

NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD MINUTES

Minutes from Meeting

JUNE 12, 2002

ATTENDANCE: Charles Pirro, Acting Chairperson; Frederick Gilden, Comptroller; Michael Salvator (6:30 p.m.); Tim Scheibel, NASA Representative (6:15 p.m.); Vicky Bove; Alvin Mosby; Frank Sarno

OTHERS: E.A.I.: Ellen Petrino; Karen Nolting

Gerald Paolini, TCW

Gerry Moran and Sewall
Hodges, Scudder

Michael Steinveck and Cara
Williams, Artisan

CALL TO ORDER

Mr. Pirro called the meeting to order at 6:10 p.m.

ARTISAN: MICHAEL STEINRUECK AND CARA WILLIAMS

Mr. Steinrueck reviewed the written report with the Board. He stated that the firm had an independent structure in that the partners owned 61% and the rest of the firm was held by investment capital. He went on to state that there were 90 people employed and the firm dealt with small cap, mid cap and international fund management. He added that current accounts equaled \$18 billion dollars. Mr. Steinrueck explained that the firm's intention was not to lose their focus and further explained that they accomplished this by not managing too many accounts.

Mr. Steinrueck then reviewed the biographies of the firm's management team with the Board. He discussed the firm's investment philosophy and then

explained the decision making process that was utilized. He reviewed risk control diversification and the sell discipline of the company. Mr. Steinrueck informed the Board of the sector allocation of the firm, which was then discussed. He advised the Members that his company was not index driven.

Mr. Steinrueck closed his presentation with a short comment on the performance history of the company and noted that long-term they had great performance. He remarked that even though in the past years they had experienced a loss they still outperformed. He stated that the firm had a certain quality beyond the numbers and he showed the relative performance of the firm against the market on a quarterly basis. He went on to state that as long as his firm continued to focus on the job they would perform better and noted that the minimum investment amount would be \$5 million dollars with a 1.01% fee.

TCW: GERALD PAOLINI

In making his introductory comments Mr. Paolini stated that he was the client representative on the account. He explained that the following 3 major events had occurred within the firm during the past year and a half:

1. The acquisition by Société Générale, S.A.
2. The outsourcing of the back office functions to Mellon.
3. The completion of succession planning.

Mr. Paolini stated that "the second generation" was in place and the Chairman of the company was the same. He went on to state that Bob Byer was the president of the company and for all practical purpose, ran the company.

Via telephone conference Mr. Beitner commented that he, along with Mr. Bickerstaff, Mr. Crawford and Mr. Blum were the team members. He reviewed the performance page of the written report with the Board and noted that as of yesterday the portfolio was down 18.1%. He commented that growth was down 18.2% in the Russell 1000 and added that he was not proud of these numbers. Mr. Beitner said that they had not distinguished themselves against the benchmark this year and noted that it had been a difficult environment.

Mr. Beitner commented that the asset doing well was gold and then added that pessimism was running rampant. He informed the Members that most sellers had already sold their stock and those that had not were getting ready to do so. He went on to say that corporate credibility would take a while to return and they would have to give better clarity to investors. Mr. Beitner stated that looking to economy, monetary had been very accommodating and there was

potential for earnings. He also stated that productivity gains had been pretty extraordinary this year.

Mr. Beitner remarked that the ultimate arbiter of all was inflation and he felt that currently it was quite low and he expected it to remain low. He stated that he was fairly sanguine about the future and that it would take a while for the markets to rally. However, he added that all in the entire backdrop was fairly positive.

Mr. Beitner reviewed the portfolio changes with the Board as well as the top 10 holdings. After reviewing the written reports with the Members he discussed the portfolio characteristics versus the Russell 1000 growth.

Mr. Beitner discussed the sector weights and noted that in recent times they had been adding to technology companies because they felt the growth would be there. He mentioned that he felt there was a replacement cycle for purchases of hardware and software in 1999. However, he said that in terms of technical product cycles it was at the point where things got to be obsolete. He remarked that 70% of the U.S. economy was service related and he felt that technology stocks were pretty attractive. He added that from a valuation standpoint he felt that was where there would be good growth opportunities.

Mr. Beitner then discussed the investment process with the Members. He said that his firm was looking for companies that had a superior business model and they wanted companies that were going to benefit from secular changes. He noted that they wanted any company they bought to be cash flow positive. Then, he reviewed the concentrated core equities with the Board.

