MINUTES OF SEPTEMBER 12, 2013 RETIREMENT BOARD
CITY OF ALEXANDRIA
SUPPLEMENTAL RETIREMENT PENSION PLAN
DUE DILIGENCE MEETING

PRESENT

Members	Others
Tom Gates, Chairman (Management)	Rhonda Berger, Brandes Investment Partners
Morgan Routt (Management)	Steven Bland, Retirement Administrator
Laura Triggs (Management)	James Bland
Shane Cochran, (Supplemental GS Member)	Barry Bryant, Dahab Associates
Jean Kelleher (Management, Alternate)	Bryan Capelli, Retirement Specialist
Brenda D'Sylva, (Supplemental GS Alternate)	Al Tierney (Police)
Bill Eger, (Supplemental GS Alternate)	Kadira Coley, Retirement Specialist
Robert Gilmore, (Supplemental Deputy Sheriff Alternate)	Rick Muse, (Fire)
Nancy McFadden, (Supplemental EMT Member)	Grant Duncan, Brandes Investment Partners
Marietta Robinson, (Supplemental GS Member)	Ed Milner (Police)
	Mark Jinks (Management)
	Thomas Ground, Alexandria Police Department
	Arthur Lynch, Retirement Specialist
	Theresa Nugent, Communications Specialist
	William Oakley, Alexandria Police Department
	James Pontone, Johnston Asset Management

Absent:
Jarrod Overstreet, (Supplemental Deputy Sheriff Member)

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 Firefighters and Police Officers Pension Plan Board.

CALL TO ORDER

The meeting was called to order at 8:36 AM on September 12, 2013.

QUARTERLY INVESTMENT REVIEW

Mr. Bryant began the investment review with page 4 saying the GDP growth of 1.7% was slow, particularly in the context of recovery from a recession. Markets were very weak, and our managers weaker still.

Ms. McFadden arrived at 8:37 AM.

Fiscal stimulus from the government was lower than in most years following a recession.

Mr. Tierney arrived at 8:38 AM.

Mr. Bryant explained the Shadow Index projects how the portfolio would have performed had it been entirely invested in index funds. The Policy Index demonstrates how the portfolio would have done had the actual weights been equal to the target weights at the beginning of the measurement period.

Mr. Cochran arrived at 8:39 AM.

During the quarter high dividend stocks performed well. Mr. Bryant suggests that stock picking will return soon. This means that high correlations will subside. Investment prowess will rely more on stock selection than on being in or out of the market.

Mr. Bryant discussed Herndon, the large cap value provider. They have underperformed for the quarter, year to date, year and since inception. They outperformed in calendar year 2012 and prior to the beginning of our mandate. Their people and processes have not changed.

Ms. Kelleher arrived at 8:48 AM.

JOHNSTON ASSET MANAGEMENT

Mr. Pontone introduced himself and provided a brief outline of his firm (page 2). They now have $3.7 billion assets under management. There have been no significant changes to the investment team (page 3). Jeff Gartman was added to the operations team to replace Joan Giannotti who is retiring.

The investment focus is on:

- Earnings per share growth
- Market leadership, and
- Valuation

This approach has provided downside protection in the past. They have low turnover.

China's working population shrank in 2012 for the first time on record. This may impact their growth and focus on services (care for the non-working population) rather than industrialization.

American markets have outperformed most world markets over the last year. Emerging markets were the weakest. Page 6 indicates equity market performance by country and this is followed by currency performance. (Pages 5 – 7).

The fund has underperformed recently, but out-performed since inception on a gross and net basis (page 9).

Their country selection has been weak, but their stock selection has been better (Pages 10 & 11).

The statistics on page 13 reflect a bias towards growth and quality.

Johnston's biggest concern is the phasing out of Quantitative Easing "QE." (Page 17)

They have reduced exposure to China from 11% to 5%.

Johnston does not own any telecom, growth prospects are too limited. They have increased exposure to financials.

Their hurdle rate for growth is 10%. Staff asked if the 10% would increase in an inflationary environment in which increasing earnings was easier. Mr. Pontone said the 10% was a floor, then companies in the screens were sorted, so those with growth prospects exceeding 10% would be at the top of the screen.

Ms. Kelleher asked why healthcare was overweighted at 20%. Mr. Pontone said the industry had significant innovation, demographics as a tailwind, and many ways to succeed: managed care, pharma, devices, etc.

