

**MINUTES OF FEBRUARY 14, 2013 RETIREMENT BOARD
CITY OF ALEXANDRIA
FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN
DUE DILIGENCE MEETING**

PRESENT

<u>Members</u>	<u>Others</u>
Michael Cross ^{1,4,6} , Secretary (Fire)	Steven Bland, Retirement Administrator
Patrick Evans ^{2,3} (Fire)	Barry Bryant, Dahab Associates
Tom Gates, Chairman (Management)	Bryan Capelli, Retirement Specialist
Mark Jinks (Management)	Shane Cochran, Supplemental Retirement Board
Rick Muse (Fire, Alternate)	Kadira Coley, Retirement Specialist
Jean Niebauer (Management, Alternate)	Brenda D'Sylva, Supplemental Retirement Board
Morgan Routt ^{1,5} (Management)	Bill Eger, Supplemental Retirement Board
Al Tierney ⁶ (Police)	Robert Gilmore, Supplemental Retirement Board
Laura Triggs ^{1,4,5} (Management)	Arthur Lynch, Retirement Specialist
	Nancy McFadden, Supplemental Retirement Board
	Theresa Nugent, Public Information Specialist
	Marietta Robinson, Supplemental Retirement Board
	Christopher Spera, City Attorney

Absent: Shirl Mammarella, Ed Milner ^{1,2,3}

¹Adjustment Mechanism

²PLOP/DROP Committee

³Purchase of Service Credit Committee

⁴Technical Corrections Committee

⁵Training Opportunities Committee

⁶Vendor & Service Provider

Note: This meeting was a joint meeting of the Boards for the Supplemental Retirement Plan and the Firefighters and Police Officers Pension Plan. The discussions reported in these minutes include comments from members of both Boards. All discussions are of value to each Board, even if the following motion did not apply to one Board. However, the motions noted in these minutes only relate to the Firefighters and Police Officers Pension Plan Board.

CALL TO ORDER

The meeting was called to order at 8:36 AM on February 14, 2013.

Mr. Gates welcomed everyone and then explained the new approach to Board meetings that entailed providing summaries in advance, more preparation before the meetings, and more focus during the meetings.

APPROVAL OF MINUTES

There was a motion by Ms. Niebauer to:

Approve the January 10, 2013 minutes.

Mr. Evans seconded the motion.

The motion was unanimously approved 7 – 0.

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 Board Members. All board members have now signed the forms.

FINANCIAL REVIEW

Mr. Bryant provided a brief review of the quarter's economic and financial results. A written overview had been provided in advance. Most relevant to the day's meeting with NewSouth, Mr. Bryant said value had outperformed growth and that small cap had outperformed large cap.

Dahab Associates has a vendor that is providing data for the quarterly reports less timely than formerly provided. Quarterly reports may arrive later than previously. For the time being the Board will not reschedule its meetings to later in the quarter. There may be times when the Board receives the hardbound report at the Board meeting rather than in the packet. However, it is expected that an electronic version will be available on a timely basis.

Mr. Cross arrived at 8:52 AM.

DOMESTIC SMALL CAP EQUITY

Staff provided his perspective. NewSouth provided materials after staff's written materials to the Board. That new information was insightful and led staff to greater confidence in NewSouth's stock picking capabilities.

NewSouth is basically a stock picker. It does not lend itself to a "style box" where it can easily be compared to countless others in the same box and then rated "good" or "bad."

Newsouth representative Christine Burns Patti, CFA introduced herself and her colleague Brooke Morrow, CFA.

Ms. Burns Patti provided a company overview. The company had closed the small cap fund to new investors because of capacity constraints. Existing customers are allowed to rebalance.

NewSouth has added an analyst in July.

Ms. Morrow said NewSouth does not track a benchmark. Typically there are only 25 – 35 holdings and therefore returns will be “lumpy.”

They seek managers with a long term focus. They avoid technology sectors because of obsolescence. They avoid banks because they are a commodity business. They seek balance sheet strength including significant free cash flow.

Mr. Bryant asked if NewSouth owned technology or financial companies. Ms. Morrow referred to page 20, the portfolio of investments. They invest in a number of financial firms. Most are in a niche, such as pawn shops, service substandard loans, group long term disability, etc.

