

Minutes of the Regular Monthly Meeting
Board of Trustees
Employees' Retirement System of the City of Norfolk
December 20, 2004

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 2:10 p.m. on Monday, December 20, 2004, with Chairperson, Michael S. Ives presiding. The following was the result of the roll call:

Attending the Meeting
Meeting

M.S. Ives
W.O. Carrow
S.G. de Mik
J.D. Hopkins
N. Johnson
F.V. Martin
A.B. Nusbaum

Not Attending the

Vacant
Vacant

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

The minutes of the monthly meeting held November 15, 2004 were approved as printed.

Mr. Ives asked Mrs. Nexsen and Mr. Wilder to prepare a resolution for Board adoption at the January Board meeting recognizing the service of deceased Board Member, Mr. Robert J. Keogh. Mr. Ives asked the Board to observe a moment of silence to reflect on the service Mr. Keogh contributed to this Board.

Mr. Stephen Moorhead, Ms. Kirsten Fantasia, and Mr. Gregory Johnsen of Wellington Management gave a presentation to the Board. Their presentation covered the following topics:

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

Committee Reports:

Administration and Planning:

Mr. Ives reported that the Committee did have a meeting. Mr. de Mik reported that the committee discussed the proposed changes to the smoothing and amortization methods. The rationale for the change in the smoothing method is

the fact that in an environment of steadily rising markets (as was the case during the 1990s), the current method perpetually delays the recognition of un-realized capital gains. The proposed method is more appropriate for an environment where dividends and interest income constitute a small portion of the expected total return on assets.

Our current 20-year closed, level dollar amortization method leads to rather volatile contribution rates and the proposed open, 20-year level dollar method will help smooth the contribution rate from year to year. Mr. de Mik made a motion to adopt the smoothing and amortization methods and to inform our Actuary to prepare the June 30, 2004 Actuarial Valuation using the above changes. This motion was seconded by Mr. Martin and approved unanimously by the Board.

Mr. de Mik also reported that Buck/Mellon HR Solutions has been the System's actuary since inception. We have been very pleased with their services over all these years. However, as a matter of good business practice, the Committee believes a periodic market check is desirable and warranted to ensure we are receiving state-of-the-art actuarial consulting advice at competitive prices. Buck/Mellon is aware of our RFP and plans to bid for the requested services. Mr. de Mik made a motion to issue a RFP for Actuarial Consulting Services. This motion was seconded by Dr. Hopkins and approved unanimously by the Board.

Asset Allocation:

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

Investment Management Review Committee:

Mr. Martin reported that Dr. Hopkins, Eric Ralph, Kamal Khanna, and himself made a due diligence visit with Tattersall Advisory Group. They discussed the organizational updates, investment strategies, changing market composition, and performance. Mr. Martin further reported that Messrs. Carrow, Wilder, and Khanna met with J.P. Morgan reps in Norfolk to review our account. Also, Messrs. de Mik, Khanna, Dr. Hopkins and himself attended the Public Funds Board Forum in San Francisco and took the opportunity to pay a visit to Mellon Capital for our scheduled due diligence visit.

Mr. Martin further stated that the Investment Management Review Committee met just prior to the Board meeting to discuss the securities lending proposal from State Street and bring closure to this project, which has been under study for some time. In June 2004, State Street and Summit Strategies had made educational presentations to the Board on securities lending. Kamal Khanna, our CIO, summarized the key points from the prior presentations and provided his analysis of the risks and rewards of securities lending, and options for the Committee's consideration. Based on the options presented, the Committee recommends investing in co-mingled funds that lend securities, but does not recommend implementing a securities lending program from our separately managed accounts. Specifically, the committee recommends as follows:

- We are presently invested in SSgA's Lehman Aggregate Bond Index fund that lends securities. The Committee is comfortable with this arrangement as SSgA has the oversight responsibility to manage and monitor all aspects of the securities lending operations. Accordingly, no action or change is required.
- We are presently invested in SSgA's legacy S&P 500 Index fund that does not lend securities. This fund has about \$600 million in total assets, and our investment in this fund represents more than 50% of the total assets of the fund. SSgA's Flagship S&P 500 Index fund that **lends securities** has more than \$80 billion in assets. The Committee recommends we transfer our assets from the non-lending legacy S&P 500 Index fund over to their Flagship fund.
- The Committee was advised of the fact that the S&P 500 Index is being re-constituted for float adjusted market capitalization. This change will take place in two stages with final implementation to be effective as of September 30, 2005. The Committee recommends delegating the timing of the transition from our investment in the legacy S&P 500 index fund to the Flagship index fund to the CIO in consultations with Summit Strategies.
- Finally, the Committee recommends no action be taken at this time on lending securities from our actively managed fixed income and equity accounts (separately managed accounts). The Committee may revisit this matter at a later date if and when there are favorable developments in the area of risk mitigation by securities lending agent (custodian) that might alleviate some of the concerns the Committee has related to the monitoring of securities lending from separately managed accounts.

Mr. Martin made a motion to invest in co-mingled funds that lend securities, but does not recommend implementing a securities lending program from our separately managed accounts as stated above. This motion was seconded by Dr. Hopkins and approved unanimously by the Board.

Training and Education:

Mr. de Mik reported that the Committee did not have a meeting. He stated that Messrs. Martin, Khanna, Dr. Hopkins and himself attended the Public Funds Board Forum (PFBM) in San Francisco. The PFBM was very informative and prominent speakers addressed very timely topics.

Benefit Claims:

Dr. Hopkins reported that the Committee did not have a meeting. Dr. Hopkins informed the Board that the Committee is waiting to hear from the City's administration on how changes should be made regarding the disability retirement process.

