

**MINUTES OF FEBRUARY 14, 2013 RETIREMENT BOARD  
CITY OF ALEXANDRIA SUPPLEMENTAL RETIREMENT PLAN  
DUE DILIGENCE MEETING**

**PRESENT**

<u>Members</u>	<u>Others</u>
Shane Cochran (General Schedule)	Steven Bland, Retirement Administrator
Brenda D’Sylva (General Schedule, Alternate)	Bryan Capelli, Retirement Specialist
Bill Eger (General Schedule, Alternate)	Kadira Coley, Retirement Specialist
Tom Gates, Chairman	Michael Cross, Fire & Police Board
Robert Gilmore (Deputy Sheriff, Alternate)	Patrick Evans, Fire & Police Board
Nancy McFadden (Medic/Fire Marshall)	Mark Jinks, Fire & Police Board
Jean Niebauer (Alternate)	Arthur Lynch, Retirement Specialist
Marietta Robinson (General Schedule)	Rick Muse, Fire & Police Board
Morgan Routt (Management)	Theresa Nugent, Public Information Specialist
Laura Triggs (Management)	Al Tierney, Fire & Police Board

Absent: Jarrod Overstreet

Note: This meeting was a joint meeting of the Boards for the Supplemental Retirement Plan and the Firefighters and Police Officers Pension Plan. The discussions reported in these minutes include comments from members of both Boards. All discussions are of value to each Board, even if the following motion did not apply to one Board. However, the motions noted in these minutes only relate to the Supplemental Retirement Board.

**CALL TO ORDER**

The meeting was called to order at 8:36 AM on February 14, 2013.

Mr. Gates welcomed everyone and then explained the new approach to Board meetings that entailed providing summaries in advance, more preparation before the meetings, and more focus during the meetings.

**APPROVAL OF MINUTES**

There was a motion by Mr. Cochran to:

Approve the January 16, 2013 minutes.

Ms. Triggs seconded the motion.

The motion was unanimously approved (8 – 0).

**SWEARING IN OF BOARD MEMBERS**

The Supplemental Retirement Board Accept Appointment or Election as Board Member form was received from a member. A form is still needed from one absent Board member.

**FINANCIAL REVIEW**

Mr. Bryant provided a brief review of the quarter's economic and financial results. A written overview had been provided in advance. Most relevant to the day's meeting with NewSouth, Mr. Bryant said value had outperformed growth and that small cap had outperformed large cap.

Dahab Associates has a vendor that is providing data for the quarterly reports less timely than formerly provided. Quarterly reports may arrive later than previously. For the time being the Board will not reschedule its meetings to later in the quarter. There may be times when the Board receives the hardbound report at the Board meeting rather than in the packet. However, it is expected that an electronic version is available on a timely basis.

Mr. Cross arrived at 8:52 AM.

**DOMESTIC SMALL CAP EQUITY**

Staff provided his perspective. NewSouth provided materials after staff's written materials to the Board. That new information was insightful and led staff to a greater confidence in NewSouth's stock picking capabilities.

NewSouth is basically a stock picker. It does not lend itself to a "style box" where it can easily be compared to countless others in the same box and then rated "good" or "bad."

Christine Burns Patti CFA, from NewSouth, introduced herself and Brooke Morrow CFA.

Ms. Burns Patti provided a company overview. The company had closed the small cap fund to new investors because of capacity constraints. Existing customers are allowed to rebalance.

NewSouth has added an analyst in July.

Ms. Morrow said NewSouth does not track a benchmark. Typically there are only 25 – 35 holdings and therefore returns will be "lumpy."

They seek managers with a long term focus. They avoid technology sectors because of obsolescence. They avoid banks because they are a commodity business. They seek balance sheet strength including significant free cash flow.

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Mr. Bryant asked if NewSouth owned technology or financial companies. Ms. Morrow referred to page 20, where a number of financial firms were listed. Most are in a niche such as pawn shops, service substandard loans, group long term disability, etc.

The one technology firm is ManTech. This is a software firm specializing in Department of Defense (DOD) and Homeland Security.