The one technology firm is ManTech. This is a software firm specializing in Department of Defense (DOD) and Homeland Security.

Mr. Eger asked if the President’s recent announcement on cyber-security is expected to have an impact. Ms. Morrow said the firm is nearly fully dedicated to DOD, but was slowly branching out into health care. The announcement on cyber-security should not have an immediate impact.

Mr. Cross asked about being overweight in durables. Ms. Morrow said it was a function of bottom up stock picking. It was not a conscious choice to over or underweight any sectors.

Mr. Eger asked about stock turnover. Ms. Morrow referenced page 32. Turnover has been quite low.

Mr. Jinks asked about sell criteria. Ms. Morrow said they sell when:

- The security approaches the firm’s estimated intrinsic value
- The position’s market value exceeds 10% of the portfolio, or
- The relative value becomes less attractive – they can find something better and cheaper.

Ms. Niebauer asked if they trim positions or sell all. Ms. Morrow provided examples of each.

Mr. Gilmore asked about concentration in industries. They are capped at 10% per security and 25% per industry.

Ms. Morrow and Ms. Burns Patti left at 9:22 AM.

ADMINISTRATOR’S REPORT

NOTEBOOKS

Staff said that each Board member would receive a three ring binder with information on the plan, key people, meeting dates, investment policy statement, CAFR excerpts, demographics, etc.

OVERVIEW OF REVISED MONTHLY REPORTS PROCEDURE

Staff discussed the new procedure for reviewing monthly reports. The board packets will include a write up and the presentation in the board meetings will be brief.

REBALANCING AND INVESTMENT REPORT

Handout 5 (c) (i) was referenced. There was a motion by Mr. Cross to:

Rebalance the Pension Fund by moving \$1,000,000 from NewSouth and reallocating \$1,000,000 to the PIMCO Total Return Fund.

Mr. Tierney seconded the motion. The motion passed unanimously (7-0).

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 notified the Board following the rebalancing. Staff reported that \$200,000 was moved from NewSouth to Prudential for benefit payments (PIMCO & short term cash account).

VOLATILITY REPORT

The report is generally distributed quarterly and not presented this month.

Mr. Muse left at 9:48 AM.

CASH FLOW SUMMARY REPORT

The cash flow reports were supplemented by a discussion of agenda item 6 (a) Cash Flows, Liquidity, Illiquidity (which was taken out of turn). Handout 6 (a) exhibit 1 graphically displays contributions exceeding benefits plus expenses since plan inception. This is projected to continue for more than two years. Handout 6 (a) Exhibit 2 is from the most current actuarial valuation. It shows contribution rates increasing for two years also. Mr. Cross pointed out that the projection was at 6 ½% which is not the plan's actuarial investment return assumption. Mr. Cross and staff agreed that the point of the graph that contribution rates will remain high for two years is made whether the actual returns are 6 ½% or 7 ½%.

The second graph on 6 (a) Exhibit 1 displays contributions net of benefits and expenses compared to net cash flows to illiquid investments.

Handout 6 (b) Exhibit 1 makes the point that most of the plan's limited partnerships are of a finite life and periodic reinvestment is needed. This was previously distributed and not discussed at length.

Handout 6 (b) Exhibit 2 is a schematic that represents the position on the lifecycle of the plan's private equity. This was previously distributed and not discussed at length.

Handout 6 (b) Exhibit 3 juxtaposed the attributes of public and private investments.

PRIVATE EQUITY (HAMILTON LANE) CASH FLOW REPORT

This was included in the packet as a reference, as background material, and not specifically addressed.

REAL ESTATE CASH FLOW REPORT

No report was provided or discussed at this meeting.

TIMBER CASH FLOW REPORT

This was included in the packet as a reference, as background material, and not specifically addressed.

COMMUNICATIONS: JOINT MEETINGS POSTED ON ALEXNET

Staff reported that joint board meetings as well as plan information would be posted on the website.

EDUCATION: SEMINARS, CONFERENCES, AND TRAINING

Material on the International Foundation of Employee Benefit Plans was brought to the meeting and available.

FOLLOW-UP ITEMS

At a previous meeting Mr. Gates asked for information on loans from the City's deferred compensation plans. Handout 5 (d) (iii) Exhibit 2 provided statistics.