Manager Search & Selection:

Captain Carrow reported that the Committee did not have a meeting.

Comments from CIO:

Mr. Khanna distributed for the Board's information his comments summarizing the Fund's performance and commentary on the markets. The report is attached as part of the official minutes.

Mr. Ralph informed the Board that they have started the second part of the asset liability study where we talk about modifying the portfolio in different ways. Three questions rose out of those discussions. They are as follows:

- Further education on internationals
- Summit's forward looking capital markets expectation
- Real estate

New Business

A. Applications for vested service retirement:

Dandridge M. Hux, Active No. 16748, November 1, 2004, with refund of \$489.91.

Lorraine White, Active No. 18902, January 1, 2005, with no refund due.

Bernadine Dumire, Active No. 23140, January 1, 2005, with no refund due.

Perry Underwood, Active No. 14299, February 1, 2005, with refund of \$2,829.36.

Ralph Tuccillo, Active No. 18604, February 1, 2005, with no refund due.

B. Applications for early service retirement:

Joyce Alexander, Active No. 20377, January 1, 2005, with no refund due.

Dan Hurley, Active No. 21412, January 1, 2005, with no refund due.

C. Applications for normal service retirement:

Doretha M. Allen, Active No. 13446, January 1, 2005, with refund of \$3,113.11.

Conrad Hagert, Jr., Active No. 15195, January 1, 2005, with refund of \$1,537.18.

Phillip A. Sams, Active No. 20302, January 1, 2005, with no refund due.

Ronald R. Young, Active No. 27296, January 1, 2005, with no refund due.

Lois H. Radford, Active No. 27303, January 1, 2005, with no refund due.

Robert G. Branyan, II, Active No. 27859, January 1, 2005, with no refund due.

Thomas J. Catchings, Active No. 28786, January 1, 2005, with no refund due.

Paul Scott, Active No. 17442, February 1, 2005, with no refund due.

Bertie P. Carter, Active No. 19113, February 1, 2005, with no refund due.

Daniel Hagemeister, Active No. 19303, February 1, 2005, with no refund due.

D. Ordinary death:

Dennis I. Jones, Active No. 19685, death occurred November 25, 2004.
Spouse elected monthly benefit of \$1,434.64.

E. Death of retired members:

Gary N. Gregory, Ret. No. 03091, death occurred November 3, 2004.
Spouse elected monthly benefit of \$551.21.

Melva B. Johnson, Ret. No. 02112, death occurred November 6, 2004.
Spouse elected lump sum payment of \$4,899.38.

Dennis R. Cuthrell, Ret. No. 03297, death occurred November 6, 2004.
Spouse elected monthly benefit of \$891.72.

Earl E. Warren, Jr., Ret. No. 04584, death occurred November 9, 2004.
No benefit payable due to no surviving spouse or dependent children.

Thelma M. Sykes, Ret. No. 03182, death occurred December 1, 2004. No
benefit payable due to no surviving spouse or dependent children.

Donald G. Mays, Ret. No. 03835, death occurred November 24, 2004.
Spouse elected monthly benefit of \$332.99.

Stephen E. Lee, Jr., Ret. No. 02611, death occurred December 2, 2004.
No benefit payable due to no surviving spouse or dependent children.

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

FedEx	(1)	\$	39.25
Bayview Physician Services, PC	(2)		896.00
State Street Corporation	(3)		10,255.55
Mellon Consultants, Inc.	(4)		17,027.00
Myrella Aaron	(5)		72.99
Mellon Consultants, Inc.	(6)		14,038.00
Theodore Wilder	(7)		10.47
Summit Strategies, Inc.	(8)		38,475.00
Lotus Financial Consulting, LLC	(9)		14,583.00
Employees' Retirement System	(10)		298,030.91
Baker's Crust, Inc.	(11)		152.92
Retirement Payroll (est. Dec. 04)			<u>3,500,000.00</u>
Total		\$	3,893,581.09

- (1) Information sent to State Street and Stephen White
- (2) Medical exams for: Robert St. Laurent; Tim McCullough; Laurie Ryan and Lee Cooper
- (3) Custodial services for the month of September 2004
- (4) Work on 6/30/04 valuation and portability calculations
- (5) Reimbursement for plant sent to Mrs. Kathlyn Keogh and family due to the death of Retirement Board member, Robert Keogh on November 20, 2004
- (6) Services rendered through October 31, 2004 - 6/30/04 valuation, Options A, B
- (7) Reimbursement for water and sodas for Board Meeting on 11/15/04
- (8) Investment consulting services for the period October 1, 2004 through December 31, 2004
- (9) Investment consulting services for the period 12-1-04 through 12-31-04
- (10) To cover overdraft in payroll due to IRS deducting Federal taxes of \$298,030.91 twice

(11) Lunch served for Asset Allocation/Board Meeting on November 15, 2004

Mr. Wilder presented the proposed meeting schedule for calendar year 2005. The Board of Trustees will continue to meet monthly on the third Mondays at 2:00 p.m. Since January 17 and February 21, 2005 are official holidays, the recommendation is that Board members consider rescheduling these two meetings to January 20, 2005 and February 17, 2005. Mr. Martin made a motion to approve the proposed meeting schedule as presented by Mr. Wilder for calendar year 2005. This motion was seconded by Mr. de Mik and approved unanimously by the Board.

Mr. Khanna informed the Board that a notice would be sent to all Board members to schedule a committee meeting to address the remaining questions regarding the asset liability study.

There being no further business, the meeting was adjourned at 3:40 p.m.

Chairperson

Executive Director