

CITY EMPLOYEES RETIREMENT FUND BOARD

MINUTES

DRAFT

March 19, 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.
David Slifka
- ALSO PRESENT:** Joann Giri, Benefits Auditor
Art Assantes, Hooker and Holcombe
Tim Ryor, Hooker and Holcombe
Derek Ciampini, Merrill Lynch
Chris Coppola, Merrill Lynch
Wendy Coppola, Merrill Lynch
Carolyn Kone, Brenner, Saltzman & Wallman
Patricia Solomon, Local 3144 Rep.

Mr. Sagnella convened the meeting at 10:03 a.m.

1. APPROVAL OF MINUTES

Mr. Pietrosimone moved the approval of the minutes from the meeting of March 19, 2009; Mr. Varrone seconded, and the vote was unanimous.

2. NEW PARTICIPANTS - INFORMATION ONLY

The Board reviewed the information under Item 2.

3. DEATH BEFORE RETIREMENT – INFORMATION ONLY

a) Williams, James

The Board reviewed the information under Item 3.

4. DEATH AFTER RETIREMENT – INFORMATION ONLY

- a) Broadnax, Donald
- b) Carboni, Patricia
- c) Greer, Florence

5. WITHDRAWALS – INFORMATION ONLY

The Board reviewed the information under Item 5.

6. AGE ANNUITY RETIREMENT – INFORMATION ONLY

The Board reviewed the information under Item 5.

7. AGE ANNUITY RETIREMENTS – INFORMATION ONLY

Mr. Sagnella stated these individuals were initially designated as layoffs; they met the eligibility requirements for retirement with the enhanced retirement package (2 years added to their birth date and 3 years added to their service).

8. APPOINTED OFFICIAL RETIREMENT – INFORMATION ONLY

Mr. Sagnella stated the Pension Provisions qualify vested elected/appointed officials who have been terminated from employment for an immediate 40% pension on the first 10 years in the fund and 2% for any full year in excess of 10 years up to a maximum of 70%. They cannot collect this benefit until they attain age 60. Mr. Pietrosimone stated there are about 106 employees who fall into this category.

9. DISABILITY ANNUITY – SERVICE CONNECTED

Mr. Sagnella would like to adopt a policy that P&F uses; when an employee applies for disability, they can immediately retire under regular retirement (if eligible) pending the outcome of their disability application; their benefit would be adjusted retroactively.

Denise Jackson has enough years of service to qualify for an immediate retirement.

Mr. Pietrosimone made a motion to adopt the policy that will allow an employee to apply for both age and disability; Mr. Cama seconded, and the vote was unanimous.

Jackson, Denise

Mr. Pietrosimone made a motion to go into Executive Session; Mr. Varrone seconded, and the vote was unanimous.

Mr. Pietrosimone made a motion to go out of Executive Session; Mr. Varrone seconded, and the vote was unanimous.

Mr. Pietrosimone made a motion to table Denise Jackson's application for a service connected disability pending Ms. Jackson going for a Functional Capacity Evaluation; Mr. Varrone seconded, and the vote was unanimous.

**10. EXECUTIVE SESSION: NORTHERN TRUST LENDING AGREEMENT:
TO DISCUSS POSSIBLE LEGAL STRATEGY**

Mr. Pietrosimone made a motion to go into Executive Session to discuss possible legal strategy regarding pending litigation; Mr. Varrone seconded, and the vote was unanimous. The Board asked Derek Ciampini, Chris Coppola, Wendy Coppola and Carolyn Kone to remain in Executive Session.

Mr. Varrone made a motion to go out of Executive Session; Mr. Cama seconded, and the vote was unanimous.

Mr. Pietrosimone made a motion that the preliminary draft letter prepared by Carolyn Kone be formalized and sent to Northern Trust; Mr. Cama seconded, and the vote was unanimous.

11. PAYMENT OF BILLS

Mr. Varrone made a motion to approve payment of the bills in Item 11; Mr. Cama seconded and the vote was unanimous.

