MINUTES OF NOVEMBER 7, 2007, RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS
PENSION PLAN
DUE DILLIGENCE MEETING

PRESENT

Members	Others
Dana Lawhorne, Chair	Chuck Arrington, Trusco
Michael Cross	Carl Beveridge, Suntrust
Michele Evans	Steven Bland, Retirement Administrator
Pat Evans (Alternate)	Barry Bryant, Dahab Associates
Henry Howard	Carla Leslie, Suntrust
Bruce Johnson (Alternate)	Edward Milner, Participant
Chris Lockwood	Dean Molinaro, Prudential
Laura Triggs	Theresa Nugent, Communications specialist
	Lisa Powell, Prudential
	Michael Sahakian, Suntrust
	Albert Tierney, Participant

CALL TO ORDER

The meeting was called to order at 8:40 A.M. on November 7, 2007.

MINUTES

There was a motion by Mr. Cross, seconded by Ms. Triggs to approve the October 3rd, 2007 minutes. The motion was unanimously approved (7-0). (Mr. Johnson voted for Ms. Evans).

Ms. Evans arrived.

INVESTMENT POLICY GUIDELINES - REBALANCING

Staff reported on investment Policy Guidelines. Ms. Mammarella initiated the project at a prior meeting. Representatives from Trusco had also requested clarification of rebalancing rules. Staff indicated other reason to revisit rebalancing guidelines were: 1) increased volatility, 2) time between investment meetings, and 3) the possibility rebalancing instructions may not coincide with attendance of Prudential, Dahab, or Trusco representatives. Staff distributed a revised appendix for Trusco with one sentence highlighted. Barry Bryant had reviewed the Investment Policy Statement.

Mr. Jinks asked "The Deputy City Manager" be replaced with "A Deputy City Manager."

Mr. Jinks made a motion:

> Accept the two addendums to the Investment Policy Statement and the Investment Policy Statement with its addendum with the edits mentioned.

Mr. Cross seconded the motion.

The motion passed (7-0).

THIRD QUARTER INVESTMENT REVIEW - TRUSCO

Michael Sahakian of Suntrust introduced Carla Leslie, co-founder of Seix Advisors, and Chuck Arrington of Trusco. The quarter was a weak one for Trusco. Fixed income did well enough but the more heavily weighted equities under-performed.

Mr. Arrington suggested they had done well with sector selection but poorly with selecting individual stocks. Mr. Jinks asked Mr. Arrington to provide examples. Mr. Arrington said they were right to modestly overweight energy. However, the strongest performers were the smaller, more volatile, service oriented companies whereas their selections tended to be the larger, integrated, high dividend paying companies.

Also, they had overweighted financial services. While they had no direct exposure to sub-prime loan there was peripheral damage to things as credit card debt.

The growth cycle is emerging. Their growth selections were Growth At A Reasonable Price (GARP). Currently the market is favoring the securities with the largest earnings increases. They have made some changes and are focusing more on earnings growth.

Mr. Jinks pointed out a top holding, as of September 30th was Citigroup. He asked if the fund still help Citigroup. Mr. Arrington said, "No", they did not own Citigroup any more.

Mr. Arrington referred to page 23 of the Trusco quarterly report. Since September 30th they have moved to increase exposure to the technology sector and lower exposure to the finance and consumer sectors.

Staff asked how they had performed compared to the benchmark since September 30th. Mr. Arrington did not have that data available.

Ms. Leslie spoke to the fixed income account. It was conservatively positioned. This conservatism had hurt performance several years ago but had been helping recently. They had been concerned about covenants and other indicators of increasing risk. Treasuries are overweighted. They had no direct sub-prime exposure but there were ripple effects throughout the investment world.

Their defensive position had resulted in no defaults, ever. Staff asked if the defensiveness applied only to credit risk or if it also applied to shortening the duration. Ms. Leslie replied they did not vary from the benchmark duration.

Mr. Jinks asked what changes had been made to their portfolio since a year ago. Ms. Leslie said treasuries had increased from 40% to 48% and mortgages had been reduced.

Mr. Jinks indicated some sub-prime loans were securitized and packaged with a triple A rating. Did Seix Advisors purchase any of these securities? Ms. Leslie said they had bought mortgages from Freddie Mac and Fannie Mae (formerly Federal National Home Loan). These companies have higher lending standards. Their asset-backed securities were very small.

