

**March 21, 2012**  
**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 6:40 p.m.

Present: President Rosenberg, Vice President Ana Garcia,  
Treasurer Morley, Trustees Buck, Klein, Meszoros,  
Rodriguez and Fire Chief Rooney

Absent: Trustees Doris G. Garcia, Herlihy and Lee

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

**Treasurer Report:**

Trustee Buck motioned to accept the Treasurer's Financial Report for February 2012; Trustee Meszoros seconded and the Board passed it unanimously.

**Old Business:**

1. Trustee Klein motioned to Grant a Line of Duty Disability Pension Request to former CAPT Nicholas Novia, (Terminated 7/29/08), effective July 29, 2008; Trustee Buck seconded and the Board passed it unanimously.
2. Trustee Klein motioned to table a Regular Pension Request to former FI Frank Gerardi, (Terminated 1/25/08); Trustee Meszoros seconded and the Board passed it unanimously.

**New Business:**

1. David Reiser, Morgan Stanley, Smith Barney, Performance Review for Calendar Year 2011.

Dave Reiser informed everyone that Chris Ludwick voluntarily left the firm and introduced Matt Moham.

David Reiser:

We are not only doing our six month into our fiscal year, but we're doing the first two months into the calendar year.

We have some recommendations that we want to talk about. One of the things that we've been striving for over the last eight months is as we get new managers in our program that have what we said "better down side protection" for us which means that when the markets go down they historically don't go down as much during the cycle. We've been adding those managers to the account.

We're going to make a recommendation with Estabrook later on and we're going to tell you why.

Last year in September, you probably read about problems that concern the world regarding European meltdown, was Greece going to take down the European union, China having softer hard landing as they brought things down, are we going to invade Iran, what was that going to do to oil prices, the whole global uncertainty was really tremendous. One thing we're responsible for especially when we're dealing with a plan such as this is protection and also locking in gains to some extent when we can. We don't take risks. Our view was if it went down the drain, we want to make sure if that was more than a 50% chance, we took some risks off the table. So, we moved 13% out of equities into fixed income. So that locked in some of our gains that we had over the prior two plus years. We call that risk off as a concern. Now, as the markets have been moving up, we still have been risk off until which time the Greece situation really just got settled in the short term within the last 3 weeks. Even up until that 3 weeks time, there was concern that Greece was not going to go along with it and Greece would have a full default. If that happened, that has global ramifications.

I will tell you now that we are moving forward, it is our guess shortly within the next 3 weeks there is going to be a global asset committee recommendation on changing things and when that does happen, I will call Jimmy and he'll get in touch with you.

If you look at this December report, you'll notice that our full calendar year report, we went down 4.75% last year on the full calendar year basis. The two reasons why on that were over exposure to the emerging markets, emerging markets were down 18 to 20% and we have 12% of our portfolio in emerging markets and also that we decided to take 13% off the table in October to protect our gains. That number affected our long term returns to 11.75% per year net since we started our program in June of 09. I'll show you how quickly things change. The fourth quarter of the year, our managers out performed. The February report you'll notice we went from 11.75 to 13.78% net, now that's 2 points per year for the last two and three quarters years, that's a pretty big increase. You'll also

notice the equity section 10.34 vs. 8.99 because that merging market Hansberger is now up about 17% in the first two months of the year and when it's 12% of our portfolio it means a lot on both sides. The bond section 3.16 vs. .97, also very, very good. Now we are at 57% in equities instead of 70 and we are at 43% in fixed income instead of 30. So that's the lowest we could possibly be in equities, 70 is the highest we could ever possibly be in equities. So, if my analysts that I've talked to in the company are correct, you'll probably see global equity growth in 2013 and 2014 to be better than average, a very good year.

Trustee Klein

With the volatility of the emerging markets, should you have any recommendations in any changes in asset allocation.

David Reiser

Yes. Emerging markets are very difficult to invest in. We're going to try to invest in emerging markets in a much more constructive way. Sometimes in the short term we might not do as well because of the long term we'll do better because we're conservative. Hansberger is a manager that has about a 2% dividend and they are over weighted in one region. Hansberger is over weighted in Latin America in terms of growth and so as energy and consumption picks up again, and global growth picks up again, especially when you're looking at oil reserves in Brazil they have a different effect, but they have because of that a little bit more volatility both ways.

