



**MINUTES OF JANUARY 10, 2013 RETIREMENT BOARD
CITY OF ALEXANDRIA
FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN
INTERIM MEETING**

PRESENT

<u>Members</u>	<u>Others</u>
Michael Cross ^{1,4,6} , Secretary	Steven Bland, Retirement Administrator
Patrick Evans ^{2,3}	Kadira Coley, Retirement Specialist
Tom Gates, Chairman	Arthur Lynch, Retirement Specialist
Mark Jinks	Bryan Capelli, Retirement Specialist
Ed Milner ^{1,2,3}	
Jean Niebauer (Alternate)	
Morgan Routt ^{1,5}	
Al Tierney ⁶	
Laura Triggs ^{1,4,5}	

Absent: Shirl Mammarella, Rick Muse

¹Adjustment Mechanism

²PLOP/DROP Committee

³Purchase of Service Credit Committee

⁴Technical Corrections Committee

⁵Training Opportunities Committee

⁶Vendor & Service Provider

CALL TO ORDER

The meeting was called to order at 8:33 AM on January 10, 2013.

Mr. Cross welcomed everyone to the first Board meeting in the new-year. He noted that he and Mr. Tierney are starting their new terms which will run through December 31, 2016. He welcomed returning Board Member Mr. Mark Jinks who is replacing Ms. Michelle Evans as a Management Representative. He also announced that Mr. Patrick Evans was appointed as Participant Representative for Firefighters and welcomed Rick Muse to Board who will serve as the Participant Alternate for Firefighters. Both Mr. Evans and Mr. Muse’s terms will run through December 31, 2014.

SWEARING IN OF BOARD MEMBERS

Staff handed out the Firefighters and Police Officers Pension Board Accept Appointment or Election as Board Member form and a description of fiduciary responsibility to each Board Member. Board Members signed the forms.

ELECTION OF CHAIRMAN AND SECRETARY

Mr. Cross explained that the Board needed to elect new officers (Chair and Secretary) and opened the floor for nominations. He also noted that the length of the term for the newly elected officers would be 2 years per the previously approved Board Procedures.

The chairman opened the floor for nominations for the Chairman position:

There was a motion by Ms. Triggs to:

Nominate Tom Gates as Chairman.

Ms. Niebauer seconded the motion.

There was a motion by Mr. Milner to:

Nominate Michael Cross as Chairman for the calendar years 2013 - 2014.

Ms. Tierney seconded the motion. Mr. Cross declined the nomination.

Mr. Cross stated that he believes leadership should transition over time and that he was willing to pass off the leadership position at this point in time.

There was a motion by Mr. Tierney to:

Close nominations and elect Mr. Gates as Chairman for the calendar years 2013 - 2014.

Ms. Triggs seconded the motion. The motion was unanimously approved 8 - 0.

Mr. Gates took over as Chairman of the meeting.

Chairman Gates opened the floor for nominations for the Secretary position:

There was a motion by Ms. Triggs to:

Nominate Michael Cross as Secretary.

Mr. Tierney seconded the motion.

There was a motion by Mr. Jinks to:

Close nominations and elect Mr. Cross as Secretary for the calendar years 2013 - 2014.

Ms. Triggs seconded the motion. The motion was unanimously approved 8 - 0.

Chairman Gates noted that a Department Manager meeting was scheduled to start at 9:00am and at that time the Board would lose its quorum. He recommended taking agenda items out of order to address the items that would require a vote.

APPROVAL OF MINUTES

There was a motion by Mr. Tierney to:

Approve the November 8, 2012 and December 20, 2012 minutes.

Mr. Routt seconded the motion.

The motion was unanimously approved 8 – 0.

TRAINING OPPORTUNITIES

Staff asked the Board to approve the sharing of expenses for Kadira Coley to pursue the IFEBP CEBS (Certified Employee Benefits Specialist) designation.

There was a motion by Mr. Jinks to:

Pay for 50% of the costs associated with Kadira Coley attaining the CEBS certification.

Mr. Cross seconded the motion.

