August 17, 2011
Regular Meeting Pension Plan B

The Board of Trustees, Pension Plan B, met on the above date.

President Rosenberg called the meeting to order at 6:44 p.m.

President Rosenberg represented that at 6:45 p.m. a conference call would be held with Chief Financial Officer, David Darst from Morgan Stanley.

Present: President Rosenberg, Treasurer Morley,
Trustees Herlihy, Klein, Lee, Meszoros, Rodriguez and
Fire Chief Rooney

Absent: Vice President Ana Garcia, Trustees Doris G. Garcia and Buck

Trustee Klein motioned to dispense with reading the minutes of the previous meeting; Trustee Herlihy seconded and the Board passed it unanimously.

Treasurer Report:
Trustee Meszoros motioned to accept the Treasurer's Financial Report for July 2011; Trustee Klein seconded and the Board passed it unanimously.

Old Business:
1. None.

Trustee Herlihy motioned to add Wanda McNeil's request for a Line of Duty Widow's Pension to the Agenda; Trustee Meszoros seconded and the Board passed it unanimously.

2. Trustee Herlihy motioned to grant a Line of Duty Widow's Disability Pension to Wanda McNeil, widow of retired Fire Fighter Walter McNeil, effective February 23, 2010; Trustee Meszoros seconded and the Board passed it unanimously.

New Business:
1. David Reiser, Smith Barney, Six Month Review for Period Ended June 30, 2011 and FY End Review for Period Ended June 30, 2011.

Mr. Reiser:

"We have a couple of things to address today; we'll talk about this year right now, the rest of the year and where we're going. Our fiscal year ended June 30th; and our Fund was up 25% plus for the year.

I will tell you that I am pleased to let you know that we beat every single Ivy League Endowment Fund in the Country. I am pleased to tell you that many of these organizations (pamphlets were distributed) did not do so well compared to us last year either. They have been forced to try to get aggressive because they are underfunded liabilities. I'm sure you've read about the problems in municipalities such as Central Falls, Rhode Island where they are trying to merge that City now into Pawtucket, Rhode Island and that they failed to have a compromise on their pension benefits and the trustee declared bankruptcy so those people getting pension funds will no longer be getting it. There are a number of other municipalities and places in the Country that are equally as hurt and so what they do when they are equally hurt is they go to look for places where they could try to make up returns quicker than they normally would under conservative circumstances. So they take more risks and they go into hedge funds.

Hedge funds cost a phenomenal amount. I personally think hedge funds are a license to steal. I think anybody that charges 2% plus 20 no matter what happens is basically a common crook. They don't appeal to me. You can't get out when you want to get out and I think we need better regulations. I think they help participate in some of the market fluctuations. One thing that concerns me is the high frequency traders and rumors that start to spread and so hedge funds also make money when things go down. Things were going a little bit better, but Congress waited until the last minute to pass the debt ceiling and to move with some type of compromise. Washington had notice of this problem in January. It took until August to get into a last minute fight. Talk of lack of responsibility. When markets breach technical barriers despite earnings being up 19% which is phenomenal, companies are flush with cash, their balance sheets look really good, they don't want to hire because they are not sure of future taxes and regulations, but the CFO's of this Country and the small, medium size and the big companies have done a phenomenal job. If we could only do as good a job as these companies have done, we would be in great shape. Apple has more cash on hand than the United States Government, so does GE. It's a sad state in this Country when both sides of the aisle can't get along for the good of the nation. I will tell you though that when you breach these technical barriers, the computers take over. They thought it was such a big deal to make things more efficient when we use to trade at eighths or quarters or halves, we should trade in pennies, it will make things more efficient. The computer system went to pennies. Then they thought it was more efficient for a human being, a specialist not being on the floor of the Stock Exchange because they got in the way and things could get done more efficiently. Both ideas were pretty stupid.

Short selling in that people bet on things going down and then you start rumors that get people afraid and they force things down. Who in the long run does all of this stuff hurt, but the average American. The poor person has a 401K and IRA savings, the working class people in this Country panic and they do the wrong thing at the wrong time and we end up hurting the average American again which is wrong.

