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 12:18 p.m. on Wednesday, October 14, 2009, with Chairperson, Stephanie A. Calliott presiding. The following was the result of the roll call:

<table>
<thead>
<tr>
<th>Attending the Meeting</th>
<th>Not Attending the Meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>S. A. Calliott</td>
<td></td>
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<tr>
<td>Y. T. Allmond</td>
<td></td>
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<tr>
<td>L. A. Bernert</td>
<td></td>
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<tr>
<td>K. W. Crowder</td>
<td></td>
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<tr>
<td>D. V. Hill</td>
<td></td>
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<tr>
<td>C. R. Neikirk</td>
<td></td>
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<tr>
<td>N. E. Nelson</td>
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<tr>
<td>E. G. Tucker</td>
<td></td>
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<tr>
<td>R. V. K. Williams</td>
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</tbody>
</table>

Ms. Mary L. G. Nexsen, Deputy City Attorney, also attended the meeting.

The minutes for the meeting on September 09, 2009 were approved as printed.

Ms. Calliott informed the Board that our next meeting is Veterans Day, November 11, 2009; therefore, we will have to select a new date. The Trustees changed the date to Monday, November 16, 2009, with the Investment Committee meeting at 11:00 a.m. The Board meeting to follow at 12:00 noon.

Mr. Wilder presented an application from Mr. Marvin Joyner for ordinary disability retirement. Mr. Hill made a motion to approve Mr. Joyner’s application for ordinary disability retirement. This motion was seconded by Ms. Allmond and approved unanimously by the Board.

Mr. Wilder presented an application from Mr. Willard Perry Jr. for ordinary disability retirement. Mr. Bernert made a motion to approve Mr. Perry for ordinary disability retirement. This motion was seconded by Mr. Tucker and approved unanimously by the Board.

Mr. Wilder presented an application from Mr. William A. Cole for ordinary disability retirement. Mr. Tucker made a motion to approve Mr. Cole for ordinary disability retirement. This motion was seconded by Ms. Allmond and approved unanimously by the Board.
New Business

A. Applications for vested service retirement:

Bernadine C. Dunmire, Active No. 23140, January 1, 2005, with no refund. [High Constable/Judicial]

Jack A. Mills, Active No. 24495, January 1, 2006, with no refund due. [Utilities]

Jerry C. Hart, Active No. 15831, August 1, 2009, with refund of $1,271.96. [Public Works]

Linda E. Phillips, Active No. 20723, January 1, 2010 with no refund due. [Police]

B. Applications for early service retirement:

Virginia S. Jones, Active No. 24418, November 1, 2009, with no refund due. [Finance & Business Services]

Jeffrey S. Hansford, Active No. 26064, November 1, 2009, with no refund due. [Fire-Rescue Services]

John F. Callan, III, Active No. 29397, December 1, 2009, with no refund due. [Neighborhood Preservation]

C. Applications for normal service retirement:

George B. Dunkel, Active No. 17610, November 1, 2009, with no refund due. [Public Works]

Gilda B. Klein, Active No. 22510, November 1, 2009, with no refund due. [Police]

Lee A. Woiteshek, Active No. 22818, November 1, 2009, with no refund due. [Police]

Little C. George, Active No. 23893, November 1, 2009, with no refund due. [Police]

Evelyn E. Douglas, Active No. 24339, November 1, 2009, with no refund due. [Police]

Susie A. Grier, Active No. 21984, January 1, 2010, with no refund due. [Human Services]

Frank G. Graves, Active No. 30126, January 1, 2010, with no refund due. [City Auditor]
D. Death of retired members:

Johnny Deloatch, Ret. No. 4450, death occurred August 28, 2009. No benefit payable due to no surviving spouse or dependent children.


E. Death of spouses:

Albert M. Finegan, Spouse No. 769, death occurred August 28, 2009. No benefit payable.


Iris W. Brinkley, Spouse No. 723, death occurred September 14, 2009. No benefit payable.