The recommendation of our group is that what we switch half of that allocation 12 with Hansberger 6, and we're going to recommend that the other 6 go in a program called the Vertus Emerging Markets Program. The Vertus Emerging Markets Fund is completely different from Hansberger which is what we want. They lean towards more consumer oriented investment stocks with an overweight to India.

Matt

It's much less volatile emerging market, by adding Vertus we basically leveled off some of that down side risk and we add a full other concentration to sub Asia.

Trustee Klein

What kind of things are these emerging markets invested in.

David Reiser

The Vertus will invest in consumer goods, things like food, electronics, automobiles, consumer oriented goods, but you'll notice because they are consumer oriented, Vertus will not go up as much as Hansberger, Hansberger will go up much higher. Keep in mind our Morgan Stanley Analysts feel that we are going to have a 34 plus per cent year in emerging markets. That's good. I will tell you that in December he was jumping down on the tables never so excited since 2008. In 08 we were up about 50, 60 and he was more excited

than 08 that emerging markets are going to really fly. When you have something growing at 8 to 12%, that's where the money is going.

Matt

Vertus certainly will protect you more and it's a great company.

David Reiser

Vertus over a 5 to 10 year period, they won't go up as much, but they definitely don't go down as much, so when you get to a full 5 year cycle, they beat everybody. So, with the concentration of 12% in emerging markets, it makes that sector much less volatile and much more prudent and spreads the diversification.

By the way, Matt is a Director in the firm.

The other concentration is Estabrook right now, 24% invested in our portfolio and they made a really big error. They cut their consumer exposure dramatically in 2010. They assumed that Americans were going to stop spending money. It continues to lag. Even if they incrementally increase their consumer exposure, 12% is a big gap to make up. I think it's going to continue to hurt them long term.

Treasurer Morley

I want to explore something with Estabrook. If they made a wrong call on the consumer, they were right for 2010 and they blew it off for 2011. Why would it hurt them in the future if they were going to correct their exposure now.

Matt

They've already seen a pretty significant under performance just for that alone. The fact that they are re-evaluating is why we don't want to eliminate them. I don't think it's at a point where we want to eliminate their allocation entirely; I think we just want to cut it back. We just want to get somebody that is going to provide more dividend growth.

David Reiser

I just don't want 24% of our portfolio being stuck in one manager even if they made a short term mistake and we've outperformed in 5 years, so that's why we're recommending that we just cut them in half and go to 12% with Estabrook instead of 24%.

Treasurer Morley

If we do this, I want a separate tracking what would have taken place with Estabrook if we had not done this. I want that report. I will be in favor of your recommendations, but you're going to own the results.

David Reiser

We're recommending Estabrook down to 12, Polen to 13 from 6, and from 3% on BlackRock to 8. BlackRock is paying a 3 to 4% dividend yield. So that's good. We're going to recommend we decrease Frontier Mid-Cap by one and increase The London by one. So those are our allocation recommendations.

Treasurer Morley

At this point, I'm going to ask the Board's permission to put forward your asset allocation changes and why don't you for the record just boil it down to what you want to do.

David Reiser

Estabrook goes from 24 to 12; Polen goes from 6 to 13; BlackRock goes from 3 to 8; Hansberger goes from 12 to 6; Vertus Emerging Market goes from 0 to 6; Frontier goes from 4 to 3; and London goes from 4 to 5.

Trustee Buck motioned to approve the asset allocation changes as outlined by David Reiser; Trustee Rodriguez seconded and the Board passed it unanimously.

David Reiser

We don't have any hedge funds, we don't lock up our money, we have no private equity in here and we just do allocations and keep finding a good manager that's better than another manager, we do what we do as we've always done to get these returns the old fashioned way.

Trustee Klein motioned to accept Dave's report; Trustee Buck seconded and the Board passed it unanimously.

