Minutes of the Regular Monthly Meeting
Board of Trustees
Employees’ Retirement System of the City of Norfolk
October 13, 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 12:00 p.m. on Wednesday, October 13, 2010, with Chairperson Stephanie 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>
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<tbody>
<tr>
<td>S. A. Calliott</td>
<td>R.V.K. Williams</td>
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<tr>
<td>C. R. Neikirk</td>
<td>L. A. Bernert</td>
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<tr>
<td>E. G. Tucker</td>
<td>Y. T. Allmond</td>
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<tr>
<td>K. W. Crowder</td>
<td>N. E. Nelson</td>
</tr>
<tr>
<td>S. Felton</td>
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Ms. Mary L. G. Nexsen, Deputy City Attorney, attended the meeting.

The minutes for the meeting on September 8, 2010 were e-mailed to trustees prior to today’s meeting for review. One change was noted in the paragraph that stated ‘Mr. Brian Hall” and this was changed to “Mr. Hallman.” The minutes were approved with this correction.

The discussion of “Funding Rate Assumptions” was on the agenda for today, but the Board members present agreed that this would be deferred to the November 10, 2010 meeting for full Board discussion. The members present preferred that the majority of Board be in attendance for discussion and for voting. Several articles and a video were e-mailed to Board members related to rate assumptions. The Employees’ Retirement System assumed rate return is 7½%. The articles circulated revealed there are a lot of pension funds that are changing their assumption rates to 7%–7 ¼%, and some are lower. If the assumption rate was to change, this will in fact change the liability that the City has. The Board’s job is not to decide whether the City will fund the pension at various assumed return levels, but to determine if the assumed return is reasonable and appropriate based on relevant information. This warrants a full board discussion.

Before the Board approves anything Cheiron will be asked to provide projections to see what percent of our fund is funded, and what it will drop to. Summit will be asked to produce a grid on assumed equity returns and assumed fixed income, and real estate that will show the long-term prospective returns and what historical averages have been.

The Board was provided an outline of the Association of Municipal Retirement Systems response to what assumption rates other independent systems in Virginia use. The independent systems that had a lower rate of return seem to have been recently changed. The independent systems that have not changed are having discussions.
Larry Bernert (who was not able to attend today’s meeting) had asked the Chair to ask Jessica if we should be putting some of our Barclays Aggregate Bond Index into a shorter duration index. This will be discussed at the November meeting.

Jessica responded by letting the Board know that she is currently in Louisiana with a client, and their client’s actuary attended also. One of the topics of discussion was lowering their actuarial rate of return. The Actuary attended a conference and made it known that many public funds have started to lower assumptions or are in the process of lowering assumptions. The historical average assumed return has been about 8%. Some public funds have started lowering the rate of return to 7 3/4% to 7 1/2%, and considering lowering the rate even further. Around the country public funds are discussing, and depending on the health of the plan - some people are moving faster than others. This is not outside the norm for our Board to be discussing as well.

There are corporations such as Norfolk Southern that use ERISA segment rates where the discount rates are prescribed for them based on recent bond rates. They also have to fund interest short-fall over a very short period of time (7 years). The prescribed ERISA rate is between 6% and 7%

The topics of future discussion for the Trustees will be: Are the assets being managed prudently for the benefit of all our employees? and, Are we making good assumptions about the funding aspects?

The City relies heavily on the assumptions provided and recommended by the Actuary. Last fiscal year ending June 30, 2010, the City contributed $28 million. Beginning July 1, 2010 for Fiscal Year 2011 the City began contributing toward $35 million. Years ago, there were two years when the stock market was booming that the Plan was 130% to 140% funded. At that time, the Actuary said that for two years the City did not need to make a contribution. By recommendation of the Actuary, the City did not make a contribution for two years but on the third year contributions resumed.

The City Council has approved an ordinance that new employees employed as of October 5, 2010 or after will pay a mandatory 5% of salary into the retirement fund; whatever the new normal is now for investments; and, employees that may not be as anxious to retire now as they used to be. The City has a cap for general employees of 35 years of service and for public safety is capped at 65% of average final compensation. Not as much money will be paid out of the system due to there having been no salary increases over the past several years and no cost of living raises have been given.

