

**MINUTES OF SEPTEMBER 8, 2022 CITY OF ALEXANDRIA
FIREFIGHTERS AND POLICE OFFICERS PENSION BOARD
DUE DILIGENCE MEETING**

PRESENT:

<u>Members</u>	<u>Others</u>
Julian Gonsalves (Management)	Lynda Barbieri-Strain, Supplemental Retirement Board
Jean Kelleher ¹ (Management)	Barry Bryant, Consultant
Dylan Kempton (Fire)	Kadira Coley, Staff
Jesse Maines (Management)	Denise Cummings, Staff
Shirl Mammarella ² (Alternate – Police)	Robert Gilmore, Supplemental Retirement Board
Ed Milner, Chair (Police)	Catisha Jackson, Staff
Jason North (Police)	Arthur Lynch, Staff
Laura Triggs ² (Management)	Kendel Taylor, OPEB Board

¹Technical Corrections and Plan Document Review Committee

²Vendor & Service Provider

Absent:

Patrick Evans¹ (Fire)

Rick Muse² (Alternate – Fire)

CALL TO ORDER

The meeting was called to order at 8:55 AM Thursday, September 8, 2022.

MEETING RECORD

Meeting minutes were approved once a quorum was attained.

Ms. Triggs made a motion to:

Approve the June 9, 2022 minutes.

Ms. Mammarella seconded the motion. The motion was unanimously approved (6–0).

FINACIAL & QUARTERLY REPORT REVIEW

The Plans did well despite loss of ~\$40 million

- Three factors related to covid caused expected inflation but were expected to be temporary and to revert once COVID ended. This did not happen so FED changed focus to fighting inflation.
- Stimulus packages did make the inflation worse, not ongoing but did impact temporarily
- Mr. Bryant explained present value of money and its impacts on the market going forward
 - Small changes in the discount rate have huge impact on future value
 - Investors guessing what the FED is going to do to interest rate and will impact the stock market
 - Suspect we will hit recession late this year or early next year
- Returns for the quarter – all asset classes down except real estate
- Median return -10.1% Our fund returned -9.8% (44th percentile)
 - Value did better than growth
 - PRISA returned 11% and only asset class that did well

- Real assets helped including timber
- Managers
 - Managers hurt return by 0.5% as they did slightly less than the index
 - Polen, Champlain and PIMCO Stock plus and PGIM FI all underperformed
 - London, Brandes and Wellington and BNY Mellon all beat their benchmarks
- 3 things to look at
 - Defensive managers (London, Polen, Champlain)
 - Do we have the right kind of managers?
 - Some are defensive but we have an “eclectic mix of managers” which means they may not all do badly at once
 - Do have the money in the right style
 - Do we want to index everything
 - Mr. Bryant will have analyst go back and index everything that can be indexed to review the active v. passive over the past 10 years to be able to compare
- A trustee asked how public pension funds are trending active versus passive – Mr. Bryant has been asked to provide a follow-up
- Supplemental -8.8% which landed in the 29th percentile
 - PIMCO All-asset and BNY global which caused the fund to go down less. They were stabilizer which has helped them over time
 - Not as much spread between shadow and the composite – not as much money in PGIM and monies in RAFI, more in value than growth
- Alternatives impact – the private equity numbers are not listed. Was slightly positive in 1st quarter and may be slightly positive in 2nd quarter as well.

Dahab announced on Monday that Bill Dahab has been name CEO, Rich continues as chairman. No real difference in authority.

MANAGER PRESENTATION – PIMCO (Kevin Dunne & Eric Bachman)

- Pg 5 – relationship review
 - Core fixed income, StockPLUS small cap – use equity index and future outperformance but picking fixed income securities and
 - All-asset and RAE EM both partner with Research Affiliates value, quantitative and contrarian
- Inflation – higher than expected – believe we have hit peak inflation; it will come down from here but will take a while.
 - Chart shows worse bond market in 40 years
 - Worst first half of a year ever.
 - As yields rise you will get more return from fixed income going forward
- FED expectations- aggressively increasing interest rates
- Total return – core bond strategy
 - Focus on capital preservation, diversification, and consistent returns
 - Core fixed income down 10.3% - loss primarily due to interest rate increases
 - Yields have a stronger starting point today. Core 1.7% in December compared to 3.7% today

