NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD MINUTES

REVISED 2/28/08 CITY OF NORWALK
NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD
REGULAR MEETING
JANUARY 16, 2008

ATTENDANCE: James Murphy, Chairman; Charles Pirro; Scott Vetare,
Francis Nash, Gerald Moran, Michael Sweeney,
Etta L. Jones, Local 1042 Observer; Larry Manzi, NMEA;
Rebecca Bieur, NFEP Vice President

STAFF: Frederic Gilden, Comptroller; James Hazelcamp, Personnel Director

OTHERS: Shawn McCaffrey, LSV Asset Management, Scott Kemper, LSV Asset Management; Ellen Petrino, Evaluations Associates; Laura K. Kunkemuller, Evaluations Associates; Christopher Bendlak, Evaluations Associates

CALL TO ORDER

Mr. Murphy called the meeting to order at 6:10 p.m.

APPROVAL OF MINUTES FROM NOVEMBER 14, 2007 MEETING

The following changes were made:

Page 2, paragraph 6: please replace the following paragraph:

After Mr. Potter and Mr. Jarosky left, the Board discussed the various options for the hedge funds. One suggestion was change the asset allocation for a Global absolute return strategy with a U.S. Equity and an International Developed or Emerging rather than the broad equity market. With approximately 16% in hedge, which was part of the plan when the Board decided to change from having two managers. The Board then discussed the details of this proposal. Ms. Petrino said that she believed that this would be important to do. Since this was just a reallocation of funds, no vote was needed.

as follows:

"The board discussed various options on how to categorize the portfolio's hedge funds. One suggestion was to redefine the equity asset allocation to: Global absolute return, US Equity, International Developed Equity and Emerging Markets Equity. The result would show 16% in hedge/global absolute return, which was the plan when the Board decided to move from the hedged managers to three with the addition of ABS. The Board then discussed and approved this proposal. Ms. Petrino said this would be important to do.

Since this was just a re-allocation of how to categorize existing funds, no vote was needed."

Page 2, paragraph 7, first line: please change the following from:

"Ms. Petrino said that she had been advocating global bonds for some time."

to "Ms. Petrino said that she had not been advocating global bonds for some time."

Page 3, paragraph 1, line 1: please change the following from:

"The Board discussed the various details connected with global bonds and emerging markets. It was agreed to reduce the allocation percentage of emerging markets by 8%."

to "The Board discussed the various details connected with global bonds and emerging markets equity. The fund is over-weighted emerging market equity. It was agreed to reduce the allocation percentage of emerging markets by 8%.

APPROVAL OF PENSION APPLICATIONS

Mr. Pirro reviewed the application of Frederick J. Sorrentino.

** MR. PIRRO MOVED TO APPROVE THE PENSION APPLICATION OF FREDERICK J. SORRENTINO AS OF MAY OF 2007.

Mr. Murphy commented that there were no offsets for the pension. He pointed out that this comes to 87% of his salary. Mr. Murphy urged that this be capped at 70% because no one retires from the City with more than 70%. Mr. Pirro said that there were quirks in the Social Security law, so that someone could conceivably could be collecting disability but still able to work. Mr. Haselkamp said that Personnel does not want to be in the position of determining someone's disability.

Mr. Nash joined the meeting at 6:30 p.m.

Mr. Sweeney asked how Mr. Murphy had done the calculations. Mr. Murphy then reviewed the formula that he had used to double check the figures. Mr. Haselkamp said that he would supply the Board members with copies of the worksheet.

** MR. MORAN SECONDED.
** THE MOTION PASSED UNANIMOUSLY.

** MR. PIRRO MOVED TO APPROVE THE FOLLOWING PENSION APPLICATIONS:

MONSERRATE LLANTIN WITH A COMMENCEMENT DATE OF MARCH 1, 2008

JANE S. PATAKI, WITH A COMMENCEMENT DATE OF JANUARY 1, 2008.

JEAN W. ZERANSKI, WITH A COMMENCEMENT DATE OF FEBRUARY 1, 2008

ELAINE M. CIMMINO WITH A COMMENCEMENT DATE OF MARCH 1, 2008

** MR. SWEENEY SECONDED.
** THE MOTION PASSED UNANIMOUSLY.

LSV

Ms. Petrino said that the worst performing asset class was the small cap values.

Mr. McCaffrey then gave a brief history of the firm for the new Board members. He gave an overview of the organizational chart for the Board and explained that the firm had been founded by some financial academics that study financial movements.

Mr. Kemper then pointed out that the City had invested ten million with LSV in 2003 and that $6,500,000 had been withdrawn and that there had been a net return on this investment of approximately $9,190,288. He explained that often if there are cheap stocks purchased and held, the stocks would strengthen over time. Monitoring is done so that those companies that under perform are removed from the portfolio. There has been a dramatic shift to growth in the recent months.

Mr. Kemper pointed out that there was a point spread of negative 16.9% in the small cap values vs. small cap growth. He said that there has been a disparity in sector returns and that this has been a unique year. Mr. Kemper said that until June 30th, LSV had been above the benchmark, but growth is outperforming value. However, LSV believes that value will continue to be a good strategy. It is difficult to know when the shift will return back to value, but LSV is a deep value manager and believes that this will return to a balance.

Mr. Kemper then reviewed the Portfolio Characteristics for the Board members. He said that the academics were working to improve the quality of the financial models and enhancing the variables in the model. Mr. Kemper said that on average, over the long run LSV believes that value will outperform growth 70% of the time.

