

Minutes of the Regular Monthly Meeting
Board of Trustees
Employees' Retirement System of the City of Norfolk
August 21, 2006

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 2:00 p.m. on Monday, August 21, 2006, 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
N. Johnson
F.V. Martin

Not Attending the Meeting

A. B. Nusbaum
Vacant
Vacant
Vacant

Mrs. Mary L.G. Nexsen, Deputy City Attorney, and 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 17, 2006 were approved as printed.

Committee Reports:

Administration and Planning:

Mr. Ives informed the Board that the next item for discussion was that of the Chief Investment Officer. A motion for Executive Session was read and approved by a vote of 5 to 0. A resolution certifying an executive meeting of the Employees' Retirement Board of the City of Norfolk in accordance with the provisions of the Virginia Freedom of Information Act VA Code Section 2.2-3700 et seq for the purpose of discussing legal and personnel matters was read and approved by a vote of 5 to 0. At the conclusion of the Executive Session, a resolution was adopted in which the Retirement Board certified that, to the best of each member's knowledge, (i) only business matters lawfully exempted from open meeting requirements by Virginia law were discussed in the executive meeting to which the certification resolution applied, and (ii) only such business matters as were identified in the motion convening the executive meeting were heard, discussed or considered by the Retirement Board. Mr. de Mik made a motion to renew Mr. Kamal Khanna's contract for two (2) years. This motion was seconded by Mr. Martin and approved unanimously by the Board.

Asset Allocation & Investment Management Review:

Mr. Martin reported that the Investment Management Review and Asset Allocation Committees met today just prior to the Board Meeting. Kamal Khanna,

CIO, and Eric Ralph, our consultant, discussed the progress of our efforts to restructure the pension fund over the past several years. The following initiatives have now been completed.

1. Restructuring large-cap core equities allocation (benchmarked to S&P 500 index) to essentially indexed and enhanced indexed managers.
2. Overweighting the allocation to non-large cap (meaning small and mid cap) equities and hiring new managers for non-large cap equities (growth and value).
3. Asset/Liability study which recommended investing in new asset classes (international equities, exploration of hedge funds and real estate) and re-structuring the fixed income portion of the fund from core only to core plus.
4. The implementation of the A/L study recommendations is in **progress**. We have hired four international equities managers, expanded PIMCO's mandate from essentially core only to core plus, and consolidated our passive bond index fund accounts with PIMCO. The Board also agreed in principle to allocate to Real Estate for diversification purposes but deferred implementing this decision until an opportune time from a market entry perspective. Several trustees participated in field trips to New York, Greenwich and Boston to visit several Hedge Funds and Hedge Fund of Funds (HFOF) to understand if investing in this asset class is appropriate for Norfolk.

With the restructuring of core pension fund now essentially complete, Kamal and Eric suggested that the Board may wish to consider a core and satellite investing approach for the pension fund to enhance returns and increase **diversification**. Under their proposal, up to 20% of the total fund may be invested in three to five satellite strategies if they are approved by the Board.

Specifically, the CIO and the Consultant shall jointly review the desirable satellite strategies in terms of their interaction with the rest of the portfolio, risk/return characteristics and bring them to the Board for its consideration. The satellite investments may include products/managers/strategies for consideration in the satellite portfolio of the fund as long as the type of investments contemplated in these strategies have already been approved by the Board and documented in our investment policy statement. That is, the satellite portion of the fund may not invest in new asset classes such as commodities, timber, and currencies. For products/strategies/managers that propose to invest in new asset classes, the CIO and Consultant will first need to do appropriate trustee education

and seek Board approval for their inclusion in the approved list of investments and incorporate them in the investment policy statement before proposing such strategies to the Board. In order to implement the satellite strategies efficiently, commensurate with the relatively smaller allocation to any one satellite strategy (as compared to the core strategies) the manager selection and hiring process for the satellite portion of the fund should differ slightly from that for our core pension fund in that the CIO and the Consultant should be empowered to research and monitor new opportunities and bring forth their joint recommendations from time to time for the Board's consideration and approval or **rejection**. In other words, the Board will have the ultimate authority to approve or reject the recommendation but will not be involved in screening the potential managers and hearing from multiple managers for any one strategy.

The joint committee discussed the above structure (core and satellite approach) at length and voted unanimously to recommend its adoption to the Board.

Mr. Martin then made a motion to adopt the core and satellite approach as outlined above. This motion was seconded by Mr. de Mik and approved unanimously by the Board.

Training and Education:

Mr. de Mik reported that the Committee did not have a meeting.

Benefit Claims:

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

Manager Search & Selection:

Mr. Martin 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 reviewed with the Board the investment performance review for the fiscal year ended June 30, 2006.

Mr. Wilder presented an application for ordinary disability retirement for Horace Thomas, Active No. 18466, September 1, 2006, with no refund due. This member requested ordinary disability retirement. Dr. Hopkins made a motion to approve ordinary disability retirement for Mr. Thomas. This motion was seconded by Mr. Martin and approved unanimously by the Board.

Mr. Wilder presented an application for ordinary disability retirement for Mark J. Lindquist, Active No. 26061, September 1, 2006, with no refund due. This

member requested ordinary disability retirement. Dr. Hopkins made a motion to approve Mr. Lindquist for ordinary disability retirement. This motion was seconded by Mr. de Mik and approved unanimously by the Board.

Mr. Wilder presented an application for ordinary disability retirement for Barbara D. Sparks, Active No. 27125, September 1, 2006, with no refund due. This member requested ordinary disability retirement. Dr. Hopkins made a motion to approve ordinary disability retirement for Ms. Sparks. This motion was seconded by Ms. Johnson and approved unanimously by the Board.

Mr. Wilder presented an application for accidental disability retirement for Wanda R. Bacchus, Active No. 25087, September 1, 2006, with no refund due. This member requested accidental disability retirement. Dr. Hopkins requested that this application be deferred until the September 2006 Board meeting. This request was approved unanimously by the Board.

New Business:

A. Application for vested service retirement:

Mary A. White, Active No. 15917, September 1, 2006, with refund of \$1,053.37.

George J. Whiting, Active No. 22984, September 1, 2006, with no refund due.

James H. Cox, Active No. 29876, September 1, 2006, with no refund due.

Juanita W. Wiggins, Active No. 17900, November 1, 2006, with no refund due.

B. Applications for early service retirement:

Robert A. Van, Active No. 23807, September 1, 2006, with no refund due.

Russell A. Miller, Active No. 24306, October 1, 2006, with no refund due.

C. Applications for normal service retirement:

Wynn F. Powers, Active No. 19682, September 1, 2006, with no refund due.

Yvonne H. Bradley, Active No. 20279, September 1, 2006, with no refund due.

Michael L. Folston, Active No. 22178, September 1, 2006, with no refund due.

Wanda K. Foreman, Active No. 22981, September 1, 2006, with no refund due.

Raymond L. Oliver, Active No. 23298, September 1, 2006, with no refund due.

Carver N. Whaley, Sr., Active No. 20521, October 1, 2006, with no refund due.

Terry L. Busby, Active No. 24156, October 1, 2006, with no refund due.

Ysaac J. Chabo, Active No. 27029, October 1, 2006, with no refund due.

The meeting ended at 3:25 p.m. due to the absence of a quorum.

Chairperson

Executive Director