

CITY EMPLOYEES RETIREMENT FUND BOARD

MINUTES

OCTOBER 23, 2009

PLACE: City Hall
200 Orange Street
Dept. of Finance Conference Room
New Haven, Connecticut 06510

PRESENT: Jerry Sagnella, Chairman
Thomas Cama
John Varrone, Members' Representative
Mark Pietrosimone, Secretary

ABSENT: Mayor John DeStefano, Jr.

ALSO PRESENT: Joann Giri, Benefits Auditor
Arthur Assantes, Hooker and Holcombe
Tim Ryor, Hooker and Holcombe
Patricia Solomon
Derek Ciampini, Ameriprise
Wendy Coppola, Ameriprise
Leslie Williams, Ameriprise
Carolyn Kone, Brenner, Saltzman & Wallman

Mr. Sagnella convened the meeting at 9:35 a.m.

1. APPROVAL OF MINUTES

Mr. Varrone moved the approval of the minutes from the meeting of September 17, 2009 as amended; Mr. Pietrosimone seconded, and the vote was unanimous.

2. NEW PARTICIPANTS – INFORMATION ONLY

The Board reviewed the information under Item 2.

3. DEATH OF SURVIVOR – INFORMATION ONLY

The Board reviewed the information under Item 3.

4. WITHDRAWAL – INFORMATION ONLY

The Board reviewed the information under Item 3.

5. AGE ANNUITY RETIREMENT – INFORMATION ONLY

Item 5 has been tabled since the necessary paperwork was not submitted.

6. DISABILITY ANNUITY RETIREMENT – SERVICE CONNECTED

Mr. Pietrosimone made a motion to go into Executive Session to discuss medical documents at 9:45 a.m. with only trustees present; Mr. Varrone seconded, and the vote was unanimous.

Mr. Pietrosimone made a motion to come out of Executive Session at 9:55 a.m.; Mr. Varrone seconded, and the vote was unanimous.

Mr. Pietrosimone made a motion to approve Alan Gambardella's application for a service connected disability retirement; Mr. Varrone seconded, and the vote was unanimous.

7. PAYMENT OF BILLS

Mr. Pietrosimone made a motion to approve payment of the bills in Item 7; Mr. Varrone seconded and the vote was unanimous.

8. ADMINISTRATIVE MATTERS

Actuarial Valuation For 2007-2008

Mr. Ryor distributed actuarial valuation reports to the trustees. He cited a sample participant to help put the numbers in a context. The sample participant enters around age 36 with a starting base pay of \$25,000, increasing at the valuation salary scale. Benefits payable are per contract with 50% joint survivor with a 3% COLA.

If you take somebody whose total value of benefits is going to add up to \$250,000 and if they were going to have a 25 year career with the city you would allocate that 25 year period at \$10,000 to each year. If they had accrued 10 years of service the accrued liability would be \$100,000, 10/25ths of the \$250,000. When they compile the valuation they are doing this calculation for every individual.

In the beginning of the career the benefits earned are worth less than what the participant is putting into the plan. The accumulation of the benefit gets very steep towards the end of the career. Roughly 40% of the total value of the benefit is contributed by the participant. The value of what the employee put in at retirement goes down at the end of the career; the City's cost goes up relative to the total cost of the benefit.

The next valuation will be the 2009-2010 valuation. They look at two years of experience at a time. For the first year there was actually a gain relative to the 8.5%, about \$12.5 million. Going into 07-08 there was a \$22 million loss for that period. There is a 5-year asset smoothing method that helped mitigate the fact of the losses. About every \$10 million in losses increases the arc by about \$560,000.

They are anticipating that the contribution for the 2010 year is going to go up; the asset smoothing will help that. Mr. Ciampini asked how much he thought the contribution would increase for 2010. Mr. Ryor stated there would be \$1.5-2 million gain in employer contributions.

The investment return assumption is a key assumption in the valuation. Over the 2 year period on CERF there was only about \$5 million in gains and losses relative to the assumption. For a plan with \$340 million in liabilities, in actuarial terms this would be considered inconsequential for a two year period; it does add \$250,000 to the arc.

