MINUTES OF MAY 10, 2007, RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN
DUE DILIGENCE MEETING

PRESENT

Members	Others
Dana Lawhorne	Chuck Arrington, Trusco
Michael Cross	Carl Beveridge, Trusco
Michele Evans	Steven Bland, Retirement Administrator
Pat Evans (Alternate)	Barry Bryant, Dahab Associates
Henry Howard	Dean Molinaro, Prudential
Mark Jinks	Theresa Nugent, Communications Specialist
Bruce Johnson (Alternate)	Lisa Powell, Prudential
Chris Lockwood	Michael Sahakian, Trusco
Shirl Mammarella	Christopher Spera, Assistant City Attorney
Laura Triggs	

CALL TO ORDER

The meeting was called to order at 8:38 A.M. on May 10, 2007

MINUTES

Mr. Jinks asked to amend the portion of the April 17th minutes that discusses the election procedures. The minutes should reflect the suggested change to both Police and Firefighters.

There was a motion by Mr. Cross and seconded by Ms. Triggs to approve the April 17th, 2007 minutes as amended. The motion was unanimously approved (7-0).

FIRST QUARTER INVESTMENT REVIEW

Mr. Arrington introduced Michael Sahakian from Trusco. He will be working on our account.

The investment guidelines call for a 70/30 equity/fixed income split. In the last three months $1,350,000 was transferred from equities to fixed income. Earlier this week the fund balance was just under $15.3 million and equities accounted for 72% of assets.

Mr. Jinks asked how we would know the Mortgage Backed Securities (MBS) are in good shape. Mr. Arrington said all MBS are agency backed (issued by Freddie Mac, Fannie Mae, etc.). The credit quality is very high. These are "conforming" loans and exclude sub-prime loans. They had no direct exposure to sub-prime loans. However, some large corporations such as Wells Fargo may have a small exposure to these loans. The portfolio is well insulated.

Mr. Bryant discussed the economy, the Federal Reserve Board, and Real Estate. He does not feel the market will be like last year.

Chairman Lawhorne asked if the one-year return on page five of the Dahab report was a rolling 12-month figure. It is.

Chairman Lawhorne asked what were the distributions referred to on page six of the Dahab report. Mr. Cross suggested they were largely DROP payments. Staff will confirm this.

Chairman Lawhorne asked about the Dahab review book, page three of the section on defined benefit plan. Are the percentile rankings started at 1 being the top or the bottom? Mr. Bryant said the 80th percentile for performance from June 2004 to date was below par. Eighty percent are better and twenty percent are worse. The statistic comes from ICC – the Investment Consultant Cooperative. Mr. Bryant attributed the ranking to the performance of the Guaranteed Deposit Account (GDA). Mr. Jinks asked about unwinding the GDA. Staff indicated 16% of the account could be transferred out annually without a surrender charge. The transfer had been made in 2006 but not taken place this year. Mr. Bryant pointed out that while the market is going down we want to have funds in cash and vehicles as the Guaranteed Deposit Account.

Chairman Lawhorne asked about the fund return versus the actuarial assumption of 7½%.

Mr. Bryant discussed sub-prime mortgages market and the role of the Federal Reserve Board.

Mr. Bryant discussed the weak dollar relative to foreign currencies. The weakness added to the already strong performance of foreign investments.

Mr. Molinaro indicated PIMCO had less than a percent, and probably less than a half percent exposure to sub prime loans. Munder, the small cap value manager, invested in a couple of lenders and home builders. This hurt their performance. Mr. Bryant indicated PRISA had no exposure to sub-prime loans.

Mr. Howard asked if any of the investments had exposure to derivatives. Mr. Bryant indicated the use of derivatives was small to nil. Mr. Molinaro said the investment managers rarely used derivatives and it was not an issue for our funds.

Mr. Jinks asked about hedge funds. Mr. Bryant offered to prepare a talk on hedge funds. He mentioned the fees and an alternative of private equities. However, private equities did have limited liquidity.

Mr. Molinaro indicated Prudential was having a meeting with Representatives from Munder next week. None of our funds are on the watch list. Some may be closed to new investors soon.

Mr. Jinks asked about the new graphs in Prudential's reports. Mr. Molinaro explained the format. A discussion followed of the appearance of style drift in the charts when in fact no such style drift was present. In fact, poorly performing small cap value funds were sometimes more regressed to small cap growth funds than their peers. Our managers are following their mandates.

Mr. Johnson asked if Turner was drifting from large-cap to mid-cap. Mr. Bryant said there were two factors. First, Turner is in the smaller portion of the large cap space. Second the same phenomenon discussed with respect to Munder was at play with Turner.