- Performance – underperform the benchmark – mostly due to specific sectors. Have overperformed in the long term since inception
- Outperform 91% over rolling 3-year and 97% on rolling 5-year basis and done this by taking on less risk
- Themes going forward
 - Will go into recession in the next 12 months – given FED increasing interest rates. Expect fixed income to provide important diversifier. Underweight interest rates risk and corporate credit.
- All-Asset – diversifier to traditional stocks and bonds
 - Does well when equity markets are declining, and inflation is rising and higher volatility
 - Down 9.9%, want to outperform CPI + 5% (secondary benchmark) but have underperformed CPI +5% in short term and long term.
 - Show the largest draw and good rebounds thereafter
 - Have drawdown in -12.13% year to date in 2022 and rebound is predicted but it is yet to be seen how well it will rebound
 - Expected return forecast – and predicting diversified portfolio will outperform by over 2% going forward.
- StockPLUS Small Cap –
 - 12% return since inception versus 11% for benchmark
 - Not taking a lot of risk in the portfolio 41% govt, 12% cash equivalent
- RAE Emerging Market
 - Contrarian rebalancing strategy
 - Focus on value, quality, and momentum
 - Performance – average 2% outperformance over time

Overall, they like the dollar in the shorter term but do think it will turn at some point

MANAGER PRESENTATION – Brandes (Christopher Garrett)

- Bottom-up fundamental value manager
- At individual company level – not making calls on markets or industries
- Focus on 3–5-year horizons rather than 6 months or shorter focus
- Provided an overview of the firm, employees, location, etc.
- Assets under management - \$2.3 billion in emerging markets
- Performance – show calendar year performance and performance versus index. 2020 significant underperformance have an impact on long term numbers
- Why underperformance during COVID?
 - Mexican REITs –
 - And companies that were negatively impacted by COVID
- Did they make any changes since lessons learned from COVID?
 - Did not make significant changes
 - Remain invested in business they believe are resilient, review companies and sell any companies they thought were potentially risky
- Do you have boots on the ground in the foreign countries?
 - Most are based in San Diego, but they do travel and meet with managers
 - Have direct interactions with the companies
 - Do independent research

- Work with other researchers i.e., Morgan Stanley
- Low turnover strategy – focus on buying at a good price
- Underperform by 400 bps as of June – Key performance factors
 - Highlight companies and firms which has added value and had a negative impact
 - Had Russia exposure – about 7% – long term exposure
 - How value today – fair value pricing committee meets weekly – they have marked won 80-90% of value for items that are not trading
 - They encourage the Board to look at the fundamentals of the 5 positions they own. No avenue to sell but not written all the way to \$0. Still in the portfolio
 - Russia cost the portfolio about 400 bps
 - Current policy - will not invest any new incremental dollars in Russia

Ms. Triggs and Ms. Mammarella left at 10:55pm. The Firefighters and Police Officers Board lost quorum.

- ESG – take an integrated approach – take ESG into the valuation of the company
- Risk focused approach when reviewing ESG – trying to mitigate risk
- China and Taiwan – think invasion is a low probability
 - Is there an exit or contingency plan – no specific sell strategy – but will continue to monitor some risk mitigated by lower exposure to both countries
- Strength of the dollar
 - Strong dollar – slightly negative impact for portfolio
 - Do not hedge currencies

ADMINISTRATORS REPORTS

Regular Investment and Cash Flow Reports

Reports were not included in this packet but will be provided at the next set of interim meetings.

Other Items

Education, seminars, conferences & training

- The education listing was provided in the board packet.

COMMITTEE REPORTS

Technical Corrections and Plan Document Review Committee

No report was given.

Vendor & Service Provider Review Committee

No report was given

OLD BUSINESS

None

NEW BUSINESS

ADJOURNMENT

The meeting adjourned at 11:25 AM.

HANDOUTS

Distributed to Board members in the Board Packet:

Agenda
Minutes of Prior Meeting
Upcoming Education Sessions

Distributed to Board members at the meeting:

Dahab Performance Review March 202e
Brandes Due Diligence Presentation
PIMCO Due Diligence Presentation