

Minutes of the Regular Monthly Meeting
Board of Trustees
Employees' Retirement System of the City of Norfolk
August 11, 2010

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 12:15 p.m. on Wednesday, August 11, 2010, with Chairperson Stephanie Calliott presiding. The following was the result of the roll call:

Attending the Meeting

S. A. Calliott
C. R. Neikirk
Y. T. Allmond
D. V. Hill
N. E. Nelson
E. G. Tucker
L. A. Bernert
K. W. Crowder

Not Attending the Meeting

R.V.K. Williams

The minutes for the meeting on July 14, 2010 were approved as printed.

Mrs. Cheryl Xystros, Engagement Partner, and Mrs. Karen Bjune, Engagement Manager, of KPMG met with the Board to review the upcoming June 30, 2010 audit. She reviewed the following areas with the Board:

- KPMG Client Service Team
- Required Communications
- Risk Assessment
- Fraud Risk
- Audit Calendar
- Reports to be Issued

Mrs. Xystros concluded by saying that the meeting today allowed the Board the opportunity to address any issues or concerns with the auditors prior to the start of the engagement.

New Business

A. Applications for vested service retirement:

Eva G. Bright, Active No. 13780, November 1, 2005, with refund of \$6,261.66. [[Human Services](#)]

Katherine W. Pearson, Active No. 18925, July 1, 2010, with no refund due. [[Finance](#)]

Cora L. Debraux, Active No. 17482, August 1, 2010, with no refund due. [\[Libraries\]](#)

William L. Jordan, Active No. 26724, August 1, 2010, with no refund due. [\[Parking Fund\]](#)

Henrietta C. Vann, Active No. 21562, September 1, 2010, with no refund due. [\[Lake Taylor\]](#)

Foster L. Dodson, Active No. 16738, October 1, 2010, with refund of \$454.24. [\[Outside Agencies\]](#)

B. Application for early service retirement:

Katherine P. Jeffcoat, Active No. 24326, September 1, 2010, with no refund due. [\[Police\]](#)

C. Applications for normal service retirement:

Linda H. Hilliard, Active No. 19340, September 1, 2010, with no refund due. [\[Finance & Business Services\]](#)

Robin L. Watkins, Active No. 21795, September 1, 2010, with no refund due. [\[Human Services\]](#)

Jo A. Gordon, Active No. 22478, September 1, 2010, with no refund due. [\[Recreation, Parks & Open Spaces\]](#)

John N. Applewhite, Active No. 22595, September 1, 2010, with no refund due. [\[Fire-Rescue Services\]](#)

Stanley E. Rybaczuk, Jr., Active No. 23428, September 1, 2010, with no refund due. [\[Police\]](#)

Regina E. Jones, Active No. 24103, September 1, 2010, with no refund due. [\[Police\]](#)

Martin S. Levinson, Active No. 19785, October 1, 2010, with no refund due. [\[Police\]](#)

Michael J. McKenna, Active No. 19853, October 1, 2010, with no refund due. [\[Police\]](#)

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

Jacqueline Yancey, Active No. 29286, August 1, 2010, with no refund due. This member requested ordinary disability retirement. [\[Utilities\]](#)

Jacqueline Yancey's request for ordinary disability retirement was approved. The Board approved that no annual review will be required.

E. Death of retired members:

Harry Snyder, Ret. No. 01532, death occurred February 12, 2006. Son, Jeffrey Snyder, to receive lump sum death benefit of \$7,639.51.

The Board approved Jeffrey Snyder to receive the lump sum death benefit of \$7,639.51 in accordance with City Code Section 37-72. Approved – 7; Abstained - 1

Ulysses Johnson, Sr., Ret. No. 02643, death occurred June 25, 2010. Spouse elected monthly benefit of \$666.97.

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

<u>Name of Member</u>	<u>Active Number</u>
Michael A. Von Norfleet	31121
Jared M. Harrison	31167
Vanessa J. McNeil	31206
Geriann Beck	31361
Andrew W. Dowey	31427
Marv L. Jenkins	31557
Edward L. Gerardo-Ferrer	31751
Galina Burley	31860
Beverly A. Stanley	32001
Latisha Brown	32116
William L. Neill, III	32424
Deborah L. Gauthier	32546
Ashley E. Brownley	32555
Stacey A. Ferguson Hatfield	32710
Charles L. Todd	32770
Matthew L. Mills	32787
Jamaal A. Moore	32887

Total Members - 17

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

City of Norfolk	(1)	\$	2,915.43
Chantal N. Brooks	(2)		250.00
Chantal N. Brooks	(3)		300.00
Cheiron	(4)		4,516.07

FedEx	(5)	17.38
Baker's Crust	(6)	333.87
Retirement Payroll (Est. for Aug. 2010)		<u>\$ 5,410,000.00</u>
Total		<u>\$ 5,418,332.75</u>

- (1) Reimbursement for administrative expenses incurred for July 1, 2009 through June 30, 2010 as per ordinance #36847

Reimbursable Expense	\$ 453,438.19
Amount reimbursed 6-28-10	<u>450,522.76</u>
Balance due to City	\$ 2,915.43

- (2) Medical review of records for Jeffrey Snyder

- (3) Medical exam for Jacqueline Yancey

- (4) Monthly retainer for June 2010 \$ 4,033.07
Portability calculations 483.00
\$ 4,516.07

- (5) Information sent to State Street

- (6) Lunch for Board Meeting held July 14, 2010

Committee Reports

Administration and Planning:

There was no meeting.

Investment Management:

Mr. Neikirk informed the Board that the Investment Committee met today at 11:00 a.m. Jessica Portis with Summit participated via conference call.