Discussion: Staff noted that the CEBS certification is offered by the IFEBP and is a well-respected designation. There are approximately 9 classes and each class will cost approximately \$1,000. Staff clarified that the classes will be taken on-line and the projected fee includes books, on-line study and exam fees. There would be no travel associated with the courses. Staff recommended a 50/50 split between the Fire and Police Pension and the Supplemental Pension because the course work covers both investments and plan administration.

The motion was unanimously approved 8 – 0.

INVESTMENTS

There was a motion by Mr. Cross to:

Rebalance the Pension Fund by moving \$1,000,000 from Champlain and reallocating \$700,000 to Brandes and \$300,000 to Glovista.

Ms. Triggs seconded the motion.

Discussion: Staff noted that a deficiency existed because the emerging market asset class had lagged broad markets as opposed to an issue with a specific investment manager. Staff also noted that the change would be implemented at the end of January.

The motion was unanimously approved 8 – 0.

FUTURE AGENDAS

NewSouth

Staff reminded the Board of a policy to have at least one asset manager attend each due diligence meeting. Staff recommended the Board to have NewSouth (small cap investment manager) to come to the February 14, 2013 Board meeting. They noted that investment manager presentation would take 30 to 45 minutes depending upon the number of questions.

Timber

Staff noted that the actual allocation to Timber is below target. The pension fund has grown significantly since our first commitment in 2010. Dahab Associates is doing an RFP for PEBT so they will have complete data. Staff sought guidance from the Board as to whether to have Timber investment managers come to the February 14th Board meeting or to have Barry Bryant and Staff bring a summary or proposal to the meeting.

Mr. Tierney raised a concern about the illiquidity of timber partnerships. He asked staff if there are alternate or more liquid approaches to limited partnerships for timber and private equity.

Mr. Gates noted that the Board had seen a lot of timber managers in the past.

Chairman Gates summarized that the board would like to have Barry Bryant prepare a summary proposal and recommendation for a potential timber commitment to be shared at the February 14th Board Meeting.

Private Equity

Staff noted that the actual allocations to Private Equity are below target. Staff also noted that all Private Equity has a finite life, secondary shorter than primary, so we have to periodically replenish. The current allocation to Private Equity is \$5-6 million and the asset allocation calls for approximately \$9 million. Staff noted that the Board currently has two allocations (primary and secondary.) Primary is expected to continue to grow while Secondary is more stable and will eventually go off the books. Staff sought guidance from the Board on the type of presentation that should be included in the February agenda.

Mr. Tierney expressed the same concerns about illiquidity that he raised with the Timber limited partnership and inquired about alternative and more liquid options. Staff will follow up on this.

Chairman Gates summarized that the Board would like to have Barry Bryant prepare a summary proposal and recommendation for a potential Private Equity commitment to be shared at the February 14th Board Meeting.

ICMA-RC CONTRACT

Chairman Gates noted that Mr. Cross had raised some questions and concerns about the proposed contract.

Mr. Cross questioned if the \$25,000 administrative allowance collected from fees would be used to pay for Dahab's investment services or for staff salaries. He also sought the Board's clarification on what the Board how the Board had approved the fees to be used. Staff clarified that the \$25,000 was to be paid to the City of Alexandria and the City would in turn use that money to pay to Dahab. The Board agreed that the reference to administrative allowance in the contract should be updated to include "for investment consulting services".

Mr. Gates, Mr. Jinks, Ms. Niebauer and Ms. Triggs left at 9:00 AM. The meeting continued without a quorum. Reports were received, but no votes could be taken.

COMMITTEE REPORTS

TRAINING OPPORTUNITIES COMMITTEE

Staff thanked the Board for its support of Kadira Coley taking CEBS classes.

Staff reported that two CAPPP classes have been announced by the IFEBP. Part 2 of CAPPP series will take place in Chicago in June. Some Board members indicated they may be interested in attending this session.

Mr. Tierney stated that he had taken one part of the CAPPP series earlier and asked if anyone knew if there was a time limit by which the second part had to be taken. Mr. Cross indicated that he did not think any such time restriction existed.

Mr. Evans asked if it was a requirement to take the classes in order. Staff indicated that there was not a requirement and that the classes can be taken in any order. Mr. Cross recommended not taking both classes in the same session as it was a lot of information to absorb at one time.

