

NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD MINUTES

Minutes from Meeting

PENSION BOARD

APRIL 13, 2005

ATTENDANCE: Jim Murphy, Chairman; Charles Pirro; Mike Salvator; Mike Sweeney; Ken Whitman; Fred Gilden

STAFF: Sara LeTourneau, Director of Personnel and Labor Relations

OTHER: Ellen Petrino, EAI

CALL TO ORDER

Chairman Murphy called the meeting to order at 6:06 p.m.

APPROVAL OF PENSION APPLICATIONS

Barbara Salerno, 10 years and 5 months of service, Age 65, \$39,956 average salary, \$694 monthly benefit, commencement date 7/15/2005

Earl Roberts Sudell, 43 years and 5 months of service, Age 67, \$64,973 average salary, Option 3, \$3,566 monthly benefit with a 10 year certain, commencement date 7/15/2005

Paula D'Augustin, 24 years and 2 months of service, Age 63, \$47,462 average salary, \$1,912 monthly benefit, commencement date 7/15/2005

**** MR. PIRRO MADE MOTION TO APPROVE PENSION APPLICATIONS**

**** MOTION PASSED UNANIMOUSLY**

Ms. LeTourneau made a suggestion to eliminate the Social Security #'s on the pension application forms that get copied and distributed with the agenda for security purposes.

TCW PRESENTATION

This was cancelled.

EAI PRESENTATION

Ms. Petrino reported on the following: February performance; asset allocation summary; subcommittee work on Pimco; and the large cap growth finalists discussion.

There was \$313M at the end of February. In looking at the asset allocation, total fixed income is 19% of assets. There was \$307M as of 4/12/05, which is about the same as the end of March. The cash account is 8%, and the fixed income is 19%. There is 27% in fixed income plus cash, which is what the intention was. In total US Equity Managers, there's 33% and in the Hedge funds, there is 12%, for a 45% potential equity exposure.

There's 24% in international, equally split between Silchester and Artisan (10%) and GMO Emerging Markets (5%).

Ms. Petrino reported on the subcommittee meeting regarding two of Pimco's funds, Pimco All Asset fund whose benchmark is to earn CPI + 5%, primarily through fixed income securities. The category of assets is divided into low volatility fixed income, other fixed income, real assets, and equity. The objective of the program is to be invested in real assets (inflation related assets) at times during the cycle when real assets pay off. It is mostly US but they have the option to go global. Real assets consist of TIPS, Real Estate Investment Trusts (REITs), which they would do through a swap on an index, and commodities, also done through a swap on an index. The swap plus the cash earns the return on the index. In this case, they're backing it with TIPS, which provides a double benefit if there is unexpected inflation. They have three equity portfolios: Stocks Plus, which is the S&P 500 futures backed by actively managed cash; and both S&P 500 futures and MSCI EAFE futures backed by their total return fund. In all, there are 14 core PIMCO funds, but others may be used. Their neutral position is an equal weight to all, so that's 7% to each, 3 equity, 4 real asset, and the rest are fixed income funds. They have had the best performance in the business of fixed income over a long period of time. Pimco is very conservative and is always looking to protect capital. They utilize different strategies in order to have diversification in the portfolio.

The All Asset fund as of December 31 had 30% in inflation related strategy, the largest being 15% in commodities, and the rest in the TIPS and real estate. They had 21% in equity strategy; 6% in high yield; and 12% in emerging markets bonds. Emerging markets bonds haven't been in our portfolio yet, and one of the reasons to add this program is to gain access to the asset classes. They have one of the best emerging markets bond records and teams in the business. It consistently adds value over its benchmark. The weights of the inflation related strategies have changed the most over time within the All Asset fund.

The subcommittee proposed a 15-10 split (\$15 million to PIMCO All Asset and \$10 million to the PIMCO Commodity Real Return fund). The case for commodities is that we may be in a secularly rising inflation environment due to pressure from emerging markets and from lack of infrastructure growth over the last 20 years. Also, it is likely over the next 20 year period to have bursts of unexpected high inflation, and there is nothing in the portfolio to benefit from during that period of time. Mr. Sweeney stated that the report last month talked about adding a commodity fund for inflation protection, to the portfolio to reduce the risk and improve the return. Pimco's All Asset fund can add value by doing an allocation. Ms. Petrino stated that the fund guidelines are that all real return strategies (TIPS, Long-Dated TIPS, Commodities, and REITS) together cannot be more than 75% of the fund; no single fund can be more than 50% of the fund. The equity strategies together can't be more than 50%. Mr. Salvator stated that Pimco does a good job with their products. The All Asset fund had noticeable diversity. They have asset classes that we have no exposure to.

**** MR. SWEENEY MADE MOTION TO ADD \$15M TO PIMCO ALL ASSET FUND AND \$10M TO COMMODITY FUND**

**** MR. SALVATOR SECONDED.**

**** MOTION PASSED UNANIMOUSLY.**

Mr. Gilden stated that he liked the All Asset fund. Chairman Murphy stated that \$25M was a big move. Ms. Petrino will get the paperwork started.