Mr. Eger asked if the President's recent announcement on cyber-security is expected to have an impact. Ms. Morrow said the firm is nearly fully dedicated to DOD, but was slowly branching out into health care. The announcement on cyber-security should not have an immediate impact.

Mr. Cross asked about being overweight in durables. Ms. Morrow said it was a function of bottom up stock picking. It was not a conscious choice to over or underweight any sectors.

Mr. Eger asked about turnover. Ms. Morrow referenced page 32. Turnover has been quite low.

Mr. Jinks asked about sell criteria. Ms. Morrow said they sell when:

- The security approaches the firm's estimated intrinsic value
- The position's market value exceeds 10% of the portfolio, or
- The relative value becomes less attractive – they can find something better and cheaper.

Ms. Niebauer asked if they trim positions or sell all. Ms. Morrow provided examples of each.

Mr. Gilmore asked about concentration in industries. They are capped at 10% per security and 25% per industry.

Ms. Morrow and Ms. Burns Patti left at 9:22 AM.

## **ADMINISTRATOR'S REPORT**

### **NOTEBOOKS**

Staff said that each Board member would receive a three ring binder with information on the plan, key people, meeting dates, investment policy statement, CAFR excerpts, demographics, etc.

### **OVERVIEW OF REVISED MONTHLY REPORTS PROCEDURE**

Staff discussed the new procedure for reviewing monthly reports. The Board packets will include a write up and the presentation in the Board meetings will be brief.

### **REBALANCING AND INVESTMENT REPORT**

Handout 5 (c) (i) was referenced. There was a motion by Mr. Cochran to:

Rebalance the Pension Fund by moving \$1,000,000 from NewSouth and \$500,000 from Champlain and reallocating \$1,500,000 to the PIMCO Total Return Fund.
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Ms. Triggs seconded the motion. The motion passed unanimously (7-0).

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#### **VOLATILITY REPORT**

The report is generally distributed quarterly and not presented this month.

Mr. Muse left at 9:48 AM.

#### **CASH FLOW SUMMARY REPORT**

The cash flow reports were supplemented by a discussion of agenda item 6 (a) on Cash Flows, Liquidity, Illiquidity (which was taken out of turn). Handout 6 (a) exhibit 1 graphically displays contributions exceeding benefits plus expenses since plan inception. This is projected to continue for more than two years.

The second graph on 6 (a) Exhibit 1 displays contributions net of benefits and expenses compared to net cash flows to illiquid investments.

Handout 6 (b) Exhibit 1 makes the point that most of the plan's limited partnerships are of a finite life and periodic reinvestment is needed. This was previously distributed and not discussed at length.

Handout 6 (b) Exhibit 2 is a schematic that represents the position on the lifecycle of the plan's private equity. This was previously distributed and not discussed at length.

Handout 6 (b) Exhibit 3 juxtaposed the attributes of public and private investments.

#### **PRIVATE EQUITY (LANDMARK) CASH FLOW REPORT**

This was included in the packet as a reference, as background material, and not specifically addressed.

#### **REAL ESTATE CASH FLOW REPORT**

No report was provided or discussed at this meeting.

#### **TIMBER CASH FLOW REPORT**

This was included in the packet as a reference, as background material, and not specifically addressed.

#### **COMMUNICATIONS: JOINT MEETINGS POSTED ON ALEXNET**

Staff reported that joint Board meetings as well as plan information would be posted on the website.

#### **EDUCATION: SEMINARS, CONFERENCES, AND TRAINING**

Material on the International Foundation of Employee Benefit Plans was brought to the meeting and available.

#### **FOLLOW-UP ITEMS**

At a previous meeting Mr. Gates asked for information on loans from the City's deferred compensation plans. Handout 5 (d) (iii) Exhibit 2 provided statistics. This related to a previous general education item on retirement preparedness.

#### **CEBS CLASSES FOR ARTHUR LYNCH**

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Staff asked for the Supplemental Retirement Plan to fund one half of the cost of Mr. Lynch taking the three International Foundation of Employee Benefit plans classes leading to a CEBS pension certificate. The classes, books, etc. should cost between three and four thousand dollars in total. The Fire and Police Plan would be asked to fund the other half.

