NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD MINUTES

REVISED 4/28/2008 CITY OF NORWALK
NORWALK MUNICIPAL PENSION BOARD
REGULAR MEETING
MARCH 12, 2008

ATTENDANCE: Michael Sweeney, Chair; Francis Nash, Frederick Gilden, Comptroller; Charles Pirro, James Murphy; Gerald Moran
Michael Salvatore, via conference call.

STAFF: James Haselkamp, Director of Personnel

OTHERS: Ellen Petrino, Evaluation Associates; Maryann DiMaggio, Evaluation Associates; Craig P. Russ, Eaton Vance Management; Joseph Furey, Eaton Vance Management; Laura Kunkemueller, Evaulation Associates

CALL TO ORDER

Mr. Sweeney called the meeting to order at 6:00 p.m.

APPROVAL OF MINUTES FOR FEBRUARY 13, 2008

** MR. MURPHY MOVED THE MINUTES OF FEBRUARY 13, 2008.
** MR. MORAN SECONDED.

The following corrections were noted:

Page 3, paragraph 2, line 3: please change “It was noted that the Pension Plan was up 18.2% when Mr. Murphy was chairman.” To “It was noted that the Pension Plan was up 18.2% for Fiscal Year 2007 while Mr. Murphy was chairman.”

Page 5, paragraph 3, line 1: please change “ Ms. Petrino encouraged the Board to hold 10% in high class stocks.” to “ Ms. Petrino encouraged the Board to hold 10% in high yield bonds.”

** THE MOTION TO ACCEPT THE MINUTES OF FEBRUARY 13, 2008 PASSED AS CORRECTED UNANIMOUSLY.

APPROVAL OF PENSION APPLICATIONS

** MR. PIRRO MOVED TO APPROVE THE PENSION APPLICATION OF JOHN CAROTHERS WITH A COMMENCEMENT DATE OF FEBRUARY 1, 2008.
** MR. NASH SECONDED.
** THE MOTION PASSED UNANIMOUSLY.

Mr. Haselkamp said that there was a question about an employee who wished to direct her disability benefits directed into another venue. Mr. Haselkamp then gave the Board two different options as to how this matter could be handled. Discussion about this followed.

** MR. MURPHY MOVED TO NOTIFY THE EMPLOYEE THAT THE CURRENT DISABILITY POLICY WILL REMAIN IN PLACE AND THAT THE CITY HAS NEVER BEEN SUCCESSFULLY CHALLENGED.
** MR. PIRRO SECONDED.

Mr. Haselkamp pointed out that the applicant could apply to Social Security Disability now and then the Board would have a retroactive payment. He said that the applicant was not requesting a change in the definition of disability but using a different method.

** THE MOTION PASSED UNANIMOUSLY.

Mr. Sweeney said that Evaluation Associates would be having a lunch in New York City with an address on distressed debt. He said that any Pension member could be reimbursed for travel expenses if they chose to attend.

** MR. MURPHY MOVED TO APPROVE THAT ANY REASONABLE COSTS ASSOCIATED WITH THE TRAVEL INTO NEW YORK CITY TO ATTEND THE EVALUATION ASSOCIATION LUNCHEON ON DISTRESSED DEBT BE REIMBURSED BY THE NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD.
** MR. GILDEN SECONDED.
** THE MOTION PASSED UNANIMOUSLY.

Ms. Petrino introduced Ms. DiMaggio from Evaluation Associates, who spoke about T. Rowe Price and high yield bank loans.

Ms. Petrino then placed a conference call to Michael Salvatore, a Pension Board member who was unable to be present at the meeting.

EATON VANCE MANAGEMENT

Ms. Petrino had several questions for the Eaton Vance Managers, as did Mr. Nash. Mr. Nash wished to know if there was a volatility chart and whether it was available on a daily basis. Mr. Russ explained that he receives a daily report and would be happy to make a monthly report available to the Pension Board members. Mr. Salvatore asked about the liquidity and Mr. Russ reviewed that with the Board members. Mr. Russ said that in January, it appeared that loans were falling at about 1% per day. During this period, Eaton Vance overwrote approximately 18% of their loans.

Mr. Nash had a question about the market price and how that was calculated. Mr. Russ reviewed the formula with the Board.

Mr. Russ said that if Norwalk entered into the fund, the City would be buying into portfolio loans at 90%. After three years, the loans would be repaid in full except for a small amount of loans that default.

