

NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD MINUTES

FEBRUARY 13, 2007

ATTENDANCE: James Murphy, Chairman; Charles Pirro, Gerry Moran, Michael Sweeney, Michael Salvatore, Francis Nash

STAFF: Frederic Gilden, Comptroller

OTHERS: Ellen Petrino and Chris Bendlak, Evaluation Association; Etta L. Jones, Local 1042 Observer; Albert Zesiger, Zesiger Capital Group; Barrie R. Zesiger, Zesiger Capital Group; Sanjeev Patni, Zesiger Capital Group; Robert K. Winters, Zesiger Capital Group

CALL TO ORDER

Mr. Murphy called the meeting to order at 6:02 p.m.

2. ZESIGER CAPITAL GROUP - AL ZESIGER, BARRIE ZESIGER, ROBERT WINTERS AND SANJEEV PATNI

Ms. Zesiger introduced each of the members of the team to the Pension Board and gave a brief history of each member. Ms. Zesiger explained that at Zesiger Capital Group (ZCG) all the members of the team work on the various accounts. There was also a brief overview discussion regarding uranium and the types of investments that were made by ZCG regarding that resource.

Mr. Zesiger then reviewed the ZCG report with the Board members. In 2006, ZCG gained 31.1% compared to 15.8% for the Standards & Poor's Index. The market increases about 7% over a long period of time, although lately it has been over 10%. A steady 7% increase will result in doubling of capital every ten years. At 13.9%, which is what Norwalk has earned, the result should be doubling assets every five to six years. Mr. Zesiger stated that the portfolio is up to almost \$34 million in securities. There was also a brief discussion about the management of the percentage of cash, which is a residual to sales, not a market timing call, and rarely exceeds 7%.

Mr. Zesiger and Mr. Winters reviewed the domestic securities and the strategies associated with those securities with the Board. Mr. Winters explained that ZCG looks for interesting securities rather than household names. Therefore, the portfolio takes on a different look than a standard portfolio. He illustrated this with an example of the shift in securities in the energy sector, which had previously been more directly associated with producing oil and gas. Now the energy portfolio reflects energy infrastructure rather than direct suppliers. The nature of the investment has changed over the time period. Mr. Winters also discussed the concept of liquidity and how ZCG handles this aspect of the

market. Mr. Winters also gave an overview of the uranium investments and the Libby Company.

Mr. Moran asked about the financials rationale and observed that there were no banks listed in the holdings. Mr. Winters explained that Citigroup had been part of the portfolio for a long period, but then there were indications that warranted attention. He then gave some of the details as to why particular investments are made. Ms. Zesiger also pointed out that ZCG also looks for companies that are moving from negative growth to positive growth. How ZCG weights the various investments was also discussed. Mr. Winters explained that ZCG spends time looking at the macro picture of the U.S. economy and then the investments are selected.

A question about the notation “Prospectus Plus Physical Delivery” was asked. Ms. Zesiger explained that sometime the item comes out of the private sector with restrictions on trading, so ZCG insures that they deliver the prospectus to the broker. There was also a brief discussion about the stocks that ZCG had sold for Norwalk last year. Ms. Zesiger stated that there were only three companies in the company’s portfolio that were over 10% of outstanding shares: Libby, Uranium Resources, and Hesccott.

Another Board member asked about how ZCG makes their sell decisions. Mr. Winters then reviewed ZCG’s philosophy on selling. Mr. Winters used an example of McDermott, which had been heavily covered by the Wall Street firms and later ignored by those same firms. In the meantime, the value of the stock had increased tremendously. ZCG continues to invest in this company because the business that McDermott is involved in is so unique but is not yet reflected in the market. Mr. Zesiger said that one reason that ZCG may sell a stock is when they locate one that ZCG likes more. He then directed their attention to the International portfolio section.

