

POLICEMEN AND FIREMEN'S PENSION FUND BOARD

MINUTES

NOVEMBER 17, 2011

PLACE: Hall of Records
200 Orange Street
New Haven, Connecticut 06510

PRESENT: James Kottage, Fire Union Representative, and Chairman
Wendy Mongillo, Fire Commissioner
Frank Lombardi, Police Union Representative
Theodore Brooks, Police Commissioner
Richard Epstein, Police Commissioner
George Longyear, Fire Commissioner

ABSENT: Mayor John DeStefano, Jr.

ALSO PRESENT: Michael O'Neil, Acting Controller
Carol Chiappone, Benefits Auditor
Jerome Sagnella, Pension/Payroll Administrator
Larry Gray, Gray and Company

Chairman Kottage convened the meeting at 8:05 a.m.

1. APPROVAL OF MINUTES

Comm. Brooks made a motion to approve the minutes from the October 20, 2011 meeting as amended; Comm. Mongillo seconded and the vote was unanimous. Rep. Lombardi made a motion to approve the minutes of the November 9, 2011 meeting; Rep. Lombardi seconded, and the vote was unanimous

2. SERVICE CONNECTED DISABILITY/PREVIOUSLY APPROVED FOR AGE ANNUITY

A) Luneau, Rene - Police

Rep. Lombardi made a motion to approve Rene Luneau of the Police Department for a service connected disability; Comm. Brooks seconded and the vote was unanimous;

B) Dombrowski, Paul - Police

Rep. Lombardi made a motion to approve Paul Dombrowski of the Police Department for a service connected disability; Comm. Brooks seconded and the vote was unanimous;

3. DEATH AFTER RETIREMENT- FOR INFORMATON ONLY

A) FERRIE, GEORGE - FIRE

This item was for information only.

4. DEATH OF SURVIVOR- FOR INFORMATON ONLY

B) DELLAQUILA, YOLANDA - POLICE

This item was for information only.

5. PAYMENT OF BILLS

Comm. Brooks made a motion for the payment of bills; Rep. Lombardi seconded and the vote was unanimous.

Board members decided to have actuary only attend the meetings on quarterly basis.

7. ADMINISTRATIVE MATTERS

A) Executive Session – Discussion of Strategy Concerning Pending Litigation

Comm. Brooks made a motion to enter into executive session. Comm. Epstein seconded and the vote was unanimous. Chairman Kottage requested that Larry Gray, Jerome Sagnella, Michael O’Neil and Carol Chiappone remain in the meeting.

Comm. Brooks made a motion to come out of executive session. Comm. Mongillo seconded and the vote was unanimous.

Rep. Kottage stated that the board discussed Souritus Partners and plans to continue to have conversation with litigation attorney, Ariana Adler of Milberg. Plan Administrator Jerome Sagnella and Chairperson James Kottage will make a conference call with Att. Ariana Adler at the December meeting.

9. INVESTMENT REPORT

Mr. Gray reviewed the investment performance report for period ended September 30, 2011. He stated that interest rates will probably stay constant for two year. Equity markets plunged in the third quarter and volatility increased. The S&P 500 fell 15% during the summer and ended third quarter down 13.86%. The defensive non-cyclical sectors utilities, consumer staples performed relatively well.

The plans value was \$263.69 million as of September 30, 2011. The plan return was -11.85% for the third quarter 2011 versus the policy benchmark return of -9.26%. As of October 30, the fund was valued at \$280 million. There was extreme volatility in the market place. For the current month the fund returned 7.4% and the equity composite returned 12.89% vs. 10.93%.

Rep. Kottage asked Mr. Gray if they were being too restrictive with Energy Opportunities and wondered if the Board could look into expanding their guidelines considering the volatility of the market. Mr. Gray stated that he would talk to Energy Opportunities first and report to the Board.

Mr. Gray would like to update the Board concerning the recent investment into Grayco. He is in the process of possibly adding three new managers and wanted input from the Board on how to proceed.

Mr. Gray stated that he believes he has brought three very good managers to the Board. The challenge for the industry was to bring a higher quality of manager to smaller funds. The bigger funds get the first choice at these investments first. Further a lot of managers simply don't understand and don't have the patience for the process of decision making with public funds; they avoid them. They have tried to create a best of class. He feels that there is an alternative spot for smaller managers and public funds to have access to something they never would. He believes it will be a bit of an industry changer. They are very excited about it. They have three great managers in the fund so far and Mr. Gray has agreed to be transparent about adding new managers. Mr. Gray stated that he is not asking for a decision today but would like to introduce three managers to be included in the fund.