In closing Mr. Beitner stated that his firm felt that 2002 posed a difficult test for the companies in the portfolio and most of them passed that test. He commented that they felt that the portfolio was very well positioned and as the economy recovered the market would improve.

SCUDDER: GERRY MORAN AND SEWALL HODGES

Mr. Moran stated that they had beat the bogey in May and they hoped it would turn around. He added that they tried to stay as close to the bogey as they could. He then reviewed the investment results with the Board and noted that they were positive through the end of May. He said that for the year as a whole they had a bad year last year. He explained that some of it was due to style and

remarked that they had been wrong in choosing oil and gas. He went on to explain that their basic approach was buying individual companies that made a difference. He added that they had moved away from commodity related stocks and that 2000 had been a very difficult year.

Mr. Moran reviewed the performance attribution with the Board and explained to them what had helped and what had hurt. He stated that the direction in general was investing outside the United States where stocks were cheaper. He noted that there was a much greater sense of propriety in Europe and Japan. He then reviewed the underperformance and went on to growth versus value. He remarked that over the past 3 years growth had been positive and value had not. He told the Board that there were growth stocks out there and it was up to his firm to find them and buy them.

Lastly, Mr. Moran reviewed the composite performance within the Russell universe with the Members. He spoke about the extent they would deviate from the bogey as explained by the EMI and EMI growth. He reiterated that his firm was stock pickers and that in tracking their errors half were stock specific and the other half was the common factor. He added that typically they would always buy low dividend yield. He pointed out that the returns were coming from stock selection and not health.

Mr. Hodges addressed the portfolio structure. He stated that there were more growth managers than value stocks. He noted that value stocks cost less but with growth they would receive compounded earnings over time and companies were growing 20%. He added that they were getting 30% higher growth rate earnings and that made sense. Mr. Hodges commented that they were buying stocks on average at a reasonable value. He noted that they also bought companies that they felt had good capital structure and were without a lot of debt. He said that the portfolio's top 10 holdings had a very strong position. He pointed out to the Members that they would want to see investments that became big portions of the portfolio because then they would know that the stock was going up. He added that these companies were all leaders in their respective fields and they had done very well. Mr. Hodges said that they had a willingness to concentrate the portfolio and on the retail side no one was as concentrated as they were and the same was true on the health care side. He noted that they did not invest heavily in materials.

Mr. Hodges then reviewed the geographical weightings with the Board and noted that Ireland represented a large part of the portfolio, even though it was a small market. He explained that there was not a lot of risk there and they had a pro business mentality. He went on to explain that the United States was 60%

of the benchmark, particularly because Japan had done so poorly. He commented that they were underweight in the United States but that was just the result of the opportunities they had seen at the time. He noted that most of the small companies they saw in the United States did not work out. Mr. Hodges then reviewed sector weightings and said that they did take health care down some this past year.

In closing Mr. Hodges reviewed new and increased positions with the Board and then he discussed decreased and eliminated positions.

Mr. Moran discussed outlook and strategy and stated that effectively they were trying to move to more risky stocks. He commented that Japan was in the game again and continental Europe was where they were going. He remarked that they were broadening the portfolio and enforcing the "kick out rule" which meant that when anything got very big it would be parceled out over 2 years.

Mr. Moran talked about the small cap team and stated that they had a lot of resources, analysts and managers. He said that they were looking at stock picking and putting enough money behind stocks. He then discussed the biographies of the product sector team and explained that they had developed a small cap universe and basically had a lot of people reviewing the stocks. Mr. Hodges interjected that they wanted to make certain that the Members understood that there had absolutely not been any change in the process in terms of key personnel and the investment process. Mr. Moran stated that the Board should not fear that something within the firm had changed in the way things were done. Ms. Petrino commented that although the Members understood what was being said they were still worried and reserved the right to be skeptical.

Mr. Moran explained the building blocks of growth concept and noted that growth at value prices was the stock that had really changed and increased. He added that the stock in the portfolio was growth stock but there were different types of stock and they behaved differently. He said that this was an actual measurement in the report but it was proprietary.

EAI: ELLEN PETRINO AND KAREN NOLTING

Ms. Petrino distributed a report to the Board comparing Artisan and Scudder. A discussion ensued regarding the probability of adding \$5 million dollars more to the Artisan portfolio. Another discussion was held regarding the representatives from Scudder.

