NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD MINUTES

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

ATTENDANCE: James Murphy, Chairman; Michael Sweeney; Gerald Moran; Frank Nash;
Michael Salvator (6:10 p.m.)

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

OTHER: Ellen Petrino, EAI; Terry Newman, John Luczaj, Armstrong Shaw; Michael Hara

CALL TO ORDER

Chairman Murphy called the meeting to order at 6:05 p.m.

WELLINGTON MANAGEMENT CO., VIA PHONE

Mr. Geoffrey LeMieux, Global Relationship Manager, and Mr. Edward Baldini, Equity Product Manager, from Wellington Management Co. were reached via conference call. Mr. LeMieux thanked everyone for giving him the opportunity to review the opportunistic growth portfolio. He introduced his colleague, Mr. Baldini. He said that Mr. Baldini works with the investment team to ensure that there is product integrity. He referred to the account presentation for performance information. He said that Wellington Management is a privately held, Boston-based institutional investment manager with $550B in assets. The company's strong belief is that research is the cornerstone to investment success. There are many different investment platforms, one being the stand alone product managed by a team of very experienced portfolio managers who draw on research capabilities of the global research analyst team. The firm consists of about 90 owners and has been that way since 1978. They are an institutional firm with a platform of a variety of different approaches, fixed income as well as equity. They are very performance driven and exceed client expectations.

He said that the 1 month performance is up and assets are well over $25M. The investment returns numbers are very strong. The YTD number is about 6.7%, which is about 370 basis points over the index had a 3% return. The long-term numbers are 26.2 vs. 15.2, which is strong for both absolute and relative return.

Mr. Baldini said the performance is 1100 basis points over the Russell 1000 Growth benchmark for the year. The performance is from good stock selection across the portfolio. The mid and small-cap names are contributing a lot to the performance. The team has consistently been able to add value. The Russell 3000 growth index did modestly better that the Russell 1000 growth index. The portfolio returns have been very strong against both measures. The environment in general has been strong for mid and small-cap. While it is a mostly large-cap oriented portfolio, the integrated team is critical. The range is anywhere from 69% for the large stocks, over $10M, and up to 25% for the mid-cap, and 20% in the small-cap. The company focus is at two levels. The first is the top line of the business, with companies having sustainable competitive advantages that help to create an environment in which they can sustain above average revenue and earnings growth over the next 3-5 years. The second is the notion of superior business models, where strong growth companies should be able to finance their growth. That implies a strong focus on return on invested capital and a strong focus on companies that are reinvesting back in the business.

He said the Chicago Mercantile Exchange has been a big contributor to the portfolio. It is the largest derivative exchange in the world. They are the market leader in the fixed income business, having an 80% share. The growth driver of the business is in the foreign exchange contracts area. The growth rate is about 2 times the company average growth rate, in the Euro dollar contract portion of their business, at about 15% of their overall revenue.

QualComm has a dominant position in 3D technology for the next generation of cell phones.

While energy has been about 5% of the portfolio, down from 8% in the 3rd quarter of last year, Petro Canada has been one of the strong performers in that arena.

Some of the disappointing performers were Citywide Financial, AmGen and Medtronic.

Ms. Petrino reviewed some information from her written report prior to the Armstrong Shaw presentation. She said the Russell 1000 value was fairly strong and earned 5.9% in the 1st quarter vs. the growth index of 3.1%. The small cap value and growth was up 13% and 14%. The investment overview showed the City of Norwalk fund at $350.9M, and it is now up to $361M. It earned 6.5% against a custom benchmark of 6%. It was extremely strong over the last two years. Both the asset allocations and the managers were strong for the quarter and were in the 3rd percentile for the quarter, and 2nd percentile for the trailing 12 months. For Armstrong Shaw, the Russell 1000 value was driven by Telecomm. Energy was extremely strong for the 1st quarter. Ms. Petrino said they underperformed in 8 out of 10 sectors.

ARMSTRONG SHAW

Ms. Terry Newman, Client Services and Mr. John Luczaj, Research Analyst, thanked everyone for the opportunity to present their report. Ms. Newman said the firm is currently at slightly over $9B in assets. They have the same strategy in managing the one product. Vanguard had hired them earlier this year to be the sixth sub-advisor for the Windsor 2 fund. The team has an average of 20 years experience. They run a concentrated portfolio of 30-40 stocks. The performance report as of market close on Monday, May 8, 2006 was up 9.1%. She highlighted a few reasons for the underperformance of the partial year of 2005. There was weak relative performance in industrials. There was no exposure in the rails. Declines were reported in Cendant and Comcast. Positive stock selection was notable in Office Depot, Devon, and AIG. Mr. Luczaj said both Comcast and Cendant were significant underperformers through December 31, 2005. Comcast was driven by negative sentiment toward the cable industry. The stock has since recovered. Abbott Labs, a diversified health care company, was down 17% for the 4th quarter and the majority of their problems were within the pharmaceutical business and pipeline disappointments. The criticism towards Abbott related to sustainable growth.

Ms. Newman said that what hurt them in the 1st quarter was not what they did own, but what they didn't own. They were a little underweight in energy. Some of the large money center banks didn't do well. They do not own commodity oriented stocks. They were underweighted in the small and mid cap growth area. There were no large decliners in the portfolio. HCA was the worst stock in the portfolio, down 9%, which hurt them by 22 basis points. DuPont was hurt by Hurricane Katrina and couldn't offset the increased energy costs with enough price increases. She confirmed that they still own Dell, but they are out of DuPont.

They have since sold two additional names and trimmed back Office Depot.