Mr. Howard referred to the second bullet point of page 13. Not everyone had weighed in on quarterly earnings and losses due to exposure to sub-prime loans. Ms. Leslie clarified the comment on the Federal Reserve Board lowering the interest rates. The quarterly report went to press the day before the Fed held its meeting and lowered rates.

Mr. Arrington commented interest rates have inflation implications and is hard pressed to believe there will be future interest rate reductions. Energy, gold, and the dollar were all moving in a way that would cause concerns if interest rates continued down. He believes creating liquidity can be done quickly, but building reserves takes time.

Mr. Arrington believes the global economy is good and this will help the U.S.

<u>FOURTH QUARTER INVESTMENT REVIEW - DAHAB</u>

Mr. Bryant referred to page six of the Trusco tab in his quarterly report. The batting average of 68.4% was very good. On the right hand side of the page the cumulative excess return of 12.7% was also very good. While down from 18% earlier, it was still great.

Mr. Bryant believes gold and energy are very highly priced. He does not believe the Federal Reserve Board will lower interest rates will be lowered in this environment.

Mr. Bryant pointed out several distinctive events during the third quarter:

1. Volatility increased,
2. Growth stocks assumed leadership, especially large cap growth stocks,
3. International stocks continued to do well, and

4. Bonds outperformed stocks.

Mr. Bryant referred to page 3 of the Defined Benefit tab. The portfolio's collective quarterly return of 2.6% exceeded the benchmark, as did the performance of most managers individually.

Mr. Cross copied and distributed the analogous page from December 31st, 2005. He pointed out and question why the percentile ranking of the fund was lower than the ranking of each sector. The sector rankings reflect solely the fund performance against their benchmark. However, the fund ranking reflects the performance as well as the allocation. If a fund in a poorly performing sector does okay when compared to its peers, but is heavily weighted, it will drag down the entire pension fund.

Mr. Bryant's presentation was interrupted to establish a meeting calendar for 2008. The following times were set.

Date	Meeting Format	Location
January 7th	Interim Meeting, Board Retreat	Sister Cities Room 1101
February 21st	Due Diligence Meeting	Sister Cities Room 1101
April 16th	Interim Meeting	Council Workroom, 2nd floor
May 20th	Due Diligence Meeting	Sister Cities Room 1101
July T.B.D.	Interim Meeting	Sister Cities Room 1101
September 9th	Due Diligence Meeting	Sister Cities Room 1101
October 7th	Interim Meeting	Sister Cities Room 1101
November 11th	Due Diligence Meeting	Sister Cities Room 1101

All meetings are scheduled for 8:30 AM. Mr. Johnson requested on January 7th the business portion of the meeting would precede the retreat portion of the meeting. To the extent possible staff will create a timetable to accompany the agenda so members may select the portions of the meeting they find most relevant.

Mr. Bryant referred to page four of the Defined benefit tab. Staff pointed said the dotted line highlights the fact the fund is growing from both investment return and contributions net of benefits and expenses exceeding expenses. A year or two ago cash flows into the fund exceeded five million dollars annually. They are only slightly below that now and will continue to stay positive for a number of years.

Mr. Bryant, Ms. Powell, and Mr. Molinaro discussed Munder, the small cap value manager, before the meeting. Their consensus was that the stocks Munder had overweighted might have reached a point where they were about to outperform. They recommended keeping Munder.

Baer, the international manager has under performed. Oppenheimer, the emerging markets manager, has under performed. The performance report showed the international investments had outperformed. This apparent anomaly is due to the fact that international markets use EAFE as a benchmark and emerging markets outperformed the EAFE index.

The recent choice to even out growth and value has worked out well.

Mr. Bryant discussed an envisioned future in the year 2040 in which Brazil, China, India, and China had G.D.P.S that exceeded that of the G6 countries. This suggested a consistent allocation to emerging markets, even if they appeared overvalued at a given time, such as today.

Mr. Bryant expressed a general preference for fixed income allocations to go index funds. However, PIMCO was doing well enough, so as long as they continued to perform as they had, we should stay with them. Mr. Molinaro said they had no sub-prime exposure, some international exposure. Mr. Bryant referred to page 6 of the PIMCO tab. The .769 batting average is rather exceptional.

Mr. Bryant referred to page five of the introductory section. He pointed out defined benefit plans tend to invest better than defined contribution plans. Staff agreed with the statement and said they would address this through participant education. Staff indicated there were investment seminars planed for December 6th & 7th. The seminar focus is investments and not retirement. The target audience primarily is Retirement Income Plan participants and secondarily deferred compensation. Pending feedback from seminar participants there likely would be more seminars in Spring 2008.