Ms. Petrino said that her thesis was that smaller capitalization stocks were good and going forward the firm had a wonderful record here. She then mentioned that Lazard was starting to perform better and was positive for this year. She added that they were ahead of the benchmark but they were very value oriented. She noted that Artisan was not as growth oriented as TCW or Scudder. Ms. Petrino remarked that a recent survey conducted within her company showed that Artisan was one of the top 2 firms. She said that she was not certain if any action was required but she was interested enough in Artisan to see them added to the portfolio. She noted that she felt that Europe was on the margin changing better than the United States.

Mr. Pirro suggested that the Members think about this over the summer because one thing that had to be considered was where they would capture the money for this. He stated that it did not seem unreasonable at all to add Artisan to the portfolio but noted that the minimum investment was \$5 million dollars. Ms. Petrino interjected that fixed income was getting bigger as the rest of the portfolio was declining and noted that would be a source for the funds.

Mr. Gilden commented that \$5 million dollars could be taken from a capital source and that as of May 31st the portfolio was 62% equity and 38% fixed income. Ms. Petrino interjected that long term the Board realized that they had a problem with Zesiger. She commented that they were getting a large piece of emerging markets exposure there and the private placements were there. She noted that Mr. Gilden had been taking benefit payments from them but Mr. Gilden interjected that he could not any longer because they were done. Mr. Pirro reiterated that this subject would be taken into consideration this fall.

The written report was distributed to the Board, which displayed the first quarter total fund charts. Those charts showed that everyone else had done better and the Plan's ranking was 6th. Ms. Petrino said that even though the ranking had been terrible the returns the others had experienced were not fantastic.

Ms. Petrino then discussed growth versus value and large versus small and she said that her thought was that they were generously weighted in smaller companies and value might do better than growth on balance in the next few years. With regard to large capitalization on balance Ms. Petrino felt that medium to smaller companies had a better chance in this regulatory environment. She noted that Zesiger was better positioned in the smaller growth companies and perhaps they should rethink the 2 large capital value managers. She added that it seemed this would work better for the foreseeable future.

Ms. Petrino remarked that the 2 value firms were running neck and neck and the Board should choose one or choose a new one. She explained that the options were to be really deep value or remain with these value managers that were eclectic. She added that in the strong growth periods it had stood them well and it would be better to be more balanced. She pointed out that if they were to keep one Boston Company would be favored over Levin or they could index it and save some fees. She noted that they had many options.

A discussion ensued regarding Zesiger and it was determined that if Lisa Hess should leave the firm the portfolio would be at risk because Ms. Hess would be the transition manager should Mr. Zesiger leave. Ms. Petrino added that Zesiger's consultant on private investments would work with them should anything happen to Mr. Zesiger. Mr. Gilden recapped the options and stated that they had to discuss adding Artisan and leaving Levin at the next meeting.

Ms. Petrino stated that some education should be conducted on the fund-to-fund hedge funds so that the Board would be familiar with it. She pointed out that it was worthwhile for the type of investment environment they saw. She added that there were high fees and while she believed in it very strongly pension funds in the corporate sector had not moved there at all. She remarked that the Board would be doing something unusual but this was fine. However, Ms. Petrino stated that she was not certain if it was good advice to tell the Board to do this from the standpoint of what their peers were doing. She commented that she felt managers that could be both long and short would be good. She said that she felt a couple of managers should present to the Board and Mr. Pirro interjected that the presentation should probably be made in subcommittee. Ms. Petrino suggested that perhaps the next meeting could start at 5:00 p.m. twice in a row for the presentations. Mr. Pirro commented that if there were no objections the Board would plan on doing that.

Ms. Petrino said that the only other asset class she felt was out there on the table was real estate. She went on to say that maybe in the next 2 years they would be coming into some opportunities.

APPROVAL OF PENSION APPLICATIONS

Mr. Pirro reviewed the regular pension application of Anthony Peter Goldner, Public Works.