Ethel M. Ferris, Spouse No. 673, death occurred September 17, 2009. No benefit payable.

Carrie B. Smith, Spouse No. 860, death occurred September 17, 2009. No benefit payable.


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

<table>
<thead>
<tr>
<th>Name of Member</th>
<th>Active Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sherita DeJuan Bovastro</td>
<td>30982</td>
</tr>
<tr>
<td>Linda D. Ames</td>
<td>31031</td>
</tr>
<tr>
<td>James J. Hassell</td>
<td>31111</td>
</tr>
<tr>
<td>Daniel Woods</td>
<td>31242</td>
</tr>
<tr>
<td>Muhammad-Ali Harris</td>
<td>31479</td>
</tr>
<tr>
<td>Phillip O. Turner, Jr.</td>
<td>31874</td>
</tr>
<tr>
<td>Robert W. Alvarez</td>
<td>32024</td>
</tr>
<tr>
<td>Brian A. Santos</td>
<td>32111</td>
</tr>
<tr>
<td>Foster James Meadors</td>
<td>32349</td>
</tr>
<tr>
<td>Sean D. Baker</td>
<td>32404</td>
</tr>
<tr>
<td>Daniel Patrick Palmieri</td>
<td>32492</td>
</tr>
<tr>
<td>Kayleah Garner</td>
<td>32578</td>
</tr>
</tbody>
</table>
The following report of payments from the Trust Fund received and filed:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Street Corporation (1)</td>
<td>$8,232.48</td>
</tr>
<tr>
<td>Myrella Aaron (2)</td>
<td>17.99</td>
</tr>
<tr>
<td>Chantal Brooks, M.D. (3)</td>
<td>280.00</td>
</tr>
<tr>
<td>Summit Strategies Group (4)</td>
<td>44,573.50</td>
</tr>
<tr>
<td>Association of Municipal Retirement System (5)</td>
<td>300.00</td>
</tr>
<tr>
<td>Cheiron (6)</td>
<td>4,033.07</td>
</tr>
<tr>
<td>NowCare (7)</td>
<td>250.00</td>
</tr>
<tr>
<td>FedEx (8)</td>
<td>98.60</td>
</tr>
<tr>
<td>Baker’s Crust (9)</td>
<td>203.38</td>
</tr>
<tr>
<td>Theodore Wilder (10)</td>
<td>19.46</td>
</tr>
<tr>
<td>State Street Corporation (11)</td>
<td>20,558.12</td>
</tr>
<tr>
<td>Retirement Payroll (Est. for October 2009)</td>
<td>5,200,000.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,278,566.60</strong></td>
</tr>
</tbody>
</table>

(1) Custodial service for the month of August 2009.
(2) Reimbursement for lunch for Trustee Education Session on October 8, 2009.
(3) Medical exam for William Cole.
(4) Investment Consulting Services for 7-1-09 to 9-30-09.
(5) Registration for Theodore Wilder to attend Fall Meeting of AMRS-VA on October 25-27, 2009.
(7) Medical exam for William Brady.
(8) Information sent to Cheiron and PIMCO.
(9) Lunch served for Board Meeting on September 9, 2009.
(10) Reimbursement for refreshments for Retirement Board Meetings.
(11) Custody service for the following months:

<table>
<thead>
<tr>
<th>Month</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2009</td>
<td>$12,480.99</td>
</tr>
<tr>
<td>July 2009</td>
<td>8,077.13</td>
</tr>
<tr>
<td></td>
<td>$20,558.12</td>
</tr>
</tbody>
</table>
Committee Reports

Administration and Planning:

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

Investment Management:

Mr. Neikirk informed the Board that the Investment Committee met prior to today’s Board meeting with Mrs. Jessica Portis participating via conference call.

Mrs. Portis made the following comments regarding the economy:

- The US unemployment rate increased to 9.8% in September, the highest level since 1983.
- In September, consumer confidence rose to the highest level since January 2008 as the pace of job losses slowed and market recovery continued.
- The equity markets continued their rally in September, making the seventh consecutive month of positive returns.
- The dollar continued to depreciate during September, contributing approximately 1.7% to US dollar returns.