Mr. Howard said participant education takes a lot of time. Also, younger employees do not think about retirement for the first 15 years they are employed. Mr. Bryant suggested that was too late. The first 15 years were the most important. Mr. Cross said employees had not grown up talking about asset allocation around the kitchen table. We need to get them involved in their investments and their future.

THIRD QUARTER INVESTMENT REVIEW - PRUDENTIAL

Mr. Molinaro referred to page 22 of Prudential's quarterly report and discussed the DDA rank. The bulk of the funds earned a rank of 1, the highest rank. The DDA rank of Munder, the small cap value manager, and PIMCO, the fixed income manager, were discussed. Munder's defined benefit rank and defined contribution rank are 3 and 4 respectively. This is because the universe of competing funds against which Munder is being compared, is slightly different. The PIMCO DDA ranking is based on data through June 30, 2007. It is very likely to go up once the September 30 data is incorporated.

The emerging market manager, Oppenheimer, did have a manager change.

The GDA began the year with $10.6 million. We are allowed to transfer 16%, net of contributions less withdrawals, out of the fund without incurring a market value adjustment. The board has previously transferred funds from the GDA to PIMCO. Prior to year end staff will work with Prudential to maximize the amount of the transfer not subject to a market value adjustment. Year to date we have withdrawn $1.3 million of a total $1.7 million permissible.

Mr. Jinks made a motion:

> Authorize the administrator to transfer funds between the Guaranteed Deposit Account and PIMCO with the intent of maximizing the permitted annual transfer from the GDA to PIMCO that is not subject to a market value adjustment.

Mr. Cross seconded the motion.

The motion passed (7-0).

Mr. Johnson expressed concern about 25% of the pension fund's asset being invested with one manager. He asked Mr. Bryant if that was typical. Mr. Bryant said for a larger fund, $500 million or more, there were always multiple fixed income managers. For smaller funds, $20-$50 million, there was always one fixed income manger.

Staff made two points, first, the 25% fixed income allocation today would grow over time as the GDA was slowly phased out and the total allocation was 30%. Second, the volatility of a 30% allocation to an intermediate term bond fund was less than the volatility of 12½% in a large cap growth fund. Mr. Molinaro and Mr. Bryant agreed.

Mr. Howard referred to page 49 of Prudential's report and asked Mr. Bryant to compare the volatility of PIMCO to the Lehman aggregate.

Chairman Lawhorne asked if there were any motions regarding PIMCO. Mr. Johnson pointed out the investment manager said it was okay to keep PIMCO; it was okay to change the allocation. To Mr. Johnson this meant we could keep PIMCO for the time being but continue to monitor PIMCO for performance and volatility. Mr. Bryant offered to do a report. A report was not requested. Mr. Cross asked if there should be more indexing. Mr. Molinaro discussed tracking error in core bond and enhanced funds.

REAL ESTATE

Mr. Cross said asset allocation had made a significant aid to fund performance. He would like to see the real estate allocation increased to 5%.

Mr. Cross made a motion:

> The real estate allocation is brought up to 5% as soon as practical. Funds should come first from over investments over their allocation and then fixed income.

Mr. Jinks seconded the motion.

Discussion: Mr. Bryant said fixed income was over allocated. Staff said the source of Mr. Bryant's comment was September 30 data. Since then weightings had changed, particularly international markets.

The motion passed (7-0).

STAFF UPDATES/FOLLOW UPS

Staff referenced material in the packet and provided an update on the now closed windows to purchase service credit and for disabled participants to purchase an annuity from the defined benefit plan with funds in their Retirement Income Account.

Mr. Jinks asked staff to prepare a report to City Council as a follow up to the plan amendments they approved earlier in the year.

PRESENTATION

Chairman Lawhorne was presented a gift for his years of service to the Retirement Board. Ms. Triggs, Ms. Evans, Mr. Jinks, Mr. Cross, Mr. Lockwood all complimented Mr. Lawhorne for his service.

Staff was directed to obtain plaques expressing appreciation for Chairman Lawhorne and Mr. Seskey.

NEXT MEETING JANUARY 7th 8:30 AM SISTER CITYS CONFERENCE ROOM

ADJOURNEMENT

Mr. Johnson made a motion to adjourn. The meeting adjourned at 11:15 PM.