ADJUSTMENT MECHANISM COMMITTEE

Mr. Cross reported that there had been no action from the committee.

Mr. Milner reported that the employee groups met at the Police Association Hall which Mr. Evans attended. Mr. Milner said that he needed to meet with the employee representatives before he could report on the next steps.

Staff asked if the meeting scheduled for January 18th was still to occur. Mr. Milner said he would send an email to Staff by Friday, January 11th with an update on how to proceed.

PURCHASE OF SERVICE CREDIT COMMITTEE

The committee has not met since the last Board meeting.

TECHNICAL CORRECTIONS COMMITTEE

The committee has not met since the last Board meeting.

Mr. Tierney stated that he was waiting for the committee to meet on the gainful employment plan provision. Staff reported that the motion from the previous meeting said the committee was to meet two to three weeks following the conclusion of the Adjustment Mechanism Committee.

VENDOR & SERVICE PROVIDER COMMITTEE

The committee has not met since the last Board meeting.

Staff asked Board members to reflect upon their current committee appointments or if there are any other committees they want to serve on. Board members should send any committee appointment requests to Chairman Gates.

ADMINISTRATOR'S REPORT

FOLLOW UP ITEMS

CPI - Staff reported two to three months ago that it looked like CPI would be over 2.5%. Since then inflation has been low so now it looks like CPI will be closer to 1.9% with two to three months remaining to be reported

FARMLAND – The motion from the November meeting was that the Plan would continue to go with Hancock and that Staff and Mr. Bryant would continue to look for additional options. Hancock is continuing to struggle to raise funds for their comingled fund. No action is required until June so priority will be given to Timber and Private Equity.

Once a Farmland investment is decided upon the Board will have to revise the Investment Policy Statement's target asset allocation.

OTHER FOLLOW-UP ITEMS – In the December meeting Mr. Bryant reported that there were three major downfalls of defined contribution plans : 1. Participants do not invest enough, 2. Participants do not invest their money properly and 3. The removal of monies via loans and other distributions. Mr. Gates requested that staff provide some details on who is participating in the plan and how they are investing their money. Staff distributed handout 6(a) which includes two graphs.

The graph Page 1 shows the average per paycheck contribution split by years of service. New hires are expected to contribute less because they will tend to have lower salaries and are still balancing new bills like house and car payments.

Mr. Routt asked if there was a way to separate out the effect of the lower salary. Mr. Tierney offered that he is making approximately three times the salary of a current new hire.

The graph on Page 2 shows the investment choices split by years of service. Staff noted that the equity portion may be lower than expected but to get the full picture you must take a portion of the target allocation and add it to stocks.

Mr. Tierney asked if we could assume that if a participant is invested in a target date fund they have a better allocation than those who are invested otherwise. Staff noted that investment in a target risk fund of any kind decreases market timing but cannot guarantee the participant selected the optimal model portfolio.

Mr. Tierney asked if there is a benchmark for the average rate of loans for a plan of our size. Staff noted that emergency withdrawals deplete funds but loans get paid back. Staff was asked to research the average rate of withdrawals for a plan this size.

Mr. Cross asked for clarification of the maximum loan amounts. Staff provided that the maximum loan amount is the lesser of 50% of the account balance and \$50,000. The maximum loan repayment period is 5 years for a personal loan and 10 years for a residential loan.

Staff also noted that the Retirement Income Plan does not allow loans. The 457 plan had elected to allow participants to have one loan. The Plan could have also elected to not offer loans or to offer multiple loans at a time. In the past Staff had recommend to the prior City Manager that loans in the 457 plan be eliminated but the City Manager felt strongly that participants should retain that option.

REGULAR INVESTMENT REPORTS

Staff reported that in November the Board approved standing instructions for Staff to rebalance the disability component without prior Board approval if the amount is less than \$300,000 and board notified following the rebalancing. Staff reported that \$100,000 was moved from Johnson to PIMCO.

Staff reviewed handout 5(b)(ii). Volatility hit a low in August and the market increased by 10%. The spikes in volatility are very telling about market increases and decreases.