David Reiser

I would like to ask the Board if they would kindly consider making a motion on something that I'm going to be placing a bid given the performance we've done for the fire fighters and I'm so happy that we've been able to do that, you know that my number one commitment is to help you, to protect you when you're out there protecting us. So Pension Plan A is now going out to RFP, which is a request for proposal right now.

President Rosenberg

That means it's going out to bid.

David Reiser

It is going out to bid. I was hoping that perhaps you would consider writing a letter of recommendation to the City that we be considered highly for that position of running the assets in Pension A.

Trustee Klein motioned that a letter of recommendation be sent to the City for Smith Barney to handle Pension A; Trustee Buck seconded and the Board passed it unanimously.

President Rosenberg asked Deputy Chief Petrucelli to have someone write that letter from the Board recommending David and his Company and his services in terms of how he's doing the job that he's done for Pension Plan B

Trustee Klein

As we move in July to where we spin off to the State fund, I would imagine that with the Plan's dealing with the people left behind so to speak that's going to have an impact on the asset allocation at that point, is that right.

David Reiser

It really shouldn't given where we are right now in the world. I told you at the last meeting my number one fear going forward in the next three years is not equities, my number one fear is fixed income, bonds. When interest rates go up and the economy does go up and it will then interest rates go up and those bonds are going to go down which means that people that are chasing yield or dividends on the bonds are really going to suffer a tremendous loss of principal. I don't want to do that especially when we can get 3 to 4% on BlackRock, I don't want to be throwing money away.

President Rosenberg

But David, not to interrupt you, wouldn't it also be true along the lines of what Jonathan is saying we're not going to have any significant new contributions to the fund and we do have to take care of those people who are left behind, so don't we have to take a more conservative approach.

David Reiser

I'm going to measure that against the contributions. I'm going to need to know the amount of contributions.

President Rosenberg

The contributions are going to go way down. Jimmy pointed it out earlier that there would be some but I think compared to the contributions that we've enjoyed in the past, so while you'll still have to draw out, the contributions going in will be negligible.

David Reiser

Right. Matt and I will work on that. Given where we are and where we're looking over the next two years, probably not going to recommend changing.

We have similar pension programs, so we're going to look at the size of the money that's left in the plan and the amount that needs to come out every month.

Treasurer Morley

I talked with Hooker and Holcomb about this. In approximately 2 ½ months we should have a number of how much is going to be staying behind in Pension Plan B. As soon as we have that number I'm going to give it to you and that's what we're going to have to work with and because that number is only going to be servicing retirees and no current employees and the only contributions we're going to be receiving will be on an actuarial basis from the City not from the fire fighters' payroll contribution, I want you to be thinking about adjustments to the portfolio and I already told Hooker and Holcomb I want them to coordinate with you with giving you the break-up of the ages of the people and their expected life term so that you will know draw downs. I want them to coordinate with you the draw downs and the age so that you can come up with an asset allocation that secures the assets for retirement people.

David Reiser

I want to thank you for your confidence no matter what's going forth and you have to look at our fiscal year numbers that we out performed, we significantly outperformed the State of Connecticut pension program, we significantly outperformed almost every single State in the Country, all the major ivy league schools, Harvard, Yale, Princeton. We significantly outperformed all of those programs with Pension Plan B. You trusting us has paid off handsomely. We're going to continue to make sure that those assets outperform over the long run as we have. At this time, you need to focus on some of the good things and this is one of the nice things, I said that to a purchasing guy over in City Hall the other day and you know, all the bad things that people say about Bridgeport, Pension Plan B is one of the best run pension programs in the United States and no one ever talks about it.

President Rosenberg thanked David Reiser.

2. Trustee Klein motioned to table request to change the status of Roberto Diaz' Pension from a Regular Pension to a Line of Duty Disability Pension pending a determination from Workers' Compensation; Trustee Buck seconded and the Board passed it unanimously.

3. Attorney John Mitola to address the Board regarding the current and future status of Pension Plan B.

Attorney Mitola presented his understanding through a couple of meetings that he had with respect to what is occurring with Pension Plan B. It is his understanding that as of April 1, the City will no longer be making contributions to Pension Plan B and the employees won't be making those contributions.