Chairman Kottage stated that the trustees agreed to the \$10 million and these three funds would not effect that \$10 million. This would just be diversification of the original \$10 million. Mr. Gray agreed and stated that they are not requesting for anymore money.

Comm. Epstein stated that the issue was that what they get back is based on the Fund itself and not any one manager. They are investing in three managers and if a fourth manager comes on regardless of whether the Police and Fire fund has money invested in that manager its performance impacts on the returns. This is why the Board asked for approval to add any new manager to the Fund; because they are invested. They are only as good as the overall performance of the fund. He does not believe this is any different the Souritus investment.

Mr. Gray introduced the potential firms to be part of the Grayco alternative investment fund; Energy and Minerals Group, Freeport Financial and Paramenter Realty. He reviewed each manger's performance. Mr. Gray stated if they were impressed with the first three managers interviewed the board will like these as much. Mr. Gray stated that he was requested to provide full transparency on knowing what firms would be added to the Fund. Since the New Haven Police and Fire Fund is the seed investor they have first claim on approving or disapproving what companies are added. Mr. Gray stated that he would like to add these three managers and then close the fund. Mr. Gray stated that State Street is their administrator and is charging Grayco quite a big fee. The auditor firm is McGladrey and Pullen.

Mr. Kottage asked Mr. Gray what the next step would be. Comm. Epstein stated that he finds the whole discussion frustrating. The Board had discussion last month that they were not aware that this investment was a fund of funds. Further there was a special meeting that it was stated there were only going to be three managers in this fund of funds. Comm. Epstein stated that this is not the same thing that the Board keeps voting on. He does not like the way this investment was presented to the Board.

Mr. Gray stated that he was just presenting these new managers today and was not looking for an answer. If the board wishes to close the Fund with the existing three they can do that. Mr. Gray stated that he thinks these new three firms would add more value to the fund. Comm. Epstein state that this is not was originally presented. Both presentations to the Board were not reflective of what was presented. Mr. Gray stated that when the first three managers were presented he had no intention of creating a fund of funds for them. He stated that since the Board liked all three it would be a good idea to package all three and offer it to other clients as well since small clients do not have access to these managers. In looking at the portfolio the Board can leave it the way it is or add the new managers.

Comm. Epstein stated that both times a decision was made the information was not fully provided. When the Board voted there was no mention of adding three more managers to the Fund. Comm. Brooks stated that at the last meeting Mr. Gray commented on the fact if there were other managers he would present to the Board first for approval. Comm. Brooks stated that he would not be comfortable with these managers until he has met them. He asked if the board could have all three managers present to the board at the next meeting.

Mr. Gray stated that he is trying to improve the quality of managers for the Board and offer more transparency. Look at the investment report with the other

alternative managers the Fund is invested in blind pools. Grayco is allowing the client to have input. Mr. Gray stated that he has invested in this product also.

Comm. Epstein believes that the Grayco arrangement puts the board in a position whereby the trustees are going from picking a manager that is recommended by their consultant to being asked to build a fund of funds. The returns are not predicated upon the individual managers. They are taking on the responsibility of building a fund of funds without a consultant because Gray and Company is the fund of funds and cannot function as Board financial consultant. He believes it is an entirely different type of fiduciary responsibility. They are now part of a fund of funds and theoretically the failure or success of this depends on what the Board's decisions are to hire managers. Comm. Brooks states that it gives the Board the ability to decide who they invest in.

Comm. Epstein stated that he believes they are being asked to step into the arena of making decisions about investing with no expertise or training. He added that the difference is this investment is the Board is not going to designate where the money goes because it doesn't make any difference. The return of the fund of funds is what the fund will get. He believes that the board is being asked to be the investment manager which is a different level of responsibility as lay people without a consultant. He does not believe Mr. Gray can be the consultant and the principle and it is a conflict of interest.

Rep. Kottage stated that the leverage the board has is that Mr. Gray is putting his consulting career on the line. Rep. Epstein stated that Mr. Gray is building a product and marketing it to other clients and getting a fee for doing it and that it not the same as being a consultant.

Rev. Brooks would like to discuss the matter more at the next meeting and considers the Board obligated to do due diligence in meeting the three additional managers. Mr. Gray stated that since this a fairly small allocation they may not come to the board and asked if anyone would visit them.

Mr. Gray thanked the Board and believes that is a great opportunity to change the quality of funds that are available to public funds.

The next regular meeting has been re-scheduled for December 15, 2011 at 3:00 p.m. in the Controller's Conference Room.

The meeting adjourned at 9:45 a.m. on a motion made by Comm. Brooks and seconded by Comm. Mongillo.

ATTEST:

Michael O'Neil, Acting Clerk