

Minutes of the Regular Monthly Meeting
Board of Trustees
Employees' Retirement System of the City of Norfolk
July 13, 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 12:42 p.m. on Wednesday, July 13, 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	Y. T. Allmond
C. R. Neikirk	K. W. Crowder
L. A. Bernert	
N. E. Nelson	
E. G. Tucker	
S. Felton	
M. D. Jones	
D. V. Hill	

Ms. Mary L. G. Nexsen, Deputy City Attorney; Melanie Purcell, Assistant City Manager and Acting Director of Human Resources and a summer intern; and two interns working for the summer with Larry Bernert also attended the meeting.

The minutes for the meeting on May 11, 2011 were approved.

Mrs. Jessica Portis provided a general market recap as follows:

The Equity Market was erratic over the course of the quarter. The defensive sectors performed the best such as health care and utilities. For the quarter, the S&P 500 was flat up about 10 basis points. Small cap stocks which tend to underperform when riskier assets classes are struggling, lagged the broad market. The International Markets surprised us over the course of the quarter especially in the developed markets which were up about 1.6% over the quarter. There was a bit of a rebound in Europe. Emerging markets struggled for the entire quarter down 1% due to tighter monetary policy. The fixed income theme was a flight to safety with treasuries doing really well over the course of the quarter.

In addition, the overnight lending rate remained the same. The yield curve actually got steeper. Investment grade securities did well for the quarter, and most of the fixed income sectors were positive over the time-period.

Mrs. Portis also provided an overview of the Employees' Retirement Pension System portfolio. The market value of the plan was approximately \$868.6 million. This is up \$25 million since the end of the year. From an asset allocation perspective, the portfolio is in line with our long-term targets. The one area where we remain underweight is real estate about 2.7% underfunded.

The System's return was 1.07% for the month and 0.95% for the quarter. The fiscal year return to date is 21.17%. Fiscal year 2011 turned out to be a very strong year. We outperformed the

Policy Index during the course of the year and a lot of this was driven by the very strong results from the active component of PIMCO (fixed income). The fixed income composite added over 3% relative to the broad market. The Board's decision to retain an active component of the portfolio over the last year has been beneficial. Also, having equities that rallied over the past 12 months also contributed to the 21.17% return.

For the quarter, there were a couple of areas that lead to the strong performance. Real estate allocation was the strongest portion of the market place with J.P. Morgan producing a 5.32% return. Fixed income returned approximately 2%, with TIPS returning 3.62%. Equities lagged relative to other portions of the marketplace.

The quarter return and fiscal year to date (FYTD) returns for the individual managers are shown below:

	<u>3-Month</u>	<u>FYTD</u>
SSGA US Equity	0.02%	32.41%
SSGA International Equity	0.47%	29.92%
PIMCO	1.66%	7.98%
SSgA Bond Market	2.24%	3.86%
SSgA US TIPS	3.62%	7.64%
JPM Real Estate	5.32%	(account funded in March 2011)

The Board approved a 5% allocation to Real Estate about a year ago. They approved that the 5% allocation be split equally between two Managers: JP Morgan (Strategic Property Fund), and UBS Realty Investors (Trumbull Property Fund). In March 2011, we funded the JP Morgan fund but there is a contribution queue to fund the UBS portfolio. The contribution queue for UBS is now at about \$2.5 billion. There is currently approximately \$500 million ahead of the Norfolk allocation. UBS anticipates Norfolk's \$19 million commitment begin called for October 1.

Mrs. Portis reminded the Board that about a year ago they had decided on an annual basis to step back and review the asset allocation, market opportunities as well as threats that could exist and how these factors might impact the portfolio. She introduced some of Summit's new thought pieces as related to asset allocation. Summit has added a new framework to the way they think about client portfolios. They are focusing on their assets that are growers, assets that are expected to provide income, and assets that are diversifiers. They refer to this process at GID (Growth Income Diversification). She will discussed this further sometime in the future but just wanted to introduce the concept to the Board today.

Summit's outlook is there will remain volatility in the marketplace for the next few years. A low growth, low return environment is anticipated for an extended period of time, which means the System is not going to be able to grow out of the shortfall versus liabilities. Stocks and bonds are not going to be our savior given the current market conditions. There is a lot of uncertainty in the market place and having all of our eggs in one basket could present a threat to the portfolio. These are the reasons Summit began introducing the new framework:

- what kind of assets would work in a rapid growing environment
- what kind of assets would work in a deflationary environment
- what kind of assets would work if we need some sort of tail insurance

In general, the expectation is this is going to be a very difficult investing environment and we cannot expect to generate the 21% that we were able to generate over the course of fiscal year 2011.

