

NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD MINUTES

REVISED 3/19/08 CITY OF NORWALK
PENSION BOARD
REGULAR MEETING
FEBRUARY 13, 2008

ATTENDANCE: Michael Sweeney, Chair, Frederick Gilden, Comptroller;
Michael Salvatore, James Murphy, Gerald Moran (6:07 p.m.)

STAFF: James Haselkamp, Director of Personnel

OTHERS: James C. Mylett, Bear Stearns; Kevin Driscoll, Bear Stearns;

CALL TO ORDER

Mr. Sweeney called the meeting to order at 6:04 p.m. Mr. Sweeney said that he had heard from Mr. Nash that he would not be able to attend the meeting.

APPROVAL OF MINUTES FOR JANUARY 16, 2008 MEETING

The following corrections were noted:

Page 1, under ATTENDANCE; please change "Gerald Murphy" to "Gerald Moran"

Page 3, under LSV, paragraph 3, line 2: please change "that \$6,500,000 and that there had been a net" to ""that \$6,500,000 had been withdrawn and that there had been a net"

Page 3, under LSV, paragraph 4, line 1 : please change "Mr. Kemper pointed out that there was a point spread of 16.9% in the small cap values." To "Mr. Kemper pointed out that there was a point spread of negative16.9% in the small cap values vs. small cap growth."

Page 5, paragraph 1, line 1: please change : "Mr. Moran said he felt" to "Mr. Murphy said he felt."

Page 5, paragraph 4, line 1: please change "Mr. Moran said that he had received a call" to "Mr. Murphy said that he had received a call"

**** MR. MURPHY MOVED TO APPROVE THE MINUTES AS CORRECTED**

**** MR. SALVATORE SECONDED.**

**** THE MOTION PASSED UNANIMOUSLY.**

APPROVAL OF PENSION APPLICATIONS

The application of Juan Rivera, commencing on March 1, 2008

Mr. Sweeney explained that the pension application for Robert J. Siok has been withdrawn.

Mr. Moran joined the meeting at 6:07 p.m.

**** MR. SALVATORE MOVED TO APPROVE THE PENSION APPLICATION FOR JUAN RIVERA COMMENCING ON MARCH 1, 2008**

**** MR. MURPHY SECONDED.**

**** THE MOTION PASSED UNANIMOUSLY.**

OTHER BUSINESS

a. Discussion Concerning Pension Board Attorney

Mr. Haselkamp said that there had been some concerns about finding counsel for this issue, particularly the police pension plan. He said that having a standing pension counsel was generally accepted. In discussions with Mr. Gilden, it became apparent that it is a very technical field. Mr. Murphy said that he believed that the City should hire someone to work on this, because the Board is not in a supervisory capacity over the Police and Fire Departments. Mr. Haselkamp said that Mr. Murphy was correct, but that the problem extended beyond those two departments. Mr. Murphy said that when issues came up, the issues have been referred to Corporation Counsel. Mr. Haselkamp said that he would like to put out an RFP for an investment lawyer. Mr. Murphy asked Mr. Haselkamp if he could prepare a report on the key points.

Mr. Murphy asked about the disproportionate amount of the police and fire departments in terms of disability and liability, which Mr. Haselkamp reviewed with him. He added that there was a larger spread in years between when a police officer or fire fighter is eligible for retirement as opposed to when other municipal employees are eligible for retirement.

b. QDRO - City of Norwalk Employees

Mr. Haselkamp said that the City had not administrated Qualified Domestic Relations Order prior to his joining the Personnel Department. He explained that the police Commission had become involved in a QDROS case and it became very difficult and complicated. Mr. Haselkamp said that he believed that his office should be handling these cases, rather than the individual Commissions. Mr. Haselkamp said that he uses outside counsel for these issues. The City now has a model of defined benefits pension template for those employees who are going through a divorce. Copies of this benefit pension are given to the employees so that they can inform their lawyers. Mr. Haselkamp said that prior to his arrival at his job, there had only been one case, and previously the City had

not honored these orders. Mr. Murphy had several questions about the details of the plan when the spouse dies. Mr. Haselkamp then reviewed the issues and pointed out that the model QDROS has these various issues included in the template. Discussion then followed.

BEAR STEARNS

Ms. Petrino then gave a quick review of the various graphs on page three of Evaluation Associates Executive Summary in U.S. Equities. Yield spreads widened and TIPS were very strong for the year. It was noted that the Pension Plan was up 18.2% for Fiscal Year 2007 while Mr. Murphy was chairman.