So in the last week what David didn't tell you was that Society Generale and UniCredit which is the big Italian Bank, the French and the English have this thing as you know for history going back and forth. They had published a fictitious series of articles in a French newspaper pretending that what would happen if the Euro collapsed and then used real names and quotes saying this would happen, etc., British Tabloid picked it up and then published something that said Society Generale's in trouble, UniCredit's in trouble as quoted in the French newspaper. So fiction became a reality in a sense of the way in that people thought it was true. Meanwhile, Society Generale is a AAA rated bank, they called for a national investigation into this whole thing. The credit spread started to widen, the cost got greater until which time Europe had the strength to say no more short selling. Now, since the United States isn't prohibiting it, why don't we try to get a little bit more action in the United States since we can't do it in Europe, so they put a lot of pressure where the top 50 banks in this Country now are selling at or below its tangible book value. So it's a problem in the world. Things are sorting themselves out as we move forward. So, taking risk to try to get back returns when you should have been doing the conservative stuff all along, it doesn't work.

Connecticut reported a 23 year high on the retirement plans and trust fund, 21%. I would like to put this in prospective. The extra return that we earned for the same period without doing what they did, and also they say that the returns came from other types of investments in real estate, in private equity and hedge funds, it helped push the returns up, but that difference equals approximately 2.5 to 2.6 million dollars that we had over more money in our plan based upon our superior investment performance and I think that 2.5 or 2.6 million dollars funds a few people's retirement a little bit better.

I'm proud to say that we did very well for a second year. We outperformed the numbers significantly. You will notice that our equity accounts were up 33.14% versus the S&P which was 30.69. Our fixed income was up 10.75 versus the intermediate index 3.77%.

Chris has also been aggressively making sure we balance our portfolio so we stay in line. I'm also in touch with David Darst all the time. So, we are very, very much on top. If we see things that we don't like before a meeting, Jim will get a call from me that says that the Global Investment Committee is recommending that we increase our fixed income component of the portfolio and we will do that.

So I'm very pleased with these numbers. I think that short term when we're down for the year right now; I think we'll be fine by the end of the year the way things look. We'll see what happens. It's still also the third year of the presidential cycle and the other big surprise is you just don't know maybe the team of 12 in conjunction with the White House, maybe they might just decide to do what's right for our Country and put us in front of them and say you know what, we need a 3 trillion dollar deficit reduction cut and maybe they come out and be honest with the American public and say you know what, we don't need to cut people on entitlements, on Medicare and senior citizens and other people, what we need to do is get the people who are not entitled to be on the entitlement programs off the entitlement programs and not cut for the people that need it and that earn the right to be on it and then some politician decides to be honest with us and says you know what, we need to broaden the tax structure, because 50% of the people in this Country don't pay anything in taxes and we need to top 1/2 of 1% to close the loop holes on them because they get way too big of a break so we need to lower taxes for the middle class, get rid of the alternative minimum tax so the middle class people have the ability to grow and save more and invest more and we would gain revenues and we would cut the deficit down and if you say a prayer to God that they do the right thing for us for once in their life. If they do even partially, that will be one of the things that David talked about that will push this market and global markets up and I am embarrassed to say on record that it use to be that the country who knows which one that was the first to cry for help and the last to come help. France. What happens when they have this crisis I just talked about, they're on vacation, it's August, and they are all off. They call the cabinet back, we have one week to come up with a better plan of cutting things, their rating is a AAA minus, the ratings of France is better than S&P rates the United States government at times. So if this isn't a wakeup call to our representatives to say enough is enough, I don't know what will be.

So my hope is that they will do the right thing for us and if we have that pleasant surprise, I'll be back here with the next 6 month report saying they did the right thing and look what happened. If not, we're going to be on top of this every single week, we have meetings and calls every single week and if anything changes from what we thought, I'll be in touch with Jimmy and we'll make appropriate recommendations."

Treasurer Morley addressed one item in the report.

"If we go to this section that I generate which is Additional Information for Discussion Purposes and we go to June 2011, we will see that there is a difference between the number I reported to the Board and the number that David is reporting here on his Financial Statements and the reason for the difference is as you recall we had a $300,000.00 deposit in transit which in David's case his system would not pick up on but it is actually still part of the asset and the other difference is David's numbers here do not include a small cash account that has a balance of $2,562.00. If that was included here and the $300,000.00 deposit in transit at the end of June, the numbers would be exactly matching."