Mr. Nash pointed out that LSV had underperformed in ’04, ’06, and 07, but had only met the benchmark ’05. He then asked why the City should continue to invest with LSV. Mr. Kemper said that the model has worked very well in other asset classes LSV believes in it and he encouraged the Board to look at the long view. Mr. Gilden asked how LSV believed that small caps would perform this way. Mr. Kemper said that looking at the last ten years, the small cap model has worked and that unfortunately, Norwalk had joined during a period when growth exceeded value.

Mr. McCafferty said that he did not believe that there had been any clients who had left the firm because of performance. One client left the firm because they were changing asset allocation policy. Mr. Kemper said that the quantitative approach was good to use right now because of the volatility of the market.

Mr. Sweeney asked for feedback from the Board. Mr. Nash said that he did not know any financial manager who was over weighted in value. Ms. Petrino said that many people are rebalancing because they don't expect value to always outperform growth. Mr. Moran said that he did not think that the Russell 2000 was necessarily a good index to use as a benchmark. Ms. Petrino said that research has been done on what type of stock does well during a given time and that the small caps have performed well coming out of a recession. In 2003, as the market emerged from the recession, LSV did well. Mr. Murphy asked if there was a search being done today, whether LSV would be one of the top three candidates. Ms. Petrino said they most likely would be.

EVALUATIONS ASSOCIATES DISTRESSED DEBT DISCUSSION

Ms. Petrino then distributed a Performance Update to the Board members. She then reviewed the overall asset allocations. She pointed out that currently there is 9% invested in Emerging Markets rather than the 7% that was the target. This may need to be considered.

Ms. Petrino pointed out that the City had a total Domestic Equity of 8.8% verses 5.8% for the Russell 2000. She indicated that Ivy Rising Star had not done as well as expected and may be a candidate for replacement.

Ms. Petrino said that it would be good to talk about capital preservation at a future meeting. Mr. Murphy said that he believed that the City has held up well in the last year and arrived at this by looking at the high water market last year at this time as compared to the high water market this year. Discussion followed on this issue.

Mr. Murphy said that he felt Ms. Petrino made a good suggestion about rebalancing. She said that she would take 2% from emerging markets and 2% from another fund. Mr. Murphy said that he would be comfortable with letting Ivy go in June. Ms. Petrino said that she believed that there was a ninety day notification period. When the funds were allocated, both Blackstone and Ivy were equally strong, however Ivy had only been up 7% while Blackstone was up 18%.

Mr. Moran said that he would like to schedule a subcommittee meeting.

Ms. Petrino said that there is information ready on distressed debt and another report on global bonds. She then distributed copies of both reports to the Board members.

Mr. Murphy said that he had received a call from Blackstone about an investment opportunity. Ms. Petrino said that Evaluation Associates had looked at this and felt that

Blackstone knew what they were doing. This offer would be a lock up for three years. A discussion on details of this proposal this followed.

OTHER BUSINESS

a. Other Post Employment Benefit Administration

Mr. Murphy asked if everyone had received the City Health Trust Benefit information. Mr. Gilden said that the City was required to invest the funds in a trust by the State.

** MR. MORAN MOVED TO RECEIVE THE FUNDS OF NINE MILLION FROM THE CITY OF NORWALK TO ADMINISTER A RETIREE HEALTH CARE COSTS. IT IS ANTICIPATED THAT THERE WILL BE A REMAINDER BALANCE OF APPROXIMATELY 2 MILLION DOLLARS AT THE END OF THE FISCAL PERIOD 2008 THAT WILL NEED TO BE INVESTED APPROPRIATELY AND THIS WILL BE INVESTED IN NORTHERN TRUST SHORT TERM FUND.

There was a brief discussion about the State of Connecticut Risk Management. Ms. Petrino was asked to develop some alternatives for the Board to consider.

** THE MOTION PASSED UNANIMOUSLY.

Mr. Murphy asked if everyone had received the actuary sections for the plan. Mr. Murphy said that these had been received and were fabulous. He said that the plan was well funded and had about a 21 million dollar term. This means that the City is in very good shape.

b. Pension Board Chairman Successor

Mr. Murphy said that he would be staying on the Board for a while longer, but that it was time for someone to take on the chairmanship after about twenty years. Mr. Pirro said that he was chairman in 1985, so that it was twenty two years.

** MR. MURPHY MOVED TO NOMINATE MICHAEL SWEENEY AS CHAIRMAN FOR THE PENSION BOARD.

Mr. Murphy said that the Board has always managed to have a consensus. The minutes would show that there were very few votes that were split over the years. It is important to gain consensus. Mr. Murphy said that there had been great participation from the unions. Mr. Murphy said that it was fun being chairman, both during the good and bad times. Ms. Petrino pointed out that during the dark periods that the City had out performed their benchmarks. Mr. Murphy asked Ms. Petrino how long Evaluation Associates had been working with the City. Ms. Petrino said she believed it was from 1992 or 1993. She added that their contract was up in June, which would be another issue to discuss in the coming months.

Mr. Murphy said that there has always been good support in the community. He said that he believed the turning point was Mayor Collins who recognized that the City of Norwalk Pension was not doing well and created the Board. Since then, every administration after that with the exception of Mayor Knopp has provided the expected funding for the plan.

Mr. Murphy said that he had informed the Mayor that he would be resigning as chair after the elections because he serves at the pleasure of the Mayor. He said that he would continue to serve until someone else was appointed.

** MR. MORAN SECONDED.
** THE MOTION PASSED UNANIMOUSLY.

A brief discussion regarding the Food Service Pension Board then followed. Mr. Murphy said that he would speak to the Mayor and get Mr. Murphy some information about the Food Service Pension.

Ms. Petrino commented that Mr. Murphy had brought a lot of continuity to the Board during the years he served as Chair.

ADJOURNMENT

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

The meeting adjourned at 8:15 p.m.

Respectfully submitted,

Sharon Soltes
Telesco Secretarial Service