

Minutes of the Regular Monthly Meeting
Board of Trustees
Employees' Retirement System of the City of Norfolk
December 14, 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 noon on Wednesday, December 14, 2011 with Chairperson, Stephanie A. Calliott presiding. The following was the result of the roll call:

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

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

The minutes for the meeting on November 9, 2011 were approved.

New Business

A. Application for vested service retirement:

Arthur L. Bailey, Jr., Active No. 23144, May 1, 2007 with no refund due.
[Planning and Community Development]

Peter S. Fortin, Active No. 25676, January 1, 2012 with no refund due.
[Water Utility]

B. Applications for normal service retirement:

Lillie B. Brinkley, Active No. 22368, January 1, 2012 with no refund due.
[Human Services]

Thomas F. Grissom, Active No. 18166, January 1, 2012 with no refund due.
[Human Services]

Lawrence M. Marsala, Jr., Active No. 22909, January 1, 2012 with no refund due.
[Fire Rescue Services]

John F. Foist, Active No. 27206, February 1, 2012 with no refund due.
[Water Utility]

Ernest A. Garrett, Active No. 17968, February 1, 2012 with no refund due.
[Water Utility]

John R. Malbon, Active No. 24528, February 1, 2012 with no refund due.
[Police]

Marvin W. Marsh, Active No. 23017, February 1, 2012 with no refund due.
[General Services]

Theodore O. Wilder, Jr., Active No. 19990, March 1, 2012 with no refund due.
[Finance]

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

Nancy J. Goode, Active No. 22648, January 1, 2012 with no refund due. This member requested accidental disability retirement. [Police]

The Trustees approved Nancy J. Goode for accidental disability retirement. No yearly evaluation will be required.

D. Death of retired members:

John G. Scott, Ret. No. 2018, death occurred October 11, 2011. Spouse elected monthly benefit of \$541.68.

Bruce A. Anderson, Ret. No. 5914, death occurred October 13, 2011. Spouse elected monthly benefit of \$1,094.59.

McClenny Davis, Ret. No. 3754, death occurred October 24, 2011. No benefit payable due to no surviving spouse or dependent children.

Joseph Gibson, Ret. No. 4027, death occurred October 30, 2011. No benefit payable due to no surviving spouse or dependent children.

James W. Clark, Ret. No. 1791, death occurred October 31, 2011. No benefit payable due to no surviving spouse or dependent children.

Paul A. Elmore, Ret. No. 3013, death occurred November 22, 2011. No benefit payable due to no surviving spouse or dependent children.

Ted Miller, Ret. No. 1777, death occurred November 24, 2011. No benefit payable due to no surviving spouse or dependent children.

Carrie D. Brown, Ret. No. 4231, death occurred November 28, 2011. No benefit payable due to no surviving spouse or dependent children.

Illinoise Williams, Sr., Ret. No. 3892, death occurred December 1, 2011. No benefit payable due to no surviving spouse or dependent children.

Earl Bennett, Ret. No. 1029, death occurred November 21, 2011. Spouse elected monthly benefit of \$173.23.

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

<u>Name of Member</u>	<u>Active Number</u>
Markia Y. Bailey	31954
Shenelle L. Byrd	32013
Joseph C. McNair	32132
Durell L. Mitchell	32306
Vicki L. Grimstead	32417
Jose R. Perez	32713
Stephano A. Blakely	32722
Christopher R. Tan	32885
Damien J. Collins	33197
George Arko	33136
Jamie L. Lassiter	33233

Total Members - 11

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

Commonwealth of Virginia - Authentications Office		
(1)	\$	10.00
Federal Express (2)		22.14
Baker's Crust (3)		128.09
State Street Corporation (4)		7,827.34
Cheiron, Inc. (5)		17,962.38
Summit Strategies, Inc. (6)		45,843.75
Retirement Payroll (Payroll est. for December, 2011)	<u> </u>	<u>5,900,000.00</u>
 Total		<u><u>\$ 5,971,793.70</u></u>

- (1) Document notarization and apostille services
- (2) Information sent to State Street Corporation
- (3) Lunch served for Board Meeting - November 9, 2011
- (4) Custodial Services - October 2011
- (5) Retainer Services - September and October 2011
- (6) Investment Consulting Services - October, November and December 2011

Jessica Portis of Summit Strategies participated via conference call. She provided a brief Capital Markets update as well as comments on the asset allocation. From reviewing the October and September reports, there are still a lot of global or macro risks that have led to increased volatility in the marketplace. Specifically, in the four weeks in November there was the focus on contagion as a result of the European crisis, political instability in parts of the middle east, and the US Super Committee's inability to reach a consensus on ways to improve

the deficit in the US. Despite these headwinds, there was a lot of positive news that was reported in the month of November:

- better than expected United States (US) economic data
- the unemployment level has fallen (part of this is a result of the labor participation rate declining as the portion of the workforce who is at the end of their careers and looking for employment has decided not to pursue a new position and instead exit from the labor force)
- very solid third quarter corporate earnings
- the program that was put in place where central banks decided to make it cheaper for banks to borrow in US dollars. This led to a strong rally at the end of November but not enough to offset the weaknesses we saw earlier in the month.
- We saw confidence increase as related to consumers which is the result of a few things such as slightly lower energy prices, mixed housing data as we saw number of sales increased as well as building permits much stronger than anticipated.