Dave Reiser responded that next time they do reports; they will take that into consideration and do a handwritten report on top of this that will show that together.

Dave Reiser:

“On behalf of the Board and what we do, and you know how sacred I feel this money is and what we do for all the fire fighters out there, Chris is in charge of the entire trading platform on the national basis. We are going through a major computer change upgrade to try to enhance our systems and when you change computer things it is so much work and so much trouble, he gets in at 5 in the morning and he leaves at 9 or 10:00 at night and has been working diligently and killing himself, but he always has the time when we need to do something and I email him, whatever it is, despite his overwhelming responsibilities he stops what he is doing and helps us do what we need to do for the Bridgeport Fire Department Pension Plan. So I’d like to recognize the efforts that Chris puts in for all of us on a day to day basis given his overwhelming responsibilities.”

The Board thanked Chris.

President Rosenberg thanked David Reiser, Chris and David Darst for their presentation.

2. Trustee Herlihy motioned to approve Asset Allocation Change as recommended by Smith-Barney; Trustee Meszoros seconded and the Board passed it unanimously.

3. Telephone Conference Call with David Darst, Chief Investment Officer, Morgan Stanley-Smith Barney.

Conference Call from David Darst, Chief Investment Officer, Morgan Stanley as follows:

“We are very privileged to work with a number of institutions and groups such as yours around the United States and this is peoples’ retirement, this is their nest egg, so you all bear a big responsibility and we will try to help to preserve and protect the capital and not do anything harmful to it. Our basic message, we have 5 conclusions tonight, the market right now, just to recap, they had a wild week last week. The high frequency traders this is something where computers do this in the huge volume where computers today are estimated to be about 70% of the total trading. It’s not a good thing. We’re always screaming that we need less regulations, I think we need somebody to take a good look at this and figure out a way that’s sensible to not have these computers that I think add to the volatility.

Tonight, August 17, the stock market is down about 5%, the banks are down 26%, individual investors have been looking for dividends, they have been looking for yield, Europe is down about 7%, the USA down 5%, and Japan is down 10%. The emerging markets, Brazil as of the close today was down 21%, India down 18%, China down about 7%. This is sort of the back drop.

What I would like to do is to try and give you a sense of what we think are the big factors that are likely to affect the markets going forward, not only stocks, but bonds.

David has reviewed the asset allocation and the work that they've done and the great performance that they've achieved. I am very happy about David's methodology and approach and the care and the closeness with which he listens to recommendations from our Global Investment Committee and we believe that there are three assets to the stock market and 3 potential liabilities.

We know about the jobs, we lost 8.8 million jobs in this terrible recession that we have and we've only hired back 1.8 million of them. So we've come nowhere close to getting back to any sense of normalcy. People are still suffering out there. The house prices are down 32%. They fell 31% in the Great Depression.

There are three assets to the market that we think that still pertain at this present time. We are not willing to give up our cyclically bullish stance and that would be conclusion one, cyclically bullish, that means on a short 2, 3, 4 year basis starting March 2009 and we are already August 2011, so we've almost had a 2 1/2 year run up in the market. This time last year people were worried about a double dip and on August 27, Bernanke, the Chairman of the Feds gave a speech in Jackson Hole Wyoming and the market was 16% in the hole about that time, down 16% from its peak and it ended up being up 15.1% last year. Mainly that I would also say was the election results which basically gave you more of a divided Congress, the Senate and the House were both consoled by different parties, plus President Obama signed a law December 18 extending certain stimulus measures. So the market ended going up 15.1% last year.

Our view is these 3 assets, they are profit, they are global growth and they are liquidity. Those are the 3 assets and there are 3 potential liabilities and we'll review in a second. The profits were suppose to be up about 9%, they are coming in up 19%, they are coming up more than double what people were expecting. Why, because the companies have not been hiring and they've been running lean and mean for the last couple of years. We think profits will be up 15% this year and 15% next year. If that starts to look shaky, you are going to hear from David that it ought to be time to get a little bit more defensive.

