NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD MINUTES

APRIL 11, 2007

ATTENDANCE: James Murphy, Chairman; Gerry Moran, Charles Pirro, Michael Sweeney, Francis Nash, Patricia McCormick (6:20 p.m.)

STAFF: Frederic Gilden, Comptroller, James Haselkamp, Director of Personnel

OTHERS: Larry Manzi, NMEA; Ellen Petrino, Evaluation Association; Christopher C. Bendlak, Evaluation Association

CALL TO ORDER

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

APPROVAL OF MINUTES FOR MARCH 14, 2007

Please note the following changes:

Page 1, in the footer and throughout: please remove the “of #” from all pages.

Page 1, under OTHERS: please change “Effy Kropfer” to “Effy Klopfer”

Page 7, paragraph 2, line 1: please change “Chris McCormick” to “Patricia McCormick”

Page 7, paragraph 9, please change the following paragraph from:

Ms. Frisch stated that she would be reviewing the two investments with Pimco, one being the commodities real return fund and the second is the All Asset Fund. Ms. Frisch explained that Norwalk’s investments in the Real Return Fund is 5.7% netted fees versus the pure index, which did much better over the time period thru December 31st, which netted 10.1%. Ms. Frisch said that she would review the reasons why Pimco’s performance was below that of the index. She commended that earlier in the day, she had checked the commodities market and noticed that the market had picked up significantly. Year to date, Ms. Frisch pointed out that the Pimco funds YTD (through February 28th) had a return of 4.7% versus the Total Returns Index of 3.6%.

To: Ms. Frisch stated that she would be reviewing the two investments with Pimco, one being the Commody Real Return fund and the second the All Asset Fund. Ms. Frisch explained that Norwalk’s investments in the Real Return Fund returned 5.7% annualized net of fees versus the pure index, which did much better over the time period thru December 31st, which netted 10.1%. Ms. Frisch said that she would review the reasons why Pimco's performance was below that of the index. She commented that earlier in the day, she had checked the commodities market and noticed that the market had picked up significantly. Year to date, Ms. Frisch pointed out that the Pimco funds (through February 28th) had a return of 4.7% versus the Down Jones AIG Total Returns Index of 3.6%.

Page 8 paragraph 2, please change the following paragraph from:

Ms. Frisch was asked if this was because Pimco was selecting their own funds. She explained that Pimco was not actually selecting their own commodities, but use an index that is based on approximately 21 different commodities. This allows investor to have the same exposure as an unmanaged index. Pimco manages in collateral portfolios. Exposures to commodity indexes are purchased and then the assets in the portfolios are used to purchase bonds. The intention is to give the investor a fair return of the commodity index plus the return of the underlying bonds portfolio. Over the last few years, the Federal Reserve has continued to increase short term interest rates, investments in cash has provided a better return than investing in almost any other bond, including the bonds that were purchased for this portfolio. The reason for the underperformance is related to the underlying bond portfolios and not the return of the commodities. Pimco believes that the market is poised at this time to change, and has structured the underlying portfolio to take advantage of what is believe to be some major changes in the economy over the next 12 to 18 months. There was a discussion about taking risk in the bond market and the effect of Treasury bills on the returns.

To: Ms. Frisch was asked if this was because Pimco was selecting its own commodities contracts. She explained that Pimco was not actually selecting their own commodities, but uses an index that is based on approximately 21 different commodities. This allows investors to have the same exposure as the unmanaged index. Pimco manages in collateral portfolios. Exposure to commodity indexes is purchased through structure notes and then the assets in the portfolios are used to purchase bonds. The intention is to give the investor a fair return of the commodity index plus the return of the underlying bonds portfolios. Over the last few years, the Federal Reserve has continued to increase short term interest rates, investments in cash has provided a better return than investing in almost any other bond, including the bonds that were purchased for this portfolio. The reason for the underperformance is related to the underlying bond portfolios and not the return of the commodities. Pimco believes that the market is poised at this time to change, and has structured the underlying portfolio to take advantage of what is believe to be some major changes in the economy over the next 12 to 18 months. There was a discussion about taking risk in the bond market and the effect of Treasury bills on the returns.

Page 8, paragraph 4, line 2: please change "investment, the netted fees" to "investment. net of fees"

Page 8, paragraph 4, line 3: please change "This is compared against three different benchmarks: the Lehman Brothers U.S. TIPS Index; CPI + 5%, which and Lehman Brothers Aggregate Index/ S&P 500. The Lehman Brothers TIPS yielded only 1.6%

during that same time period, which results in Pimco outperforming Lehman Brothers TIPS by almost 500 basis points during that same time period.