Ms. Triggs made a motion:

The Supplemental Retirement Plan to fund one half of the cost of Mr. Lynch taking the three International Foundation of Employee Benefit plans classes leading to a CEBS pension certificate.
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Ms. Robinson seconded the motion. The motion passed unanimously (8-0).

Staff asked for the Supplemental Retirement Plan to fund one half of the cost of Ms. Coley taking the nine International Foundation of Employee Benefit plans classes leading to a CEBS certificate. The Fire & Police Plan would be asked to fund the other half.

Ms. Triggs made a motion:

The Supplemental Retirement Plan to fund one half of the cost of Ms. Coley taking the International Foundation of Employee Benefit plans classes leading to a CEBS certificate.
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Mr. Cochran seconded the motion. The motion passed unanimously (8-0).

#### SECURITIES MONITORING

No update was provided.

Ms. McFadden left at 10:00 AM.

### **NEW BUSINESS**

#### LIMITED PARTNERSHIPS

Staff made a general comment in favor of some international exposure. The purpose was to diversify risks: currency, economy, regulatory & labor constraints, etc.

This was not necessarily to suggest that a timber selection should be made to the company with the most international exposure, but that between timber, private equity, real estate, and farmland, consideration be given to some international exposure.

#### TIMBER

Mr. Bryant prefers Molpus because at the present time domestic timber appears to be at a cycle low, he believes domestic is less risky than international, and Molpus is 100% domestic.

Staff believes both Hancock and Molpus are good choices. Hancock has the advantage of global diversification and the ability to cast a wider net in searching for best value. Molpus probably has a

superior domestic operation. A reference check was favorable for each. The international exposure Hancock is considering is into countries as: United Kingdom, Ireland, Scandinavia, Canada, New Zealand, and Australia. These all have a stable political environment and represent less political risk than other international or global funds.

Mr. Cross believes the Board should hear from Molpus. He felt that it may not be sufficient that some of the current Board members heard a presentation from Molpus in 2010. It is possible that their goals for their partnerships may have changed. The process should be documented.

The consensus is to defer a timber decision. An effort should be made to hear from Molpus and Hancock by or at the March meeting.

There was a motion by Mr. Eger to:

Defer discussion on timber investments until the March meeting.
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Mr. Cochran seconded the motion.

The motion was unanimously approved (7-0).

#### PRIVATE EQUITY

Mr. Bryant discussed the benefits of vintage year diversification and staggering investments over time. He believes it is okay to go with only one investment manager. He then discussed the merits of primary vs. secondary private equity.

Mr. Tierney asked what is the industry standard.

Staff said the duration of secondary private equity is shorter than that of primary.

Mr. Bryant said the Board must choose to invest in all primary or all secondary or invest a little in both primary and secondary at the same time. Mr. Bryant indicated that he believes the strategy of investing in both primary and secondary at the same time might be complex to administer.

Mr. Tierney said the proposal was not complex.

Ms. Niebauer made a reference to NewSouth having fewer investments that they knew quite well. In a similar way she prefers a private equity platform with fewer partnerships that she might get to know better.

Staff highlighted that the topic of alleged complexity in administering the plan was raised by people not administering the plan. Ms. Triggs expressed concern that some staff time might have to be devoted to pension administration instead of investments.

Mr. Cross is not as concerned about distinguishing primaries and secondaries, as much as he seeks a strategy, a framework. He seeks a Liquidity/Illiquidity policy statement.

Mr. Gates suggests the Board add to the June retreat agenda an item on liquidity policy. He summarized that all members seemed comfortable with a single vendor.

Mr. Gilmore asked why a selection of style must be made in advance and why the Boards could not make the strategy selection at the time of each selection. Mr. Bryant explained vintage year diversification called for consistently sticking with one strategy throughout and not alternating between the two.

Mr. Tierney left at 11:30 AM.

Mr. Cross said there is a desire to have general (non-binding) guidance in building out a private equity platform. He made a motion regarding the Fire and Police plan.