Summit's portfolio observation reveals an expected 10-year return of 6%. The actuarially rate of return is 7.5%. This is the reason the GID concept is presented today for future consideration. This is going to be a difficult investing environment going forward. Summit does feel there are opportunities in certain parts of the marketplace to increase the expected return.

The PIMCO team (Mr. Ignacio Galaz, Mr. Alan Isenberg, and Miss Sasha Talcott) gave an overview of the markets during the second quarter, discussed the City of Norfolk's portfolio performance and positioning, and described PIMCO's economic outlook.

Second quarter market recap:

PIMCO noted that US economic growth is not as robust one would hope. With real GDP around 2% and US unemployment still above 9%, the US economy is unlikely to attain the escape velocity necessary for self-sustaining growth. Meanwhile, the crisis in Europe intensified in the second quarter amid mounting questions about the ability of Greece, Ireland, and Portugal to service their debts. The US economy added 18,000 jobs in June, far below economists' expectations of 105,000 jobs. Reflecting the weaker US economy and a general flight to quality, the yield on the 10-year Treasury declined from 3.47% to 3.16%. Spread sectors, such as high yield, CMBS and investment grade credit, underperformed in the quarter. Importantly, however, spread sectors are still performing well year-to-date. For Treasuries with a maturity of less than 7 years, yields are not sufficient to keep up with inflation.

Portfolio positioning:

The PIMCO team noted that the City of Norfolk's portfolio is positioned defensively from a risk-return standpoint – and that, even with this defensive posture, yield expectations have not diminished. The City of Norfolk's portfolio returned 1.44% before fees in the second quarter, 1.33% after fees, trailing the index return of 2.29%. Year to date, however, the portfolio is outperforming: It returned 3.58% before fees, 3.34% after fees, beating the benchmark return of 2.72%. Due to concerns about the low yields on U.S. Treasuries, the portfolio is underweight US Treasuries versus the benchmark. PIMCO believes that more attractive returns can be found elsewhere, such as in German bonds and exposure to European interest rates. Additionally, PIMCO believes that the US federal funds rate will remain low for longer than the market currently expects. To that end, PIMCO has positioned the portfolio to benefit as rates stay low. The portfolio is also positioned to take advantage of "safe spread" through investment grade credit, which has a higher yield than U.S. Treasuries.

Economic outlook:

PIMCO's economic outlook is for a multi-speed world, in which developed economies grow slowly (around 2%) and continue to grapple with structural challenges, while emerging economies grow a more robust 6%. PIMCO noted that developing economies have far lower levels of public debt than the developed world and now also have lower levels of unemployment. The developed world recovery, meanwhile, has been fueled by easy fiscal and monetary policy, which is now ending. The Fed's bond-buying program aimed at lowering long-term interest rates, QE2, ended in June. A 2% US payroll tax holiday will expire in December. PIMCO believes that, for the developed world, the most likely outcome is a "hobble through" scenario, in which developed countries make incremental progress but fail to address their high debt levels in

a meaningful way. Given countries' limited options to reduce debt, PIMCO is concerned about what it calls "financial repression," which it defined as a series of measures that would help governments lower existing debt levels via an implicit tax on savers.

New Business

A. Recommendation by the City Manager that the following July 1, 2011 retirements be extended:

Sandra F. Prestridge, Active No. 17974, September 1, 2011
Shelia W. Wilder, Active No. 10012, October 1, 2011
Larry T. Baker, Active No. 10113, January 1, 2012

B. Applications for vested service retirement:

Patricia A. Overston, Active No. 19629, May 1, 2011, with no refund due.
[Lake Taylor]

Michael J. Woods, Active No. 19985, July 1, 2011, with refund due. [Police]

Michael M. Crisostomo, Active No. 27170, July 1, 2011, with no refund due.
[Parking Fund]

Sandra S. Thornton, Active No. 28451, August 1, 2011, with no refund due.
[Public Health]

Miriam J. Jiggetts, Active No. 23749, September 1, 2011, with no refund due.
[Economic Development]

Robert A. Bowles, Active No. 21665, September 1, 2011, with no refund due.
[Police]