12. ADMINISTRATIVE MATTERS

Mr. Pietrosimone made a motion to add State Street Lending Agreement to the agenda under administrative matters; Mr. Cama seconded, and the vote was unanimous.

b) State Street Lending Agreement

Mr. Ciampini stated when CERF transitioned from the old money managers to the new managers CERF hired State Street for the transition and to utilize their index funds; all those index funds were in securities lending. They moved out of every index fund except for an S&P 500 index fund. They are spending down this account to cover pension checks; there is \$4 million left in S&P index fund of which State Street has halted any redemptions because they are also facing a situation similar to Northern Trust; however the State Street collateral pool is a U.S. core Erisa pool, unlike northern Trust. State Street is offering two redemption options. The first would allow trustees to take 2% a month out of the pool until it is spent down. The second option is to cease lending and liquidate approximately 85% of the fund; the remaining 15% will be put in a pool and remain invested until they mature. For CERF this would mean withdrawing approximately \$3.2 million out of the \$4 million. Mr. Ciampini stated option 2 makes the most sense. The letter requesting option 2 must be sent to State Street by April 23, 2009.

Mr. Sagnella stated he would like to get out of anything associated with securities lending as quickly as possible. Ms. Solomon asked if there is any exit cost. Mr. Ciampini stated there is no cost.

Attorney Kone noted State Street's letter does not specify the percentage; she would like the letter to guarantee a certain percentage give or take a few points.

Ms. Solomon asked how P&F is handling the Northern Trust securities lending situation. Mr. Sagnella stated they decided to take no action at this time. There was fundamental difference between P&F and CERF's lending agreement. The City did not select a certain type of investment. In that event Northern Trust should have invested in a less risky vehicle that is approved by ERISA. They put the assets in a more risky pool. The P&F fund did, however make an investment selection on their lending agreement.

Mr. Cama made a motion to authorize Attorney Kone to exercise option 2 and withdraw from the Securities Lending pool at a rate of 85% plus or minus 5%; Mr. Varrone seconded, and the vote was unanimous.

Mr. Sagnella stated he has been getting calls from employees who have heard about the potential IRS regulation that is slated for 2011 which could have a potential impact on public pension funds. This regulation would establish a minimum retirement age. There has been substantial political outcry since this regulation was proposed.

Mr. Ryor stated they were originally proposing a minimum retirement age of 50; it is common in the corporate sector to have a normal retirement age. For P&F the normal retirement is simply a function of service with no minimum age. Because of the opposition they deferred taking any action; there is a lot of lobbying going on to exclude municipal plans or at least Police and Fire. There is no clear outcome at this time. Hopefully the final regulation will not impact the plan.

Mr. Assantes stated that the IRS does not like plans that have service only retirement. If this were to go through, there would have to be some reduction in benefit if someone were to retire below the minimum age.

13. MONEY MANAGER PERFORMANCE REVIEW: ARTIO GLOBAL – INTERNATIONAL EQUITIES

Jeffrey King and Brian Holland entered the meeting. Mr. King stated they changed their name from Julius Baer investment management to Artio Global about a year ago. They are still a wholly owned subsidiary of Julius Baer out of Switzerland.

Artio maps out as a multi cap core manager in the international space. They can tactically go into emerging markets up to about 35%. The benchmark that they use is ACWI Ex US. They started the year with about \$16 million; recently there was a redemption of \$4 million. As of the end of March they were at about \$10 million. Mr. Holland stated they are trailing the benchmark by about 475 basis points for this year. At the beginning of the year their exposure was overweighted to the developed markets. Emerging markets significantly outperformed developed markets year to date. Additionally, they were much more defensively positioned from a sector bias but also from a security selection perspective.

They have been reversing this exposure and have been in a transition period over the last several weeks. We do not have a lot of confidence in the recent rally; the banks are not out of the woods yet.

Mr. Sagnella asked how many clients they lost. Mr. Holland responded none due to performance.

