

**MINUTES OF JANUARY 8, 2014 RETIREMENT BOARD  
CITY OF ALEXANDRIA  
SUPPLEMENTAL RETIREMENT PENSION PLAN  
INTERIM MEETING**

**PRESENT**

<u>Members</u>	<u>Others</u>
Shane Cochran, <sup>1</sup> Chairman (General Schedule)	Steven Bland, Retirement Administrator
Bill Eger <sup>2</sup> (General Schedule, Alternate)	Bryan Capelli, Retirement Specialist
Tom Gates, (Management)	Kadira Coley, Retirement Specialist
Laura Triggs, <sup>2</sup> Secretary (Management)	Young-Ju Kim, Medic
Valarie Wright (Deputy Sheriff, Alternate)	

Absent:

Brenda D'Sylva (General Schedule, Alternate)  
Robert Gilmore <sup>1</sup> (Deputy Sheriff)  
Jean Kelleher <sup>1</sup> (Management, Alternate)  
Nancy McFadden (Medic)  
Marietta Robinson (General Schedule)  
Morgan Routt (Management)  
Nelsie Smith (Management)

Terms: 1/1/2014 – 12/31/2015

<sup>1</sup>Technical Corrections Committee

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

**CALL TO ORDER**

The meeting was called to order at 8:46 AM on January 8, 2014.

**MEETING RECORD**

There was a motion by Ms. Triggs to:

Approve the December 19, 2013 minutes.
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Mr. Eger seconded the motion.

The motion was unanimously approved (4 – 0).

**ADMINISTRATOR'S REPORTS**

Regular Investment Reports

Referring to page 9 of the board packet, staff said rebalancing from the December 19, 2013 meeting was complete. The rebalancing currently recommended is for several comingled funds. These funds require instructions to be received prior to the 15<sup>th</sup> of the month. This rebalancing would be complete February 1.

Ms. Triggs made a motion to:

Sell \$.5 million Johnston Asset Management (international developed markets) and \$1.5 million Champlain (domestic midcap) and purchasing \$2 million PIMCO Total Return Fund (domestic fixed income).

Mr. Eger seconded the motion. The motion passed (4 – 0).

Staff recommended a standing order permitting staff to rebalance up to 1% of the fund per month with the signature of the CFO (Ms. Triggs) required.

Mr. Eger made a motion to:

Approve the ability for staff to initiate rebalancing up to one time per month for up to 1% of the plan assets with the approval signature of the CFO.

Rebalancing is limited to months in which there is no board meeting prior to the 14<sup>th</sup> of the month or, if there is a board meeting, there is no quorum for a motion to rebalance.

Rebalancing of investments is the action of bringing a portfolio that has deviated away from one's target asset allocation back into line. Allocations of under-weighted securities can be purchased bringing them closer to their target allocation and over-weighted securities can be sold bringing them closer to their target allocation.

Ms. Wright seconded the motion.

DISCUSSION: The December Board meeting took place on the 19th of the month and the managers of most comingled funds require notice by the 15th. Additionally we have needed rebalancing during a meeting where a quorum was not attained. In either of these two circumstances staff may not execute a recommended rebalancing. This standing motion would help to mitigate these two issues. Required rebalancing could still be executed.

The motion passed (4 – 0).

Mr. Cochran arrived at 8:55 AM.

Referring to page 10 staff discussed the volatility report. Volatility can be measured in many ways. Using the simple measure of counting daily changes in the S&P500 of more than 1%, the report suggests 2013 had lower volatility than any year since 2006. Also, performance in 2013 was very strong. Staff believes low volatility and performance are linked.

Page 11, the Landmark Private Equity report, indicated a cash call was made for January 17.

Referring to page 12, staff said real estate was yielding 4% which is competitive with fixed income. Real estate adds a degree of inflation protection and potential capital gains. The downside is volatility that is greater than fixed income and less than equities. It is a reasonable compliment to fixed income.