Mildred Y. Stokes, Active No. 17342, September 1, 2011, with no refund due.
[Courts]

C. Application for early service retirement (deferred):

Eric M. Henderson, Active No. 28923, July 1, 2011, with no refund due. [Police]

D. Application for early service retirement:

James E. Wilson, Jr., Active No. 24375, August 1, 2011, with no refund due.
[Finance and Business Services]

Pamela S. Staggs, Active No. 25261, September 1, 2011, with no refund due.
[Information Technology]

E. Applications for normal service retirement:

Jeffrey R. Ratliff, Active No. 31592, July 1, 2011, with no refund due. [\[Planning\]](#)

Matilda M. Sherriod, Active No. 19334, August 1, 2011, with no refund due.
[\[Recreation, Parks and Open Space\]](#)

Robert a. Barbarisi, Active No. 20007, August 1, 2011, with no refund due.
[\[Recreation, Parks and Open Space\]](#)

Michael I. Fitzgerald, Active No. 22615, August 1, 2011, with no refund due.
[\[Public Works\]](#)

William F. Rhee, Active No. 24242, September 1, 2011, with no refund due.
[\[Public Works\]](#)

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

Patricia D. Swain, Active No. 26955, August 1, 2011, with no refund due. This member requested ordinary disability retirement. [\[Human Resources\]](#)

The Trustees approved Patricia D. Swain for ordinary disability retirement with no yearly medical exam required.

Donald W. Kennedy, Active No. 27440, August 1, 2011, with no refund due. This member requested accidental disability retirement. [\[Police\]](#)

The Trustees asked that Donald W. Kennedy's request be deferred until further information is received.

G. Ordinary death:

Andrew W. Perkins, Active No. 30681, death occurred March 20, 2011. Spouse elected lump sum payment of \$7,288.42.

H. Death of retired members:

Lawrence Gassman, Ret. No. 3720, death occurred April 4, 2011. Spouse elected monthly benefit of \$949.64.

Michael J. Vasko, Ret. No. 2811, death occurred April 11, 2011. No benefit payable due to no surviving spouse or dependent children.

Bernadine C. Dunmire, Ret. No. 6090, death occurred May 2, 2011. No benefit payable due to no surviving spouse or dependent children.

Thomas E. Gardner, Ret. No. 3685, death occurred May 4, 2011. No benefit payable due to no surviving spouse or dependent children.

Edward L. McCullough, Ret. No. 2092, death occurred May 6, 2011. Spouse elected monthly benefit of \$611.84.

Roy E. Robinson, Jr., Ret. No. 4433, death occurred May 7, 2011. Spouse elected monthly benefit of \$574.69.

Raymond E. Wilson, Jr., Ret. No. 2554, death occurred May 11, 2011. Spouse elected monthly benefit of \$642.48.

Francis W. Moran, Ret. No. 3420, death occurred May 13, 2011. Spouse elected monthly benefit of \$364.34.

Willie C. Girsch, Ret. No. 2139, death occurred May 17, 2011. No benefit payable due to no surviving spouse or dependent children.

Donald L. Massey, Ret. No. 3662, death occurred May 19, 2011. Spouse elected monthly benefit \$873.67.

Hilda C. Carr, Ret. No. 2476, death occurred May 23, 2011. No benefit payable due to no surviving spouse or dependent children.

Otis Taylor, Jr., Ret. No 4380, death occurred May 28, 2011. No benefit payable due to no surviving spouse or dependent children.

Philip A. McKeon, Ret. No. 4476, death occurred June 12, 2011. No benefit payable due to no surviving spouse or dependent children.

Russell D. Hoggard, Ret. No. 1961, death occurred June 21, 2011. No benefit payable due to no surviving spouse or dependent children.

I. Death of spouses:

James A. Ramsey, Spouse. No. 761, death occurred May 6, 2011. No benefit payable.

Margaret Logan, Spouse No. 4564, death occurred May 15, 2011. No benefit payable.