To clarify the Fire and Police motion, staff provided an example: If a recommendation was made for Hamilton Lane Fund VIII today then it would consider the probable commitment to Fund IX in 2015 or 2016 and Fund X another 2-3 years after that, its implications for cash flows, liquidity, the J-curve, and so on. Mr. Cross said this captured the spirit of his motion.

Mr. Gates noted that the Supplemental Retirement Board is taking no action on Private Equity at this time.

#### ENHANCED INDEXING

This presentation was deferred until the next meeting.

### **OLD BUSINESS**

#### FARMLAND

Staff provided a recap of farmland commitments. The potential calls need a revenue source. This calls for amending the asset allocation in the Investment Policy Statement.

Mr. Tierney said he was concerned with illiquidity. Mr. Bryant said he would set a limit at twenty percent illiquid assets.

Mr. Cochran made a motion:

The Investment Policy Statement is modified by decreasing the target allocation to Small Cap: 1% from PIMCO Enhanced Index and 1% NewSouth. A 2% allocation to Farmland created.
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Ms. Eger seconded the motion.

The motion passed unanimously (7 – 0).

Discussion:

**TOPICS FOR FUTURE MEETINGS**

The manager presentation May 9<sup>th</sup> is to be determined.

If trustees have suggestions for Board education they should please forward them to staff and/or the Chairman.

Staff recommends a meeting May 1, 2013 to discuss the actuarial valuation.

Mr. Rouff made a motion:

The Board shall meet May 1 to hear a presentation of the 2012 actuarial valuation by Cheiron.
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Ms. Robinson seconded the motion.

The motion passed unanimously (7 – 0).

**NEXT MEETINGS**

March 6, Wednesday, 8:30 AM, Interim Meeting

April 3, Wednesday, 8:30 AM, Interim Meeting

May 1, Wednesday, 8:30 AM, Interim Meeting

**May 9, Thursday, 8:30 AM, Due Diligence Meeting – joint meeting with Fire Police Board**

**June 13, Thursday, 8:30 AM – all day, Board Retreat – joint meeting with Fire Police Board**

July T.B.D., 8:30 AM, Interim Meeting

August 7, Wednesday, 8:30 AM, Special\*

**September 12, Thursday, 8:30 AM, Due Diligence Meeting – joint meeting with Fire Police Board**

October 2, Wednesday, 8:30 AM, Interim Meeting

**November 14, Thursday, 8:30 AM, Due Diligence Meeting – Joint meeting with Fire Police Board**

December 4, Wednesday, 8:30 AM, Interim Meeting

**ADJOURNMENT**

The joint meeting with the Fire and Police Board, and the Supplemental Retirement Plan Board meeting ended at 12:17 PM.

**HANDOUTS**

Distributed in advance to Board members

1. Agenda
2. Minutes of January 10, 2013 [1(a)]
3. Investment Performance Review Notes and Questions [3]
4. Dahab Meeting Note 4Q12 Performance [3(1)]
5. NewSouth Preparation [4]
6. Summary of NewSouth Presentation [4(a) – Exhibit 1]
7. NewSouth S&P 500 Illustration [4(a) – Exhibit 2]
8. Administrator’s Report Cover Memo [5(b)]
9. Monthly Investment & Rebalancing Report [5(c)(i)]
10. Cash Flow Report [5(c)(iii) Part 1 & 5(c)(iii) Part 2]
11. Private Equity Cash Flow Report – Landmark [5(c)(iv)]
12. Timber Cash Flow Report – Hancock [5(c)(vi)]
13. Administrator’s Follow-Up Items Report [5(d)(v)]
14. Cash Flow & Liquidity Projection [6(a) – Exhibit 1]
15. Maintaining Target Allocations for Alternative Assets [6(b) – Exhibit 1]
16. Amount of Funds at Work [6(b) – Exhibit 2]
17. Liquidity/Illiquidity [6(b) – Exhibit 3]
18. Timberland Returns – NCREIF [6(c)]
19. Enhanced Indexing [6(e)]
20. Farmland Returns – NCREIF [7(a)]
21. Investment Policy – Asset Allocation [7(a)(i)]
22. Dahab Performance Review December 31, 2012
23. NewSouth Presentation

Distributed during the meeting: None