CEBS CLASSES FOR ARTHUR LYNCH

Staff asked for the Fire & Police plan to fund one half of the cost of Mr. Lynch taking the three International Foundation of Employee Benefit plans classes leading to a RPA pension designation. The classes, books, etc. should cost between three and four thousand dollars in total. The Supplemental Retirement Plan would be asked to fund the other half.

Mr. Cross made a motion:

The Fire & Police plan to fund one half of the cost of Mr. Lynch taking the three International Foundation of Employee Benefit plans classes leading to a RPA pension designation.
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Mr. Jinks seconded the motion. The motion passed unanimously (7-0).

CONSUMER PRICE INDEX: 1.3% ELEVEN MONTHS

Recent deflation had reduced the inflation rate (from January 31, 2012 through December 31, 2012) compared to the last information brought to the Board.

SECURITIES MONITORING

No update was provided.

The meeting recessed at 10:00 AM. The meeting resumed at 10:10 AM.

NEW BUSINESS

CASH FLOWS, LIQUIDITY, ILLIQUIDITY

This topic was covered during the administrator's report. Staff summarized by expressing a high degree of confidence that the recommended commitments could be funded with the plan's anticipated cash flows for the next several years.

LIMITED PARTNERSHIPS

Staff made a general comment in favor of some international exposure. The purpose was to diversify risks: currency, economy, regulatory & labor constraints, etc.

This was not necessarily to suggest that a timber selection should be made to the company with the most international exposure, but that between timber, private equity, real estate and farmland, consideration be given to some international exposure.

TIMBER

Mr. Bryant prefers Molpus because at the present time domestic timber appears to be at a cycle low, he believes domestic is less risky than international, and Molpus is 100% domestic.

Staff believes both Hancock and Molpus are good choices. Hancock has the advantage of global diversification and the ability to cast a wider net in searching for best value. Molpus probably has a superior domestic operation. A reference check was favorable for each. The international exposure Hancock is considering is into countries as: United Kingdom, Ireland, Scandinavia, Canada, New Zealand, and Australia. These all have a stable political environment and represent less political risk than other international or global funds.

Mr. Jinks left at 10:32 AM.

Mr. Cross believes the Board should hear from Molpus. Their coming out in 2010 may not be sufficient. It is possible that their goals for their partnerships may have changed. The process should be documented.

The consensus is to defer a timber decision. An effort should be made to hear from Molpus and Hancock by or at the March meeting.

PRIVATE EQUITY

Mr. Bryant discussed the benefits of vintage year diversification and staggering investments over time. He believes it is okay to go with only one investment manager. He then discussed the merits of primary vs. secondary private equity.

Mr. Tierney asked what is the industry standard. Mr. Bryant stated that he has not seen anyone with a fully built out portfolio so he does not know of an industry standard.

Staff said the duration of secondary private equity is shorter than that of primary.

Mr. Bryant said the Board could either choose to invest in all primary or all secondary or invest a little in both primary and secondary at the same time. Mr. Bryant indicated that he believes the strategy of investing in both primary and secondary at the same time might complex to administer due to the number of funds.

Mr. Tierney said the proposal was not complex.

Mr. Jinks returned at 10:55 AM.

Ms. Niebauer made a reference to NewSouth having fewer investments that they knew quite well. In a similar way she prefers a private equity platform with fewer partnerships that she might get to know better.

Staff highlighted that the topic of alleged complexity in administering the plan was raised by people not administering the plan. Ms. Triggs expressed concern that some staff time might have to be devoted to pension administration instead of investments.

Mr. Cross is not as concerned about distinguishing primaries and secondaries, as much as he seeks a strategy, a framework. He seeks a Liquidity/Illiquidity policy statement.

Mr. Gates suggests the Board add to the June retreat agenda an item on liquidity policy. He summarized that all members seemed comfortable with a single vendor.

Mr. Gilmore asked why a selection of style must be made in advance and why the Boards could not make the strategy selection at the time of each selection. Mr. Bryant explained vintage year diversification called for consistently sticking with one strategy throughout and not alternating between the two.

Mr. Tierney left at 11:30 AM.

