MINUTES OF FEBRUARY 9, 2012 RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS
PENSION PLAN
DUE DILLIGENCE MEETING

PRESENT

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<th>Members</th>
<th>Others</th>
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<tr>
<td>Michael Cross 4, 5</td>
<td>Steven Bland, Retirement Administrator</td>
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<td>Michele Evans 1, 2</td>
<td>Barry Bryant, Dahab Associates</td>
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<td>Patrick Evans 1, 2</td>
<td>Bill Dahab, Dahab Associates</td>
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<td>Bruce Johnson 5</td>
<td>Tim Hopper, TIAA CREF</td>
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<td>Shirl Mammarella 3, 4</td>
<td>Stephen Kenney, Hancock</td>
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<td>Cheryl Orr 1, 3, 5</td>
<td>Arthur Lynch, Retirement Specialist</td>
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<td>Laura Triggs 3, 4, 5</td>
<td>James B. McCandless, UBS/Agrivest</td>
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<td>Michael Wimer</td>
<td>Nick Mencher, TIAA CREF</td>
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<td>Biff Ourso, TIAA CREF</td>
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<td>Theresa Nugent, Communications Specialist</td>
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<td>Wayne Wallace, UBS/Agrivest</td>
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Absent:
Ed Milner 1, 2
Al Tierney 5

1 PLOP/DROP Committee
2 Purchase of Service Credit Committee
3 Technical Corrections Committee
4 Training Opportunities Committee
5 Vendor & Service Provider

CALL TO ORDER

The meeting was called to order at 8:43 AM.

Mr. Johnson arrived at 8:45 AM.

FINANCIAL REVIEW

Mr. Bryant discussed the economy and investment markets. A key component of analyzing the markets returns in 2011 was the “Risk on/Risk off” nature of performance when markets are highly correlated. In these times all do well or all do poorly. The fourth quarter was a risk on quarter, and performance was correlated to risk exposure.

Growth has done well versus value over the last two to three years, but not last quarter.
Champlain did not perform well, but they have a history of outperformance in down markets.

Investment markets have been driven by events in Europe.

Hancock timber has underperformed recently due to a series of losses from fires, floods, and hurricanes. They are up since inception.

Herndon underperformed in the fourth quarter. Under performance is attributed to Lazard and Federated investors; both were impacted by financial crisis in Europe but have since recovered (in January 2012). Holly Frontier is an oil refiner that was hurt by changes in Crude Oil and has since recovered (in January 2012).

Mr. Dahab, Mr. Bryant, and staff discussed international exposure via domestic stocks. An investment in domestic companies can be impacted by trade, currency, investments abroad, etc.

**FARMLAND**

Mr. Bryant distributed his RFP summary of farmland investments. Staff mentioned seven criteria to consider when selecting a farmland manager:
- Alignment of interests
- Business model (Open end vs. closed end)
- Costs/fees
- Diversification
- Expected returns (mix of row crops vs. permanent)
- Fund Size
- Gate or cue (how long it will be before funds are invested)

Staff suggests that in listening to the presenters these considerations are kept in mind.

Ms. Evans asked Barry about drought and how it affected farmland investments. Mr. Bryant said that was a great question to ask of each of the presenters.

Mr. Wallace and Mr. McCandless presented for UBS Agrivest. Mr. McCandless provided a background of the firm. They have been managing farmland for about three decades. They manage 155,000 acres worth about $635 million. Permanent crops represent 9% of the total, Vegetable crops 23%, and row crops 68%. Vegetable crops may have multiple plantings per year.

Page 3 of the handout shows the regional offices throughout the country.

Page 4 shows the distribution of holdings in current accounts by region. Mr. McCandless said they have been out of the corn-belt for some time. Land prices are too high for the rent they receive.
Page 5 displays returns compared to a benchmark. Their performance index customizes the NCREIF Farmland index to weight farmland 80% row crops and 20% permanent as compared to the index’s 65/35 weighting. This lowers the returns. Corn has recently outperformed and they have been underweighted in this area. This has led to recent underperformance. Mr. Bryant asked Mr. McCandless to explain cap rate and to say what the fund’s cap rate is. Cap rate is the income return divided by the land price.

Mr. Wallace said there currently is a cue of $144 million. He anticipates it may take six to eight quarters to draw down this cue. To get in the cue the plan would have to sign and submit contracts.

Ms. Evans asked about droughts’ effect on farmland. Mr. McCandless said water is an issue, especially in the west. Everything is irrigated except the corn belt. Cost and availability of water are researched prior to purchasing land.

Page 10 shows sector allocation. Permanent crops are 4% of the farmland fund, 9% of their total portfolio. Permanent crops have higher returns but the impact of bugs, frost, and consumer preferences all lead to volatile profitability. Mr. Johnson asked when the current under-allocation to permanent crops would change. Mr. McCandless said it would evolve over time. There was no specific target date, and it would happen when the pricing is right.