It was his further understanding that most of the employees in the Fire Department have done their paperwork, so what they've been told is that there

needs to be a transfer of funds from Pension Plan B over to MERF and he wasn't certain what the exact amount is.

President Rosenberg responded that that amount has to be set by an independent actuarial study that this Board has already made arrangements to have.

Attorney Mitola's understanding was that some City officials are going to make a presentation before this Board either at the May or June meeting. He was told that the transfer doesn't have to take place until the end of June. He said they were 100% correct that their fiduciary duties are to make sure they're doing what's best for the participants in the Plan. They certainly have the authority and the power to hire their own actuary to do a study if they want to do that and he recommended they consult with their pension attorney. It is the intent of the financial people from the City to make a presentation before the Board.

President Rosenberg stated that they have to do their due diligence in terms of an independent actuarial report and until they have that the Board is not in a position to know what the division of funds would be. Attorney Mitola agreed.

Attorney Mitola stated that they would have to vote to make the transfer whatever that amount is and they would have to be satisfied that they were performing their duties under the law. Hopefully, there will be a presentation in May. When he gets any information, he will get it to Jim to make sure everyone has it.

Trustee Buck stated that part of the problem he sees is that this transition is taking place without the funding being approved and without knowing how it is going to be structured. He was very concerned.

President Rosenberg responded that if the MERF Plan was taking both the active and the inactive employees, then to disburse the funds to the MERF fund would not involve all the ramifications that this does.

Treasurer Morley addressed Trustee Buck's concerns if he understood them correctly, basically the actuarial study is going to come up with money, if with x amount of dollars going to the State, that money goes to the State, the State, it was his understanding, has given a number to the City in order for them to be coming in fully funded to the MERF plan. The State has also given the City the option of financing for lack of a better word any shortfall of that buy in number and spreading it out over 30 years and he thought any discrepancy in the amount of money available to go to the State and the State number that has been given to the City, he thinks will be floated by the City over a 30 year period along with their future contributions as determined by MERF and he thinks there is going to have to be some sort of float, the reason being is the pension fund is not 100% funded so when not being 100% funded, obviously there is a shortfall.



Trustee Buck responded that still he doesn't know if the options presented by the State govern what he would call a middle of the road option there or common sense option. It seems like it was either all buy in or full amortization. They definitely need all that information at the presentation.

President Rosenberg raised a question that those funds would be transferred not to the City of Bridgeport but to the MERF plan, is that correct. Attorney Mitola responded correct.

Treasurer Morley stated when the active transfer on April 1 takes place, certainly the City is not going to make any more future contributions to Plan B as it exists here, however, he said that Attorney Mitola stated that contributions were going to stop. He believes the City will still have a liability for the contributions concerning the retired individuals that are staying behind, so he believes when the April 1<sup>st</sup> date comes along, the City now makes a weekly contribution, he thinks that will be dramatically reduced, but contributions are not going to end because they still have contributions for the retired guys.

Attorney Mitola suggested that if they had questions, they should write them up and get them to him and he will give them to the City people who are dealing with this for when the get together takes place. Treasurer Morley stated that a lot of the questions will be resolved before that time.

Treasurer Morley stated that he thought the Board will probably notify Dawn Norton of a need for the actuarials to have access to put together records that they are requesting. The law gives you the formula to follow.

Treasurer Morley will ask the Board tonight for permission to hire an actuary.

Trustee Klein asked if their actuary is going to need input from the City. Treasurer Morley responded correct. Trustee Klein stated the right person in the City needs to know that they have to get that information promptly because otherwise their actuary will not be able to do what they are going to do and the City is going to come crying to them saying they need the money.

Treasurer Morley responded that basically the actuarial firm has indicated once they have receipt of the records, there will be a two month turn around for them to generate the report. The sooner the City complies with their requests for records, the sooner they could begin working.

Treasurer Morley said they would send a request to Tom Sherwood and Dawn Norton unless he is told something different.

Union President Whitbread said the meeting that they schedule, sooner is better. They don't need a presentation 2 weeks before the deadline; they need to know as early as possible so if there are questions there is some time hopefully to

resolve them. This is the first time I know the Board has been informed of anything.

