

Minutes of the Regular Monthly Meeting
Board of Trustees
Employees' Retirement System of the City of Norfolk
November 17, 2003

The regular monthly meeting of the Board of Trustees of the Employees' Retirement System of the City of Norfolk was held in the City Hall sixth floor conference room in the City of Norfolk, Virginia. The meeting began at 2:15 p.m. on Monday, November 17, 2003, with Chairperson Michael S. Ives presiding. The following was the result of the roll call:

Attending the Meeting

M.S. Ives
S.G. de Mik
J.D. Hopkins
R.J. Keogh
F.V. Martin
A.B. Nusbaum

Not attending the meeting

W.O. Carrow
R.V.K. Williams
Vacant

Ms. Mary L.G. Nexsen, Deputy City Attorney, Mr. Kamal Khanna, Chief Investment Officer, Mr. Eric Ralph of Summit Strategies Group and Mr. Willcox Bailey of PaineWebber also attended the meeting.

The minutes of the regular meeting held October 20, 2003 were approved as printed.

Mr. Frank Sposato and Mr. Gary Buesser, of Lazard Freres Asset Management, gave a presentation to the Board. Their review of the equity portfolio covered the following topics:

- Performance & Market Review
- Outlook & Strategy
- Organizational Update

Committee Reports:

Administration and Planning:

Mr. Ives reported that the Committee did not have a meeting.

Asset Allocation:

Mr. Keogh reported that the Committee did not have a meeting.

Investment Management Review Committee:

Mr. Martin reported that the Investment Management Review Committee met today from 12:30pm to 2:00pm with Eric Ralph of Summit Strategies. The issues before the committee were as follows:

Follow-up on Trustees' due diligence visit with Putnam on November 12, 2003

1. Putnam's Mutual Fund Related Issues
2. Putnam Large Cap Growth Account
3. Putnam Small Cap Growth Account

Mr. Martin reported that committee members Messrs Ives and de Mik, as well as consultants Messrs Khanna and Ralph, and Ted Wilder accompanied him on a due diligence visit to Boston to meet with top management of Putnam. The purpose of this trip was to discuss their mutual fund related issues (widely publicized in the media), and Putnam management's response to the same. The trustees also met with the small cap growth and large cap growth account teams for a comprehensive review of all aspects of our accounts - people, processes, performance, etc. Based on these reviews, the committee recommended that we terminate Putnam as our investment manager on both accounts. This recommendation is based on the committee's assessment that Putnam's senior management did not properly exercise their fiduciary duty in the face of market timing activities by several high level Putnam employees.

Putnam Large Cap Growth

As of 10/31/03, we had about \$77 million with Putnam for a large cap growth mandate. At the October Board meeting, it was decided to remove \$40 million from this account to fund a small cap value mandate, leaving about \$37 million in the account.

Putnam's performance in this account has been consistently unsatisfactory since inception in October 2000. Our consultants are of the opinion that over the long haul, it would be very difficult to consistently add value by active management in the large cap space, growth or value style. These issues, coupled with organizational problems, led the committee to recommend termination of Putnam and moving the remaining assets into the SSgA Russell 1000 growth index fund, pending overall large cap investment structure review which is presently underway (motion #1).

Putnam Small Cap Growth

As of 10/31/03, we had about \$53.7 million with Putnam for a small cap growth mandate. They did an outstanding job from 1990 (inception) until about 2000. However, for the past three years, their performance has been poor, about 0.71% below the benchmark, net of fees, and there has been a significant personnel turnover. These changes in conjunction with the organizational issues resulted in the committee recommending that we remove Putnam from this account (motion #2) and asking the Manager Search & Selection Committee to start the process for identifying a replacement manager with the help of Summit Strategies (motion #3). Until a new manager is selected, the Committee recommends that Putnam

be instructed to cease any new purchases in this account. The proceeds from any sale of securities in the normal course of managing this account should be used to increase the exposure to small cap value style, with the objective of realizing a 60/40-value/growth exposure in the small cap allocation.

Mr. Martin made a motion to accept the three Putnam related motions. This motion was seconded by Mr. Keogh and unanimously approved by the Board.

Training and Education:

Mr. de Mik reported that the Committee did not have a meeting. Mr. Ralph informed the Board that trustee manuals would be developed in the next six (6) months.

Benefit Claims:

Dr. Hopkins reported that the Committee did not have a meeting.

Manager Search & Selection:

Mr. Ives reported that the Committee did not have a meeting. The Committee will be acting expeditiously on replacement of a small cap growth manager.

Mr. Khanna distributed for the Board's information a one-page commentary and the October 03 monthly report. This report is attached as part of the official minutes.