A second ordinance approved by City Council changed the mandatory retirement age for public safety employees from 62 to 65. The Chief of Police and the Chief of Fire are excluded from mandatory retirement.

Jessica Portis provided an update on the System’s assets. The general feeling is there is still some conflicting economic and capital market data that exists. There is still very high unemployment, and the overall economy weighing on the consumer decreases the ability to spend as much as in previous years. This has been a volatile quarter with two very weak months followed by an extremely strong month. There is still a high level of
volatility in the marketplace. Given the extreme volatility in the marketplace, it is still quite expensive to insure portfolios with disaster insurance. The best way to insure portfolios currently is to provide a level of diversification through both traditional and alternative strategies. There has been a strong flow of assets into fixed income funds, and a lot of uncertainty that is weighing on the marketplace. Having continued discussions about diversifying the portfolio will definitely be beneficial over the long-term.

The Pension System’s market value is now at $806 million at the end of September 30, 2010. There was some rebalancing over the course of the quarter. This was primarily done to raise cash for benefit payments. We have historically this year had a bit of an overweight in fixed income. The majority of the $4 million dollars that was transferred from PIMCO in July and September were used to make benefit payments. With the transfer from the Russell 3000 lending account to the non-lending account, we are completely out of the lending fund.

For the quarter, the Plan returned 9.45%. The driver of this increase has been strong equity market performance as well as fixed income alpha (fixed income portfolio returned 3.92%). A lot of the alpha return is due to the way PIMCO (active manager) has positioned their portfolio. For the one-year average, the Plan had a return of 10.41% with a slight overweight to equities early in the year in terms of asset allocation. Additionally, PIMCO contributed excess performance over and above the Barclays Aggregate fixed income index.

We have committed to two real estate funds. The expectation is that these funds will be called down early year 2011. The update from UBS Trumbull is they are anticipating a January 3 or April 1 funding for the City of Norfolk, and they will provide us a 30 days notice. Money will be transferred from the PIMCO fixed income account to fund the real estate portfolios. PIMCO has been notified of the allocation change. Approximately $40 million (5%) of the portfolio will be allocated to real estate. The second manager, JP Morgan, anticipates approximately six-months from the day the Plan committed—this was in July 2010. It will be either January 1 or February 1 when they will be calling down the capital. They will provide us a two-week notice for funding.

Summit has been thinking as an organization how we continue to diversify the courses of risk and return in client portfolios because there are so many macro issues that are currently overhanging in the market place. There is a chance that inflation or deflation could occur and this is a common item we are hearing from managers. PIMCO on a quarterly basis has a conference where they bring all their investment professionals together and assess their outlook for the next 18 months. The outlook remains that there will be modest growth, and that there could be a very difficult period for bond markets and equity markets. There is also a very slim chance of growth being higher than what was anticipated. Summit is in agreement with this outlook.
New Business

A. Applications for vested service retirement:

Virginia A. Guthrie, Active No. 30135, October 1, 2010, with no refund due. [Planning]

Sarah M. Wagner, Active No. 17849, November 1, 2010, with no refund due. [Human Services]

David G. Browning, Active No. 21479, November 1, 2010, with no refund due. [Police]

Carol M. Evans, Active No. 22340, November 1, 2010, with no refund due. [Human Services]

Louise M. Barbarisi, Active No. 27208, November 1, 2010, with no refund due. [Libraries]

B. Applications for early service retirement:

Paul D. Burch, Active No. 27423, November 1, 2010, with no refund due. [Public Works]

John Fisher, III, Active No. 30108, November 1, 2010, with no refund due. [Police]

Robert J. Ridley, Active No. 22087, December 1, 2010, with no refund due. [Police]

Danny L. Miles, Sr., Active No. 22768, December 1, 2010, with no refund due. [Finance & Business Services]