Jessica reviewed the flash report for 3rd quarter ended September 30, 2009. Asset allocation is pretty much in line in terms of exposure relative to long-term target. Jessica reported that for the month of September, the Fund was valued at $767 million with a return of 3.29% compared with 3.16% for the Total Policy.

Mrs. Portis provided additional information on the following asset classes that are currently being considered for investment by the Board. Listed below is the information on Real Estate, Tips, and Commodities:

REAL ESTATE

Investment Thesis:

Long-term, Summit believes that private core real estate offers an attractive risk/return component and a diversifier within client portfolios. Real estate also has the added advantage of offering a hedge against inflation as rents are often tied to inflation escalators and properties are valued against their replacement cost.

We believe private core real estate may begin to look attractive in early-to-mid 2010 for the following reasons:

- Property values have plummeted over 30% in just over a year and funds with leverage will have marked down their funds 40-50% (peak-to-trough) – the new values will be below their replacement cost, the ultimate store of value for the sector.
- The asset revaluation inherently presents natural downside protection.
• In-going yields will be above 7% – compares favorably to low-yielding risk-free bonds.

• Unlike the late 1980s and early 1990s, the supply of commercial real estate remained relatively low – the problem this time was over-financing, not overbuilding. As demand for space increases in the future, property fundamentals will rebound more quickly.

• Lease pass-through provisions allow property owners to pass through inflation, through higher rents.

**Pros of Private Core Real Estate Investing:**

• Diversification relative to traditional asset classes as real estate offers low correlation to both equities and bonds.

• The income generated by properties provides an attractive yield component.

• Private core real estate offers modest appreciation potential that can provide an inflation hedge as rents escalate.

**Cons of Private Core Real Estate Investing:**

• Fees are higher than traditional mandates, as active management is required (there is no investable index strategy available).

• Volatility is artificially low given the periodic appraisal-based valuation methodology utilized.

• During periods of extreme market stress, liquidity can be limited within the asset class.

• The culmination of falling asset prices and limited availability of debt can lead to negative returns.

**TIPS**

**Investment Thesis:**

**TIPS** represent an attractive investment opportunity as well as a good diversifier within client portfolios. Funding **TIPS** in an environment where inflation is not expected in the near term offers the opportunity to gain inflation protection when the perceived need is low. Owning **TIPS** must be examined relative to owning nominal **Treasuries**.

Summit likes **TIPS** versus **Treasuries** currently for the following reasons:

• Aggressive fiscal and monetary policy to curtail the economic and financial downturn has introduced the threat of inflation. The Federal Reserve is printing money to spur demand and if the extra liquidity is not absorbed, the risk of inflation will increase. In addition, in normal economic conditions, maintaining a large persistent budget deficit can lead the economy to grow above its potential and ultimately lead to inflation.

• **TIPS** are relatively cheap versus historic levels and offer a good entry point for a strategic allocation. The market has a history of underestimating future inflation, which bodes well for **TIPS**.

• A threat exists that inflation will rise faster than expected.

**Pros of TIPS Investing:**

• Relatively simple and inexpensive means of adding inflation protection to a portfolio.

• Offer a diversification benefit in client portfolios due to their low correlation to many asset classes.
• Offer less inflation risk than nominal bonds, with guarantee of real rate of return.

• Highest credit quality available (although deflation can reduce)

• Offers safety during a “flight to quality”

**Cons of TIPS Investing:**

• TIPS can experience negative real rates of returns as the result of forced selling or deflation expectations.

• TIPS are linked with inflation, but total return can still be negative if rates rise.

• TIPS are not a perfect hedge to inflation.

**Commodities**

**Investment Thesis:**

Commodities represent an attractive investment opportunity as well as a good diversifier within client portfolios.