Staff asked about currency wars, central banks iteratively devaluing their currency. Mr. Pontone believed it would not hurt emerging markets as much as others believed. They had reduced their emerging market exposure, but expect to increase it soon. They do expect pain from unwinding the Federal Reserve Board's "QE" program.

Ms. Triggs asked who was a local counterpart to Orix, one of the company's holdings. Staff named C.I.T. Mr. Pontone agreed and added G.E.'s financial unit was also in the business of middle market lending.

Mr. Pontone believes consumer staples are too high, and high dividend stock are too expensive. Emerging markets are becoming cheaper.

Mr. Pontone left at 9:48 AM.

BRANDES INVESTMENT PARTNERS

Ms. Berger and Mr. Duncan introduced themselves and their firm.

They believe investor sentiment has changed. Valuations have largely gotten higher. However, Brazil has a price disconnect. Prices have come down significantly in first half 2013.

Page three shows the many Brandes mandates.

Page five displays stock performance by decile. This argues for a value approach over growth. This is true whether the metric is P/E, P/S, P/B etc.

The chart on page 7 shows how Brandes has altered their weighting to large, mid, and small cap. They also said that some sectors are more heavily represented in one class than another. For example, consumer goods tend to be small cap and commodities large cap.

The Brandes model calls for seven teams divided by sector. The analysts seek a security at a 30% discount to intrinsic value.

They do not hedge currency. However, they do look for their supplier's currency, their customers' currency, and the denomination of their debt.

They will invest in Frontier markets such as Panama and Saudi Arabia. They may invest in securities where the domicile is developed markets but the business is largely emerging markets. For example Erste Bank in Austria has 70% of its business in Eastern Europe. A Luxembourg firm has 100% of its assets in Chile.

Staff asked how the initial purchase amounts are set. Brandes tends to start small and average down if they have bought in too early.

Mr. Milner asked how many securities do they screen. They screen many thousand. They monitor a few hundred. About three to five go to the weekly investment committee meeting.

Staff asked about their research capabilities in foreign languages. Ms. Berger said many of their analysts are native to countries around the world.

Mr. Jinks asked about the quality of financial reports. Ms. Berger did say that more and more companies were following GAAP every year. However, it was not yet up to 100%.

There were questions about political risk. Ms. Berger mentioned Gazprom (energy & pipelines) in Russia and Eletrobras (electric utility) in Brazil. There are significant political risks. However, the security prices are also severely discounted.

Staff asked what the most extreme valuations were, be it equities, fixed income, commodities, real estate, growth or value, large or small, etc. Ms. Berger said domestic small cap was most expensive. Europe and emerging markets were rather attractive, but that emerging markets might become even more attractive.

Ms. Berger and Mr. Duncan left at 10:00 AM.

MEETING RECORD

There was a motion by Mr. Cochran to:

Approve the August 12, 2013 minutes.

Ms. Triggs seconded the motion.

The motion was unanimously approved 7 – 0.

ADMINISTRATOR'S REPORTS

Rebalancing is not required at this time. (Handout 5 (a) (i))

The volatility report suggests a steep market drop is not imminent. (Handout 5 (a) (ii))

Landmark has called approximately 72% of our commitment to date.

Real estate continues to produce a dividend of 4% per year. Prudential now combines all the City's accounts into one for the sole purpose of determining fees. This provides a fee break of about $1,000 per quarter for all the plans combined. (Handout 5 (a) (iv) (1))

Molpus expects its first close in September and a call shortly thereafter.

Alexandria is hosting the semiannual meeting of Virginia's public pension plans. The meeting begins Sunday October 20th at 1:00 PM for trustees and administrators. It will go through late Monday afternoon October 21st for trustees. The theme is real assets. Staff recommended the meeting and suggested a motion for the plans to fund the registration fee of $195 for trustees. If trustees or staff serves more than one board the registration should be prorated over the plans based on plan assets.

There was a motion by Ms. Triggs to:

> Approve use of plan funds for the registration fee of $195 for trustees for the fall AMRSVA. Approve registration costs for staff and administrators. If trustees or staff serves more than one board the registration should be prorated over the plans based on plan assets.

Ms. Smith seconded the motion.

The motion was unanimously approved (7 – 0).