Mr. Cross said there is a desire to have general (non-binding) guidance in building out a private equity platform. He made a motion:

Staff and Dahab Associates are to monitor Hamilton Lane's fund offerings and advise the Board of each new primary private equity fund of funds. Staff and Dahab Associates are to recommend to the Board a dollar commitment.

The amount of the dollar commitment to the new fund should consider/factor in/incorporate the following:

- The plan's liquidity needs and/or constraints
- The current and projected (estimated) actual and target allocations
- The likelihood (but not requirement) of the plan making additional commitments to subsequent primary private equity fund of funds
- The desire to diversify over vintage years
- Mitigation of J curve

The Board is neither bound to participate with Hamilton Lane nor precluded from partnerships in addition to the primary private equity fund of funds offered by Hamilton Lane.

Ms. Niebauer seconded the motion.

Discussion: To clarify the motion, staff provided an example: If a recommendation was made for Hamilton Lane Fund VIII today then it would consider the probable commitment to Fund IX in 2015 or

2016 and Fund X another 2-3 years after that, its implications for cash flows, liquidity, the J-curve, and so on. Mr. Cross said this captured the spirit of his motion.

Mr. Tierney returned at 11:37 AM.

The motion passed unanimously (7-0).

ENHANCED INDEXING

This presentation was deferred until the next meeting.

OLD BUSINESS

FARMLAND

Staff provided a recap of the farmland commitment to Hancock. The potential calls for five million dollars need a revenue source. This calls for amending the asset allocation in the Investment Policy Statement.

Mr. Tierney said he was concerned with illiquidity. Mr. Bryant said he would set a limit at twenty percent illiquid assets.

Mr. Tierney made a motion:

Table the discussion of any additional Farmland allocations until the plan adopts a policy guideline on illiquid assets.
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Mr. Jinks seconded the motion.

Discussion:

Mr. Jinks said he preferred decisions based on a set policy rather than a comparison to a peer group comparison limited to geographic proximity.

The motion passed unanimously (7 – 0).

Mr. Cross made a motion:

Amend the Investment Policy Statement by creating a 3% allocation to Farmland and reducing the Fixed income allocation 3%.
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Ms. Triggs seconded the motion.

Discussion:

Staff & Mr. Bryant suggested this might increase risk too much. Mr. Bryant would draw a line of fixed income target never going below 20% of the plan. Staff said the fixed income minimum should be relative to the other assets in the plan. At present 20% is a floor because of the preponderance of equities. If the portfolio were diversified further then the fixed income floor could be lowered.

The motion was withdrawn.

Mr. Tierney made a motion:

Not execute the existing Farmland contract until the plan adopts is a policy guideline on illiquid assets.

Mr. Cross seconded the motion.

The motion passed unanimously (7 – 0).

TOPICS FOR FUTURE MEETINGS

The manager presentation May 9th is to be determined.

If trustees have suggestions for board education they should please forward them to staff and/or the Chairman.

The joint meeting with the Supplemental Board ended at 12:17 PM.

The meeting recessed at 12:17 PM. The meeting resumed at 12:27 PM.

COMMITTEE REPORTS

ADJUSTMENT MECHANISM COMMITTEE

Ms. Triggs reported on the efforts of the Adjustment Mechanism Committee.

Mr. Gates said the Board did not deliver a final product to the City Council. However, the Board has a fiduciary responsibility to cover assets, protect the plan, and there needs to be a resolution. He distributed a resolution. Everyone was given ample time to read the document.

Ms. Triggs made a motion:

Adopt the Adjustment Mechanism Resolution.

Mr. Cross seconded the motion.

Ms. Niebauer said she believed the “resolved” clauses at the end of the draft were written more like “whereas” clauses and should be rewritten to convey what the Board was intending, rather than to speak on behalf of others. She offered friendly amendments to modify the tone but retain the message. The amendments were accepted. Mr. Gates modify the wording and forward it to Ms. Niebauer.

The motion passed (6 – 1)

Michael Cross	Aye
Patrick Evans	Aye
Tom Gates	Aye
Mark Jinks	Aye

Morgan Routt	Aye
Al Tierney	Opposed
Laura Triggs	Aye

TRAINING OPPORTUNITIES COMMITTEE

Mr. Jinks made a motion:

The pension plan pay the enrollment and travel expenses for Mr. Cross to attend the IFEBP four day investment course at Wharton in May, 2013.

