

**MINUTES OF JUNE 8, 2023 CITY OF ALEXANDRIA
SUPPLEMENTAL RETIREMENT BOARD
DUE DILIGENCE MEETING**

PRESENT:

<u>Members</u>	<u>Others</u>
Robert Gilmore ¹ (Deputy Sheriff)	Adriana Bradford, Staff
Jean Kelleher ¹ (Management)	Barry Bryant, Consultant
Katherine Key (Management)	Kadira Coley, Staff
Jesse Maines (Management Alternate)	Denise Cummings, Staff
James Mikell (Medic/Fire Marshal)	Mark DeVaul, Investment Manager
Jim Moore (General Schedule)	Patrick Evans, Fire and Police Board
Sharath Reredy (General Schedule Alternate)	Dylan Kempton, Fire and Police Board
Kendel Taylor (Management)	Nicole LaPoint, Staff
Dana Wedeles (General Schedule Alternate)	Dan Le, Investment Manager
	Arthur Lynch, Staff
	Catisha Jackson, Staff
	Shirl Mammarella, Fire and Police Board
	Andrew Miller, Investment Manager
	Ed Milner, Fire and Police Board
	Rick Muse, Fire and Police Board
	Steve Roth, Consultant
	Andrew Tuite, Investment Manager

¹Technical Corrections and Plan Document Review Committee

²Vendor & Service Provider

Absent:

Kelsea Bonkoski, (Medic/ Fire Marshal Alternate)

Cassandra Branch (Deputy Sheriffs Alternate)

Jina Edwards (General Schedule)

Julian Gonsalves (Management)

CALL TO ORDER

The meeting was called to order at 8:52 AM Thursday, June 8, 2023.

MEETING RECORD

Meeting minutes were approved.

Ms. Key made a motion to:

Approve the April 5, 2023 minutes.

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

Mr. Evans arrived at 8:54 AM

Mr. Muse arrived at 9:12 AM

MANAGER PRESENTATION – The London Company (Mark DeVaul, Andrew Tuite)

- Mr. Bryant introduced the London Company and reviewed their recent performance.
- The London Company gave an overview of the company and provided a review of their performance.
- The company noted that the market average holding period is one year and they hold stocks for an average of five years with the belief that focusing on the longer term gives the ability to build in risk and downside protection.
- The company had an 82% upside capture with the toughest periods for them being when markets are strong.
- The company performed very well in the first quarter of 2020 when the market was down, but the Plan was not yet invested with the company at that time.
- Mr. Bryant inquired about the organization’s approach to sustainability and ESG principles.
 - Mr. Tuite stated that they use a service called Sustainalytics which gives reports on all the companies and uses that information in their decision process. They also look at the diversity of the Boards and payment of staff as part of the process, but ESG is not a final decision factor.
- Ms. Kelleher asked about their use of the word “cheap” when picking stocks as it’s not a common word.
 - Mr. DeVaul stated they were referring to stocks that have a lower valuation.
- Ms. Coley inquired about the manager team diversity.
 - The COO and CFO are female, the company is working harder to diversify by providing education to more diverse areas so that in years to come the application pool is more diversified.

INTERNATIONAL SMALL CAP FINALIST PRESENTATION – Acadian (Dan Le, Andrew Miller)

- Mr. Bryant introduced Acadian and reviewed the comparison overview of the three finalists.
- This firm was founded specifically for international small cap investments.
- Their since inception return is 9.3% and they have outperformed 23 out of 30 years.
- Mr. Bryant inquired about their use of AI for investments.
 - Acadian stated that they are not using Chat GPT or other open-source AI but an in-house application they have had for the last 12 years.
- Ms. Kelleher asked how they check the AI calculations.
 - Acadian stated that it’s not a set it and forget process. The research team regularly reviews the data selection, and the focus of the technology is very narrow.
- Mr. Evans asked how intricately the team members review the stocks since there are thousands of stocks and the team only has 27 members.
 - With the use of the models, they have developed technology that makes the workload manageable.
- Ms. Coley asked when the decision is made to buy or sell trades if there is any human interaction.
 - Different parts of the process are monitored along the way by different teams.
- Ms. Key asked how major world events affect the model.
 - If there is something going on in the world the model will not pick it up so there is human override in the process to mitigate the risk.
- Mr. Moore asked if there are any markets that they avoid.
 - There are no markets avoided, Acadian looks at the risk and makes corruption adjustments for different countries but there are lots of factors that go into valuing the market to determine where to invest.

INTERNATIONAL SMALL CAP FINALIST PRESENTATION – Copeland (Chuck Barrett and Erik Granade)

- Mr. Barrett gave an overview of the company and team.
- The company is 100% employee owned.
- Mr. Bryant asked about the higher turnover rate of stocks.
 - Due to COVID and governments pumping money into the market the changes in dividends did not reflect the company's actual standing.
- Ms. Kelleher asked about the countries listed in the portfolio they are all pretty developed.
 - Mr. Barrett stated that only the biggest countries are listed here but they invest in all the countries in the MSCI benchmark.
- Mr. Bryant asked if the new large investment from another public pension fund will have an impact on the fund since it will increase the fund size by over 100%. Copeland responded that they felt they would be able to adequately handle both that large investment and the City's investment with no problem.
- Copeland was asked what leads them to want to sell an investment. They said if the investment did not increase their dividend, cashflow concerns, low quantitative rating or cap size gets to be too large.