The second thing is global growth. Now this global growth thing involves basically the economies in Brazil, Southeast Asia, the Vietnams, the Phillipines, the Indonesias, the Chinas, the Indias of the world, Latin America. Many of the

S & P 500 Companies, they had a hard time in the USA, but they've been exposed to this global growth. Apple had 100 billion in sales this past year; 11 billion of it was in China. It's Starbuck's, it's McDonald's, it's Johnson & Johnson, it's Proctor & Gamble, it's Pfizer. Global growth has been one of the other things supporting the USA stock prices in spite of the sort of choppy back and forth slow anemic recovery that's taking place in the United States. Two steps forward, one step back.

The third positive for the stock market is the liquidity. There's all kinds of liquidity on corporate balance sheets, they have record highs of cash as a percentage of their assets are the credit markets, that means the bond markets are open for them.

To recap, the 3 assets as we see things are still in place, but if something happens to global growth, if something happens to profits, or if something happens to liquidity, we are going to be telling David to tell you that you need to get a little bit more defensive.

The 3 liabilities we do not see right now, if we did see those we would also be raising the defensive flag. What are those? #1 would be investor euphoria. This is not a time of great investor bullishness, 44% of them are bearish and 27% of them are bullish. When everybody is bearish it is not necessarily a good time to sell. The second one is valuations and to us the market does not look excessively expensive. So valuations are not stretched. Investor euphoria is not there and the third thing is the Federal Reserve raising interest rates and they are not raising interest rates. As a matter of fact, Chairman Bernanke gave the statement that they plan to keep interest rates at this low level for 24 more months.

Is there a possibility that there could be a big blow up in Europe? Yes. Greece is basically in some form of bankruptcy or restructuring. So far it hasn't hit Italy or Spain which are much bigger than Greece. Greece would not really do the upsetting things, but people were worried last week about Greece and Spain and I think one of the best things that happened this past week was the bond yields of Greece and Spain went down from about 6 1/2 to 5, they are below 5 today and that's a good sign, it's come down a fair amount. That's one of the worries.

Could the Middle East and North Africa, could Egypt or Syria or Yemen get things crazy and cause oil to go from 85 dollars, it closed tonight at 87.40. Could it cause oil to go back up and everybody's gasoline bills, gas prices to go back up again, of course it could. Could Europe blow up? Of course it could.

Our view is that Europe has to be watched and Europe could upset things over here, but it seems to be cooling down a little bit for now. Has the situation been resolved in Europe? No. It has been solved but not resolved. The unemployment rate is 9% in the United States. In the Middle East it's 14%.

We have a constructive view on risk assets. We like stocks, mainly United States, we don't like European stocks right now, we don't like Japanese stocks, we like emerging market stocks. So far it has been smart to be underweight in Europe and Japan. Their problem is not what we have, their problem is inflation and they're raising interest rates. We think China is still going to be a green light, Europe is a red light and the U.S. is a yellow light."

David Darst asked if there were any questions.

Treasurer Morley asked about investor euphoria. At what balance would you start to be concerned. You mentioned that you have 44% out there at bear and 27% out there at bull. At what ratio would you start to be concerned that this becomes a liability as you said?

David Darst responded: "You want to get bearish when everybody else is overly bullish. At the height of the dot com craziness in the internet boom or at the height of the housing when everybody's real estate was going up in 2005, 2006, the investor's bullishness ratio, the bullishness, right now it's 44% bearish. The long term average for bearish is 30%. If you got down to the bears are 15, 18, 20%, way below the normal, there is so much worry and anxiety out there right now.

The extreme that you are asking about, what would be a trigger is when you get down to below 20 on the bears. The long term average as you know is 30 on the bears and 39 on the bulls. That would be a trigger for us. It's not always just one indicator that's going to cause you to turn, but profits are big enough to cause us to turn. If profits look like they're going to come down dramatically and we're not going to get that 15% growth this year and next year, if the economy slows, if there's big tightness in the credit market, any of those are big enough on their own, but the valuation one and the investor sentiment one which you're referring to, we tend to look at those in conjunction with other things. They are important. I would also say if there was some reason that the Fed was forced to raise interest rates on an emergency basis to protect the value of the dollar from totally collapsing; that would be a big one."

Treasurer Morley thanked David for his answer.

David Darst continued:

"Let me lay out our 5 conclusions and then see if there are any questions.