Union President Whitbread represented that he sent emails and letters asking that the Trustees be informed. The meeting should be sooner the better. He was very frustrated over this.

Treasurer Morley asked Attorney Mitola to try and move this along quickly. The cooperation from the City is important.

Attorney Mitola represented that he would report everything to all the appropriate people.

Treasurer Morley asked Hooker & Holcomb to represent the Pension. He was very impressed with them. They have been recommended by their legal counsel. John Galliette was present at the meeting. The fee for a short form report is about \$5,000.00 which would only be for the retirees and the other is a full blown report which deals with the retirees and the active and that would be about \$10,000.00. He told them that it was his opinion that the Board would want a full report.

Trustee Klein motioned to get a full report and authorize the fee of \$10,000.00; Trustee Meszoros seconded and the Board passed it unanimously.

Trustee Klein asked Attorney Galliette, Pension Plan B is funded at what level at this point. Treasurer Morley responded that the actuarial report is due out probably in about three weeks, he didn't want to be held to these numbers, but thinks it is 70 to 80%.

Trustee Klein asked when they make the hand off of funds to the State do they have the option or do they have the obligation at that point since they weren't going to be getting additional contributions from active people to put ourselves in a position where Pension Plan B is fully funded.

Attorney Galliette responded that they will still have an obligation to fund the benefits under Pension Plan B. There isn't a set funding obligation for municipalities as there is under ARISA for private employer plans, but you still have the obligations so when people come and want the benefit, the City will have to come up with the money.

Treasurer Morley stated and said to correct him if he was wrong, the formula within the spin off calculation attempts to split the money up in a fair way and I think that would be addressed in the split up.

Attorney Galliette said that it may be that the liabilities that are retained by the Plan after the spin off may be 80% funded, they're still going to have to come up with another.

President Rosenberg asked who is going to come up with the other 20%. Attorney Galliette responded that the City would have to because it's a City obligation.

President Rosenberg said that if the City is not able to come up with that where would that leave the retirees.

Attorney Galliette responded that the retirees also claim against the City so unless the City goes bankrupt, the City has an ongoing obligation to meet those payments.

President Rosenberg asked where would that leave the Trustees.

Attorney Galliette responded that the Trustees have an obligation to require the City to make payments to the Plan.

President Rosenberg asked suppose the City couldn't make their obligations.

Attorney Galliette responded the Trustees only have an obligation to manage the assets that they have. They don't have an obligation to go out and try to get the employer to make additional contributions. That's the employer's obligation.

President Rosenberg asked under the ARISA formula, wouldn't that leave the thing more fully funded or no.

Attorney Galliette responded that the ARISA formula basically weights the funding toward people who are already retired, so when you're divvying up the assets that you have, you're putting more of the funding who are already in pay status (retired) because they are people that are going to collect their benefits sooner.

President Rosenberg said so if the fund is 80% funded now maybe you would want it 90% funded. Attorney Galliette answered right.

Trustee Klein said the only people that are left in the Plan will be those that are in pay status (retired). Treasurer Morley said correct and the ones that have not yet reached their 25<sup>th</sup> anniversary.

Trustee Buck said that since there is good guidance with the spin off calculation, I think it would probably be your recommendation that we would follow the formula for guidance provided by them and not go outside that.

Attorney Galliette responded right. ARISA basically, Congress has come up with this formula that says this is a fair methodology for allocating assets when you have a spin off and even though technically it doesn't apply to governmental plan, I think it would be difficult for someone to challenge following the ARISA methodology.

Attorney Galliette stated that the Trustees' obligation is not to require contributions to the Plan, it is to manage the contributions that are in the Plan. It is the City's obligation to make the contribution and it's your obligation to invest them and to pay out benefits and to act solely in the interest of the participants.

President Rosenberg asked then in your legal opinion, if we follow those guidelines, the Trustees have done their due diligence and fulfilled their fiduciary duty, and would have no liability. Attorney Galliette responded right.

President Rosenberg thanked Attorney Galliette for coming to the meeting.

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

The meeting was adjourned at 7:45 p.m.