Mr. Patni reviewed the international stocks with the Board members. He stated that ZCG was looking for steady growth for Norwalk’s investments. He then gave an overview of several of the companies in India that have shown steady and solid growth. Ms. Zesiger commented that Norwalk’s overseas stocks have shown very strong growth of 50 to 100%. Mr. Patni pointed out that a strong market for airlines has developed in India as the middle class population increases. A discussion about the various overseas investments and India’s strong position in that market followed. Ms. Zesiger said that ZCG was aware of the particular securities and the market moves, but at the moment, ZCG sees growth in each of the securities that they own and feel that they should continue to hold these securities. Mr. Winters commented that when ZCG became involved in several companies, like McDermott or General Cable, these companies were domestic. During the last few years, these companies have expanded internationally.

Mr. Zesiger pointed out that ZCG had also invested in biotechnology and Ms. Zesiger then reviewed ZCG’s holdings in this area. She reviewed the history of Hayes Medical Company and how that company reversed the deteriorating situation. It has since been showing about a 30% annual growth. The orthopedics market had started to grow again

after a difficult year. Ms. Zesiger and Mr. Winters also reviewed some cinema investments in Vietnam with the Board, also.

In conclusion, Mr. Murphy observed that ZCG has had a steady relationship since 1995 with Norwalk, and ZCG's relationship with the Pension Board exceeds that time period. Mr. Zesiger has been involved in managing the City's portfolio since the 1980's.

EAI - 2006 PERFORMANCE REPORT

Ms. Petrino said that she had not mailed the information because the lack of time, so the information had been emailed. A question was asked if there was a statement regarding the maximum percentage policy for any one manager in the investment policy statement and whether this was a best practice to have a limit. Ms. Petrino stated that this was not part of the policy statement because it would not be wise to have too many fixed income managers, for example.

CAPSTONE PERFORMANCE

Mr. Murphy asked if the other Board members had read the most recent Capstone report. He stated that he was not pleased with at least one of the corporate securities that the City had invested in where the purchase was made at 10% and the coupon was only about 2.71%. Mr. Murphy said he did not understand why this was done. Ms. Petrino stated that Capstone does have some of the inflation related bonds. She thought that this particular investment might have fallen into that category. There was a question about whether there was a drop in the market value. Mr. Murphy said he believed that the City lost \$97,000 on that one security and there were also several other City securities that had taken major losses as well. He said that he was not a portfolio manager, but had not seen those types of losses before in the portfolio. Ms. Petrino said that it was a total return portfolio and that with the buy and sell action, the portfolio would reposition itself for change. Ms. Petrino said that she would make a call to the manager about this matter.

EAI - 2006 PERFORMANCE REPORT CONT'D

Ms. Petrino then reviewed the quarter and the year charts with the Board members. Ms. Petrino observed that growth had underperformed value in a major way. In growth, large cap stocks actually underperformed small caps. Emerging markets have been driving the performance, which was down in the third quarter but became stronger in the fourth quarter. Regarding managers, Armstrong Shaw beat the benchmark and the median manager in the fourth quarter. Ms. Petrino said that they had outperformed the Standard and Poor's Index by twenty basis points for the year. She reminded the Board that they had seen a chart in which the firm had always outperformed either the S&P or the Russell 1000 Value. Wellington Opportunity Growth matched the benchmark in the quarter. Ms. Petrino then reviewed the investments that had underperformed. One comment was that although this particular group (Capstone) had done a decent job for a long period of time the group was just making the numbers and perhaps Norwalk should consider diversifying their fixed income portfolio.

Ms. Petrino then directed the Board member's attention to the total fund summary results, which she reviewed with them. It was noted that Ms. Petrino's report was very good.

Ms. Petrino also mentioned that Artisan's returns had been put against a non-U.S. growth benchmark and that the report was improving because Chris Bendlak has been specifically working on the report. During the past three years, Artisan's growth returns have been fine, but prior to that, there were some insurance stock issues. There has been some underperformance in Japanese financials.

There was a question about possibly having a third international manager that would work with some of the investments. Ms. Petrino directed the Board members to the allocations and said that she had some ideas regarding this. She stated that GMO Emerging Markets had a disappointing year because of some decisions not to be involved in some markets that were speculative. They have a solid and strong performance. At the next meeting, GMO will be present via a telephone conference call.