These are the 5 conclusions:

1. We think we're still in a cyclical bull market driven by profits, global growth and liquidity.

2. We think we are in a secular sideways flat or bearish type of market. That means this bull market that began in March 09, we think it will run 2 1/2, 3, 4 years. We do not think that we have started a new 18 year bull market. We think this is a back and forth type market. We think it will take longer to work off some of this excessive leverage and we're in an essentially debt management, debt reduction, debt address cycle. Valuations never got to revoltingly cheap levels, they never stayed there and we have not had the structural reform that's needed for me to stand here and give you folks the idea that it's a green light to own stock and put blindfolds on for 18 years and don't look at any kind of dip in the market. I need to see that we're basically as a United States of America focusing on savings and investments, education and infrastructure, debt and deficits, societal disparity and the value of the money and the value of the dollars. Those are what I want to see this nation addressing.

3. We think interest rates are nearing a long term bottom here. They got down to 2.03%. People were scared out of their minds last week when the market went crazy. We think interest rates will likely begin to drift higher over time because of the huge deficit the Federal Government is running, we think inflation at some point will begin to come back. We've had inflation of asset prices but not consumer prices.

4. Global gorillas. These companies, Johnson & Johnson, Proctor & Gamble, Apple, Coca Cola, Colgate, Pfizer, Merck, etc These companies are phenomenal. They have exposure to the global growth. That's what we call global gorillas. By and large the global gorillas have basically just treaded water and I think this will be a superior asset class over the next 7 to 10 years.

5. This is the most important one of all. The end of the world as we know it, it's not equal to the end of the world. We are entering a new era. This is a generational baton passing from the Baby Boomers to the Blackberry and I-Phone generation, just as the 70's were a generational baton passing from the Greatest Generation to the Baby Boomers. There's aging of many societies, there's immigration, there's technology and there's regulation. These are the new five components of the new world. Our message is the United States is not finished. We have immigration, we have imagination, we have innovation, we have ideals, and we have information. It's a crazy rocky period. We believe the U.S has it in it great days and perhaps the best days are still ahead.
Any questions?

Dave Reiser asked for a comment on the balance sheets of U.S. corporations right now. Cash on hand and what could happen if we actually get some friendly administration and rulings out of Congress on some pro-business, what could possibly take place.

David Darst Responded:

"I printed off the computer today the business round table, that is the CEO's of the top companies in the United States, IBM, Apple, Intel companies and they sent President Obama a memo of 58 pages of what has to be done to help us compete and to ease off on the regulations. I have said for a long time on television that things would have to get worse before they got better because the politicians will only do the right thing when we force them to. The key issues are taxes, financial regulatory reform, trade, labor, energy and the environment, health care, education, and immigration.

For me to tell you to buy stocks like crazy, I want to see what I use to see in the 70's and that was Tip O'Neill was Mr. Democrat and he would curse out Jerry Ford who was Mr. Republican and Jerry Ford would curse him out and then at 2:15 in the afternoon, people would see them playing golf and say so what the heck, did you read the Congressional record this morning and read what that guy said about you yesterday. He said, you know what, that's politics, we are personal friends and we are Americans and we want to help this Country move forward. The day I hear that, I am going to come over there and tell you to buy stocks. That's what we need and we will hear it, it will be forced upon the politicians. It will not continue this way and it will not be Democrats, Republicans' Tea Party; it will be the central part of this Country.

I just want you to know that if you have questions any time, you tell Dave and we'll do our best to try to get the answer for you."

President Rosenberg thanked David for taking the time out of his evening to help us and we appreciate all the guidance. Thank you.

Treasurer Morley commented on page 2 of 4, the Statement of Cash Receipts and Disbursements for the month ended. The City has reduced their contribution. The deposit amounts in total were approximately 101,000.00, 102,000.00, they are now down to 92,000.00, 93,000.00. He made some calls about it and is basically being told that it is based upon the new actuarial report. It's the old actuarial report, but they refer to it as the new. He has further questions and following up on it.

Treasurer Morley reported that the current balance in the Fund as of yesterday, at the close of the market, was 68,500,000 in round numbers.

4. There being nothing further to come before the Board, Trustee Meszoros motioned to adjourn the meeting; Trustee Lee seconded and the Board passed it unanimously.

The meeting was adjourned at 7:50 p.m.