Mr. Molinaro recapped the changes the board had made at its February 7th meeting. Changes in funds available to Defined Contribution plan participants were first available April 2nd and funds being closed April 30th.

Ms. Mammarella asked about Prudential's DDA ranking for Wells Fargo.

Staff distributed Prudential's "Fact sheet" for Munder and Kennedy. Mr. Bryant indicated he would trade Munder for Kennedy if there were no trading costs involved. He further said managers may not be great every quarter. Mr. Molinaro noted Kennedy is managing a sub-advised fund for Prudential. No action was called for at this time. In anticipation of continued difficulties with sub-prime mortgages and real estate exposure board members were encouraged to read up on alternatives to Munder.

Mr. Molinaro explained the difference between the "Fund" and the "Fund Composite." The "Fund" represents the performance of the mutual fund. The "Fund Composite" returns are those of the new manager. The low Morningstar rating reflects the "Fund" performance figures.

TACTICAL ASSET ALLOCATION

This topic is postponed until the next Due Diligence meeting.

PRUDENTIAL PERFORMANCE REVIEW

Mr. Jinks reviewed the meeting held May 2nd with representatives from Prudential and City Of Alexandria Staff. Prudential brought their procedures manual. The manual is a working document that will be amended over time. Ms. Powell mentioned the Report Card developed to track the quality and quantity of performance. We will initiate regular conference calls between Prudential and the City Of Alexandria staff. Mr. Jinks acknowledged the difficulty of transitioning from a defined contribution plan to a defined benefit plan. Our plans are not simple plans; they are not easy to administer. Staff mentioned the calculation errors that had been discussed reflected current audits, but the mistakes were made in 2004 and 2005 when the plan was quite young and there was a learning curve for all involved.

Mr. Jinks told the board that Prudential had made an error in the Supplemental plan and made that plan whole.

Ms. Mammarella asked about the mailing of member statements. How can a member determine the cash value of their contributions – 7½% of pay? Staff had recently spoken with a Prudential representative who said the statements should be mailed Friday or Monday. Michele asked what was sent to disabled participants? Staff will follow up. Ms. Powell said there will be an insert to the statement. The statements are still a work in progress and there are improvements planned for next year.

The board discussed the sample benefit estimate statement included in the meeting materials. That particular example had a person hired at age 27. Therefore he/she did not reach 30 years of service prior to normal retirement date, which is the most common. Ms. Evans pointed out the benefit estimates focus on the benefit at age 50 and Normal Retirement Date and not after 30 years when the benefit is maximized. Ms. Triggs said there were a lot of changes to be made but we had to go with what Prudential had now to get the statements mailed. She suggested the estimates include language that the statements will be revised and we will send more information. Chairman Lawhorne asked what approach VRS took in delivering member statements.

DISABILITY WORKGROUP REPORT

In the absence of the Committee's Chair, Mr. Seskey, Mr. Bland reported on the committee. Since the last board meeting the Committee had met once and held several meetings with participants. These meetings were to address the 60-day notice requirement for plan amendments.

DISABILITY RETIREMENT – FINAL AVERAGE EARNINGS

Staff provided a handout and background on the issue:

1. In 2002 Mr. Ken Hoffman wrote plan amendments that called for changing the way the Final Average Earnings (FAE) are calculated. The FAE was used to determine the 36-month average using current salaries scales for the rank and grade of the member at the time of disablement – with no increases for rank or merit. This language ultimately went to City Council.

2. A memo summarizing the proposed amendments was silent on the issue of merit increases.

3. The text of this memo was used in the docket item that went to City Council.

4. Staff listened to a recording of the Council meeting in which this amendment (Resolution 2051) was adopted. There was no mention of the methods of determining the FAE.

Mr. Spera discussed the notion of an error correction as opposed to a new plan amendment. The document could be changed, but until then the administration of the plan must comply with the plan document as it is currently written. The changes considered would require a 60-day notice to members and approval of the City Council.

Ms. Evans sought clarification on the issue of retroactive pay adjustments for public employees. Ms. Triggs assured the board that this factor is being accounted for. It will be reflected in actuarial valuation Segal and Company is preparing. It goes into retirement calculations for disabled participants.

The board discussed the advancement to the end of the pay scale for members who were "topped out" at the time of disablement and later more steps were added to the pay scale.

Ms. Evans asked what the Employee Handbook said with respect to the disability provisions.

Ms. Evans requested staff invite to the next board meeting those who participated in 2002 in the discussions of disability provisions.

Ms. Evans made a motion:

> Staff invite to the next board meeting employees and former employees who participated in the 2002 disability plan amendments.