Page 13 addresses farmland risks. Page 14 addresses the fund structure. Fund exits are on a prorate basis.

There is no leverage other than bridge loans which are short term in nature.

Mr. Dahab asked about the advantages of the farmland structure being an REIT (Real Estate Investment Trust). The REIT structure enables tax advantages for the partnership. Dividends may be paid in cash or reinvested. The cash/reinvestment option is split just about 50/50.

Appraisals are quarterly.

Staff asked if there were redemption requests in 2008-2009. Mr. Wallace said there was one.

Page 15 shows statistics about the fund. Performance was impaired by low exposure to corn.

Ms. Mammarella asked about organic farms or exposure to genetically engineered crops. Mr. McCandless said organic farms had lower yields and of the lower yields less was sellable. Also, organic farmers were getting smaller margins than a few years ago. This was reducing demand for organic farming.

Ms. Evans noticed there were no properties in Virginia. Mr. McCandless said farm prices were too high, and rents too low.

Mr. Johnson asked about the split of return between income and appreciation. Mr. McCandless said the split was very close to 50/50. Of that, row crops have more appreciation on a risk adjusted basis. Permanent crops have more income.
Mr. Johnson asked if all land is leased or is any farmed? It is 100% leased. The terms of the leases are:

- 1-2 years Annual crops
- 3 years Vegetable crops
- 5 – 7 years Permanent crops

Some of the permanent crop return is based on percentage of gross income.

Ms. Triggs asked what UBS would invest in that others might not. If a permanent crop farmer wanted to sell property and lease it back some competitors may want to farm the permanent crops they own.

Mr. Cross left at 10:00 AM.

Mr. Johnson left the meeting at 10:01 AM.

Mr. Dahab asked about higher and better use or alternative use for the farmland. Mr. McCandless said one property was leased for 34 windmill towers.

Mr. Cross returned at 10:02 AM.

Mr. McCandless and Mr. Wallace left at 10:10

TIAA-CREF made a presentation at 10:10 AM. The speakers were: Mr. Hopper, Mr. Mencher, and Mr. Ourso.

Mr. Mencher introduced the firm and discussed how $2.6 billion farmland assets fit in the $200 billion general account.

Page 7 shows the organizational chart. TIAA-CREF buys land and it is operated by its affiliates.

Mr. Hopper said farmland is attractive because it has a negative correlation to many asset classes. It has held up well. TIAA-CREF does not take commodity risk, it buys land and leases it. They diversify geographically. Twenty five percent of their current farmland assets are in vineyards.

Mr. Bryant asked what the cap rate is. The cap rates for their properties tends to average 4% - 6%. Unrealized gains are another 4% - 6%. Total expected return is 10% per annum.

Ms. Orr asked what the terms are of their contracts. Mr. Hopper said they are largely one year each. Mr. Ourso said they have roughly 400 properties. Mr. Bryant asked if TIAA CREF operates any farms. Mr. Ourso said they lease row croplands and farm permanent farmlands. They may operate Australian row crops.

On page 11 they mentioned an anticipated weighting of 70% - 80% row crops. This weighting is by acre, not dollar value.

TIAA-CREF will co-invest in farmland.
Ms. Evans asked about drought in Australia. Mr. Dahab asked about restrictions in rainforests. Mr. Ourso said they did not plant in rainforests. Brazil has restrictions on planting near rainforests, native lands, and national borders. They also agree on farm borders with adjacent property owners before buying land. They have principals on socially responsible investing.

Their investment partnerships call for seven, fourteen, and twenty one terms. The annual management fees are 1.5%, 1.3%, and 1.0% for the three terms respectively.

Mr. Hopper, Mr. Mencher, and Mr. Ourso left at 10:43 AM.

Stephen A Kenney represented Hancock. They have eleven clients. They have had separate accounts since 1990. They have an internal acquisition team.

The fund will have more row crops than permanent, probably 75% - 80%. U.S. land will be 100% leased.

Staff asked about their contacts outside the United States. Mr. Kenney said they have contacts in Australia some through their timberland operations there. Also, Hancock has been scouting properties in Brazil.

When they buy land with permanent crops it is with mature plants. If they raise only $50 million the fund will be U.S. land only. The term of the fund is ten years with up to two ten year extensions. At the end of the term they may sell the land at auction. They may sell all fund’s holdings to an institutional investor such as a pension fund. They may convert the fund into an REIT.

Ms. Mammarella questioned the uncertainty of the international component and size of Hancock’s fund. There was a discussion of the value of international component to the fund.

Mr. Kenney left the meeting.

Mr. Wimer was concerned with TIAA-CREF’s fee structure and twenty one year commitment.

There was a motion by Ms. Mammarella to:

Commit $5.5 million to farmland with Hancock Agricultural Investment Group as the manager.

Ms. Triggs seconded the motion.

