

CITY EMPLOYEES RETIREMENT FUND BOARD

FINAL

MINUTES

September 16, 2010

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
Tim Ryor, Hooker and Holcombe
Derek Ciampini, Ameriprise
Leslie Williams, Ameriprise

Mr. Sagnella convened the meeting at 10:00 a.m.

1. APPROVAL OF MINUTES

Mr. Pietrosimone moved the approval of the minutes from the meeting of August 26, 2010, as amended; Mr. Varrone seconded, and the vote was unanimous.

2. DEATH AFTER RETIREMENT – 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 4.

5. AGE ANNUITY RETIREMENT - INFORMATION ONLY

The Board reviewed the information under Item 5.

6. PAYMENT OF BILLS

Mr. Cama made a motion to approve payment of the bills in Item 6; Mr. Varrone seconded and the vote was unanimous.

7. ADMINISTRATIVE MATTERS

Mr. Sagnella stated at the last meeting trustees instructed legal counsel to present a formal opinion; what could happen to the defined benefit plan under certain circumstances such as bankruptcy of the city or state. Could this type of circumstance jeopardize the security of the CERF pensions? Attorney Carolyn Kone will have the opinion complete for the October meeting.

8. INVESTMENT REVIEW

Mr. Ciampini reviewed the performance report for period ending August 31, 2010. Mr. Sagnella stated that their decision to decrease equities helped performance because equities took a hit. The Fund was down .4% but P&F was down 2.4%. Mr. Ciampini stated that usually the City's contribution is distributed across the portfolio but this time it was not distributed to equities; they instead doubled up on fixed income and alternatives. This strategy worked well for the month of August.

Aletheia large cap value was down 1.8% versus the index down 4.3% Neuberger Berman large cap value was down 4.9% versus the index down 4.3%.

Mr. Ciampini stated that unemployment is 9.5% and until that gets down to a more normal rate you are not going to see any prosperity in domestic equities.

Emerald was up 1.2% versus the index at 1.2%. Pimco was up 1.5% versus 1.3% for the index; year to date Pimco was up 9.3% versus 7.8% for the index. Penn was up .6% versus the index at .2% and year to date up 9.4% versus 8.7% for the index.

Mr. Sagnella asked what we should do with Israel Bonds. Mr. Ciampini stated wait for them to mature. He will check the maturity dates. Mr. Ciampini stated they need to raise \$3 million to pay benefits and expenses.

Evergreen was up 3.2% versus -2.8% for the index; year to date they were up 6.1% versus the index at -1.7%. Strategic was up 3.2% versus 1.9% for the index; year to date Strategic was up 9.8% versus 3.3% for the index.

Natixis is flat and Index IQ was up .7% versus .2% for the index; year to date they were down .3% versus -.2% for the index. W.P. Carey only pays their distributions quarterly; there was no distribution this month.

Millburn was up 3.1% versus 1.5% for the index; Grant Park was up 2.5% versus 2.9% for the index. For the month the fund was down .4% versus -1.5% for the index. Year to date the fund was up .7% versus -.03 for the index. This report reflects the city's pension contribution.

Mr. Cama stated he is getting to the point where he thinks it is not Artio specifically but the sector that is underperforming. Mr. Ciampini indicated the trustees did strategically take money out of international equities bringing it from a 25% allocation to a 12% allocation. He stated hiring Glovista brought the fund to 15% international equities

(including emerging markets). Developed international equities are a better opportunity than domestic equities.

Mr. Williams stated in terms of emerging markets the fundamental is where do you think there will be a significant upside. It is not going to be the Western World. You have to be diversified. Mr. Ciampini stated currently we are at 31% domestic equities and 15% international equities.

Mr. Williams stated it is dangerous to put everything in stocks or bonds in the U.S. We want to be in fixed income but it is dangerous to only be in fixed income in the U.S.

Mr. Ciampini stated they suggest taking \$2 million from Munder and \$1 from Paradigm to pay expenses.

LOGAN CIRCLE

Dennis Tracy, Dan Perullo and Scott Moses entered the meeting at 10:50 a.m.