Ms. Triggs made a motion to:

Approve the reinvestment of PRISA distributions
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Ms. Wright seconded the motion.

DISCUSSION: Roughly a year ago PRISA was overweighted, (actual allocation exceeded the 5% target). Rebalancing Real estate is very cumbersome. Staff recommended distributions be taken in cash rather than reinvested. Since that time equities have had a stellar year and Real Estate is now underweighted (below the 5% target allocation).

The motion passed (5 – 0).

Page 13 of the packet addressed timber. Initial distributions have been modest. Hancock recently reported that their distributions are expected to be significantly larger beginning in 2014.

### Other Items

#### Education: conferences, seminars and training

Staff will explore the possibility of working with the International Foundation of Employee Benefit Plan (IFEBP) to provide local training. The IFEBP sponsors the CAPP class that several trustees have attended and enthusiastically endorsed. The goal is to have a common effort from local public pension boards such as Fairfax, Arlington, and the D.C. area pool resources and jointly host the sessions. Staff was encouraged to pursue this.

#### Vendor Contracts

Page 15 is a list of vendors, when their contracts were signed, their expiration, and any extensions or options.

Staff suggested the Vendor & Service Provider Committee survey trustees, staff, investment managers, and other vendors to determine their satisfaction with vendor performance.

Board members suggested that there is an opportunity for the board to communicate with and educate plan members about the Board, its duties and professional (vendor) support of the plan. Review of this topic was deferred to the Vendor & Service Provider Committee.

## **OLD BUSINESS**

### *Calendar & Schedule of topics for 2014*

The calendar on page 18 provides a meeting schedule and tentative list of topics for 2014. The proposed educational topics for the June 12<sup>th</sup> board retreat were approved. Herndon will be invited to the February Due Diligence Meeting.

There was a discussion of the frequency of investment manager meetings. The consensus is to meet with a limited number of managers each year. Prioritizing those manager meetings might be based on the size of the plan's assets under management, performance, time elapsed since the last meeting, or the clarity of their investment process. Five such manager meetings are scheduled for the four quarterly due diligence meetings plus the Board Retreat.

Additionally, staff would meet with other managers not invited to one of the five meetings. Trustees should be invited to these meetings.

Mr. Eger inquired about engaging Dahab in a discussion of service provided at the Board Retreat or other meeting if more appropriate. Staff noted that Dahab's contract is up for extension in 2014. Another staff member asked if there is a desire to complete an RFP that process would need to be initiated prior to the June retreat.

### *Update on Tactical Asset Allocation*

Dahab Associates reported to staff that they had received many inquiries about the Global Tactical Asset Allocation RFP. Most managers would turn their responses in at the last moment so that they could submit the most current data.

### *Plan Document Technical Corrections*

There was a motion by Mr. Cochran to:

Approve the Plan to pay \$3,300 to the Plan's Attorney, Venable, for expenses associated with drafting the plan amendment, restatement and IRS Plan Determination.
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Ms. Wright seconded the motion. The motion was unanimously approved (5 – 0).

### *Investment Strategy*

Page 20 is essentially a table of contents that introduces background information for a discussion of Investment Strategy.

Pages 21 through 23 review the efficient frontier. The efficient frontier is a pictorial representation of the optimal output of an asset allocation study. Just like the asset allocation model itself, it is no better, and no worse, than the assumptions used. Staff emphasized, the efficient frontier was to help conceptualize the idea of optimization. The actual work is done in the asset allocation program itself.

There is no compelling reason to add an asset class unless it expands the efficient frontier. Alternatively, if the addition of an asset class provides better risk/return possibilities than were available without that asset, there is a very compelling argument to include that asset in the portfolio.

The efficient frontier provides a qualitative confirmation of an additional asset being beneficial. However, it does quantitatively indicate how much of the asset should be added.