To: This is compared against three different benchmarks: the Lehman Brothers U.S. TIPS Index; CPI + 5%, and Lehman Brothers Aggregate Index/ S&P 500. The Lehman Brothers TIPS yielded only 1.6% since inception, which results in Pimco outperforming Lehman Brothers TIPS by almost 500 basis points during that same time period."

Page 8, paragraph 4, line 9: please change: "Ms. Frisch commented that would require at least 8% to beat that benchmark." To "Ms. Frisch commented that would require a return of at least 8% to beat that benchmark."

Page 9, paragraph 1, line 1: please change " that the purposed" to "that the purpose"

Page 9, paragraph 1, line 3: please change "perform tacitic asset" to "perform tacitical asset"

Page 9, paragraph 2, line 2: please change: "The second way to add income to the portfolio is through all of Pimco's investment management ideas in play." To "The second way to add income to the portfolio is through all of Pimco's investment management ideas in play, outperforming their benchmarks."

Page 9, paragraph 3, line 4: please change "A Board member asked this" to "A Board member asked whether this"

Page 9, paragraph 3, line 5: please change "for the tactical" to "for tactical"

Page 9, paragraph 3, line 6: please change; " then was asked indicate" to "then was asked to indicate"

Page 9. paragraph 3, line 17: please change: "these sections" to "these sectors"

Page 9, paragraph 5, line 2: please change "quarterly meeting for the firm's strategy group to look at the GDP globally." To "quarterly meeting of the firm's strategy group to look at the growth of GDP globally."

Page 9, paragraph 5, line 9: please change "However, affordability has started to drop off well over a year ago, which indicates a problem in sub-prime lending." To "However, affordability started to drop off well over a year ago, which is reflected in the problem in sub-prime lending."

Page 10, paragraph 1, line 9: please change "decreases, the spending" to "decreases, then spending"

Page 10, paragraph 3, line 9: please change "Ms. Frisch said was that" to "Ms. Frisch said, was that"

Page 10, paragraph 3, line 11: please change “believes in.” to “believes.”

Page 10, paragraph 3, line 13: please change “client’s ability” to “clients’ ability”

Page 11, paragraph 1, line 1: please change “along with the state of the emerging asset class, including a review on how the money is managed in an emerging market equities.” To “along with the state of the emerging market equity asset class, including a review on how the money is managed in the emerging market equities fund.”

Page 11, paragraph 1, line 4: please change “She indicated that on page 5 of the report, GMO has delivered a 41.52% yield since inception, which is 0.92% over the S&P/IFC benchmark.” To “She indicated, on page 5 of the report, that GMO has delivered a 41.52% annualized net-of-fee return since inception, which is 0.92% over the S&P/IFC benchmark.”

Page 11, paragraph 2, line 4: please change “they have substantial balances” to “they have substantial current account balances”

Page 11, paragraph 2, line 5: please change “to assets in a more profitable way.” To “to deploy assets in a more profitable way.”

Page 11, paragraph 3, line 3: please change “indicates what the profitability” to “indicates the profitability”

Page 11, paragraph 4, line 1: please change “Emerging Markets have created economic value; therefore paying a bit more than premium is not unreasonable.” To “emerging markets have created economic value; therefore paying a slight premium is not unreasonable”

Page 11, paragraph 5, line 1: please change “There were some questions about the asset classes and how GMO adds value of active management over the an extended index of the emerging markets.” to “There were some questions about the asset classes and how GMO adds value through active management over the an extended index of the emerging markets index.

Page 11, paragraph 5, line 4: please change “In answer to the second question, Mr. Vengelisti said that in response to how GMO can add 3.8% per year is that GMO’s goal is to deliver 4% per year, but GMO is facing a difficult situation because of the compression of evaluations.” To “In answer to the second question, Mr. Vengelisti said that GMO has added 3.8% per year is that GMO’s goal and to deliver 4% per year, but GMO is facing a difficult situation because of the compression of evaluations.”

Page 11, paragraph 5, line 12: please change “ follow their plan” to “follow its plan”

Page 12, paragraph 1, line 2: please change “As cheap countries have become more expensive to get there, they outperform expensive countries.” To “As cheap countries have become more expensive, they outperform expensive countries.”