Mr. Jinks seconded the motion.

They should specifically be requested to bring formal minutes, meeting notes, correspondence, or documentation of those discussions. They should bring "evidence of promises that were have been made." Chairman Lawhorne directed staff to invite the participants and provide them the information in the board handout.

SERVICE CREDIT BUYBACK – PHONE SURVEY

At the April 17th meeting the Board discussed the number of people expected to participate in the buyback. Ms. Evans requested a survey be made. Ms. Nugent conducted that survey and presented the results. When the initial survey was made several months previously there were three options provided. Five participants selected the option that has since become the plan amendment. The current survey provided only the one choice. Seven participants indicated they would utilize the option.

Mr. Jinks asked what the cost impact would be. Staff indicated that the actuary had not completed the cost estimates to reflect the most current salaries, etc. Also, the first survey did not ask how many years each participant would purchase. In the absence of any other information the best estimate we could come up with was the cost for seven would be 40% higher than the cost for five. The actuary's results are expected soon.

Participants raised questions about the funding of the proposed service credit buyback. Mr. Jinks sent an e-mail to board members April 24th. That e-mail read:

> "I understand that there have been discussions and emails about the employee and employer contribution rates in the future given the actuaries preliminary draft report, as well as the buyback consideration. This is a serious issue that needs to be addressed, and it would be irresponsible for me not to address the issue, as I probably should have at our last meeting.
>
> When the DB Plan was discussed, designed and negotiated, the City took on the risks related to the new DB Plan. We knew going in that the 20% City paid employer rate might increase, if the Plan costs rose, or if investments, mortality and other factors caused costs to be higher than the actuary projected at that time. The result of that City assumption of risk is that the City's policy is that the 7.5% employee contribution rate would not be raised due to changes in pension fund experience.
>
> On the disability side, if the disability plan actuarial report indicates that more funds need to go into the disability plan then the City would plan on funding that increase as well.
>
> The same will be true for the subsidized portion of the buyback. If approved by Council, the City will fund the subsidized portion of the cost, and it would not be funded by the employee share being increased.
>
> The bottom line of all of the above is that the employee share now paid of 8% (7.5% + 0.5%) would not be raised.
>
> I hope that this clarifies the situation. Let me know if you have any questions."

Mr. Evans asked what would happen to contribution rates if the buyback were enacted. Mr. Jinks said the increase in contributions would be completely to the City and none to the member. Ms. Evans requested the docket item draft on the buy back as soon as possible even if dollar amounts aren't ready.

<u>FOLLOW UP ON OLD BUSINESS</u>

Staff distributed a handout on the Pension Protection Act of 2006.

Staff distributed a handout on Asset Smoothing. The handout is a pictorial representation of the smoothing methods. The methods are determined in advance and not changed with each valuation.

Staff distributed a revised set of election procedures. Participant members asked about the need for 25 signatures on a nominating petition. Mr. Spera cited the plan document, section 10.3 (f) (2). This is specifically required by the plan document. City Council could change it, but the board could not waive it.

Ms. Triggs made a motion:

The board adopts the election procedures.

Mr. Howard seconded the motion.

The motion passed unanimously (8-0).

Ms. Evans asked section titled, "Discussion Points" be removed from the document. Ms. Triggs and Mr. Howard agreed to strike the section titled "Discussion Points."

Ms. Mammarella asked if the board had to approve the election communications. Mr. Jinks suggested the Election Administrator e-mail the communications to board members.

Mr. Cross made a motion:

Mr. Bland is appointed the Election Administrator.

Ms. Mammarella seconded the motion.

There was no discussion.

The motion passed unanimously (8-0).

Staff distributed the Summary of Activity. Chairman Lawhorne requested the document be e mailed to him so he could forward it to police participants. Ms. Evans asked that the footnote on Real estate be clarified.

Chairman Lawhorne left the Room. Ms. Evans assumed the duties of the Chair.

Staff announced the representative from PRISA was unable to make the day's meeting and hoped to be available for the September meeting.

Staff distributed set of graphs. The focus was actual asset allocation vs. the target. Ms. Evans said a title indicating City Of Alexandria would be helpful, as would names and phone numbers.

NEXT MEETING

The July 10th meeting will be held in the Sister Cities Conference Room beginning at 8:30 AM. This is an interim meeting.

The board asked Tim Curly, a participant attending the meeting, if he wished to address the board. He did not.

ADJOURNMENT

Ms. Triggs made a motion to adjourn. Mr. Howard seconded the motion. The motion passed unanimously (7-0). The meeting adjourned at 11:20 AM.