Mr. Pietrosimone stated that some of the assumptions for P&F will be changing; in the new Police contract; overtime and extra duty earnings will no longer go into a defined benefit plan; they will go into a defined contribution plan. Mr. Ryor stated that would be something they would definitely have to factor into their valuation for P&F.

Mr. Ryor stated the funded percentage went from 59.6% to 60.4% because of the asset smoothing method. A good chunk of the liability, over 50%, is due to inactive participants receiving monthly benefits.

Mr. Ryor summarized that the result of the valuation is an \$11.4 million arc for 2009-2010. The funded percentage on a market value dropped from 59.8 to 57.1. Due to an anticipated increase in losses for 2008-2010 this will eventually produce significant increases in future required contributions. Future increases in the ARC related to investment losses are estimated to be about \$3 million.

Since an experience study has not been done since 2002 Mr. Ryor recommends this study be completed again with particular attention paid to the retirement rates. Mr. Sagnella asked for the approximate cost. Mr. Ryor stated about \$9,000-12,000.

Mr. Pietrosimone made a motion to authorize Hooker and Holcombe to perform an experience study; Mr. Varrone seconded, and the vote was unanimous.

9. INVESTMENT REVIEW

Mr. Ciampini stated the trustees saw 3 presentations from international bond managers a few weeks ago. They are all good candidates. Mr. Williams did an analysis on the possible combinations from a pure results standpoint. He stated the policy allows up to 15% allocation. He was encouraged after the presentations because they are all different from each other and would each contribute something to the portfolio. From a downside protection standpoint it would be better to hire all three managers and fund them at \$8 million each. Mr. Ciampini stated we would be looking at the 15% allocation and considering sometime in the future increasing that allocation.

Mr. Cama asked Mr. Williams if it was his call what he would do. Mr. Williams responded that he is a bit more aggressive so he would probably put a little bit more weight on Strategic; but with a pension fund you are more concerned about long term downside risk so the even split is more suited for CERF.

Mr. Cama made a motion to take \$24 million in assets and divide evenly \$8 million a piece to Mondrian, Strategic and Evergreen taking the money from Pimco; Mr. Pietrosimone seconded, and the vote was unanimous.

Mr. Ciampini stated the trustees went to New York to review W.P. Carey, a real estate manager that has never had a negative return over a 30-year period. Their yield is over 6%, has been rising and they have quarterly redemptions. It would make sense to start with \$5 million since any less will not have any substantial positive effect on the returns. Mr. Cama asked where the money is coming from. Mr. Ciampini stated probably \$3 million from Neuberger Berman Large Cap Growth. The remaining \$2 million will be taken from Artio Global.

Mr. Ciampini stated the fund for the month was up 4.1% versus the index at 3.2%. Year to date we are up 18.4% versus 16.8% for the index. The Fund gained approximately \$6.2 million for the month. Most of the managers outperformed the index. The only ones that did not were NCM and Artio Global who were in line. Emerald had a very slight underperformance. Pimco outperformed a bit and Penn Capital underperformed their index; they are actually sending out a letter that they would like to change their benchmark to a more conservative high yield benchmark.

The fund has approximately \$10 million in cash; the contract for Index IQ is ready to be signed. That is an \$8 million investment that will come out of the cash account. They will pull \$24 million from Pimco to fund the three international bond managers; \$5 million for real estate will come from Neuberger Berman Large Cap Growth (\$3 million) and Aletheia Large Capt Value (\$2 million).

Sharon Freilich stated, by conference call, that there are two sections of the agreement with Index IQ which contain indemnification provisions which are relatively mild. Section 6 deals with the liability from the manager and the client; they are not making any representations regarding the success of their investment strategy. That is pretty typical. They are taking responsibility for their own negligence. They will not be responsible for any losses caused by third parties except where they go after broker dealer where they agree they will do so in a fiduciary capacity. The indemnification holds them harmless from any other losses except for what they accepted under this section. If a 3rd party like a participant brought action regarding investments the plan might have to indemnify them under that action. Otherwise it is pretty limited.

The exposure is rather low. Section 7 has indemnification for any losses that arise as a result of Index IQ relying on instructions they received from CERF. Through discussion with Mr. Ciampini it was determined that the only instructions would be to invest more money or to withdraw money.

Mr. Sagnella stated the trustees have a comfort zone that contractually we can go forward.

