis

points under the benchmark. The worst quality companies and smallest companies all performed well in 2000, and 2002, coming out of the recession. Commodities have come off almost 20%, along with emerging markets at over 20%. Small cap stocks alone are off 6% this month.

Mr. Mylett explained how the portfolio is positioned from the information on Page 8. The top ten holdings make up more than 40% of the portfolio. For the most part, they came through with record earnings, but the stock prices have done nothing. Junk bonds were priced at record low yield spreads. Projected earnings growth seems to be a bit higher than the index. The big difference in the portfolio is the weighted average market capitalization. It's almost half as big as the weighted average of the market cap of the value index. This has been an area of the market that has not responded in the last 18 months.

Typically in the markets, companies that are consistent and of high quality are afforded a higher multiple on their stock because of being able to generate consistent rates of return that are better than those of their competitors. The largest 25 companies in the S&P 500 trade at an average 3% premium to the marketplace in terms of price/earnings multiples going back over 20 years. They are now trading at more than a 10% discount to the marketplace, which is the cheapest they have seen these companies trade in 20 years.

Investors are recognizing that these large companies are attractively valued, but it doesn't seem that anyone is acting on it because the stocks aren't doing anything. In Business Week on April 17, 2006, the "Blue Chip Blues" cover story stated that the S&P 100 earnings are up 200% in the past five years, and the stock prices have not moved. Stock prices typically follow what happens to earnings. Small caps that typically trade at a discount are now trading at the largest premium that they have over the last 20 years.

Mr. Salvator arrived at 6:20 p.m.

Mr. Mylett mentioned that the lows have not been seen since 1986. Their companies have historically grown their earnings faster than the marketplace. They look for what they are paying and what it is worth so they can make the differential between price and value. Their stocks seem to be doing better, because their companies have grown faster than the market as a whole, they have steadier earnings, and they have stronger balance sheets. The growth rate of 15% has not been attractive enough to get investors interested in their stocks. The companies then buy back stock to increase dividends, and potentially reinvest back in their business to generate a superior rate of return.

PANTHEON VENTURES

Dave Braman

Mr. Braman reviewed his written presentation and said that he has been with Pantheon since 1987. The company employs about 90 people in San Francisco, London and Hong Kong. The Norwalk master trust has committed \$15M to their fourth USA fund and

\$15M to their sixth USA fund. They manage funds of funds and about \$11B in private equity only.

The performance highlights show that Fund IV has produced 12-13% IRR, which is high for its vintage year. Funds were committed over four years rather than three due to market conditions; it also invested in secondaries, which has helped early returns, because they were available due to the divestiture of partnerships by banks when new capital reporting requirements made private equity an expensive use of capital. The net IRR of Fund VI is about 37% but it is too early to tell, and that return will decline as more money is invested. Pantheon invests in new funds and buys limited partnership interest in funds that previous investors have had to sell, which are called secondaries. The mix is up to 20% for secondaries and is cyclical. He said there no overlap with underlying managers.

Fund IV is \$800M in size. It has invested in 39 partnerships and has purchased, 24 secondary interests in partnerships.

The income statement is shown for 2005 vs 2004 for comparisons. There was a significant amount of progress in terms of capital committed actually being drawn down by partnerships in the year 2005. They were up significantly from \$370M to \$504M. The NAV and the IRR had almost doubled. The fund is coming along nicely in terms of value vs. draw down capital.

Mr. Braman said the portfolio is well diversified. There are several young funds.

Fund VI has \$1.9B in funds. They are now 78% committed. The portfolio consists of 34 primary and 2 secondary funds. Mr. Braman said there is no debt, and they invest in leveraged buyout funds. They also invest in captive mezzanine funds that belong to equity managers. He explained that a buyout fund is a manager that is buying an existing company with positive earnings and cash flows. The second venture category that they would be interested in is the venture capitalists that provide the first outside capital source.

Mr. Braman then discussed the Europe team, saying they have 45 people employed there. He said that the U.S. strategy is to invest 25-35% in ventures. In 2000, about \$160B was raised for ventures. In the last four years, \$20B was raised for ventures. Their strategy in Europe is to have funds of varying sizes that buy companies of different sizes that operate across multiple countries in Europe. The minimum investment is \$10M for each product. The fee structure is higher but lower than any other secondary fund. They will have their first closing on the fund for secondaries in July.

EAI – ASSET ALLOCATION DISCUSSION

Ellen Petrino

Ms. Petrino provided copies of her written report. She reviewed some of the highlights. The board discussed adding more money to asset allocation. The European buyout funds

seemed interesting, and they are viewed as long term investments for beneficiaries. Ms. Petrino will coordinate having someone from Pantheon talk to Mr. Salvator about the European funds. Ms. Petrino is to indicate the board's interest to Pantheon in potentially committing \$10 million to the U.S. fund and \$10 million to secondaries. There was some interest in committing some amount to the international fund, but not the full \$10 million that meets Pantheon's minimum. If a combination of secondaries and international could be worked out, the board might be receptive to investing in the international fund.

Ms. Petrino stated that infrastructure investing is an interesting opportunity for long-dated, relatively stable yielding investments whose income typically increases with inflation. Mr. Murphy asked her to organize a presentation in September of two potential candidates in a subcommittee meeting. European buyout funds potentially will be discussed during that same meeting.

APPROVAL OF MINUTES FOR MAY 10, 2006

Approval of the minutes of May 10, 2006 was tabled until the September meeting.

APPROVAL OF PENSION APPLICATIONS

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

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.**

OTHER BUSINESS

Chairman Murphy mentioned that the Blackstone annual luncheon will be held in the Fall, and he encouraged everyone to attend. He will let everyone know of the date.

Ms. McCormick will coordinate the pension information meetings in the Fall for the different groups to attend.

ADJOURNMENT

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

The meeting was adjourned at 8:10 p.m.

Respectfully submitted,

Carolyn Marr
Telesco Secretarial Services

