

**MINUTES OF DECEMBER 8, 2022 CITY OF ALEXANDRIA  
SUPPLEMENTAL RETIREMENT BOARD  
DUE DILIGENCE MEETING**

**PRESENT:**

<u>Members</u>	<u>Others</u>
Lynda Barbieri-Strain <sup>2</sup> , (General Schedule)	Adriana Bradford, Staff
Kelsea Bonkoski, (Medic/ Fire Marshal Alternate)	Barry Bryant, Consultant
Jina Edwards (General Schedule)	Kadira Coley, Staff
Robert Gilmore <sup>1</sup> (Deputy Sheriff)	Denise Cummings, Staff
Julian Gons (Management)	Patrick Evans, Fire and Police Board
Jean Kelleher <sup>1</sup> (Management)	Dylan Kempton, Fire and Police Board
Katherine Key (Management)	John Kendall, Public
James Mikell (Medic/Fire Marshal)	Nicole LaPoint, Staff
Kendel Taylor (Management)	Arthur Lynch, Staff
	Shirl Mammarella, Fire and Police Board
	Ed Milner, Fire and Police Board

<sup>1</sup>Technical Corrections and Plan Document Review Committee

<sup>2</sup>Vendor & Service Provider

**Absent:**

Jesse Maines (Management)

Lillian Vagnoni (General Schedule)

Valarie Wright (Deputy Sheriff)

**CALL TO ORDER**

The meeting was called to order at 8:49 AM Thursday, December 8, 2022.

**MEETING RECORD**

Meeting minutes were approved.

Ms. Barbieri-Strain made a motion to:

Approve the October 5, 2022 minutes.
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Mr. Mikell seconded the motion. The motion was unanimously approved (8-0).

**MANAGER PRESENTATION – Molpus (Michael Cooper and George Dahduh)**

- Molpus provided overview of executive summary of firm and investments and reviewed executive and forestry team
- They provided a review of their performance – slide 7
- Molpus noted that their properties are going through annual appraisal as of 12/31 and will be reflected in Q1 report. All properties are appraised annually
- Fund has \$100 million increase in past year. Due to increased pricing and demand for timber. Higher capital into market driving up prices

- The noted that non correlation and inflation hedge has performed well in last 18 months with higher inflation market
- The team reviewed its properties
  - Acadia – Louisiana – budget \$4 million land sales
  - Osceola – FL and GA – start to liquidate this property – in strongest pulp wood markets in US
  - Texarkana - \$4.7 million in first 3 quarters of the year. Land sales have been strong in this property
  - 4 states - Alabama, Mississippi, NC and SC –
- Certified under sustainable forest industry. Page 12 speaks to sustainability and impact.
- The manager explained that it is an exciting time for timber – underlying demand for housing is increasing and they think it will continue to increase
- The trustees asked some questions:
  - Are products distributed regionally? Molpus responded that the vast majority are distributed locally. Small percent to wood pellets which are exported.
  - Has there been any adverse impact due to storms in southeast. Molpus responded that hurricane impacted Acadia previously but receive \$6 in insurance but \$14 million loss on paper, but most trees survived. It is rare that this happens. The estimated loss is 30 basis points due to fires or other natural disasters
    - Loss may increase with natural disasters – they avoid CA where forests are historically undermanaged. They believe their properties are diversly located. Fire is a small concern due to location. Hurricanes are a factor, but natural disasters are not a major factor for now.
  - Molpus noted that carbon is a big thing in the timber industry. Companies are buying carbon offsets which will lead to continued increased demand.
  - Is the growing market for more paper products having an impact on the fund? Molpus noted that it is such a small niche it won't have a big impact on returns but could have a potential big impact on environment
  - Are you seeing changes in weather patterns? Molpus noted that trees are not as sensitive to the weather. Seeing more intensity of the rain – longer growth – has not negatively impacted their portfolio.
  - They were asked to explain what is a “carbon project” Molpus responded that they would delay harvest by 1 year and in exchange be paid by the ton in the form of a credit- trying to offset emissions. In south they can get more revenue from cutting trees rather than carbon and not cutting. Carbon has reduced cutting of timber and result in a less wood on the market which is good for the timber market.
  - Is there any focus on cybersecurity? Molpus noted they spend a good bit of time on it – back up and operating are split out – have trainings and protocols