C. Applications for normal service retirement:

Charles R. Stanley, Active No. 20445, November 1, 2010, with no refund due. [Parking]

Alfreda E. Leavell, Active No. 22220, November 1, 2010, with no refund due. [Executive]

Ronald L. Gilchrist, Active No. 23552, November 1, 2010, with no refund due. [Police]

Martha A. Turpin, Active No. 26756, January 1, 2011, with no refund due. [Human Services]

Norma J. Swan, Active No. 26874, January 1, 2011, with no refund due. [Public Works]
D. Recommendation by the Medical Board that following be retired:

Russell K. Davis, Active No. 27018, with no refund. This member requested ordinary disability retirement. [Utilities]

The board approved deferring Russell K. Davis’ request for ordinary disability retirement to the November 8, 2010 meeting.

E. Ordinary death:

James V. Donaldson, Active No. 30772, death occurred August 18, 2010. Spouse elected lump sum payment of $24,770.27.

F. Death of retired members:

Fred J. Kerekes, Ret. No. 05554, death occurred September 4, 2010. Spouse elected monthly benefit of $378.27.


Christie Eugene, Ret. No. 02712, death occurred September 12, 2010. Spouse elected monthly benefit of $1,199.66.

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

<table>
<thead>
<tr>
<th>Name of Member</th>
<th>Active Number</th>
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<tr>
<td>Ketly F. Hinojos</td>
<td>31018</td>
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<tr>
<td>Woonsik Baldwin</td>
<td>31331</td>
</tr>
<tr>
<td>Justin D. Klotz</td>
<td>31430</td>
</tr>
<tr>
<td>Jason S. Filter</td>
<td>31489</td>
</tr>
<tr>
<td>Cynthia A. Graves</td>
<td>31531</td>
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<tr>
<td>Atra O. Harris</td>
<td>31665</td>
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<tr>
<td>Becki Burney-Mitchell</td>
<td>31859</td>
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<tr>
<td>Melinda Luchun</td>
<td>31883</td>
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<tr>
<td>Tiffany Scipio Bracey</td>
<td>32115</td>
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<tr>
<td>Charlyn Gamble</td>
<td>32440</td>
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<tr>
<td>Alison J. Bond</td>
<td>32550</td>
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<tr>
<td>Christopher G. Angus</td>
<td>32597</td>
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<tr>
<td>Ronald John Thomas Myers</td>
<td>32752</td>
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Total Members - 13

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

| Percy Twine               | $   28.00 |
Summit Strategies   (2)       44,573.50
AMRS-VA          (3)         150.00
State Street Corp. (4)       7,870.99
FedEx            (5)         104.32
Cheiron           (6)        4,871.07
Dr. Chantal Brooks(7)       325.00
Baker’s Crust     (8)        290.38
Theodore Wilder  (9)         25.38
Retirement Payroll (Est. for Oct. 2010) $ 5,475,000.00
Total                                             $ 5,533,238.64

(1) Reimbursement for a 19-Key USB Black Notebook
    Keypad for Laptop Computer
(2) Investment Consulting Services 7/1/10 to 9/30/10
(3) Registration for Theodore Wilder to attend the Fall
    Meeting of the Association of Municipal Retirement
    Systems of Virginia on October 25-26, 2010 in
    Danville, VA
(4) Custodial service August 1-31, 2010
(5) Information sent to the following:
    UBS Realty Investors
    State Street
    PIMCO
(6) Monthly Retainer August 2010
(7) Medical examination for Russell K. Davis
(8) Lunch for Board Meeting held on September 8, 2010
(9) Reimbursement for bottled water, large and small paper plates

Committee Reports

Administration and Planning:
There was no meeting.

Investment Management:
Mr. Neikirk informed the Board that the Investment Committee did not meet today. He
did say that Jessica gave a good report of the fund status at the beginning of the meeting
today.

The Board’s next meeting is on Wednesday, November 10, 2010 at 12:00 noon. There
will be an Investment Committee meeting at 11:00 a.m.
There being no further business, the meeting adjourned at 1:26 p.m.

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Chairperson

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Executive Director