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

<u>Name of Member</u>	<u>Active Number</u>
Shirley Ann Core	31401
Kimberly R. Williams	31440
Michael W. Schooley	31472
Jason M. New	31755
Derocke H. Croom, Jr.	31810
Bruce Allen Charity	31905
Duane A. Ballge	32089
Marcus Chevres	32143
Terry L. Anderson	32202
Michael T. Pruden, Sr.	32226
Aleazar Saez	32263
Dwight Anderson	32334
Trakesha Jones	32485
Bengie G. Bryant	32586
Paul A. Hardy II	32601
Jillian C. Sunderland	32630
Antoine Broadwater	32663
Angela Ousley	32671
Devin Antoine Carthorne	32676
John Christopher Norris	32769
Najaida Yizar	32788
Johnnie Stewart	32792
Ryan M. Haynes	32812
Michael J. Jackson	32888
David A. Billingsley	32927
Heather Marie Fuss	32967
Gary Williams	32999
David R. Taft	33006
Suzanne D. Nirdlinger	33012
Pier L. Thomas	33064
Katherine C. Byers	33078
Tyler S. Lamb	33087
Sommer N. Shortridge	33094
Maria Grant	33128
John L. Stedman	33139

Total Members - 35

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

Federal Express (1)	\$ 43.07
Baker's Crust (2)	157.56
Chantal Brooks (3)	250.00
Bescorp, Inc. (4)	280.00
Mary Lou Nexsen (5)	2,525.94
Cheiron, Inc. (6)	9,088.14
State Street Corporation (7)	26,479.83
Summit Strategies, Inc. (8)	44,573.50
City of Norfolk (9)	470,199.36
Retirement Payroll (Payroll est. for July 2011)	<u>5,650,000.00</u>
 Total	 <u>\$ 6,203,597.40</u>

(1) Information sent to State Street Corporation

(2) Lunch served for Board Meeting - May 11, 2011

(3) Medical evaluation for Patricia D. Swain

(4) One year service contract for office shredder

(5) Reimbursement to Mary Lou Nexsen for cost to attend 2011 NAPPA Conference in Sacramento, CA on June 20-22, 2011:

Registration	\$ 895.00
Hotel	494.76
Transportation	1,067.00
Meals	59.18
Gratuities	<u>10.00</u>
	<u>\$2,525.94</u>

(6) Retainer Services - April and May 2011.

(7) Custodial Services - March, April and May 2011

(8) Investment Consulting Services - April, May and June 2011

(9) Reimbursement for administrative expenses incurred from 07/01/10 through 06/30/11 as per Ordinance No. 36847

Committee Reports

Administration and Planning:

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

Investment Management:

Mr. Neikirk reported that there was an Investment Committee Meeting at 11:00 a.m. today and received an update on plan performance, capital markets update, asset allocation update and the status of the UBS Real Estate investment. The UBS Real Estate investment looks like it will be called on October 1 as reported from Jessica Portis.

PIMCO also provided an update on our portfolio performance.

The total fund asset is at \$867 million. This is an approximately 82.8% funded status based on last year's actuarial liability. The fiscal-year-to-date is return 21.2%.

Stephanie Calliott, Chair, informed the Trustees that there are two items for discussion in Executive Session.

In regard to the discussion of a matter in a closed session, there was a motion by Nick Nelson, seconded by Larry Bernert that the Board assemble in a closed meeting for the purposes as set out in Section 2.2-3711 of the Virginia Freedom of Information Act for the discussion of a legal matter.

The Board convened in the closed session and addressed the matter and at the conclusion of the session, the Board adopted a Resolution certifying that, to the best of each Board Members' knowledge, only public business matters are lawfully exempted from open meeting requirements by Virginia Law were discussed in the closed session and that the matters discussed were pursuant to the legal matters exemption of the Virginia Freedom of Information Act.

Larry Bernert made a motion to approve the death of Mr. Jerry Holton as an accidental death. This motion was seconded by Mr. Nelson and approved unanimously by the Board.

Mr. Wilder reported that a letter was sent and he also talked to Doctor Chantal Brooks notifying her of the Board's decision to not increase her fee. He told her that we have other physicians who are receiving the same fee. Dr. Brooks agreed to remain at the same rate with no increase.

Mr. Marcus Jones asked the Board if they could have Cheiron provide a few scenarios on what the funded status would be if the City contributed more than the required contribution. The future actuarial valuations will be for future discussions. The Trustees agreed to invite Cheiron to attend the September 14, 2011 meeting to discuss this subject and answer other various questions. The Chair asked the Trustees to provide a list of questions for Cheiron to address at the September meeting.

The next Retirement Board meeting is schedule for August 10, 2011 at noon. There will not be an Investment Committee meeting.

There being no further business, the meeting adjourned at 1:50 p.m.

Chairperson

Executive Director