Mr. Ciampini asked if their cash position is hedged against the dollar. Mr. Holland stated last year was the first time that they had significant U.S. dollar exposure. Their U.S. dollar exposure has dropped significantly from where it was last year. At the high point they were 40% hedged into the U.S. dollar; now they are probably about 8% hedged. Mr. Holland stated currency is not used to provide our clients with alpha; it is a risk management tool.

Mr. Ciampini asked from a geographical standpoint where do they see opportunity? Mr. Holland stated they have increased their exposure to emerging markets from 8% at quarter end to about 15% and increased their exposure to the Asian markets.

Mr. King and Mr. Holland left the meeting at 11:35.

**14. COMMISSION RECAPTURE PRESENTATION:
BANK OF NEW YORK CONVERGEX**

Mr. Ciampini stated Merrill Lynch is discontinuing directed trade arrangements effective June 2009. He spoke to 3 firms who offer commission recapture and there are no major differences between them. He contacted all of the money managers and asked who they preferred to trade with. The managers unanimously selected Bank of New York Convergex.

John Delaney from BNY Convergex entered the meeting at 11:35.

Convergex is a global agency brokerage only firm; they do not have an internal asset management arm. They have about 6000 clients and about 1,700 are like CERF in the commission recapture space. They have about 900 employees worldwide. We do business with about 900 money manager clients. They have the capability to do commission for domestic, international and fixed income.

Mr. Delaney stated the managers like to do business with their traders and they offer a competitive rate. They keep a penny and a half minimum and are rebating everything else. The City can receive the rebates in money wires or can use the rebates to pay expenses. Convergex offers ease of implementation and execution. They require a non binding agreement letter, and the City needs to put their sample direction letters on CERF letterhead to send to the money managers; it would be helpful to carbon copy Mr. Delaney so he can walk them to their trading desk. There are no minimums and it is non binding. They prefer direction letters are sent out annually to ask that the managers trade with Convergex. He stated Mr. Ciampini has the templates of all the required documents. Mr. Sagnella asked for an estimate of how much they could recapture in a year. Mr. Delaney stated he can send out the commission recapture calculator spreadsheet and the City could plug in various numbers to get an idea of what to expect. Mr. Ciampini stated

last year they returned about \$70,000 but they had restructured the entire portfolio and did 100% of the business through Merrill Lynch so it was on the high side.

Mr. Sagnella stated the City always requires a 30-day back out clause in their contractual arrangements. Mr. Delaney stated that exact language is not in the agreement letter but their relationship can be severed at any time.

Mr. Delaney left the meeting at 11:55 a.m.

Mr. Pietrosimone made a motion to allow an arrangement with BNY Convergenx to perform commission recapture service for CERF; Mr. Varrone seconded, and the vote was unanimous.

15. INVESTMENT REVIEW

Mr. Ciampini stated that at the last meeting Emerald Advisors was hired for fixed income. He would like to give Emerald the latitude to trade into TIPS, Corporates Treasuries, Agencies and mortgage related assets. There are some bullish indicators in the markets and they feel there could be a rally. They are going to keep on the radar the possibility of moving back into equities; another way of taking advantage of the potential recovery with less risk is with bonds. Emerald has corporate and high yield bonds; this is exposure to the stock market without taking stock market risk. Our original high yield allocation for high yield was 10%. So far we funded \$10 million. We think it makes sense to add more money. Their recommendation is to add money to the high yield space at this time; they suggest taking \$4 million from Pimco and giving it to Penn Capital

Mr. Cama made a motion to increase the allocation to Penn Capital from \$10 million to \$14 million, taking the additional \$4 million from Pimco; Mr. Pietrosimone seconded, and the vote was unanimous.

Mr. Pietrosimone made a motion to The meeting adjourned at 12:20 a.m. on a motion by Mr. Pietrosimone and seconded by Mr. Varrone and the vote was unanimous.

The next meeting is scheduled for Thursday, May 21, 2009 at 10:00 a.m.

ATTEST:

Secretary