INTERNATIONAL SMALL CAP FINALIST PRESENTATION – Putnam (Michael Meehan and Karan Sodhi)

- Mr. Meehan gave an overview of the company and team.
- Franklin Templeton purchased Putnam very recently. They noted that philosophy and team will remain the same.
- Mr. Roth asked if employees were asked to sign any loyalty contracts. Putnam stated that they did not but were incentivized to remain with the company because of the history with the company.
- The company has a fundamentally driven core portfolio.
- Ms. Kelleher asked about the franchise companies owned.
 - Putnam means franchise in a different way than for example McDonalds, but companies with moats, recession proof businesses that can alter prices to charge you more without costing them much. For example, wireless broadband companies.
- Mr. Muse asked if they lean towards a specific industry.
 - Putnam tries not to skew the portfolio in any particular industry, but their choices are all about performance.

INTERNATIONAL SMALL CAP DISCUSSION

Mr. Bryant led the discussion reviewing the three finalist presentations.

Copeland:

-
- Ms. Wedeles thought they were not a forward-thinking company.
- Ms. Mammarella and Ms. Kelleher did not find the company diverse and did not like the response given when the question was raised.
- Ms. Key liked the streamlined and systematic approach.
- Mr. Kempton liked their focus on growth.
- Mr. Gilmore asked if there was an anomaly that needed to be taken into consideration for the return numbers because the three-year numbers were the worst of the three managers but had the best five-year numbers.
- Trustees also expressed concern about the influx of \$100 million investment.

Putnam:

- Ms. Mammarella stated she is unsure because it is unknown how the recent change of ownership with the company being bought will impact the Fund once we join.
- Concerns were raised that there were no contracts to ensure the existing leadership would remain with the company and a lack of diversity.
- It was noted that the investment strategy was sound.

Acadian:

- Mr. Mikel liked that they take the emotion out of the decisions and use the model that they have established.
- Ms. Mammarella liked that they keep their modeling information in house and are not sharing with vendors.
- Ms. Kelleher was satisfied with their answers to the questions regarding AI.
- Ms. Key stated that her biggest concern is that with AI basing decisions off what has already happened it will not be able to see major future shifts, but that Acadian answered all the questions she had about human oversight satisfactorily.

Mr. Moore left at 12:40pm

Mr. Mikell made a motion to:

Select Copeland as the international small cap manager for Supplemental.

Ms. Taylor seconded the motion. The motion failed (2–5).

Ms. Wedeles made a motion to:

Select Acadian as the international small cap manager for Supplemental.

Mr. Mikell seconded the motion. The motion was unanimously approved (7–0).

FINACIAL & QUARTERLY REPORT REVIEW

- Economic Overview
 - CPI is dropping.
 - GDP is gradually slowing, currently at 1.1%.
 - The Federal reserve continues to hike interest rates.
 - Inflation is slowing. The goal is to reach 2% and that will be challenging to achieve.
- Returns for the quarter - page 4 – domestic equities were up 7%, foreign equities were up 8%, fixed income was up 3%, real estate was down 3%
 - Pension fund return was 3.1% ranked in the 88th percentile.
 - Dahab expressed concern about the narrowness of the stock market. Year to date the S&P is up 9% primarily driven by technology companies.
 - Wellington sent notification that they were planning to do Securities Lending but as of yesterday they have changed their minds and will not. This is because several of their investors were not in support of that decision. A trustee asked if the Board should be concerned about the manager changing their minds so quickly. Dahab said there was no need to be concerned because they are listening to their stakeholders.
 - The managers did better than average, the asset allocation is what hurt the Fund.
 - Polen was slightly under the benchmark, London Company did better than the benchmark.
 - Growth stocks did better, and the Fund is heavily weighted in value stocks.
 - Diversity also hurt the fund because the high return was concentrated in a handful of stocks.

ADMINISTRATORS REPORTS

Regular Investment and Cash Flow Reports

Reports were included in the Board Packet, rebalancing recommendations included.

- Ms. Mammarella asked if the Board wants to put more money in Polen as recommended in the rebalancing.
 - Mr. Bryant stated that the Board does want to continue to fund Polen so the asset allocation is followed. If the Board wants to investigate indexing that fund or hiring a new manager, Dahab can facilitate that.

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:

None.

NEXT MEETINGS

- a. Wed. April 5th at 8:45 AM – Interim Meeting
- b. Wed. May 3rd at 8:45 AM – Interim Meeting
- c. Thur. June 8th at 8:45 AM – Joint Due Diligence Meeting

ADJOURNMENT

The meeting adjourned at 1:09 PM.

HANDOUTS

Distributed to Board members in the Board Packet:

Agenda
Minutes of Prior Meeting
Monthly Investment & Rebalancing Report
Education Listing
Retirements by Yea
Wellington Securities Lending Update
Calendar 2023

Distributed to Board members at the meeting:

Dahab Performance Review December 2022
Acadian Presentation
Copeland Presentation
London Company Presentation
Putnam Presentation
Dahab handout of International Small Cap Finalists