Mr. Evans seconded the motion.

The motion passed unanimously (7 – 0).

OLD BUSINESS

Mr. Spera arrived at 12:37 PM

UPDATE RISK MANAGEMENT OVERSIGHT COMMITTEE

Ms. Triggs provided an update on the RMOC.

ICMARC

Staff discussed the issues that had held up the contract signing. Christopher Spera said the contract language ICMARC offered was acceptable.

Mr. Cross made a motion:

Approve the contract with ICMARC for third party administration services of the Retirement Income Plan.

Ms. Niebauer seconded the motion.

The motion passed unanimously (7 – 0).

Staff and Barry Bryant discussed the proposed investment platform, handout 10 (b) (ii).

Mr. Cross made a motion:

Approve the proposed investment platform for the Retirement Income Plan.

Mr. Evans seconded the motion.

Discussion:

This would include the Stage 1 implementation and Stage 2 current implementation items as approved in the January 10, 2013 Board Meeting. It would also include 2 items from the Stage 2 deferred implementation PIMCO commodities fund and PIMCO All-Asset fund.

The commodities and PIMCO All Asset fund may require more education than the average fund.

Staff drew attention to the final investment choice, “Others, T.B.D.” saying there was no hurry what-so-ever to add others, and no desire to slow the progress of implementing what was selected. However, there were others to add, someday.

The motion passed unanimously (7 – 0).

Mr. Tierney asked about administrative costs. Ms. Triggs said the optimal choice was for internal administration. However, that had to wait until the ERP system was implemented, tested, and everyone trained and comfortable with its use.

NEXT MEETINGS

Thursday March 14, 8:30 AM, Sister Cities 1101, Interim meeting

Thursday April 11, 8:30 AM, Sister Cities 1101, Interim meeting (Actuary)

Thursday - May 9 8:30 AM Sister Cities 1101, Due Diligence – joint meeting

Thursday - June 13 8:30 AM, Sister Cities 1101, Board retreat – all day

Sunday – Monday, October 20 – 21, Association of Municipal Retirement Systems of Virginia (AMRS-VA), Alexandria 4641 Kenmore Ave Alexandria, VA 22304, Sunday 1:00 PM until Monday noon.

ADJOURNMENT

The meeting adjourned at 1:30 PM.

HANDOUTS

Distributed in advance to Board members

1. Agenda
2. Minutes of January 10, 2013 [1(a)]
3. Investment Performance Review [3]
4. Dahab’s 4th Quarter Performance Meeting Notes [3(1)]
5. NewSouth Preparation [4]
6. Summary of NewSouth Presentation [4(a) – Exhibit 1]
7. NewSouth S&P 500 Illustration [4(a) – Exhibit 2]
8. Administrator’s Report Cover Memo [5(b)]
9. Monthly Investment & Rebalancing Report [5(c)(i)]
10. Cash Flow Report [5(c)(iii) Part 1 & 5(c)(iii) Part 2]

11. Private Equity Cash Flow Report – Hamilton Lane Primary [5(c)(iv)]
12. Timber Cash Flow Report – Hancock [5(c)(vi)]
13. Administrator’s Follow-Up Items Report [5(d)(iii)]
14. Cash Flow & Liquidity Projection [6(a) – Exhibit 1]
15. Actuarial Cash Flow [6(a) – Exhibit 2]
16. Maintaining Target Allocations for Alternative Assets [6(b) – Exhibit 1]
17. Amount of Funds at Work [6(b) – Exhibit 2]
18. Liquidity/Illiquidity [6(b) – Exhibit 3]
19. Timberland Returns - NCREIF [6(c)]
20. Investment Recommendations [6(c) & 6(d)]
21. Enhanced Indexing [6(e)]
22. Farmland Returns - NCREIF [7(a)]
23. Investment Policy – Asset Allocation [7(a)(i)]
24. ICMA-RC Contract Language Handout [10(b)(i)]
25. ICMA-RC Proposed Platform Handout [10(b)(ii)]
26. Prudential Investment Fourth Quarter 2012
27. Dahab Performance Review December 31, 2012
28. NewSouth Presentation

Distributed during the meeting:

1. Adopt the Adjustment Mechanism Resolution.
2. Outstanding Loan Balance in 457 Plans