Page 24 and 25 are charts using Price to Earnings (P/E) ratios as predictors of future returns. Both the traditional P/E ratio and Robert Shiller's CAPE ratio suggest that at this time domestic equities are on the expensive side.

Pages 26 through 33 are redistributed from an earlier board meeting. Page 26 creates a context for fixed income being an effective hedge against equity downturns. The 1973 and 1987 equity collapses were accompanied by fixed income market declines. However, in 2000 and 2008, stock and bond markets moved in opposite directions. The rightmost portion of the table contrasts portfolio performance in these two environments.

Page 27 models portfolio performance in market declines with the current portfolio as well as one with less equity weighting. There are two variations, one with bond prices declining, the other with them increasing.

Pages 28 – 31 compare and contrast hedging equities directly with short funds, and diversifying with low correlation assets. Generally, staff prefers to use assets with low correlations.

Page 32 includes a set of ideas staff believes are important to go into an investment strategy. Staff referenced page 26 and tied this to the fourth strategic idea. In defending against losses in an equity market meltdown, it is important to spread our non-equity funds over more than one basket, and not overly rely on one asset class, such as domestic fixed income.

Page 34 discusses the All-Weather portfolio and a variation. The Permanent Portfolio by Harry Browne anticipates four economic environments and invests for each of them with a constant allocation of 25%. This has produced good results with a very fine Sharpe Ratio. The All Weather Portfolio is run by Bridgewater, a hedge fund. They have tweaked the Permanent Portfolio to create more flexibility and have also had good results.

The point of the discussion is to highlight preparation for multiple investment climates. Staff does not endorse literally a 25% commitment to each of four buckets.

Pages 35 through 38 address liabilities. Page 35 demonstrates that as the plan matures and approaches a level ratio of retirees to actives the fund will be at more investment risk. Pages 36 through 38

demonstrate the link between above expected salary inflation and the need for above expected investment earnings.

## **NEW BUSINESS**

### *Officer Elections*

Ms. Triggs made a motion to:

Appoint Mr. Shane Cochran as Chairman of the Board through December 31, 2014
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Mr. Gates seconded the motion. The motion passed (5 – 0).

Mr. Gates made a motion to:

Appoint Ms. Laura Triggs as Secretary of the Board through December 31, 2014
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Ms. Wright seconded the motion. The motion passed (5 – 0).

## **NEXT MEETINGS**

1. Thurs. February 13<sup>th</sup> 8:30AM Council Workroom, Joint Due Diligence Meeting, **NOTE LOCATION**
2. Wed. March 5<sup>th</sup> 8:30AM, City Hall Room 2000, Interim Meeting, **NOTE LOCATION**

## **ADJOURNMENT**

The meeting adjourned at 11:20 AM.

## **HANDOUTS**

Distributed to Board members in the Board Packet:

Agenda
Minutes of Prior Meeting [1(a)]
Monthly Investment & Rebalancing Report [3(a)(i)]
Volatility Report [3(a)(ii)]
Private Equity Report Cash Flows - Landmark [3(a)(iii)(1)]
Real Estate Report Cash Flows [3(a)(iv)]
Timber Report [3(a)(v)]
Administrator's Follow-Up Items Report [3(b)(ii)]
Vendor Contract Terms [3(b)(ii)(2)]

Recommended Motions & Action Items [3(c)]
2014 Board Meeting Planning [4(a)]
Investment Strategy Overview [4(d) - Exhibit 1]
Investment Strategy - Efficient Frontier [4(d) - Exhibit 2]
Investment Strategy - CAPE P/E Ratio [4(d) - Exhibit 3]
Investment Strategy - Equity Exposure [4(d) - Exhibit 4]
Investment Strategy - All Weather Portfolios [4(d) - Exhibit 5]
Investment Strategy - Liabilities/Benefits [4(d) - Exhibit 6]
Investment Strategy - Impact of Salary & Investment Assumptions [4(d) - Exhibit 7]