The Cash Flow report 5(b)(iii) was presented. Staff noted that an updated version has handed out at the meeting and that the Cash Flow subtotal had been updated. Staff noted that they had simplified the report from the version handed out in previous months. In May and July approximately \$3.5 million had been allocated to Timber. Staff pointed out that the Plan is cash flow negative for the year because a large amount had been put into limited partnerships. This is not typical for the Plan.

The Private Equity Cash Flow Report 5(b) (iv) was presented. Staff noted that an updated version had been provided where the Grand Total has been revised. Thus just under half of the \$5 million commitment to primary private equity has been called. The remaining commitment is 61% for domestic and 47% for international.

Staff presented handout 7(b) the Private Equity Investment Comparison. The comparison has compiled by Cambridge Associates Private Equity Benchmark. A question had been raised as to whether it's worth considering Private Equity. The investment comparison sheet proves that Private Equity does

have higher returns than other investments. Staff did acknowledge that the study provided does not address specific concerns about illiquidity.

Mr. Tierney asked if the Investment comparison included dividends. Staff answered that they thought it did include dividends. Staff pointed out that dividends would be less than 3-4%. Staff noted that the study provided was of single funds and that fund of funds returns would be lower.

Staff reported that a copy of a news article about the fires in Australia was available on the handouts table. Hancock has reported limited exposure to the fires in Australia. Staff noted that they were awaiting the final assessment from Hancock as the final damage report can differ from the initial assessment when dealing with natural disasters.

ADMINISTRATION – DATA TO THE ACTUARY

Data has been sent to the actuary months earlier than in previous years. This should simplify the CAFR processing and we can expect actuarial valuation results earlier.

AMRS-VA – RESCHEDULED OCTOBER MEETING

Staff provided a report from the recently attended AMRS-VA conference that was rescheduled from October. Staff pointed out that page 3 of the report talks about the new GASB rules. Staff will request to have the actuary present the new (GASB 67 & 68) in parallel with the old results (GASB 25 & 27) to aid in the understanding of the impact of the change.

Staff noted that increased volatility helps those plans with positive cash flows. The Plan is immature so we have positive cash flow. When the market is down positive cash flow helps to buy more shares at the lower price. Likewise when the market is at the top we will buy fewer shares at the higher rate. Thus we will have bought more shares at the lower rate. This is similar to dollar cost averaging. The plan can gain now but the same will not be true 10 years from now when the Plan is not cash flow positive.

OLD BUSINESS

ICMA-RC INVESTMENT PLATFORM

Staff has been working with Mr. Bryant to finalize the selection of mutual funds. They have come to an agreement on all of the Stage 1 options. They have also included some of the Stage 2 options in the first stage; those that do not require a lot of education and had been previously offered in the existing deferred compensation platform. The options include target risk model portfolios and high yield bonds. Mr. Bryant recommends using PIMCO for high yield and Vanguard's model portfolios.

Mr. Cross noted that the Board needs to approve the fund selections. Staff indicated they would bring the fund suggestions for Stage 1 to the next Board meeting along with the two Stage 2 options that have been condensed into Stage 1.

NEXT MEETINGS

Thursday, February 14, 2013, Sister Cities Room 1101, Due Diligence Meeting

The Supplemental Retirement Board will meet jointly with the Fire and Police Pension Board for the February 14th meeting. The Chairman of each Board will work to coordinate the agendas.

Thursday, March 14, 2013, Sister Cities Room 1101, Special Meeting

ADJOURNMENT

The meeting adjourned at 9:45 AM.

HANDOUTS

Distributed in advance to Board members

1. Agenda
2. Minutes of November 8, 2012 [3(a)]
3. Minutes of December 20, 2012 [3(b)]
4. Administrator's Follow-Up Item List [5(a)]
5. Investment & Rebalancing Report [5(b)(i)]
6. Volatility Report [5(b)(ii)]
7. Cash Flow Reports [5(b)(iii)]

Distributed during the meeting:

The materials included in this mailing are:

1. Accept Appointment or Election of a Board Member and Fiduciary Duty
2. Cash Flow Reports [5(b)(iii) – REVISED]
3. Private Equity Report [5(b)(iv) - REVISED]
4. Deferred Compensation Graphs [6(a)]
5. Investment Comparison [7(b)]
6. AMRS-VA – Williamsburg meeting report