Mr. Eric Ralph, of Summit Strategies Group, reviewed with the Board, the monthly report for October 31, 2003 and the investment performance review for the quarter ended September 30, 2003.

New Business

A. Applications for vested service retirement:

Mary E. Gall, Active No. 19205, December 1, 2003, with no refund due.

Gary E. Embry, Active No. 20076, January 1, 2004, with no refund due.

Ralph Gainey, Active No. 18295, February 1, 2004, with no refund due.

B. Application for early service retirement:

Kevin T. Kelleher, Active No. 22547, December 1, 2003, with no refund due.

C. Applications for normal service retirement:

Robert E. Cofer, Active No. 18725, December 1, 2003, with no refund due.

Ricky D. Johnson, Active No. 20032, December 1, 2003, with no refund due.

James S. Scott, Active No. 17665, January 1, 2004, with no refund due.

D. Recommendation by the Medical Board that the following be retired:

Donald E. Jarvis, Active No. 19932, December 1, 2003, with no refund due.

This member requested accidental disability retirement.

E. Death of retired members:

Frank A. Humphrey, Ret. No. 2546, death occurred September 16, 2003. No benefit payable due to no surviving spouse or dependent children.

Mary E. Bryant, Ret. No. 2667, death occurred October 1, 2003. No benefit payable due to no surviving spouse or dependent children.

Edward W. White, Sr., Ret. No. 1443, death occurred October 7, 2003. Spouse elected monthly benefit of \$471.24.

Ocie A. Barnes, Ret. No. 1896, death occurred October 14, 2003. Spouse elected monthly benefit of \$1,071.97.

Howard F. Vick, Ret. No. 3287, death occurred October 27, 2003. Spouse elected monthly benefit of \$1,124.17.

F. Death of spouse:

Dorothy Staton, Spouse No. 197, death occurred October 15, 2003. No benefit payable.

The Board approved withdrawal of the following non-contributing members:

<u>Name of Member</u>	<u>Active Number</u>
Monique R. Dixon-Worthy	28701
Sandra J. Harvey	29243
Philip Anthony Caruana	29281
Edwin L. Williams	29312
Ellen F. Rivera	29342
Jacinta P. Holt	29432
Kenneth E. Scribbins	29546
Kerry Morton Schleeper	29748
Harold Frank Reed	29798
Alfonzo Owens	29969
Fredrick F. Waldo	30095
Andrew B. Fontanelle	30150
Roger Lee, II	30152
Patrick Martin Foster	30161
Sean Andrew Hart, Sr.	30162
Robert Kuethe	30164
Archie C. Sorey, Jr.	30170
Total - 17 members	

The following report of payments from the Trust Fund was received and filed:

Tidewater Jet Aviation, LLC	(1)	\$ 5,058.50
State Street Corp.	(2)	22,637.77
Baker's Crust	(3)	139.18
Baker's Crust	(4)	16.65
FedEx	(5)	52.22
Mellon Consultants, Inc.	(6)	17,920.00
State Street Corp.	(7)	13,307.25
Steve de Mik	(8)	732.20
Theodore Wilder	(9)	234.06
Retirement Payroll (est. Nov. 03)		<u>\$ 3,100,000.00</u>
Total		\$ 3,160,097.83

(1) Round trip airfare for Frederick Martin, Steven de Mik, Kamal Khanna, Michael Ives and Theodore Wilder to visit Putnam Investments, Wellington Management Company and State Street Corporation in Boston on Wednesday and Thursday, November 12-13, 2003.

(2) Custodial services for the month of September 2003.

- (3) Lunch for Board meeting on October 20, 2003.
- (4) Back order to lunch for Board meeting on October 20, 2003.
- (5) Information sent to State Street and Cherry, Bekaert & Holland.
- (6) Work on June 30, 2003 valuation; offsetting disability pensions
- (7) Custodial services for the month of August 2003.
- (8) Reimbursement of expenses incurred for Steven de Mik to attend the
Opal Investment Conference in Washington, D.C. in October 8-9, 2003.
- (9) Reimbursement of expenses incurred for attending the Association of
Municipal Retirement Systems of Virginia held October 26-28, 2003 in
Richmond, Virginia.

Mr. Ives reported that on Tuesday, November 18, 2003, he and Mr. de Mik would be going before the finance committee of City Council to update them on the developments of the Retirement System. All Board members are welcomed to attend. The meeting will take place immediately following the City Council meeting in the City Manager's conference room at 2:45 p.m.

There being no further business, the meeting was adjourned at 3:48 p.m.

Chairperson

Executive Director