Mr. Luczaj said at the end of last year, they put a new management team in place that resulted in the stock responding quickly and significantly. The margins for the company are running at over 300-500% basis points below historical average. He said that the concentration of 37 stocks in the portfolio runs the risk of not being in the right place. He didn't feel that concentration was the reason for the underperformance.

Ms. Newman pointed out that they own companies that have better growth than the benchmark and higher returns on equity. One of the catalysts in place to bring the portfolio ahead of the benchmark is the small and mid cap performance over the last 7 years, which is unlikely to continue. Some discussion took place regarding the underperformance of the portfolio, as well as areas in which growth was expected. She said they were right on top of the benchmark in April.

In conclusion, while Armstrong Shaw did perform well in 2003/04, it was agreed that they should be put on the watch list. It was also suggested that they be brought back in at 6 months, as opposed to one year.

APPROVAL OF MINUTES FOR MARCH 8, 2006

** CHAIRMAN MURPHY MOVED TO APPROVE THE MINUTES OF MARCH 8, 2006 AS REVISED AND PROVIDED BY MS. PETRINO.

Further corrections to the minutes are as follows:

On page 1, under APPROVAL OF MINUTES FOR FEBRUARY 1, 2006, delete the 3rd sentence starting with “There was some discussion …”

On page 1, under APPROVAL OF MINUTES FOR FEBRUARY 1, 2006, the 4th sentence starting with “During the last negotiations …,” the word “finally” should be deleted.

On page 1, under APPROVAL OF MINUTES FOR FEBRUARY 1, 2006, the 4th sentence should read as follows:

The Board sent a letter to the Mayor and to the Union saying that the Board needed a signed pension agreement in order to continue to administer the plan and any new benefits. The Agreement was signed by the Union (6/17/05) and the City (7/22/05). The Board’s consultant completed a draft of a Summary Plan Description (SPD) of the pension agreement, and it was distributed to the Board in January 2006. Since it was not on the Board’s February meeting agenda, it was authorized for printing at the March 2006 meeting. The Board also agreed that presentations by the Board would be scheduled for the pension participants to help them understand the plan and to ask questions.

On page 3, under OTHER BUSINESS, change “MOTION PASSED UNANIMOUSLY” to “MOTION PASSED WITH ONE (1) ABSTENTION (MCCORMICK)”.
** MR. MORAN SECONDED.
** MOTION PASSED UNANIMOUSLY.

OTHER BUSINESS

Chairman Murphy said there were two options to discuss regarding asset allocations. The Committee reiterated that they had recommended reducing some exposure to equities.

** MR. MORAN MOVED TO REDUCE EQUITY EXPOSURE AND INVEST PROCEEDS IN CASH EQUIVALENTS, SPECIFICALLY, TRIM $6M FROM ARTISAN INTERNATIONAL, TRIM $6M FROM SILCHESTER INTERNATIONAL, AND TRIM $6M FROM ZESIGER, AND INVEST $18M IN NORTHERN TRUST CASH FUND.
** MR. SWEENEY SECONDED.
** MOTION PASSED UNANIMOUSLY.

** MR. SWEENEY MOVED TO CHANGE THE ASSET ALLOCATIONS POLICY TARGET FOR EMERGING MARKETS FROM 5% TO 7% AND CHANGE THE ASSET ALLOCATIONS POLICY TARGET FOR U.S. EQUITIES FROM 30% TO 28%.
** MR. MORAN SECONDED.
** MOTION PASSED UNANIMOUSLY.

APPROVAL OF PENSION APPLICATIONS

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

Isabel D. Bullen, Norwalk Public Library, 15 yrs service, age 65 yrs, regular pension, final avg salary $62,739.86, standard form, annual benefit $19,836.00, monthly benefit $1,653.00, commencement date 5/1/2006.

James W. Davies III, Public Works, WWTP, 22 yrs service, age 55 yrs, early pension, final avg salary $51,733.40, standard form, annual benefit $19,686.00, monthly benefit $1,640.50, commencement date 9/15/2006.

Paul V. Palange, Public Works Engineering, 35 yrs service, age 65 yrs, regular pension, final avg salary $65,125.87, Opt. #3, annual benefit $43,446.00, monthly benefit $3,620.50, commencement date 7/1/2006.

Joanne Hoyt, Comptroller's Office, 21 yrs service, age 61 yrs, early pension, final avg salary $45,962.37, standard form, annual benefit $18,996.00, monthly benefit $1,583.00, commencement date 7/1/2006.

Nancy A. VanDeusen, Norwalk Library, 34 yrs service, age 64 yrs, regular pension, final avg salary $53,231.25, standard form, annual benefit $36,732.00, monthly benefit $3,061.00, commencement date 7/1/2006.

Thomas J. Kish, Recreation & Parks, 28 yrs service, age 55 yrs, early pension, final avg salary $59,067.44, standard form, annual benefit $30,894.00, monthly benefit $2,574.50, commencement date 7/1/2006.

Lois Vertenten, Board of Education, 5 yrs service, age 62 yrs, regular pension, final avg salary $25,605.00, deferred retirement, annual benefit $2,694.00, monthly benefit $224.50, commencement date 12/1/2006.

** MR. MORAN SECONDED.
** MOTION PASSED UNANIMOUSLY.

The Summary Plan Document (SPD) books have been distributed.

Ms. Petrino brought up some items that needed to be discussed, namely, matching assets with a view towards the liability. And secondly, investigating other investment opportunities, whether it's hedge funds or a new fixed income investment vehicle, called Infrastructure Investing, which has produced successful results for the city of Chicago. The discussion continued with some ideas mentioned for future planning purposes.

ADJOURNMENT

** MR. SWEENEY MOVED TO ADJOURN.
** MR. MORAN SECONDED.

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

Respectfully submitted,

Carolyn Marr
Telesco Secretarial Services