

Minutes of the Regular Monthly Meeting
Board of Trustees
Employees' Retirement System of the City of Norfolk
August 15, 2005

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 2:03 p.m. on Monday, August 15, 2005, with Chairperson, Michael S. Ives presiding. The following was the result of the roll call:

<u>Attending the Meeting</u>	<u>Not Attending the Meeting</u>
M.S. Ives	Vacant
S.G. de Mik	Vacant
J. D. Hopkins	Vacant
F.V. Martin	
A. B. Nusbaum	
S. A. Stein	

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

The minutes of the monthly meeting held July 18, 2005, were approved as printed.

Committee Reports:

Administration and Planning:

Mr. Martin reported that the Committee met today to discuss the following proposals:

1. Cash Management: Structure, Timing, and Philosophy Review
2. Instructions for Cheiron, our new actuary for June 30, 2005 actuarial valuation.

Following a discussion of proposal #1 as documented in the write-up, the Committee voted to adopt the recommendations summarized on page five of the proposal. The main features of the proposal include increasing the maximum holding account balance for liquidity needs from \$2.5 million currently to \$6 million, and this amount will be increased as the future benefits payroll and liquidity needs increase. Also, the current policy of withdrawing interest and dividend income will be replaced with a set amount of withdrawal each month from selected equity and fixed income managers. Mr. de Mik made a motion to adopt the recommendations summarized on page five of the proposal. This motion was seconded by Mr. Nusbaum and approved unanimously by the Board. A copy of page five is attached as part of the official minutes.

Regarding proposal #2, Mr. Martin informed the Board that the Committee noted that our actuary will be undertaking a quinquennial actuarial assumptions review in 2006. Accordingly, the Committee voted to let the new actuary perform the valuation using the assumptions in place

currently. Mr. de Mik made a motion that the new actuary perform the valuation using the assumptions in place currently. This motion was seconded by Dr. Hopkins and approved unanimously by the Board.

Asset Allocation, Investment Management Review & Manager Search & Selection Committees:

Mr. Martin reported that the Asset Allocation Committee met today to consider a proposal for implementing the target strategic asset allocation previously approved by the Board. The Committee discussed the recommendations and rationale for the proposal and voted to delegate the implementation authority to the Chief Investment Officer and Summit Strategies, consultant to the fund.

Rationale for Implementing a Strategic Allocation

The Board has previously established the following asset allocation policy: 60% equities and 40% fixed income. The 60% equities were further divided into US large cap (40%), US non-large cap (30%) and International (30%). The US non-large and international equities sub asset classes were further divided into value and growth styles with 60% allocated to value style and 40% to growth style. Accordingly, our long-term strategic asset allocation targets are as follows:

Total Equities: 60% of fund split into:
24% US large cap
18% US non-large cap (10.8% value/7.2% growth styles)
18% International (10.8% value/7.2% growth styles)

The strategic allocation proposal provides ranges around the strategic target allocation to capture opportunities to over or under weigh versus the target allocation if the valuation metrics and relative performance of large versus small and growth versus value styles warrant such deviation from the targets. Retirement staff and consultant will regularly monitor the capital markets for opportunities for tactical allocation changes and report to the Committee. The proposed target ranges are as shown in the attachment. The detailed rationale for the proposal is documented in the booklet: Implementing a Strategic Allocation, August 2005.

The Committee also voted to adopt a three-year sunset provision for the delegation of the implementation authority. In addition, the committee instructed

the CIO and the consultant to periodically monitor the value added or detracted by the tactical allocation decisions and report the results to the Committee.

This policy is intended to be applied whenever there is a very significant deviation from the long-term expected returns, and the trend is expected to mean-revert. For example, the divergence in performance between large cap and small cap stocks as well as between growth and value styles seems to have reached extreme levels. The value style has substantially outperformed growth style for more than five years now for both small and large cap stocks. Likewise, small cap stocks have outperformed large cap stocks for the past five years, as shown in the table below.

Annualized Total Return Data for Five Years Ended June 30, 2005

	Core	Value Style	Growth Style	Value Style Out Performs Growth Style Annually by:
S&P 500	-2.39%	3.36%	-7.87%	11.23%
Russell 1000	-1.89%	6.57%	-10.36%	16.93%
Russell 2000	5.75%	16.16%	-4.48%	20.64%
Russell 3000	-1.35%	7.24%	-9.94%	17.18%

Memo: R2000 minus R1000 Index Performance	7.64%	9.59%	5.88%	Small cap stocks out-perform large cap stocks in all three categories - core, value and growth.
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Based on the above observations and analysis, the recommended allocations of 8/15/2005 (shown in the attachment) were developed and endorsed by the Committee.

Mr. Nusbaum made a motion to adopt the above-mentioned recommendations regarding strategic allocation as noted on page seven of the booklet: Implementing a Strategic Allocation, August 2005. This motion was seconded by Mr. de Mik and approved unanimously by the Board.

Training and Education:

Mr. de Mik reported that the Committee should have a draft of the training manual available for the Board's review and comments.

Benefit Claims:

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

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

Mr. Ralph distributed and discussed with the Board the Investment Performance Review for the quarter ended June 30, 2005.