## **MANAGER PRESENTATION – Manulife (Jackson Wise)**

- Firm has been rebranded Manulife – everything else is the same but new branding – Manulife has been the parent company for years. Same company same team remain.
- Financials – Hancock Timber X – invest in 2010 – 2012 – reviewed our commitment and return distributions
- Mr. Wise reviewed that asset distribution
  - Most diversified fund - This fund allocated to the Pacific Northwest. – Also have an Acadia property.
  - 45% Australia, 23% pacific NW, 16% south and 17% US inland west
  - South – Acadia, Oregon and Washington – sawlog focus – lumber for housing market – export to Japan historically but domestic buyer demand has
  - Looking ahead think performance in the US South will increase.
- Hancock Timber Fund X has been restructured from fixed fund to a perpetual fund.

- The fund closed on December 14, 2022
- Stafford Capital Partners – offer to buyout up to 40% of shares and restructure into a perpetual vehicle.
  - Offered shares to existing limited partners
  - 40% wish to exit – 60% wish to stay
  - The fund will have 5 year rolling liquidity windows to sell at market value.
  - The change resulted in a new annual management fee which is about 30% lower.
  - Shareholders can sell their shares at market value – 5-year intervals will require a vote to continue the fund or will wind down.
    - This means the City of Alexandria can sell our shares at any time, and our investment would be offered to existing shareholders.
- Appraisals – page 9 – seeing modest results in the Pacific NW – but Acadia should be up by 10% if projections hold up
- The trustees asked some questions:
  - Are there any geographic changes now that the fund has restructured? Manulife responded that for now they like the diversification but will review option for sales on on-going basis and will be looking for opportunities. They also noted that the fund is not a growth vehicle and is not looking to make additional capital calls
  - Manulife was about their approach to sustainability. They noted they are registered with the sustainably organizations and must sustainably farm their land in order to meet the demands of their clients.
  - They were asked about their focus on cybersecurity. Manulife noted that they do have a focus on it, but Mr. Wise is not an expert. He offered that he could get more specific information if that was desired.
  - Manulife was asked if carbon has any impact on this fund. They noted that there is not a direct impact on this fund but do have other funds that focus on carbon projects.

## **FINACIAL & QUARTERLY REPORT REVIEW**

- Economic Overview
  - Economy did ok except for inflation. The nation is seeing low unemployment.
  - Going back to 1980 had a worse inflation problem then we have now. Vollker appointed to the FED – raised interest rates and broke the back of inflation led to 40 years of low inflation even with government putting money into the economy.
  - The FED will keep increasing interest rates until inflation gets down to 2%
  - There is an anticipated recession in the second half of 2023.
  - Returns are up in October and November so fourth quarter returns are anticipated to undo some of the downturn from the first three quarters.
- Returns for the quarter - page 4 – domestic stocks were down 5%, foreign stocks were down 10%, fixed income was down 5%, real estate was up 0.5%
  - Results in a rare bad quarter where bonds were down as much as stocks. One of the worst nine-month periods for a 60/40 portfolio.
  - Pension fund down 4.4% - think it should be down more but think it's because of the diversifiers in the larger state plans.
  - Page 10 – portfolio down 4.1% in the 38<sup>th</sup> percentile – real estate has helped the fund returns – MC did better than LC and we are over allocated. Brandes did well and so did the PIMCO RAE fund.
  - Manager shadow -4.4% - almost all of our managers underperformed. Will look forward to how they did in 4<sup>th</sup> quarter.

- Dahab is planning to run study to see how the fund would have done if the fund was fully indexed over history. This research will provide a better look at active vs passive management.
- Polen and PIMCO All-Asset are below benchmark for all periods.
  - Polen – This snapshot is after one of the worst periods ever. Polen has gotten a lot bigger, but Mr. Bryant is not worried about it.
  - PIMCO All-Asset does not have a real benchmark. – should do well during periods of inflation and a weak dollar. Largely foreign investment. Dollar is currently very strong which could be impacting the fund’s returns.
- Real estate returns may be negative in the coming year. Mr. Bryant noted that there is a lag in valuations. Real estate readjustments will be driven by office and the adjustment period could last anywhere from 12 – 18 months.
- Mr. Evans asked about digital assets as an asset class. He clarified he as not asking about investing into crypto but instead vehicles such as NFTs.
  - Use blockchain technology to create ownership of anything – then people can buy and sell if free and clear
  - Mr. Bryant recommend this as a potential topic for the next board retreat.