Page 12, paragraph 2, line 3, please change “ that the reason emerging” to “that emerging”

Page 12, paragraph 2, line 4: please change “ This makes it a difficult call since GMO likes to reduce risk as much as possible, and holds as much cash as is allowed, along with the quality drop in the U.S., which results in an overweight in emerging markets because they are least expensive among the assets.” To “This makes it a difficult call since GMO likes to reduce risk as much as possible, and holds as much cash as is allowed. The quality drop in the U.S. results in an overweight in emerging markets because they are the least expensive among the assets classes.”

Page 12, paragraph 2, line 9: please change “If a major correction were to occur in the asset class or the global market, then a value and quality-based approach might soften the blow.” To “If a major correction were to occur in the asset class or the global market, then GMO’s value and quality-based approach might soften the blow.”

Page 12, paragraph 6, line 5: please change “2.2 million” to “$2.2. million”

** MR. SWEENEY MOVED TO APPROVE THE MINUTES OF MARCH 14, 2007 AS AMENDED.
** MR. GILDEN SECONDED.
** THE MOTION PASSED UNANIMOUSLY.

REVIEW/APPROVAL OF PENSION APPLICATION

** MR. PIRRO MOVED TO APPROVE THE APPLICATION OF KATHLEEN IVANOFF WITH THE COMMENMENT DATE OF APRIL 1, 2007.
** MR. MORAN SECONDED.
** THE MOTION PASSED UNANIMOUSLY.

PERFORMANCE REVIEW

Ms. Petrino reported briefly on the luncheon meeting she had attended earlier in the day. She suggested that the Board consider a subcommittee meeting on distressed debt and a second one on portable alpha.

Ms. Petrino then went on to present the month report to the Board. She explained that the March numbers were not yet available. Mr. Sweeney had a question about Pimco’s performance. Ms. Petrino reviewed the Performance measures with him.

Ms. McCormick joined the meeting at 6:20 p.m.

Ms. Petrino then reviewed page 6 of the monthly report with the Board and said that State Street was a very good index fund provider. While she provided information on three core choices and three value choices, she also said that it would be best to decide after the presentation on portable alpha. Ms. Petrino also apologized for the fact that the Russell Top 200 sheet was not in the report. She included information on the two LSV enhanced index portfolios.

WELLINGTON VIA CONFERENCE CALL

A conference call to Wellington Trust Company was placed at 6:35 p.m. Mr. LeMieux thanked the Board for the opportunity to speak with them. He stated that this was the first year Wellington had underperformed. Mr. LeMieux then turned the call over to Mr. Baldini, who reviewed the company's report with the Board.

Mr. Baldini explained that Wellington had greater than benchmark exposures to companies with high growth rates, which had not performed as well as companies with low growth rates in 2006. There was weakness in the technology market. He informed the Board that Marvell Technology produces hard drives, SanDisk manufactures cell phone memory cards and Electronic Arts produces video games. Mr. Baldini then reviewed some of the reasons that these companies had underperformed.

Mr. Moran had some questions about having approximately one third of the portfolio invested in technology. Mr. Baldini reviewed the firm wide resources that the Opportunistic Growth team has access to, which is located in Section 2, page 4, with the Board.

Mr. Murphy has some questions about General Electric shares being included in many of the different portfolios. Mr. Baldini then reviewed G.E's scope with the Board.

Mr. Baldini then thanked the Board for their time and the call ended at 7:10 p.m.

INDEX FUND DISCUSSION

Mr. Moran stated that he felt there was some confusion between growth and value, therefore he believed it would be wise to move to an index fund. Ms. Petrino then reviewed the Executive Summaries found on pages 7-16 of the monthly report with the Board. She suggested several index strategies, including portable alpha strategies. Ms. Petrino also recommended that the Board consider having a manager come in to speak about portable alpha.

OTHER BUSINESS

Mr. Murphy asked Mr. Haselkamp if anyone had checked on the food service pension fund. Mr. Gilden stated that the four pension funds: Police, Fire, Municipal and Food Service, were commingled.

A discussion then began on diversifying through distressed debt, hedge funds and fixed income. Ms. Petrino said that she would work with a fixed income researcher on these issues.

Mr. Haselkamp stated that the Council had recently approved the pension statement contract with Milliman. He also informed the Board that employees will start to make contributions to retiree medical funds in two years.

ADJOURNMENT

** MR. PIRRO MOVED TO ADJOURN.
** MR. MORAN SECONDED.
** THE MOTION PASSED UNANIMOUSLY.

The meeting adjourned at 7:50 p.m.

Respectfully submitted

Sharon L. Soltes
Telesco Secretarial Services