Minutes of the Regular Monthly Meeting
Board of Trustees
Employees' Retirement System of the City of Norfolk
August 10, 2011

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, August 10, 2011 with Chairperson, Stephanie A. Calliott presiding. The following was the result of the roll call:

Attending the Meeting	Absent
S.A. Calliott	C.R. Neikirk
E.G. Tucker	L.A. Bernert
K.W. Crowder	N.E. Nelson
Y.T. Allmond	
S. Felton	
M. D. Jones	

Darrell Hill and Melanie Purcell, Assistant City Managers, also attended the meeting.

The minutes for the meeting on July 13, 2011 were approved.

Mrs. Jessica Portis provided a general recap on how the portfolio did relative to the benchmark and the peer group for the quarter. For the quarter, the System performed 0.98% versus the benchmark that performed 1.15%. Over the trailing year, 21.28% is the final number and the index was 20.36%. This puts the System slightly ahead of the policy index. There is starting to be more dispersion between the percentile rankings as a result of active management.

Mrs. Portis explained the difference between total fund composite and total fund policy. In its most simplistic sense, the Total Fund composite sums the results of all of the System's underlying managers and weights them relative to their size in the portfolio. Their returns are weighted to come up with the total fund composite. The total fund policy benchmark is a broad allocation to major indices that represent the major asset classes. The System's benchmark composition is:

36% Domestic Equities
24% MSCI AC World ex US Index
40% Fixed Income oriented assets

This is a measurement of how the portfolio is doing versus the broad market.

In the month of July, Summit noted that investors are a bit concerned about the growth prospects in the United States as well as abroad. The earnings season has gotten off to a good start. As of the end of July, 74% of the S&P Companies beat the revenue estimate this was positive news. However, there was bad news as related to unemployment, housing market, and future growth prospects.

It will probably be a long time before we really see the level of job creation that we need to bring the unemployment number down. We need corporate America to step up and add the positions given that the Federal Government is not in a position to do so any time in the near future.

The yield curve flatten by about 15 basis points. Yields continued to fall as the bond market focused on matters of concern.

1. The slow economic growth
2. At the end of July there was a lot of concern regarding the possibility of the US downgrading or defaulting
3. The European debt crisis

Equities suffered dramatically in July and continued to do so month to date in August. Risk aversion was the trade which performed the best. The equities market was down ranging from about 40 basis points in the emerging markets to almost 3.5% in small cap stocks over the course of the month. Emerging markets was propped up relative to the others as a result of the weak dollar. This was a contributing factor to both the emerging markets as well as the non-US developed countries.

The end of July 2011 market value was $861 million relative to the second quarter of $868 million. Since the volatile market conditions in August, the portfolio was at $804 million as of this morning given the consecutive negative days seen in this month. Fixed income has held up and been fairly steady, but July and early August has been brutal equities and produced the largest decline.

The total fund for the month is down 56 basis points. This is mostly driven by equities. Fixed income was a safe haven with a positive 1.72% return, and real estate was also able to generate a positive return of 0.98%. Each of the managers continued to perform in line with their benchmark particularly on the passive side. PIMCO held up over the course with a return of 1.28%. TIPS did well as investors continued to seek out investment protection.

Mrs. Portis said she did receive a call from PIMCO related to the US Treasury downgrade and the impact to their portfolio. They experienced an average credit rating on their portfolio from AA- to A+. At this point they are not making any major changes to their portfolio. They have been underweight in treasuries and continue to favor healthy companies in the corporate bond sector where they can add a little bit of yield advantage as well as emerging market debt, non-dollar, etc.

She also discussed the downgrade and the implications. A question that has probably been on our clients minds in the past few days is “Are we headed into another 2008?” Summit does not believe the economy is headed to another 2008. There are the same sort of symptoms but different market circumstances. They do not believe the financial system is on the brink of a collapse. There is no leading type issue that is looming. There has been a massive deleveraging at the individual and corporate level since 2008. This will help mitigate some of the decline that is being experienced. Summit feels 2011 represents the following:

1. equity markets are really reacting to the expectation of a global growth slowing
2. recognition of too much developed nation debt. We have a debt issue in the United States and Europe that needs to be addressed
3. Austerity is a reality for developed nations going forward