Mr. Salvatore asked about covenant loans. Mr. Russ then explained the concept of the covenant and covenant light loans. Mr. Russ then displayed a pie chart that showed where the bank loans originated. 60% were from CLOs (Collateralized Loan Obligations) in bank loans. 26% were from hedge funds and high yield bond classes. Retail funds were about 8% and the remainders were institutional organizations.

Mr. Russ then displayed a bar chart showing the Average Company Capital Structures. He pointed out that the bank loans are secured debt and supercede bonds, which are unsecured. He said that the technicals are currently a mess, but the fundamentals will pay back the investor.

Mr. Russ then said that his previous experience was in a commercial bank and that it was loans. He then reviewed the various officers on the Bank Loan Team Organization Chart.

T. ROWE PRICE

Ms. Petrino then called T. Rowe Price via conference call. Mr. Salvatore was also able to connect to the T. Rowe Price conference call from his location.

Mr. Wendler introduced himself and Marey Herrfeldt and Michael McGonigle as members of the T. Rowe Price team. He said that the team would be providing the Board with some perspective on high yield loans.

Mr. McGonigle came on the line and greeted the Board. He explained that he would be giving an overview of the institutional high yield fund. Mr. McGonigle reviewed the members of the team for the High Yield Investments. High Yield is a niche market but it is tied to all the financial markets.

Mr. McGonigle said that over the last three years, with a bear market, credit ratings were not as important as they are now, that the market has returned to a bull market. Mr. McGonigle then directed the Board's attention to page 43, which illustrated why T. Rowe Price invests in double B's and B rated securities. The goal is to protect the investments and the rate of return.

Mr. McGonigle said that over the past five years, with a bull market, triple Cs and the default markets have given strong yields, but T. Rowe is not an aggressive investor in this area. One or two bad years in triple Cs can wipe away any gains from the previous years.

Mr. McGonigle then reviewed the High Yield Bond Spreads vs. Treasury Benchmarks graph on page 45. Mr. McGonigle said that the entire market is about 800 basis points over the Treasuries. He then reviewed the current expected 8% default rate.

Mr. Murphy stated that he believed that the economy would get worse. Mr. Nash agreed and pointed out that it was an election year and that the interest rates might be raised after the election. Mr. Salvatore said that he was not particularly interested in the high yield markets, but that the bank loans sounded interesting. Discussion about this followed. Mr. Moran said that it looked to him that there was less risk in both the high yield and the bank loans than there was in the Standard and Poor's.

Mr. Murphy said that he believed that the Eaton Vance presentation team gave an accurate picture. The bond market can also be risky. Ms. Petrino said that Eaton Vance was offering a long only portfolio.

** MR. MORAN MOVED TO COMMIT 10 MILLION DOLLARS TO EATON VANCE WITH FUNDS TRANSFERRED FROM CAPSTONE.
** MR. GILDEN SECONDED.

Discussion followed about the various degrees of risk involved.

** THE MOTION PASSED WITH FIVE IN FAVOR (GILDEN, PIRRO, SWEENEY, MURPHY AND MORAN) AND ONE AGAINST (NASH).

Mr. Nash asked if there could be a ranking of performances for the various individuals. Ms. Petrino said that was in the year-end report. Mr. Nash asked for a quarterly report.

Mr. Moran said that he was reading the Warren Buffett's letter and that he liked it a great deal. He asked if the Mayor and the Police Commissioners were receiving this document.

Mr. Gilden pointed out that Evaluation Associates' contract would be expiring soon. Mr. Sweeney asked about a subcommittee meeting to review the contract. Mr. Gilden said that the last time, the contract had been extended. Ms. Petrino will be submitting a fee proposal.

Discussion then followed about the agenda for next month.

** MR. MORAN MOVED TO GIVE IVY THIRTY DAYS NOTICE BASED ON THEIR UNDERPERFORMANCE RELATIVE TO BLACKSTONE.

Mr. Moran then suggested that Ms. Petrino submit notice to Ivy but inform them that the Board may rescind this because there were some Board members who were not certain about the decision to withdraw the fund.

Ms. Petrino said that she felt it would be good to have Zesiger next month for a presentation.

** MR. NASH SECONDED.
** THE MOTION TO GIVE IVY THIRTY DAYS NOTICE BASED ON THEIR PERFORMANCE PASSED UNANIMOUSLY.

ADJOURNMENT

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

The meeting adjourned at 9:00 p.m.

Respectfully submitted,

Sharon L. Soltes
Telesco Secretarial Services