Ms. Petrino reported on the Growth Manager status. The board was split as of the last meeting between Transamerica and Wellington. People liked the Transamerica record and concentrated portfolio. Other people liked the diversification of the Wellington portfolio, even though the top 10 holdings were 35% or 40% of the portfolio. It had about 96 stocks. Approximately a week after they had the meeting, the team that runs the Transamerica portfolio was lifted out by Delaware Investments in Philadelphia. They are going to stay in San Francisco. A conference call took place shortly after that. The move involved a total of 8 people. After some discussion, it was agreed that the Board would go with Wellington. Discussion ensued on timing and amount. Chairman Murphy stated that we're not market timers. One of the major things that the Board did was asset allocation, that brought us way down in bonds, but it did pay off for that period of time and we've been moving out of equities since then. The decision to move \$25M to the same type of manager represents less than 10% of the portfolio.

**** MR. PIRRO MADE MOTION TO TERMINATE TCW AS MANAGER AND GIVE \$24M-\$25M TO WELLINGTON.**

**** MR. GILDEN SECONDED.**

Mr. Salvator stated that the decision of the group to leave Transamerica didn't bother him. Chairman Murphy asked Ms. Petrino if they would come in and speak with them; Ms. Petrino replied that they could set up a conference call. Mr. Salvator asked Ms. Petrino about her conversations with them. Ms. Petrino replied that she had spoken with a Senior Investment professional who felt committed to the group after Glenn had left. They were then bought out by AON. The compensation became ridiculous, and Delaware made him an attractive offer. The board agreed that they didn't want to hear another presentation by them. Ms. Petrino reported back to the Board that Wellington had 96 stocks, and about 30 of them were in small cap.

**** MOTION PASSED UNANIMOUSLY.**

Chairman Murphy instructed Ms. Petrino to write the letter to TCW.

Mr. Gilden stated that some of the \$24M should be used for cash flow. Chairman Murphy suggested to cap it at \$20M and use \$4M over the next few months for cash flow. \$14.8M is paid out annually for benefits. Money comes in from the city employee's contributions to the plan, as well as the city's contributions. Mr. Gilden reported a shortage of \$6.2M.

Chairman Murphy amended the motion to move \$20M of the proceeds to Wellington and move the balance to cash.

There was some discussion regarding the cash flow sheet. 14 basis points is paid out to Capstone in fees; and 10 basis points is paid to the custodian. From a fee standpoint, \$350,000 is paid out quarterly for fees.

Chairman Murphy stated that this was the last year of Ms. Petrino's contract.

Chairman Murphy said that he and Mr. Gilden discussed sending a letter to the Mayor and the Finance Director. He suggested that Ms. Petrino write the letter, stating that the assumed return should be closer to 8%. It's at 8 ¼% now. It's used over the next 30 years, but for the next 5-7 years, the fund is unlikely to earn 8 ¼%. Chairman Murphy said that the number has to come down in order to bring the city's contribution up. There has been a negative cash flow for the city for the last 7 years. Ms. Petrino said that the number has to come down gradually until there is evidence of a shift. The feeling is that the 8 ¼% is too high. Chairman Murphy stated that in the actuarial assumptions, four assumptions in the plan had changed. The plans do look "artificially solvent" when you look at them, but upon further careful reading, it's not the case. Mr. Sweeney asked where do we stand after the adjustment. Chairman Murphy replied that they were at the same place, around 6 or 7. Mr. Gilden stated that they would take the full 8% cash and move it into the fixed income. It was agreed that a separate category should be set up for real assets.

APPROVAL OF MINUTES OF FEBRUARY 9, 2005 AND MARCH 9, 2005

The February 9 minutes had the following changes: Mr. Whitman needs to be added to the Attendance portion of the minutes. Mr. Gilden needs to be moved from the Staff portion to the Attendance portion of the minutes.

**** MR. PIRRO MADE MOTION TO APPROVE MINUTES OF FEBRUARY 9 MEETING AS AMENDED.**

**** MOTION PASSED UNANIMOUSLY.**

**** MR. PIRRO MADE MOTION TO HAVE MS. PETRINO FURTHER AMEND MINUTES OF MARCH 9 MEETING.**

**** MOTION PASSED UNANIMOUSLY.**

OTHER BUSINESS

There is a meeting in May and June, but there will not be a meeting in July or August. In order to do subcommittee work, there has to be a meeting before October. A suggestion was made to meet at 4:00 p.m. on Tuesday. Ms. Petrino will email the Board members with the information on the candidates. .

** MOTION MADE ADJOURN MEETING.
** MOTION PASSED UNANIMOUSLY.

The meeting was adjourned at 7:15 p.m.

Respectfully submitted,

Carolyn Marr
Telesco Secretarial Services