Volatility is the key message that will continue for an extended period of time. Most of the markets were negative with the exception of the Dow Jones for the month of November. Depending on your level of exposure to financials in part dictates how negative those returns were, due to what was going on in Europe and the potential impact to banks, the financial segment did struggle. We saw in large cap and international that growth stocks tend to be less exposed to financial companies outperformed their counterparts. Very negative results on the international side as a result of European crisis and a strong USD dollar. On the US side, many of the indices are now positive year-to-date.

However, even in the fixed income market there was a very similar message as there was this risk aversion. Government bonds did well. Corporate bonds particularly financials were down for the month. Yields continued to fall which indicates a sign of weakness. Year-to-date fixed income continues to remain one of the strongest portions of the portfolio.

From the preliminary flash report market value was down slightly as a result of the equity market weakness in November. The System's market value fell about \$14 million from October to November to \$808.5 million. The asset allocation is in line with our long-term target. The \$19 million allocation to UBS Trumbull will be funded within the next couple of weeks from the fixed income portfolio.

The return for the month of November -1.42% is slightly under our total fund policy index by .06% basis points. The equity composite was down a little by 2%, and was primarily driven by the international portfolio. Any exposure to Europe was a detractor from good results. Fixed income did underperform the broad market as a result of the allocation from PIMCO. Their portfolio is structured with an underweight relative to Government guaranteed securities because they do not believe there are adequate yields in that particular portion of the marketplace. They have invested outside of the US in non-dollar bonds such as emerging market debt. They do have a greater exposure to corporate bonds. These are the areas that were hit the hardest. For the longer term, Summit does like the way the PIMCO portfolio is positioned as it relates to being diversified, non-dollar, emerging market debt, corporate bonds, etc., and believe the strategy will prove to be beneficial to the fixed income portfolio.

In the real estate portfolio, JPMorgan talked today about their performance year-to-date with an estimate for November of .60 basis points. On an absolute basis, this is very strong in an environment where equities were weak. The fiscal year to date number is strong and real estate has been a contributor to results since we funded the portfolio April 1, 2011.

The UBS capital is due on January 3, 2012. We are all set in terms of funding UBS. UBS Trumbull is still a very attractive portfolio from an income standpoint in 2012. They are anticipating an expected return of roughly 5½%.

Mr. Neikirk indicated that the Trustees previously received the Asset Allocation Review document from Summit for review. He asked Mrs. Portis to cover the highlights of the report. Mrs. Portis reported that given where valuations are both in equity and fixed income markets and what the expectations are for other asset classes, it will be difficult to earn a return of 7½% in the intermediate term. Summit's forecast on Page 2 of the report is an expected 6.22% over a 10-year period.

In looking at the System's current asset allocation over history, the asset allocation would have produced the following return averages:

30-year	10.0%
40-year	9.7%
50-year	9.8%

The Trustees reviewed the assumption rates of various Virginia localities. The high is 8% and the low is 7%. The Employees' Retirement System Pension Fund falls in the middle at 7½%. Mrs. Portis reported that there have been public plans talking about ratcheting down their returns. Most have been in the 8½% range. Those that are at 8% have not taken any action more recently. In general, the average returns are closer to Norfolk's.

Mrs. Cheryl Xystros, Engagement Partner, and Ms. Karen Bjune, Engagement Manager, of KPMG met with the Board. Mrs. Xystros informed the Board that the audit was complete, and presented the draft Comprehensive Annual Financial Report ("CAFR") for Fiscal Year Ending June 30, 2011 for their review. Mrs. Xystros stated that KPMG would be issuing an unqualified opinion regarding the financial statements of the System. Mrs. Xystros discussed communication requirements under the Statement of Auditing Standard (SAS) No. 114. The report covered the following topics:

- Our responsibility under professional standards
- Other information in documents containing audited financial statements
- Accounting practices and alternative treatments
- Quality of accounting principles
- Management judgments and accounting estimates
- Uncorrected and corrected misstatements
- Disagreements with management
- Management's consultation with other accountants
- Significant issues discussed, or subject to correspondence, with management
- Significant difficulties encountered during the audit
- Other significant findings or issues
- Independence

Mrs. Xystros informed the Board that KPMG representatives have read the information in the System's CAFR and completed the audit. KPMG will be issuing the statement letter within the next day or so. The representation letter will explain that KPMG encountered no significant difficulties in dealing with management in performing the audit, and there were no significant findings or issues encountered during the audit. There were no changes in the accounting policies nor will there be changes next year.