Commodities also have the added advantage of offering a hedge against inflation, and historically have experienced price increases as CPI has risen. Today represents an attractive time to enter into commodities as an asset class for a number of reasons, including:

• There is increasing global demand for commodities, especially in the emerging market economies, which are becoming more industrial. In addition, producers are reacting to lower prices and reducing output of supply, which should act as a price floor for many commodities. Both decreased supply and increased demand should lead to increased prices in the underlying commodity instruments and bode well for the asset class.

• There has been coordinated fiscal and monetary policy implemented around the globe, which has introduced a real threat of inflation. In particular, there is mounting concern about the potential for a weak dollar given excess liquidity from US fiscal and monetary stimulus measures; as commodities are valued in dollars and are of finite supply they have historically shown that they hold up well during dollar weakness.

• Similar to other asset classes which experienced higher volatility in the recent past as a result of leveraging and deleveraging, we expect less extreme price volatility for commodities in the future due to the completion of the deleveraging cycle. That being said, commodities will remain a higher volatility asset class.

**Pros of Commodity Investing:**

• Commodities tend to offer the most direct form of inflation protection for portfolios; offering a high correlation to the Consumer Price Index and the quarterly change in the Consumer Price Index (a proxy for the change in inflation).

• Commodities are one of the most liquid and transparent forms of real assets.

• Provide diversification within a portfolio due to low correlation to other asset classes, including stocks and bonds.
**Cons of Commodity Investing:**

- Similar to equities, commodity futures are volatile and can move sharply down in value. Investors need to implement the strategy with long-term investment horizon due to the volatility of the asset class. It is important to note that commodities and equities can both sell off if non-fundamental factors are distorting the markets (i.e. during a global financial crisis).

- Limited number of investment managers providing strategies.

- Fees are higher than traditional mandates.

**CONCLUSION**

Given the unprecedented market environment that was experienced in 2008 and 2009, Summit has been encouraging clients to build portfolios that can weather various market environments. As a means of diversifying the System’s investments, Summit recommends the System allocate to the following asset classes:

- **Treasury Inflation Protected Securities (TIPS)** – 2.5%
- **Commodities** – 2.5%
- **Private Core Real Estate** – 5.0%

Mr. Neikirk asked Mrs. Portis to provide additional follow up on Commodities and Core Real Estate in time for members to review before our next meeting on November 16.

Ms. Calliott welcomed Mr. Brett Givens to the meeting. Mr. Givens is an intern working in the City Manager’s Office.

Mr. Wilder informed the Board that he would be attending the Association of Municipal Retirement Systems of Virginia’s fall meeting on October 25-27, 2009 in Alexandria, Virginia.

Mr. Wilder informed the Board that he would like to add Mrs. Myrella Aaron to the list of initiators and verifiers of transfer of funds. Mr. Bernert made a motion to add Mrs. Aaron to the SSgA list of authorized initiators and verifiers of transfer of funds. This motion was seconded by Mr. Neikirk and approved unanimously by the Board.

Ms. Calliott offered condolences from the Board to Mr. Wilder, Mrs. Aaron, and the rest of the staff in the passing of Ms. Ladina Stevens, coworker.

Ms. Calliott informed the Board that Mr. Lawrence A. Bernert, III was reappointed to the Retirement Board for another four-year term.

Ms. Calliott inquired of Mrs. Williams if there was any information from the City Council retreat that the Board should be apprised. Mrs. Williams stated that there was none. Mrs. Williams went on to say she would be arranging a meeting with the Board and the City Council. The meeting will be scheduled on a Tuesday evening during the months of December through February. Mrs. Williams will circulate some dates through Mr. Wilder for consideration.
Mr. Bernert asked Mr. Wilder to check with the actuary on providing quarterly a one-page summary on the status of the System.

Mrs. Williams informed the Board that the position held by Ms. Stevens would be lifted from the hiring freeze.

There being no further business, the meeting adjourned at 12:58 p.m.

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Chairperson

__________________________
Executive Director