## **ADMINISTRATORS REPORTS**

### Regular Investment and Cash Flow Reports

Reports were included in the Board Packet, no rebalancing recommended.

### Other Items

Education, seminars, conferences & training

- The education listing was provided in the board packet.

Ms. Kelleher made a motion to:

Approve travel to training listed on the education list for the 2023 calendar year.

Ms. Edwards seconded the motion. The motion was unanimously approved (8-0).

### Rebalancing

- Ms. Coley reported back to the board that Dahab has developed a spreadsheet that he can provide to Staff to recommend rebalancing on a quarterly basis. Staff is comfortable using this report going forward to rebalance the fund.

Ms. Barbieri-Strain made a motion to:

Allow Staff to have the authority to rebalance the funds to targets as recommended by the investment consultant. Staff will report the rebalancing actions to the Board on a regular basis.

Mr. Mikell seconded the motion. The motion was unanimously approved (8-0).

Mr. Mikell asked what would happen if the Board were to disagree with the rebalancing. It was clarified that the Board could vote to undue the rebalancing or to take another action. Staff

noted that in recent history the Board has not disagreed or chosen not to take action on any of Staff's recommended rebalancing.

## **COMMITTEE REPORTS**

### Technical Corrections and Plan Document Review Committee

No report was given.

### Vendor & Service Provider Review Committee

No report was given

## **OLD BUSINESS:**

### Asset Allocation Study

- Dahab presented the updated Asset Allocation study results based on the requested mixes from the previous board meeting.
- The trustees reviewed the results and discussed the advantages and disadvantages of the various mixes.
- The trustees noted that private equity has performed very well historically. The asset class has high returns and the lowest standard deviation. They as a board decided to recommend keeping its allocation at 10%.

Ms. Kelleher made a motion to:

Approve the following asset allocation for the fund:

Large Cap Growth 7%, Large Cap Value 8%, Mid Cap 10%, Small Cap 5%, International Equity 10%, Emerging Markets 5%, International Small Cap 5%, Private Equity 10%, Real Estate 10%, Timber 5%, Farmland 5%, Fixed Income 10%, Global Fixed Income 10%

Mr. Gonsalves seconded the motion. The motion was unanimously approved (8-0).

## **NEW BUSINESS:**

### Calendar 2023

- The calendar for 2023 was provided in the Board packet. The Board will have interim meetings on the first Wednesday of the month and interim meetings on the second Thursday of the month on a quarterly basis.

### Board Elections

- Call for nominations for a General Schedule representative and alternates as well as the Deputy Sheriff representative and alternate were announced.
- Applications were received from James Moore, Dana Wedeles and Shareth Rereddy for the General Schedule representative, and Cassandra Branch and Robert Gilmore for the Deputy Sheriff representative.
- Ms. Barbieri-Strain is not able run for election since she is a retiree. The other existing board members are not able to commit to the board at this time due to competing priorities.

- Board members voted on candidates via secret ballot.

Ms. Kelleher made a motion to:

To affirm the nomination of Robert Gilmore as Deputy Sheriff representative and Cassandra Branch as Deputy Sheriff alternate for the 2023-2026 term-and the nomination of James Moore as General Schedule representative and Dana Wedeles as General Schedule alternate for the 2023-2026 term and Shareth Rereddy as General Schedule alternate for the 2023-2024 term.

Mr. Gonsalves seconded the motion. The motion was unanimously approved (8-0).

### **ADJOURNMENT**

The meeting adjourned at 12:14 PM.

## **HANDOUTS**

### **Distributed to Board members in the Board Packet:**

Agenda
Minutes of Prior Meeting
Monthly Investment & Rebalancing Report
Private Equity Cash Flow Report
Education Listing
Election Details
Calendar 2023

### **Distributed to Board members at the meeting:**

Dahab Performance Review September 2022
Molpus Due Diligence Presentation
Manulife Due Diligence Presentation
Dahab Asset Allocation Results Table