CAPSTONE PERFORMANCE CONT'D

Ms. Petrino then reviewed the portion of the report relative to Capstone. It ranked slightly below median for the fourth quarter. By indexing the portfolio, the returns would have been slightly better than they have been. Capstone has earned equivalent results but with much less volatility than the index. Ms. Petrino said that this is what Capstone was delivering. They have consistently had a higher yield in the portfolio with a yield at maturity at 5.5 versus the benchmark at 5.36.

Ms. Petrino stated that the stock market volatility is at an all time low and the bond market volatility has been up for the last five years.

Ms. Petrino then directed the Board members' attention to the private investments, which she reviewed with them. She then explained that she is proposing four categories of investments now: marketable equities, private investments, inflation hedge and fixed income/cash. The targets would have to change Ms. Petrino explained, and then she proceeded to suggest some percentages for those allocations. When looking at the various targets, the marketable securities are within the range.

One Board member requested that the diversification of fixed income be discussed. Ms. Petrino said that two clients have recently moved their investment to cash, which she did not recommend. She also pointed out that high yield and emerging markets debt bonds are trading with the spread being very narrow. She was asked if moving to an opportunistic fixed income manager would be worth considering. That had already been tried in the past with Miller Anderson/Morgan Stanley. The attempt resulted in a loss over six or seven years, with underperformance of 50 basis points over two to three years. Ms. Petrino said that one consultant, Frank Russell, recommends always having high yield as a permanent investment because it has a steady yield. A discussion about the various options followed.

Ms. Petrino was asked to bring in two or three managers for the Board to speak with about this situation. Ms. Petrino was also asked to compile the names of the value managers for the last ten years and compare how they have performed relative to the Standard and Poor's Index.

Ms. Petrino announced that there would be a luncheon in New York on April 11th regarding portable alpha. She also said that she would bring a manager in to speak with the Board about the option for diversifying. She stated that she was not in favor of the hedge fund approach to portable alpha and that she felt it would be best to keep hedge funds for doing other things in the portfolio. She would rather look at marketable funds. It was suggested that there be a subcommittee meeting about distressed debt in March.

There was also a brief discussion about where the City ranked in terms of other public funds. Ms. Petrino said that Norwalk was currently in the 5th percentile for the quarter and 31st percentile for the year.

APPROVAL OF PENSION APPLICATIONS

Mr. Murphy reviewed the details of the pension applications for Beatrice Sniffin and Michael Walsh.

**** MR. MURPHY MOVED TO APPROVE THE PENSION APPLICATIONS FOR BEATRICE SNIFFEN AND MICHAEL WALSH.**

**** THE MOTION PASSED UNANIMOUSLY.**

APPROVAL OF MINUTES FOR DECEMBER 13, 2006 AND JANUARY 10, 2007

It was determined that the minutes would be approved at the next meeting.

ETHICS ORDINANCE

Mr. Murphy asked if the public hearing had taken place. It was stated that a public hearing had taken place and that there was a packet of information for the Board members. The last draft of the ordinance was included in the packet along with an additional email from Mr. Hamilton regarding some concerns about the proposed ordinances and the minutes from the public hearing. The Law Department is still accepting input regarding this. Mr. Hamilton raised most of the issues that concerns the staff in his email. This issue is moving forward at the Council level. It was also stated that there might be substantial changes to the draft and possibly another public hearing.

There was a question about whether the Board members receive publications about what is happening in the pension world. The board members were informed that there was a publication called "Pension Investments" that they should be receiving. The Board members names will be submitted for this free publication.

EMPLOYEE INFORMATIONAL MEETINGS

It was mentioned that most unions had not responded to the Board's invitation in 2006 to schedule informational meetings with the membership. It was also stated that the Board should be sending out pension statements to the individual employees. This should be done within the next eight weeks. It was suggested to have an employee meeting shortly after the pension statements are sent out. This will most likely happen in April.

OTHER BUSINESS

There was no additional business to consider at this time.

ADJOURNMENT

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

The meeting adjourned at 8:37 p.m.

Respectfully submitted,

Sharon L. Soltes
Telesco Secretarial Services