Mr. Ciampini asked about Natixis mutual fund. Ms. Freilich sent an email to Mr. Sagnella indicating she reviewed it and did not see any legal impediment to going forward with it. Mr. Ciampini stated hopefully they can fund Natixis and Index IQ by November 1st.

Mr. Pietrosimone made a motion to direct Mr. Sagnella to sign the contract with Index IQ after considering the indemnification language in sections 6 and 7 of that contract; Mr. Varrone seconded and the vote was unanimous.

Mr. Pietrosimone made a motion to allow Mr. Sagnella to sign the contract with Natixis; Mr. Cama seconded, and the vote was unanimous.

Mr. Ciampini stated he already opened an account at Northern Trust for Index IQ; he will have to open an account for Natixis. They can definitely get Index IQ funded by November 1. They will move \$4 million from the managers to Natixis. They will move \$8 million from cash for Index IQ and \$4 million from Neuberger Berman Large Cap Growth for Natixis. The international fixed income will come from Pimco. They will fund \$5 million for global real estate from large cap value (\$2 million) and large cap growth (\$3 million).

Mr. Cama made a motion to move \$4 million from Neuberger Berman Large Cap Growth to Natixis; Mr. Varrone seconded and the vote was unanimous.

They are still cautiously optimistic for next year. However, 70% of the economy is led by the consumer and consumers are not spending. The savings rate has gone from negative to positive. Unemployment rate of 10% will probably be sustained over the next year to 2 years. The fund should see slow positive growth. It is prudent to increase international investment.

Mr. Ciampini stated the investment ranges will have to be reviewed.

10. NORTHERN TRUST SECURITIES LENDING PROGRAM

Attorney Carolyn Kone reiterated that CERF has an agreement with Northern Trust from 2000 where they lend out the fund's securities and they get collateral and the collateral is invested; if there is any deficiency in the collateral pool the Fund is responsible. In the fall of last year Northern Trust notified CERF that they were responsible for a deficiency of about \$318,000. Recently they notified CERF that of that \$318,000 \$51,000 had to be paid by the end of December.

They are now willing to treat CERF as if it is part of the staged withdrawal that they had offered to people last fall; they are also willing to say that because CERF was put in the core collateral section rather than the core USA the collateral deficiency could be recalculated to what it would have been if CERF had been in the core USA section; that changes the deficiency to \$303,389. Accordingly, because the staged withdrawal program ends at the end of October CERF can pay the deficiency of \$303,389 and Northern Trust will return all of their securities and CERF's participation in the Securities Lending program will end. They also will provide a mutual release of obligations.

Mr. Ciampini stated the collateral pool is comprised of a variety of assets; good bad, mediocre; the bulk of them are good. The potential loss is \$240,000; the potential gain is holding onto these assets and hoping they appreciate. Mr. Pietrosimone asked if they have the potential to invest more than \$18 million of CERF's money. Mr. Ciampini responded he was not sure if it could still be capped at \$25 million.

Mr. Pietrosimone stated they had the discussion that the \$30,000 a year in investment gain does not justify the risk we are taking in this program. Attorney Kone stated

Northern Trust had changed the split to 70/30 last year to help CERF recoup some of their losses. They have gone back to 60/40 which was the original split. Mr. Sagnella inquired approximately how much of the \$18 million is bad. Mr. Ciampini stated he would have to research it. Mr. Sagnella stated if the toxic assets failed this \$240,000 would pale in comparison to the potential loss to the Fund.

Mr. Sagnella asked what the window is to withdraw. Attorney Kone stated you have to withdraw by October 30, 2009 the end of the withdrawal program. Attorney Kone stated they are giving us what we asked.

Mr. Cama made a motion to approve the payment of \$303,389 to Northern Trust and that the CERF withdraw from the Northern Trust Securities Lending Program and the Fund authorize the chair to executive the mutual release with Northern Trust; Mr. Pietrosimone seconded, and the vote was unanimous.

Attorney Kone left the meeting at 10:25 a.m.

The meeting adjourned at 11:35 a.m. on a motion by Mr. Cama and seconded by Mr. Pietrosimone and the vote was unanimous.

The next meeting is scheduled for Thursday, November 19, 2009 at 10:00 a.m.

ATTEST:

Secretary