Mr. Perullo stated Logan Circle is based in Philadelphia, managing \$12.2 billion. They are exclusively institutional fixed income and have several public funds. Mr. Ciampini asked if any of these public funds invest in their emerging market strategy. Mr. Perullo responded the State of Indiana.

Mr. Moses stated the product is broken down into buckets: U.S. Dollar Sovereign, Emerging Market Corporate/Quasi-Sovereign, Non-US Dollar Emerging Market, Developed Markets and cash.

They have 13 credit analysts based in Philadelphia; all of them are global in nature. They focus on credits across the globe. They actively use currency hedging to minimize volatility within the product.

Credit, country and currency are the areas they look to generate incremental return versus their benchmark and generate total return for their clients. They do that by using their 13 credit analysts based in Philadelphia and watch for fundamental trends and shifts within marketplace. They look at securities across the currency spectrum; therefore they are willing to invest in U.S. dollar securities and also non dollar securities to a limit of 30% of the portfolio.

Mr. Ciampini asked where they are currently in their sector weighting ranges. Mr. Moses stated they are currently at 31% lower end for U.S. Sovereign; they are traditionally in the 30-50% range for that bucket. They are in the 55% range in corporates and 15% in non U.S. dollars. They do not use cash as an asset allocation. They are fully invested throughout the cycle and raise cash when they think opportunities are coming up; it is rare to see them with more than 5% cash allocation. Mr. Ciampini asked if they use other currencies for the cash allocation. Mr. Moses stated typically they use U.S. dollars for their cash bucket.

Mr. Williams asked if their alpha is coming more from playing the duration risk or the credit risk. Mr. Moses stated it is much more of a credit risk. They feel they have the resources to express their views that way. Decisions being made take research input,

trading input and portfolio management decisions all into account. Any one of these three is responsible for idea generation within the portfolio.

Mr. Williams stated there are three meetings at Logan Circle that are the cornerstone of their process. Every day there is an 8:00 a.m. meeting with credit research, the portfolio managers and all traders to review overnight activity and review the shape of financial markets for the day. Twice a week they have a more in-depth meeting; the analysts will present the upsides and downsides of any credits that can potentially be in the portfolio. All senior portfolio managers and senior research analysts attend this meeting. They focus on two points: a country or credit's ability to pay and willingness to pay.

Attorney Freilich asked how key each of the 13 research analysts are to the process? If one were to leave would it have a negative impact on the portfolio? Mr. Moses stated they are all key to the process but they build every portfolio with a team basis. If three or four were to leave it would have an impact. If one leaves they all have backups that are familiar with their positions. Their process is built on the ability to leave and replace.

Mr. Ciampini asked the structure of the firm. Mr. Moses stated they are owned by Fortress but remain Logan Circle. The investment professionals have an equity stake in the business.

They determine if they are comfortable with the country, comfortable with the credit are they being compensated. They pick securities that are out of favor in the marketplace.

Mr. Sagnella asked about their fees. Mr. Moses stated 50 basis points for a separate account. Mr. Cama asked what the minimum investment is. Mr. Moses stated it is usually \$25 million but they are willing to negotiate.

Mr. Ciampini asked if Fortress is funding them. Mr. Moses stated they are not and they do not anticipate that happening.

Mr. Ciampini asked how many issues are typically in the portfolio. Mr. Moses stated typically 60-80 securities but they would like to build up to 100 securities; it is a 1% average per position. Mr. Ciampini asked if they build up to the 1% weighting. Mr. Moses responded it depends on the opportunity and its risk. Mr. Ciampini asked if they have a maximum range per position. Mr. Moses stated in sovereign space it is 10% in credit space it is 5%. It is very rare to have a sovereign position over 5%; it is very rare to have a credit positions over 2%. Mr. Ciampini asked if the Board funds them how long will it take to be fully invested. Mr. Moses stated up to two.

Mr. Williams and Mr. Moses left the meeting at 11:35.

Pimco

Clark Biggers and Daniel Hally entered the meeting at 11:35 a.m.

Mr. Biggers stated he would go through the Emerging Market Bond Portfolio which came out in 1997. They find that there is still a tremendous amount of weakness in developed economies. They continue to find that the emerging economies have longer term strength, with some type of volatility associated with them.