Summit is urging clients not to press the panic button. We are long-term investors. There are a few things that over the long-term will help support equity markets. The strong corporate balance sheet, the big drop in oil that will be a boost to the economy, and we have seen the bottom in the housing market which was established in 2008-2009. We do not have the major fall in home prices that will have a negative impact on consumers. The downgrade was widely anticipated given the announcement made by the rating agencies earlier in the year. S&P made it extremely clear what the circumstances were for downgrade to actually take place. The markets have had a chance to react and there has not been much of a reaction. Summit does not believe there is a default of the United States (US) is on the table. The US will use inflation as a way to ensure a default does not occur. Going forward there will be implications as a result of the austerity packages that will more than likely be put in place. There will be a lower standard of living in the US, lower gross domestic product growth and less government spending. Both sides of the aisle in Washington DC will have to come up with a plan that will allow the US to continue to move forward.

Clients have also posed the question, “Where do we go if we get out of equities?” Some have looked at going to gold but the volatility associated with this asset class and the practical implications of holding on to physical gold make it very difficult to store this type of asset in a level that will have an impact on a portfolio. Summit is still confident in the asset allocation that the Board has selected. They do want to continue having discussions about bringing in as many asset classes as possible, and diversifying resources as risk and return. Overall, they expect long-term lower equity returns. Summit likes the emphasis on high quality bonds in the fixed income portfolio with PIMCO, and inflation protection insurance via TIPS. Real estate has an attractive yield stream.

Stephanie Calliott asked the crystal ball questions:

1. With the market volatility and reaction to, and the debt issue, etc., how long do we think this will be incorporated into the market evaluations?
2. Is this a three month thing until the Super Committee, or is this two-year leveling?

The response was this will be an extended period of time. Three months is too short. There are a lot of macro issues that have to be worked out. In order to have austerity packages put in place and approved, we are looking at least to a 9 to 12 month before this comes to fruition. The volatility will continue for an extended period of time. There will be good weeks and bad weeks depending on what market news is announce. This will not be fixed overnight. We will continue to experience intra-day and intra-week volatility that will persist for a continued period of time.

The asset allocation based on the August 10, 2011 amount in the portfolio this morning is:

	Current	Target
Domestic equities	35.0%	36.0%
International	23.4%	24.0%
Fixed income	38.3%	35.0%
Real estate	2.5%	5.0%

Stephanie Calliott also asked Jessica Portis, “Do you believe that this next year or two will give us cause to review our assumed rate of return with the Actuary? Summit updates their capital market assumptions based on changes in valuation. With the recent market experiences when they go back and look at valuations, and more than likely things will be less expensive (i.e., are on sale or a discount relative to their long-term history). Assumptions might increase slightly over the next 10 years. Based on quick analysis based on last month's materials, Summit's return assumptions are below the Actuary's assumption rate. It is prudent that we look at what we can expect going forward and have the discussion on what changes should be made or considered.

Cheiron will attend the September 14, 2011 meeting of the Board to run through some of the variables. Summit will work with Cheiron on expected rate of return. The Trustees asked that Cheiron address the following questions at the meeting:

> Modeling our current plan where new employees are required to pay 5% toward their retirement, what are the long terms implications?
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> Add-ons to this question are:
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> a. VRS has two plans, I and II. Compare City's plan to VRS Plan 2.
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> b. If the City was to implement a defined contribution plan for new employees, assuming executives, senior executives and public safety stayed in the current plan, what is the cost impact?
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> c. If the City contributed an additional $1 million to $2 million above the required contribution, what is the impact on the funded status of the Plan?
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> d. If the City was to change the accrual rate to 1% for new employees assuming they participate in a defined contribution plan, what do Cheiron's projection model show? Make the assumption that the City will employ 250 new employees a year and 100 employees will retire.
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> e. What do Cheiron's projection model show, if the City was to keep the current plan and offer a defined contribution plan and assume that 20% to 25% of employees participate?