New Business

- A. Recommendation by the City Manager that the following August 1, 2005 retirement be extended:

Robert L. Cowan Active No. 17172 February 1, 2006

Recommendation by the City Manager that the following September 1, 2005 retirements be extended:

Michael E. Young	Active No. 20010	October 1, 2005
Wayne C. Boone	Active No. 17047	November 1, 2005
Susan G. Collins	Active No. 22180	November 1, 2005
Bobby G. Crowder	Active No. 16136	November 1, 2005
Mark T McAloose	Active No. 18996	November 1, 2005
Charles R. Neyer	Active No. 21053	November 1, 2005
Sadie J. Taylor	Active No. 21265	November 1, 2005
James R. Barker	Active No. 18888	February 1, 2006
James T. Blount	Active No. 17492	February 1, 2006
William R. Carman	Active No. 18890	February 1, 2006
Robert E. Cherry	Active No. 17264	February 1, 2006
William W. Dailey, Jr.	Active No. 14217	February 1, 2006
Glenn A. Jones	Active No. 13681	February 1, 2006
Paul D. Moore, Jr.	Active No. 16292	February 1, 2006

John R. Preddy 2006	Active No. 20783	February 1,
George L. Savopoulos 2006	Active No. 20669	February 1,
James D. Elliott 2006	Active No. 18468	February 1,
Robert J. McElhiney, II 2006	Active No. 17767	February 1,

B. Applications for vested service retirement:

William J. Baum, Active No. 18566, September 1, 2005, with no refund due

Marie Torrans, Active No. 13356, October 1, 2005, with refund of \$5,432.65.

Betty W. Davis, Active No. 28055, July 1, 2005, with no refund due.

C. Applications for early service retirement:

Maurice A. Sanders, Active No. 23203, September 1, 2005, with no refund due.

Howard Davis, Jr., Active No. 22520, October 1, 2005, with no refund due.

Raiford H. Hunter, Active No. 26769, October 1, 2005, with no refund due.

D. Applications for normal service retirement:

William H. Conger, Active No. 20137, September 1, 2005, with no refund due.

David C. Rannigan, Active No. 20784, September 1, 2005, with no refund due.

Ernest Delp, Active No. 21622, September 1, 2005, with no refund due.

Carolyn S. Hadden, Active No. 19603, October 1, 2005, with no refund due.

Lavern R. Herzing, Active No. 15786, November 1, 2005, with no refund due.

E. Death of retired members:

Clarence Debraux, Ret. No. 03515, death occurred May 20, 2005. Spouse elected monthly benefit of \$348.09.

Philip R. Saucier, Ret. No. 03742, death occurred June 14, 2005. Spouse elected monthly benefit of \$121.20.

Andrew Brinkley, Ret. No. 03668, death occurred June 22, 2005. Spouse elected monthly benefit of \$448.87.

Mack Coleman, Ret. No. 04548, death occurred July 3, 2005. No benefit payable due to no surviving spouse or dependent children.

Richard Hall, Ret. No. 03589, death occurred July 14, 2005. Spouse elected monthly benefit of \$986.65.

Monte Martin, Ret. No. 03937, death occurred July 14, 2005. Spouse elected monthly benefit of \$937.20.

Amos Owens, Ret. No. 03958, death occurred July 15, 2005. No benefit payable due to no surviving spouse or dependent children.

Simon Harrell, Ret. No. 03619, death occurred July 17, 2005. No benefit payable due to no surviving spouse or dependent children.

Harold Christopher, Ret. No. 02856, death occurred July 22, 2005. Spouse elected monthly benefit of \$1,172.28.

Richard A. Gainforth, Ret. No. 05355, death occurred July 25, 2005. Spouse elected monthly benefit of \$278.80.

William A. Stavely, Ret. No. 03687, death occurred August 4, 2005. No benefit payable due to no surviving spouse or dependent children.

F. Death of spouses:

Edna Osborne, Spouse No. 0619N and 1260R, death occurred May 27, 2005, No benefit payable.

Audrey Emerson, Spouse No. 0306N, death occurred June 15, 2005. No benefit

payable.

Vivian T. Basnight, Spouse No. 0136N, death occurred July 11, 2005. No benefit payable.

Bettie Parker, Spouse No. 0482N, death occurred July 28, 2005. No benefit payable.

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

<u>Name of Member</u>	<u>Active Number</u>
Dawn Shinette Onley	30875
Melissa Peele	30643
Adam K. Moss	30545
Veatrice Denise Tucker	30526
Leon Moseley	30476
Scott M. Steen	30444
Tina McCree Orr	30176
Constantine N. Tsiatsos	30033
Jody Myers	29238
Marvin A. Britt	30316
Keedra N. Brown	30597
James F. Hanlon	30609
Curtis M. Putnam	29182
Total - 13 Members	

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

Baker's Crust	(1)	\$
25.63		
FedEx	(2)	
62.94		
Baker's Crust	(3)	
147.59		
Buck Consultants	(4)	
2,308.00		
Shelton Darden	(5)	
542.41		
Norfolk Municipal Credit Union	(6)	
4,153.62		
Lotus Financial Consulting	(7)	
15,000.00		
Retirement Payroll (est. Aug. 05)		
<u>4,000,000.00</u>		
Total		<u>\$4,</u>
<u>022,240.19</u>		

- (1) Dessert tray for Retirement Board Meeting on 7-18-05
- (2) Information sent to Wellington Management, State Street Bank and Morgan Stanley
- (3) Lunch served for joint meeting of the Asset Allocation, Investment Management and Manager Selection Committees on 7-25-05
- (4) Transition of records to Cheiron
- (5) Refund of contributions due to 7-1-05 retirement
- (6) Direct rollover of interest on contributions for Shelton Darden
- (7) Consulting services for the period August 1, 2005 through August 31, 2005

There being no further business, the meeting was adjourned at 2:38 p.m.

Chairperson

Executive Director