Ms. Nugent announced seminars for employees September 26th and November 19th & 21st. Mr. Cochran asked if the Affordable Care Act could be discussed. Staff is open to this if an expert on the Affordable Care Act can be found.

Earlier this year Ms. D'Sylva requested information on the Pension Administration Division's review of benefit calculations. The statistics reflect over 150 reviews per year. The data elements reviewed were enumerated. (Handout 5 (b) (ii) (1))

There was a clarification. At the August meeting staff indicated the cost of the experience study was included in the contract with the actuary. The suggestion might have been that this is free. It is not free, the price is delineated in the contract. It is $25,000 for Police and fire and $20,000 for the Supplemental Plan. The Disability component makes the fire and police plan more difficult and therefore more expensive. (Handout 5 (b) (ii) (2))

The expenses for the plans were listed. When assets were taken from Prudential fees were increased. Administrative fees are now determined by a per participant charge. This approach makes the Supplemental plan much more expensive than the Fire & Police Plan. (Handout 5 (b) (iv) (1))

A distribution of retirements and disabilities by year is discussed. Survivorship enters the chart, so the data reflects the modest impact of mortality on new retirees. None-the-less, it is demonstrated that the number of retirees, and the Pension Administration Division workload is increasing – probably owing to the retirement of baby boomers. (Handout 5 (b) (iv) (2))

OLD BUSINESS

Members of the Supplemental Retirement Board had asked to receive updates on the transition to a new ICMA-RC investment menu for deferred compensation (457). A termination letter has been sent to the current third party administrator, Prudential. The contract with ICMA-RC has been signed. The mapping of the investment platform has been reviewed. A weekly conference call is made on the transition. The Boards will be provided periodic progress reports.

JOINT BOARD MEETING ENDS

The joint meeting of the boards ended when the Supplemental Board adjourned at 11:03 AM. The Supplemental Retirement Board trustees continued their meeting with plan specific issues.

There was a discussion about Supplemental alternate board members representing the Sheriff's Deputies and Emergency Medical Technicians (EMTs). Currently, there is no alternate for the EMTs and the primary Sheriff's Deputy Representative has not attended any meetings. The Chairman asked that this topic be discussed at the next joint meeting. Mr. Gilmore will ask Valerie Wright of the Sheriff's Office if she can attend that meeting and possibly the AMRSVA conference.

ADJOURNMENT

There was a motion by Ms. McFadden to:

Adjourn.

Ms. Robinson seconded the motion.

The motion was approved unanimously (7 – 0).

NEXT MEETINGS

1. Wednesday - October 2nd 8:30 at AM, Sister Cities 1101, Interim Meeting
2. Sunday – Monday, October 20 – 21, Association of Municipal Retirement Systems of Virginia (AMRS-VA), Alexandria 4641 Kenmore Ave Alexandria, VA 22304, Sunday 1:00 PM until Monday noon
3. Thursday November 14th 8:30 at AM, Sister Cities 1101, Due Diligence Meeting

HANDOUTS

Distributed to Board members in the Board Packet:

1. Agenda
2. Minutes of Prior Meeting [2(a)]
3. Investment Performance Review [2(c)]
4. Administrator's Report [5(a)]
5. Monthly Investment & Rebalancing Report [5(a)(i)]
6. Volatility Report [5(a)(ii)]
7. Private Equity Report Cash Flows [5(a)(iv)]
8. Real Estate Report Cash Flows [5(a)(v)]
9. Follow Up items [5(b)(ii)]
10. Benefit Calculation Review [5(b)(ii)(1)]
11. Five Year Actuarial Study [5(b)(ii)(2)]
12. Pension Plan Expenses [5(b)(iv)(1)]
13. Pension Plan Demographics [5(b)(iv)(2)]
14. Recommended Motions [5(c)]
15. Adjustment Mechanism Proposed Changes [8(b) Exhibit 2]
16. Adjustment Mechanism Proposed Changes Comparison [8(b) Exhibit 3]
17. Draft Fire & Police Officer Pension Plan Amendment [8(b) Exhibit 3]

Distributed at the meeting:

1. Firefighter & Police Officer Pension Plan Performance Review, June 30, 2013 – Dahab Associates
2. City of Alexandria Firefighters & Police Officers Pension Plan - Brandes
3. Client Review - Johnston Asset Management
4. Investment Review Second Quarter 2013 - Prudential