**** MR. SCHEIBEL MOVED APPROVAL OF A
REGULAR OPTION #3 RETIREMENT PENSION FOR
ANTHONY PETER GOLDNER, IN THE AMOUNT OF
\$3,697.50 MONTHLY/\$44,370.00 YEARLY, EFFECTIVE 08-
01-02.**

**** MR. SALVATOR SECONDED.**

**** MOTION PASSED UNANIMOUSLY BY VOICE VOTE.**

Mr. Pirro reviewed the regular pension application of Ruth Y. Gregg, Tax Assessor.

**** MR. SCHEIBEL MOVED APPROVAL OF A
REGULAR NORMAL FORM RETIREMENT PENSION
FOR RUTH Y. GREGG IN THE AMOUNT OF \$814.00
MONTHLY/\$9,768.00 YEARLY, EFFECTIVE 07-01-02.**

**** MR. SALVATOR SECONDED.**

**** MOTION PASSED UNANIMOUSLY BY VOICE VOTE.**

The Chairman reviewed the early pension application of Patricia E. Hadden, Tax Assessor.

**** MR. SCHEIBEL MOVED APPROVAL OF AN
EARLY FORMAL FORM RETIREMENT PENSION FOR
PATRICIA E. HADDEN IN THE AMOUNT OF \$2,267.00
MONTHLY/\$27,204.00 YEARLY, EFFECTIVE 07-01-02.**

**** MR. SALVATOR SECONDED.**

**** MOTION PASSED UNANIMOUSLY BY VOICE VOTE.**

Mr. Pirro reviewed the regular pension application of Barbara Medley, Tax Collector.

**** MR. SCHEIBEL MOVED APPROVAL OF A
REGULAR NORMAL FORM RETIREMENT PENSION
FOR BARBARA MEDLEY IN THE AMOUNT OF \$1,080.00
MONTHLY/\$12,960.00 YEARLY, EFFECTIVE 07-01-02.**

**** MR. SALVATOR SECONDED.**

**** MOTION PASSED UNANIMOUSLY BY VOICE VOTE.**

Mr. Pirro reviewed the early retirement pension application of Patricia Zakhar, Tax Assessor.

**** MR. SCHEIBEL MOVED APPROVAL OF AN
EARLY NORMAL FORM RETIREMENT PENSION FOR
PATRICIA ZAKHAR IN THE AMOUNT OF \$1,207.50
MONTHLY/\$14,490.00 YEARLY, EFFECTIVE 07-01-02.**

**** MR. SALVATOR SECONDED.**

**** MOTION PASSED UNANIMOUSLY BY VOICE VOTE.**

Mr. Pirro reviewed the regular Option#2 retirement pension application of Frank C. Knight, Board of Education.

**** MR. SCHEIBEL MOVED APPROVAL OF A
REGULAR OPTION #2 RETIREMENT PENSION FOR
FRANK C. KNIGHT IN THE AMOUNT OF \$535.00
MONTHLY/\$6,420.00 YEARLY, EFFECTIVE 07-15-02.**

**** MR. SALVATOR SECONDED.**

**** MOTION PASSED UNANIMOUSLY BY VOICE VOTE.**

APPROVAL OF MAY 21, 2002 MINUTES

**** MR. SALVATOR MOVED APPROVAL OF THE
MINUTES AS DISTRIBUTED.**

**** SECONDED BY MANY.**

**** MOTION PASSED UNANIMOUSLY BY VOICE VOTE.**

ANY OTHER BUSINESS TO COME BEFORE THE BOARD

Ms. LeTourneau reported back to Mr. Mosby concerning the recalculations of the pensions for Alan Brown, Jr. and Joseph Edwards. She provided him with the following revised figures:

Name of Applicant Salary Revised Salary Benefit Revised Benefit

Alan Brown, Jr. \$37,978 \$38,308.42 \$7,764/1,647 \$7,824/\$1,652

Joseph Edwards \$36,827 \$40,583.00 \$5,238/\$436 \$5,700/\$475

Ms. LeTourneau advised the Board that she had pulled the listing of all custodians who had retired since 1997 and was waiting for the figures to arrive from the Board of Education. She stated that the approved applications and figures previously set forth had been revised and that these revised figures were pending further review.

ADJOURNMENT

**** MR. PIRRO MOVED TO ADJOURN THE MEETING.**

**** MOTION PASSED UNANIMOUSLY BY VOICE VOTE.**

The meeting adjourned at 9:40 p.m.

Respectfully submitted,

Ann Marie DeLuca

Telesco Secretarial Services