Attorney Freilich asked are they investing in just sovereign issued bonds in emerging markets or companies based in those countries? Mr. Biggers stated they are investing mostly in sovereign debt; debt that has been issued by the country. In this strategy the emerging market bond fund is almost all external debt; it is denominated in U.S. dollars. They do have another strategy called Emerging Local Bond Fund. And that exclusively invests in bonds that are issued in their local currency. They are prepared to discuss either strategy.

Mr. Ciampini suggested they focus on Emerging Local Bond Fund.

Mr. Biggers stated what country and what region you invest in does matter when it comes to emerging markets. Those types of allocations are very important and that is their economic views come into play. They also look at other areas such as cash flows.

Their local issue strategy has \$4.2 billion in terms of assets managed. The returns for the past year have been a very good; 19.3% vs. 15.5% for the benchmark. They think the risk/return profile of emerging market debt is very positive.

Mr. Williams asked about the performance numbers for 2008. Mr. Biggers stated they were down 10.9% for 2008. Mr. Biggers a lot of investors have this strategy as a strategic allocation to be tacked on to a core bond portfolio. Many others are looking at an alternative to the risk of equities in a portfolio; there should be no correlation between this investment and the S&P 500. Mr. Ciampini stated the goal is to lose less on the way down and hopefully make as much or more on the way up. Mr. Biggers stated in 2008 they lost 10.9% and in 2009 they made 28%; in 2008 the S&P was down 38% and in 2009 they were up 26%.

Mr. Ciampini asked how many names are in the portfolio. Mr. Biggers responded about 50 names. Mr. Ciampini asked what is the typical weighting per name? Mr. Biggers stated no more than 1%. Mr. Ciampini asked if they typically hold cash or are they fully invested. Mr. Biggers stated in terms of a bond portfolio they do not hold cash, but rather pools of liquidity; they do actively manage that cash. Mr. Sagnella asked if they have had problems with the SEC. Mr. Biggers stated they have not; in fact they have been hired by the Treasury Department to manage the commercial paper market program. That is an endorsement in their belief in Pimco's ability to do a good job.

Mr. Williams and Mr. Biggers left the meeting at 12:25 p.m.

GAM

Gary Drososki and Jack Flaherty entered the meeting at 1:00 p.m.

They have been managing money since the 1980's. Their group is based in London and they also have a New York office. They manage \$17 billion in assets; of that \$17 billion roughly \$4.5 billion are in their emerging market bond portfolios. They have been managing the emerging market asset class for over 10 years.

They use a top down approach, looking to exploit inefficiencies in the pricing of the securities. There are 20 investment professionals. There are sector specialists within

each fixed income sector. It is important to know what is going on in all sectors. Attorney Freilich asked who are the primary people for this portfolio? Mr. Droscoski stated the primary portfolio managers are Paul McNamara and Caroline Goreman. All of the professionals operate in one work environment. Mr. Ciampini asked how long have they been with this strategy. Mr. McNamara has been with the strategy 12 years and Ms. Goreman about 7 years. Mr. Droscoski stated for years emerging markets was about investing in dollar denominated emerging markets; we have one of the longest track records of local currency, over ten years. Risk management is important in any strategy but especially emerging markets. They have a separate risk management team based in London and one in New York as well. They are separate from the portfolio management team but they meet on a weekly basis, sometimes more frequently. There are other managers that are looking at corporate credit within emerging markets; that is not a big part of what we do. They stick to sovereign government bonds maybe a little in corporate.

Mr. Williams asked if their local currency component is sovereign. Mr. Droscoski said yes.

Mr. Flaherty one thing that a lot of managers do not have that they have is local custodial relationships; they have onshore capabilities in all of the countries discussed. They have between 150-20 countries on average in the portfolio with 60-70 positions.

Mr. Williams asked them to elaborate on how they calculate the tracking error. Mr. Flaherty stated they take their monthly returns versus the benchmark. Mr. Droscoski stated they do manage fairly conservatively and they have been conservative on the duration. Mr. Cama asked how the rating is done. He responded it is like a Moody's and S&P reference. They have their own scoring system but use Moody's as a tool.