The Board approved investment into J.P. Morgan's Commingled Pension Trust Fund and UBS Trumbull Property Fund pending proper due diligence opinion by legal advisor. The previous language called for the Investment Officer, Investment Consultant, and a Trustee to visit newly hired managers. The Board's legal advisor and Chair of the Investment Committee was to revise section XIX B of the Investment Policy Statement (IPS) to read:

"Investment Managers will be required to report to the Board in person upon request. In addition, the Board may elect to send a representative(s), which includes the Investment Consultant, to conduct an on-site due diligence visit with an Investment Manager as needed."

This recommended change will be a September agenda item for the Board's approval. This did not prevent us from being able to engage getting in the investment queue with JP Morgan and UBS on a non-binding basis. The participation agreements with both managers have been executed. Both managers anticipate they will request drawdown money either later this year or early next year, and it will take anytime between two to

three quarters to fully invest the assets. Timeline is probably one year from today for the assets to be fully invested. There is a 5% target to fund core real estate. We will be reducing the fixed income target to 35% and will use assets from PIMCO to fund the real estate accounts.

Members of the Investment Committee (Chris Neikirk, Stephanie Calliott, and Larry Bernert), and Summit (Jessica Portis) had a meeting on July 22, 2010 via telephone conferencing with PIMCO (Libby Cantrill and Ignacio Galaz) to further investigate the use of derivatives and to provide an outlet for the Committee to determine if they are comfortable with PIMCO's investing process. The call lasted approximately one hour and PIMCO's representatives informed the group that they use derivatives primarily to get more liquidity in situations where the physical securities are short in supply. The synthetic security is oftentimes more liquid and less expensive.

PIMCO uses the futures market which is the least risky of all because it is very liquid and the Exchange serves as clearinghouse. They also use swaps and options which sometimes involve counterparties that expose the System to counterparty risk (the other side of the trade has to have the willingness and ability to pay) if the counterparty owes you money. PIMCO mitigates counterparty risks through credit screens and strict International Swaps and Derivatives Association ("ISDA") agreements that allows them to call collateral on a more regular basis than is typically industry standard. This precaution provides an extra layer of performance for PIMCO and their clients.

In addition to the added benefits of increased liquidity with derivatives, clients have also gained better performance. The portfolios that utilize derivatives provide about 60 basis points (6/10ths of 1%) higher return on average than the non-derivative portfolio. Other points made were:

- through the financial crisis PIMCO was relatively unscathed using derivatives,
- derivatives are neither used to provide yield enhancements nor in a speculative manner,
- percentage caps on derivatives use could be implemented as a protective measure, and
- new financial reform regulations will likely aim to reduce counterparty risk to a greater degree.

All participants on the call came away feeling that PIMCO was using derivatives responsibly and that the use of derivatives was worth the extra 60 basis points. The Investment Committee and Summit support PIMCO's use of derivatives.

At the beginning of July, SSgA announced to clients that the restriction on securities lending accounts will be lifted in August. A letter was sent to SSgA authorizing the transfer of all remaining assets from the securities lending to the non-lending account for the Russell 3000 Index Fund. The System requested the first available trade date of August 18, 2010. Also, at the end of June, State Street made a one time \$330 million cash contribution into the lending funds. Both of these combined allowed them to get

the net asset value back up to \$1 which allowed them to lift the withdrawal limitations of the fund.

Jessica Portis discussed the final performance numbers for June 30, 2010. Volatility was extremely elevated over the course of June. In the equity markets, we started to see that the United States (US) and China economies were slowing, and there is still an overhang of uncertainties surrounding the debt crisis in Europe. There was strong performance in the treasury market and we had a return of 4.7% over the course of the quarter, and the remainder of the bond market did extremely well with broad market return of 3%. In the US, there is still a high unemployment rate at 9½%, housing sales fell with the first time homebuyer credit expiring at the end of April, and there are a lot of new regulations on the horizon such as financial reform, and talk concerning health care. These uncertainties have caused many corporations to be conservative in how they are deploying cash.

The System's market value at June 30, 2010 shifted from first quarter amount of \$800 million to \$745 million. This is the result of the difficult equity markets we experienced over the course of the quarter. The asset allocation is in line with the System's long-term policy.

The cash allocation remains extremely limited. At the end of July cash was at \$133,237. This will be replenished to make benefit payments as needed.

Larry Bernert asked that a page be added to performance reports that comments on when we trade or rebalance or how we get from overweight equities to underweight equities. Summit will add to future reports.

Summit is also in the process of internally generating a report that details a new way to look at portfolio construction. The report considers that portfolios need to be structured for varying market conditions (i.e., inflation versus deflation). The initial thoughts are that portfolios should be exposed to growth assets, income producing assets, and diversifying assets. The Board asked that Summit provide Trustees with information as to what others are doing in the marketplace and additional prospective on trends.

For July the markets were extremely strong over the course of the month. Fixed Income generated positive returns. The market value of our portfolio did increase to \$776 million from the June 2010 total of \$745 million. Our asset allocation is within the targeted range. The fixed income target will be lowered as we start to fund real estate. The System had a 4.96% return for the month slightly lagging the total fund policy. Each of the managers continued to perform in line with their respective benchmarks on the passive side. PIMCO was able to add a few basis points of excess performance of alpha over the course of the month. The international market outperformed the domestic market over the month for July. The total portfolio performed strongly with a rebound in equities and fixed income.

The Board's next meeting is on Wednesday, September 8, 2010 at 12:00 noon. There will not be an Investment Committee meeting

There being no further business, the meeting adjourned at 12:51 p.m.

Chairperson

Executive Director