Ms. Petrino then briefly reviewed Bear Stearns performances as listed on pages 17 and 18 of her report. She pointed out that they were overweighted in the financials. They also do not have any energy holdings. They underperformed by 221 basis points in the quarter. Mr. Sweeney asked how long the City had invested with Bear Stearns. Ms. Petrino said that it was almost three years. She also pointed out that Armstrong Shaw had only underperformed by 80 basis points because they are a smaller firm and are underweighted in the financials.

Ms. Petrino said that one of the discussions had been about indexing and that stock selection should pay off on the downside. She commented that it often does. Mr. Gilden said that the benchmark has always been better than the managers that the City has had. Ms. Petrino said that it becomes a question about when to disengage. January was a good month for Bears Stearns.

Mr. Mylett and Mr. Driscoll came in and introduced themselves to the Board members.

Mr. Mylett explained that the economy had slowed down, but the burgeoning emerging markets continued to increase. Domestic companies did not do as well. He said that the company did not anticipate the locking up of the credit market. It has caused problems in the market and even major companies like G.E. could not take advantage of liquidity in the market. Western Europe and Japan both slowed down. Now the entire global market has slowed down including the emerging markets. The bond market indicated that the overall economy was in difficulty. The Federal Reserve cut 125 basis points in the space of two days. This allowed Bear Stearns to finish the month ahead of the benchmark. The boom lasted longer than anticipated and stayed stronger than expected because of the emerging markets. Bear Stearns does not index, which is why they are still holding on to financials. Banks were over capitalized this time, but they were not when this happened in 1991.

Mr. Driscoll explained that the Bear Stearns divisions between the hedge products and the products Norwalk has invested in are totally separate from one another. Mr. Mylett commented that many of the employees who worked with the hedge funds are no longer with Bear Stearns.

Mr. Mylett then reviewed a number of charts included in the information packet. Financial services now occupies over one third of the U.S. economy. Mr. Mylett also pointed out that there were a number of banks like Countrywide Finance that had made ninja loans where the applicants had no job, no liquidity and no assets. This triggered the current crisis.

Mr. Mylett said that the markets have dropped since the report was produced. Mr. Murphy asked how the Fed's easing the rates would help the situation. Mr. Mylett said that it would not remove the problem but would temper the situation. This will help the public restore their faith in banking and the lending institutions.

He then reviewed the Equity Characteristics and Sectors Distributions as outlined on page 11 of Bear Stearns report.

Mr. Salvatore asked what the strategy of having not having any energy holdings. Mr. Mylett explained that energy was a commodity. Demand has come down and the supply is building up. A lot of hedge funds have invested in commodities. The marginal cost of production drives the projections in this area. Bear Stearns had zero exposure in this market. Last year, energy was the best performing market and this year it is the worst performing market this year.

Mr. Mylett and Mr. Driscoll thanked the Board for their time. The Board then reviewed the City's investment position.

EVALUATION ASSOCIATES PERFORMANCE REVIEW

Ms. Petrino then reviewed the figures associated with Wellington Opportunistic and said that Wellington had a good year. She proceeded to give brief overviews of Zeisinger Capital Group, LSV, ABS and Ivy.

Ms. Petrino said that she had spoken with the Ivy portfolio manager, who will be present at the next meeting. In her discussion with the portfolio manager, Ms. Petrino realized that Ivy did particularly well with small cap stocks. She suggested that perhaps the Board would like to consider Ivy as the small cap stock portion of the portfolio, if the Board was comfortable with the portfolio manager's presentation.

DISCUSSION OF DISTRESSED DEBT & GLOBAL BONDS

The discussion then turned to Capstone and the fact that the group has been consistently 40 basis points below the benchmark. Mr. Sweeney said that he felt that distressed debt was too risky. Mr. Murphy pointed out that everyone is struggling and this is not the time to purchase global bonds at this time, particularly when the euro is so strong.

Ms. Petrino said that it would be good to interview some global bonds managers, but that she felt the money would be made in bank loans and distressed debt. High yields would be in the B and double B class before it becomes distressed.

Ms. Petrino encouraged the Board to hold 10% in high yield bonds. While distressed debt will be a longer term investment, bank loans would be the more secure investment. Ms. Petrino said that she believed there was a real credit crisis in progress and the banks were selling their debt just to get liquidity. Mr. Salvatore said that if the City held the investment for two or three years, the money would be there.

Mr. Murphy said that he had great respect for Blackstone for their ability to manage the more esoteric funds and stocks.

ADJOURNMENT

** _____ MOVED TO ADJOURN.

** _____ SECONDED.

** THE MOTION PASSED UNANIMOUSLY.

The meeting adjourned at _____.

Respectfully submitted

Sharon L. Soltes
Telesco Secretarial Services