Mr. Flaherty stated the first step in their process is a crisis cycle filter. There are flags that come up on any of the crises that we have seen historically. They want to stay away from those. With your portfolio if you spend your time avoiding the losers your portfolio will do well. When a country is coming out of a crisis that can present the biggest opportunity.

The second step is determining how the macro environment will play out across the asset classes? The third step is country analysis; the fourth is portfolio construction; the fifth is risk management and monitoring has to occur.

Mr. Ciampini asked what the typical turnover is in the portfolio. Mr. Flaherty this is a structural portfolio; when they believe in the positions they are not likely to turn them over unless there is a good reason. It could be 3-5 countries that go in and out in any year. It is more a matter of rebalancing. If the fundamentals are strong you want to remain invested. They ask the question what a perfect country would look like. What is the foreign exchange reserves, what is the central bank policy, what is the demographic, what is the GDP growth, all of these things are specific parts of scoring.

Mr. Flaherty stated that liquidity is paramount. The fund managers get paid on performance. Mr. Droscoski stated the investment professionals receive a base salary and a bonus based on performance. The risk management team is paid a base salary

nothing not connected to performance. They are independent; it is a different pool of money. Mr. Ciampini stated it is still under the same umbrella. Mr. Ciampini asked how many issues are in the portfolio. Mr. Flaherty stated about 70 issues. What is the typical weighting? A high weighting is 10% in a country, but it is usually 2% per issue.

Mr. Ciampini asked if they work up to the full weighting. Mr. Flaherty stated it is gradual; it is based on levels of conviction and liquidity. Mr. Ciampini asked what the structure of the product is. Mr. Drososky responded it is a comingled fund. He asked what the minimum of the daily liquidity fund is. Mr. Drososky responded \$500,000. What is the pricing? Have to check but it is a little more expensive than the U.S. comingled fund. Mr. Ciampini if you want daily liquidity you would have to pay a little more. Mr. Cama asked if the product is governed by U.S. regulations, Mr. Flaherty responded it is not U.S. regulated. The comingled fund would fall under U.S. jurisdiction but the mutual fund does not. Mr. Ciampini asked about the fees. Mr. Flaherty stated the comingled is about 60 basis points. The other would be about 100. They are willing to negotiate on the fees. Mr. Cama asked if their other public fund clients are in the mutual fund or the trust. Mr. Flaherty stated most are in separate accounts. It is typically a \$40 million minimum.

Mr. Flaherty stated year to date through 8/31/10 they were up about 9% net of fees. Mr. Williams asked what the 2008 calendar number is and also the 3 year number. Mr. Drososky said he would get those figures. The 2008 performance was -11.47. The 3 year average is -10.9 % in 2008.

The 3-year performance ending 8/31/10 is 12.28% net of fees.

Mr. Flaherty and Mr. Drososky left the meeting.

Mr. Pietrosimone made a motion, to take \$2 million from Munder and \$1 million from Paradigm to move into the cash account to cover expenses; Mr. Varrone seconded, and the vote was unanimous.

Attorney Freilich stated she has not completed her review of the Morgan Stanley documents.

After some discussion, Mr. Pietrosimone made a motion, pending legal review of the documents, to take \$3 million from Neuberger Berman Large Cap Growth and take \$1 million from Aletheia Large Cap Growth to fund Morgan Stanley 13-month note; Mr. Mr. Varrone seconded, and the vote was unanimous.

Mr. Ciampini stated they are looking to invest about \$7 million in emerging market bonds. Logan Circle has a \$5 million minimum for a separate account. Ganom has the comingled fund. Mr. Ciampini stated they want to keep there international allocation but shift the money away from losing manages.

Mr. Varrone suggested voting on who we want to hire and delay the decision on where the money will come from until next month.

Mr. Varrone made a motion to give \$5 million to Logan Circle and \$2 million to GAM pending review of documents by legal counsel and designation of funding sources to be determined at the next meeting; Mr. Cama seconded, and the vote was unanimous.

Mr. Ciampini will try to negotiate fees for both Logan Circle and Gam.

The meeting adjourned at 3:00 a.m. on a motion by Mr. Varrone and seconded by Mr. Cama and the vote was unanimous.

The next meeting is scheduled for Thursday, October 21, 2010 at 10:00 a.m.

ATTEST:

Secretary