The Chair asked does KPMG anticipate any issues if the System goes through a transition at a staff level in the spring. Mrs. Xystro said any transition takes time to work through. If qualified folks are hired, the System and processes are in place where new staff can follow through.

Mrs. Nexsen had two legal matters to present to the Board. She needed a motion that the Board assemble in a closed meeting pursuant to Virginia Code Section 2.2-3711 A 7 for the discussion of legal matters. At the conclusion of the closed session, the Board adopted the following Resolution:

**A RESOLUTION CERTIFYING A CLOSED MEETING OF THE
BOARD OF TRUSTEES OF THE CITY OF NORFOLK IN
ACCORDANCE WITH THE PROVISIONS OF THE VIRGINIA
FREEDOM OF INFORMATION ACT.**

WHEREAS, the Board of Trustees of the City of Norfolk Retirement System convened a closed meeting on December 14, 2011 pursuant to an affirmative recorded vote and in accordance with the provisions of the Virginia Freedom of Information Act; and

WHEREAS, Section 2.2-3711 of the Code of Virginia requires a certification of this Board that such closed meeting was conducted in conformity with Virginia law; now, therefore,

BE IT ORDAINED by the Board of Trustees of the City of Norfolk:

Section 1: - That the Board hereby certifies that, to the best of each member's knowledge, (i) only public business matters lawfully exempted from open meeting requirements by Virginia law were discussed in the closed meeting to which this certification resolution applies, and (ii) only such public business matters as were identified in the motion convening the closed meeting were heard, discussed or considered by the Board.

Section 2: - That this resolution shall be in effect from and after its adoption.

In the open session of the meeting, the Trustees approved the hiring of Troutman Sanders, a law firm in Richmond, Virginia an allocation of up to \$10,000 to review Chapter 37, and to review the Retirement System's Determination Letter.

Mr. Wilder requested that the Board approve the addition of Earl Bennett to Item D. Death of retirement members. "Earl Bennett, Ret. No. 1029, death occurred November 21, 2011. Spouse elected monthly benefit of \$173.23." The Board approved inclusion of Earl Bennett to Item D. and his name has been included in the formal listing in these minutes.

Committee Reports

Administration and Planning:

Ms. Felton reported that the Committee did not have a meeting.

Investment Management:

The Investment Committee did meet prior to the Board Meeting today.

Mr. Neikirk reported that JPMorgan met with the Board to provide an annual update of the real estate mandate. Estimated long-term outlook is 7½%. The Trustees requested that an electronic copy of the JPMorgan presentation booklet be e-mail to them.

Mrs. Portis provided a Capital Markets Update. As of November 30, 2011, we had a market value of \$880.5 million, and the approximately funded status is 76% based on the July 1, 2011 actuary review.

The UBS Trumbull real estate account will be funded January 3, 2012 with \$19 million. The PIMCO (fixed income) account will be used for this transaction.

Based on Summit's projections for the 10-year average outlook we can look for returns below 7½%. The estimate from Summit is 6.22%. Mr. Neikirk said that we will plan to discuss assumption rate of return during the January 11, 2012 meeting since the Actuary will be present for the meeting. Mr. Bernert has additional information he obtained from Actuary for discussion also at next month's meeting. The Trustees assigned Mr. Bernert to communicate with the Actuary on providing two or three scenarios before the meeting, as well as providing electronic spreadsheets prior to the meeting.

Trustees also wish to keep receiving PIMCO's, Bill Gross Commentary monthly.

Mr. Wilder asked the Board to review the meeting schedule for 2012. The Trustees approved the second Wednesday at 12:00 noon to meet in Calendar Year 2012. The meeting schedule will be posted for public review.

The Chair asked, "Is there anything in the policies and procedures manual that addresses joining the Board and attendance at meetings?" Do we have an expectation of everyone that:

- a. a member participate on a committee/committees
- b. a member attend a certain percentage of meetings
- c. a member follow the policies and procedures of the Board

The Board asked Mrs. Nexsen to review the Trustee Manual and report her findings. She did remind members that they are not a self-appointed Board, but appointed members by the City Council. There are certain expectations required of appointed members as related to duties and attendance.

The next Retirement Board meeting is schedule for January 11, 2011 at 12:00 noon until 1:30 p.m. and will include Investment Committee discussions.

There being no further business, the meeting adjourned at 1:06 p.m.

Chairperson

Executive Director