NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD MINUTES

CITY OF NORWALK
MUNICIPAL EMPLOYEES' PENSION BOARD
MARCH 8, 2006

ATTENDANCE: James Murphy, Chairman; Charles Pirro; Michael Sweeney; Gerald Moran; Frank Nash; Lisa Biagiarelli,
Norwalk Assistants and Supervisors Representative; Etta Jones, Custodial Union Representative; Patricia McCormick (6:05 p.m.)

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

OTHER: Ellen Petrino, EAI (6:05 p.m.); Chris LaCroix, Sean McCaffrey - LSV

CALL TO ORDER

Chairman Murphy called the meeting to order at 6:00 p.m.

Mr. Pirro said they met with Mayor Moccia and the Finance Director. He said they commented that they were pleased with the job the Pension Board was doing, and to continue what they are doing.

APPROVAL OF MINUTES FOR FEBRUARY 1, 2006

** MR. SWEENEY MOVED TO APPROVE THE MINUTES FOR FEBRUARY 1, 2006 AS REVISED AND PROVIDED BY MS. PETRINO.
** MR. PIRRO SECONDED.
** MOTION PASSED UNANIMOUSLY.

Mr. Nash asked if there would be an updated actuarial study based on the new firefighter's contract. Chairman Murphy said that it's done every two years when all the new contracts are reviewed. During the last negotiations between the union and the management, they agreed on a document. 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.

Ms. Petrino and Ms. McCormick arrived at 6:05 p.m.

APPROVAL OF PENSION APPLICATIONS

Mr. George Alston, Public Works, 28 yrs, 9 months of service, age 57, early pension, final average salary $47,385.92, Opt #3 selected, annual benefit $25,260.00, monthly benefit $2,105.00, commencement date February 15, 2006.

Chairman Murphy had a question about the numbers for Mr. Alston's pension application. Ms. LeTourneau will go back to check the exact numbers. It was agreed that this will be tabled in order to get a copy of the reduction chart and have it reviewed by the actuaries. It was also agreed that Mr. Alston will be paid, and they will make the necessary adjustments if needed.

** MR. SWEENEY MOVED TO APPROVE THE PENSION APPLICATION FOR MR. ALSTON SUBJECT TO ANY CHANGE THAT MIGHT COME FROM AN ACTUARY.
** MOTION PASSED UNANIMOUSLY.

LSV – CHRIS LACROIX AND SEAN MCCAFFREY

Ms. Petrino gave some background information on LSV Asset Management. She said they have been performing in line with the benchmark for the last year. They had been outperforming before that. They are a small cap value, which had a strong performance for the last five years. In order to reduce the volatility, the Board has taken some money away from them, $5M out of $17M.

Mr. Sean McCaffrey is the Director of Marketing & Client Relations for LSV Asset Management. Mr. Chris LaCroix is Partner and Director of New Business Development for LSV Asset Management. They presented from their written report. LSV Asset Management has their foundation in academics. They have utilized 25 years of research to develop a quantitative model. They were founded in 1994. Over the past 12 years, they have earned a reputation for consistency of employees, consistency of process, and consistency of performance. They are employee owned, with 57% owned by active partners and 43% owned by SEI. They have grown to $56B in firm-wide assets, and $2.8B in the small cap value, which is the product that the Norwalk Pension Board is invested in. That product is closed to new investors. The company is home-based in Chicago, and they have a satellite office at 169 East Avenue in Norwalk.

Mr. LaCroix then provided some history between LSV and the Norwalk Pension Board. Their benchmark is the Russell 2000 Value. In March of 2003, the beginning value of the account was $10M. Aside from taking out 65% ($6.5M) of the assets that the Norwalk Pension Board gave LSV, LSV has added an additional return of $10M. The Norwalk Pension Board now has just over $13M with LSV.

On page 4, it shows over the last few years how the different asset classes did in both value and growth. Small cap core has returned 28% over the last three years. The annualized numbers show that the Norwalk Pension Board doubled their its money over the past three years.

On page 5, the actual returns are shown. Since inception, LSV has returned 29.7%. The benchmark is the Russell 2000 Value at 29.2%.

Mr. LaCroix said that the combination of a lower beta and deeper value makes the difference.

On page 8, they are 100% quantitative, meaning they are rule based and they have a model that they test and make additions to. They are typically 25-30% deeper value than the market. In the long-term deep value has outperformed all of the other styles within the stock market.

On page 9, it shows how they value stock. Approximately 2/3 of it is the value orientation, and 1/3 is momentum. They are looking for cheap stock on an accounting multiple basis. In order of importance, they look for cash flow, earnings, book, sales, and dividend yield. They like companies that buy back stock in the firm, not those issuing more stock. They reward companies that buy back their stock, and they give negative points when they issue more stock.

On page 10, it shows how they select the portfolio. They start with a 10,000 stock universe. They screen for small cap stocks that range from $100M to $2.5B. This is the same universe as the Russell 2000 benchmark. They came out with 1,800 stocks. They rank them from 1-1,800. Approximately the top 15% goes to the buy list. After conducting risk control, they are left with approximately 120 stocks.

OTHER BUSINESS

Mr. Gilden said the budget for 2006/07 will be done by the 1st week in May. The contributions are about $1M more than last year.

Chairman Murphy said the Summary Plan Document (SPD) should be ready within a week or two.

** MS. BIAGIARELLI MOVED TO APPROVE THE SUMMARY PLAN DOCUMENT (SPD) AS PRESENTED.
** MR. PIRRO SECONDED.
** MOTION PASSED UNANIMOUSLY
** PATRICIA MCCORMICK ABSTAINED FROM VOTE

Ms. Biagiarelli suggested that a letter be attached to the SPD mailing. Chairman Murphy suggested that they start setting up meetings.

Ms. Petrino read from her written report on the performance results through January, 2006. She will have an updated asset allocation matrix report for the next meeting. It was decided that there will be one more meeting of the subcommittee for asset allocation, and then the final recommendation will be presented at the next meeting. Ms. Petrino said that the guidelines will be updated after the asset allocation review is completed. From her report, she said that Zesiger stands out. Two value managers are lagging. Armstrong Shaw has some special stock issues. Artisan is doing well. Some discussion followed regarding the State of Connecticut's fixed income performance doing so well with the returns. Chairman Murphy suggested that they look into it to determine how they could improve their returns. Ms. Petrino said that the cash flow page shows that $5.2M was taken out of equity. They put $4.3M into the cash account. They gave $150,000 to Pantheon. They paid out net $900,000.

An updated draft of the existing guidelines will be sent to each manager before the next subcommittee meeting.

ADJOURNMENT

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

The meeting was adjourned at 7:25 p.m.

Respectfully submitted,

Carolyn Marr
Telesco Secretarial Services