New Business

A. Application for vested service retirement:

William M. Bodnar, Active No. 23233, August 1, 2011, with no refund due.
[Finance]

B. Application for early service retirement:

Joseph M. Scott, Active No. 25158, September 1, 2011, with no refund due.
[Fire Rescue Services]

C. Applications for normal service retirement:

James A. Battersby, Active No. 18970, September 1, 2011, with no refund due.
[Fire Rescue Services]

Alan J. Bostjancic, Active No. 23728, September 1, 2011, with no refund due. [Police]

Ollan N. Burruss, Active No. 26409, September 1, 2011, with no refund due. [Police]

Chester M. Flemming, Active No. 25052, September 1, 2011, with no refund due. [Fire Rescue Services]

Cheryl L. Masters, Active No. 25056, September 1, 2011, with no refund due. [Fire Rescue Services]

Ralph S. Melton, Active No. 23191, September 1, 2011, with no refund due. [Fire Rescue Services]

John L. Scott, Active No. 22669, September 1, 2011, with no refund due. [Public Works]

Hap M. Cluff, Active No. 29697, October 1, 2011, with no refund due. [Information Technology]

Jerome Gay, Active No. 30899, October 1, 2011, with no refund due. [Recreation, Parks and Open Space]

John L. Russo, Active No. 30670, October 1, 2011, with no refund due. [Information Technology]

Mitzie B.Wright, Active No. 22554, September 1, 2011, with no refund due. [Civic Facilities]

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

D-uan P. Bibbins, Active No. 24073, September 1, 2011, with no refund due. This member requested accidental disability retirement. [Utilities]

The Trustees approved D-uan P. Bibbins request for accidental disability retirement with a medical review in one year. [5 Approved; 1 Abstain]

Donald W. Kennedy, Active No. 27440, September 1, 2011, with no refund due. This member requested accidental disability retirement. [Police]

The Trustees approved Donald W. Kennedy's request for accidental disability retirement with a medical review in one year.

E. Ordinary death:

Casper E. Sorey, Jr., Active No. 21773, death occurred June 3, 2011. Spouse elected lump sum payment of $11,822.24.

F. Death of retired members:

William L. Bishop, Ret. No. 3144, death occurred July 5, 2011. No benefit payable due to no surviving spouse or dependent children.

Earnest F. Maloney, Ret. No. 1750, death occurred July 15, 2011. Spouse elected monthly benefit of $165.86.

Lucille H. McGowan, Ret. No. 3401, death occurred July 28, 2011. No benefit payable due to no surviving spouse or dependent children.

Brenda G. Moore, Ret. No. 4474, death occurred July 19, 2011. No benefit payable due to no surviving spouse or dependent children.

Frank Pace, Jr., Ret. No. 2940, death occurred May 31, 2011. Spouse elected monthly benefit of $1,687.20

Albert L. Sykes, Ret. No. 1630, death occurred June 21, 2011. No benefit payable due to no surviving spouse or dependent children.

Elsie M. Vincent, Ret. No. 5078, death occurred July 8, 2011. No benefit payable due to no surviving spouse or dependent children.

G. Death of spouses:

Janet R. Ford, Spouse No. 934, death occurred May 13, 2011. No benefit payable.

Elsie V. Helms, Spouse No. 574, death occurred April 5, 2011. No benefit payable.

Amelia D. Kight, Spouse No. 358, death occurred July 6, 2011. No benefit payable.

Ruth P. Oakes, Spouse No. 1233, death occurred July 7, 2011. No benefit payable.

Elsie M. Vincent, Spouse No. 459, death occurred July 8, 2011. No benefit payable.

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

Name of Member	Active Number
Garrett M. Trapp	31563
Tonya Levette Gibbs	32205
Gabriel Martinez	32381
Rachelle T. Scarbor	32420
Brett M. Cochran	32559
Tasha M. Bynum	32946
Ellen M. Taggart	33172

Total Members - 7

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

Federal Express (1)	$	19.22
Beverly W. Brown (2)		4,714.50
Cheiron (3)		4,154.07
Retiement Payroll (Payroll est. for August 2011)		5,800,000.00
Total	$	5,808,887.79

(1) Information sent to State Street Corporation

(2) Refund of Contributions and Interest

(3) Retainer Services - June 2011

Committee Reports

Administration and Planning:
Ms. Felton reported that the Committee did not have a meeting.

Investment Management:
The Investment Committee did not have a meeting.

The total fund asset is at $861 million. This is an approximately 82.5% funded status based on last year's actuarial liability. The fiscal-year-to-date is return 0.56%.

The next Retirement Board meeting is schedule for September 14, 2011 at 11:00 a.m. There will not be an Investment Committee meeting.

There being no further business, the meeting adjourned at 1:09 p.m.

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Chairperson

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Executive Director