DISCUSSION:

Staff suggested the motion included a weighting of 93% allocation to the pension component and 7% to the disability component. Staff also added the motion should include that the contract is subject to legal review by the City attorney.

Ms. Orr expressed satisfaction with TIAA- CREF. There were discussions of tying up funds for twenty one years or having a higher fee structure.
Staff also said the motion should specify which allocations would fund the farmland allocation. The fund will not make capital calls until July at the earliest. The refined asset allocation does not have to be created until that time, so this decision is deferred and omitted from the motion. The motion is amended to include the split between pension and disability and the legal review.

The motion passed (6 – 0).

**ADMINISTRATOR’S REPORT**

Staff referenced the Rebalancing and investment report. Staff recommends rebalancing by selling $1.5 million of the domestic large cap growth and buying international equities.

There was a motion by Mr. Wimer to:

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Rebalance by selling $1.5 million from the domestic large cap growth manager Polen and purchasing $650,000 from the international developed manager Johnston Asset Management and $850,000 from the emerging market managers in proportion to their respective targets, subject to changes in the markets between now and when the rebalancing is executed.
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Ms. Triggs seconded the motion.

Staff reported that Hamilton Lane had a partial change of ownership as an investor was bought out. This is probably insignificant, but professional standards call for this disclosure.

Ms. Nugent reported on conferences. The 2012 election calendar was distributed.

**COMMITTEE REPORTS**

**PLOP/DROP COMMITTEE**

Mr. Evans and staff reviewed the events of the January 25, 2011 meeting. There was motion to ask management to approve $7,500 - $10,000 expenditure for the plan’s attorney, Ken Hoffman, to draft plan language for a proposed Partial Lump sum Option Program (PLOP). There was also a request for $700 - $800 for the actuary to certify that the proposal was cost neutral. The motion was tabled. The motion was found on page three of the January 25, 2012 meeting minutes which were distributed to the Board at the February 9, 2012 meeting.

There was a motion by Ms. Evans to:

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Take the PLOP off the table.
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Mr. Wimer seconded the motion. The motion passed (6-0).

In staff’s opinion there was not a need to have the actuary affirm in writing the PLOP was cost neutral because that had already been discussed in a conference call with staff, Mr. Milner, and Stephen McElhaney of Cheiron.

The motion was amended to remove the request for $700 - $800 for an actuarial review of the PLOP. The amended motion passed (6-0).

Ms. Triggs said the City will fund the $7,500 - $10,000.

Ms. Orr and Mr. Cross asked for additional demographics on the graph of disability distributed at the January 25, 2012 meeting.

Ms. Triggs reported on the Risk Management Oversight Committee (RMOC). The RMOC will look into its options of what they are available to them and what constraints might exist legally, or in administrative regulations or the plan document.

**OLD BUSINESS**

Mr. Bryant discussed absolute return funds. Absolute return is sometimes defined as having a positive return in all market environments or having a different return pattern than the underlying asset class.

There were seventy three respondents to the RFI. Eighteen had positive return in 2008. Ninety percent of all respondents were hedge funds.

The Board mentioned the possibility of having a discussion of hedge funds at the June 28 Board Retreat.

**NEW BUSINESS**

Cheiron, the plan’s actuary is scheduled to present the valuation in April. If there are questions, such as on the cost implication implied by the disability graphs staff has presented, we could tell the actuary in advance to enable them to be better prepared.

**APPROVAL OF JANUARY 25 MINUTES**

There was a motion by Ms. Triggs to:

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Approve the January 25, 2012, Board meeting minutes.
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Mr. Wimer seconded the motion.

DISCUSSION: Chairman Cross asked the “Old Business” item on page 5 be moved to the front of the minutes. The motion was unanimously approved (6-0).

NEXT MEETING

There will be a special meeting March 8, 2012 at 8:30 AM.

ADJOURNMENT

There was a motion by Ms. Triggs to:

Adjourn.

Mr. Wimer seconded the motion. The motion passed unanimously (6-0).

Handouts distributed in advance

1. Agenda
5. Investment Review, Prudential
7. Hamilton Lane, letter dated February 1, 2012 [4(a)(iii)]
8. Firefighters and Police Officers, Active and Disabled by Department [4 (c)]
9. Follow Up Items, February 9, 2012 [4 (c)]
10. Pension Board Election Procedures Checklist 2012 [4 (c) (ii)]
Handouts distributed during the meeting

1. Farmland, Thoughts on Manager Selection (Updated), 2/9/2012  [3]
2. TIAA-CREF GLOBAL AGRICULTURE PROGRAM, February 9, 2012, TIAA-CREF
3. Farmland Asset Class – Hancock Agriculture Investment Group
4. Global Real Estate – Farmland, UBS
5. *Board Education Presentation* - Mr. Spera
6. 457 Fund Expenses & Shareholder Services, ICMA-RC
7. Farmland – Some Questions from staff
9. Virginia Retirement System Issue, Memo from Bruce Johnson to City Council November 4, 2011