



**MINUTES OF APRIL 11, 2013 RETIREMENT BOARD
CITY OF ALEXANDRIA
FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN
INTERIM MEETING**

PRESENT

<u>Members</u>	<u>Others</u>
Michael Cross, Secretary, (Fire)	Steven Bland, Retirement Administrator
Patrick Evans ^{2,3} (Fire)	Bryan Capelli, Retirement Specialist
Tom Gates, Chairman (Management)	Tim Cayen, Hancock Timber Resources Group
Mark Jinks (Management)	Shane Cochran, Supplemental Retirement Board
Shirl Mammarella (Police, 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, (Police)	Fiona Liston, FSA, Cheiron
	Arthur Lynch, Retirement Specialist
	Edgar Marshall, Molpus Woodlands Group
	Stephen McElhaney, FSA, Cheiron
	Kathy, McGugan, ASA, Cheiron
	Theresa Nugent, Communications Specialist
	Marietta Robinson, Supplemental Retirement Board
	Thomas Sarno, Hancock Timber Resources Group

Absent:

- Ed Milner ^{1,2,3} (Police)
- Rick Muse (Fire, Alternate)
- Laura Triggs ^{1,4,5} (Management)

- 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 8:37 AM on April 11, 2013. This segment of the meeting was exclusively with the Firefighter & Police Officer Board.

ACTUARIAL REPORT

Mr. McElhaney introduced himself and his team. He distributed a presentation, *The City of Alexandria Firefighters and Police Officers Pension Plan, Actuarial Valuation Results as of July 1, 2012*.

Page two is a schematic of the funding process.

Page three discussed changes since the 2011 valuation year: plan changes, assumptions and methods, data and experience.

Page four displays changes in actuarial experience. Investment return, after smoothing, lead to a modest actuarial loss.

Page five shows the trends for the pension component in the funding ratio, assets, and liabilities.

Page six shows the trends for the disability component in the funding ratio, assets, and liabilities. The funding ratio is getting low.

Pages seven and eight display a funding history. With the timing of the budget process the contribution rates through FY 2015 are known and displayed.

Page nine displays a chart with demographic information: lives and salaries. Page ten displays more demographic information in table format. Salaries had not gone down for continuing employees. Instead, salary gains were modest and higher paid employees retired and were replaced with lower paid new hires.

Page eleven develops the pension component's contribution rate, a slight increase from 2011. Page twelve develops the disability component's contribution rate, a significant increase from 2011. The incidence of disability is above the actuarially expected rate. Also, as investment market performance was weak, the Retirement Income Plan offsets to disability were smaller than expected.

Page thirteen reconciles contribution rates from 2011 to 2012. The pension component is larger than the disability component, so we would expect the changes in the columns to be roughly proportionate to the size of the plan. The liability gains and losses reflected the results of pages eleven and twelve.

Page fourteen shows that for several more years there will be positive cash flows. From the investment perspective this provides investment flexibility.

Pages fifteen and sixteen display a stress test of the pension & disability funds. The investment return was dropped from 7 ½% to 7% to display how contribution rates would increase.

Pages eighteen through twenty four discuss the new GASB standards, 67 and 68. In the first year of implementation there will be no change in reporting. The presentation included an explanation of terminology.

The meeting was recessed at 10:03 AM.

The joint meeting of the Firefighter & Police Officer Pension Plan Board and the Supplemental Retirement Board began at 10:13 AM.

APPROVAL OF MINUTES

There was a motion by Mr. Jinks to:

Approve the March 14, 2013 minutes.

Mr. Evans seconded the motion.

The motion was unanimously approved 8 – 0.

TIMBER

Mr. Bryant distributed a handout on the timber RFP, *Timber manager Search, April 11, 2013*. Mr. Bryant wants to have two managers to diversify. Staff pointed out that diversification comes from investing in properties in partnerships staggered over a series of vintage years.

Mr. Jinks left at 10:26 AM.

Molpus Woodlands Group

Mr. Marshall from Molpus Woodlands Group introduced himself and his firm. He distributed a booklet, *Timberland Investments, April 2013*. Molpus is an integrated Timber Investment Management Organization. They currently manage over \$1 billion in assets.

Page two displays their “Pillars of Success.” They believe Molpus adds value through being vertically integrated, focusing employees through incentives, quality software, and a disciplined acquisition process.

Page three displays performance. Page four includes a corporate timeline. Pages five and six have org charts.

The map on page seven shows company offices, investments, and areas of timber concentration.

Pages eight through eleven discuss why this is a good time to buy timber. The Board asked about the Pine Beetle infestation in British Columbia.

Pages twelve through fourteen explain Molpus’ approach to building their portfolio. They intend to invest half the assets into land with smaller younger trees and half into larger, more mature trees. They

will thin and fertilize trees to enhance growth. They will seek higher and better use opportunities, but they do not underwrite for it. Fund III was roughly half softwoods and half hardwoods.

Page sixteen discusses risk management. They prefer to buy near many mills so there is competition for the logs. Molpus estimates they lose about 1/10th % of their trees annually to weather, infestation and other natural hazards.

There was a discussion of leases versus ownership.

Page seventeen includes the fund's terms.

Ms. Niebauer asked about environmental fines. Molpus had none. They work with consultants to assure acquired land is free of environmental entanglements; then they implement environmentally sustainable practices.

Mr. Cochran asked about drought. Mr. Marshall said this was a problem with smaller trees, not larger ones. Periodically they do have to replant. If an area is particularly sensitive they will adjust spacing between plans and species selection.

Mr. Marshall left the meeting. Mr. Sarno & Mr. Cayen joined the meeting at 11:15.

Hancock

Mr. Sarno and Mr. Cayen introduced themselves and their firm. They distributed a booklet on timber.

Page three contains an overview of the firm's partnerships' size and diversification. They have invested internationally for twenty years.

Page four indicates a plan for broader diversification in international than existing partnerships.

Page five has an org chart. They have separate acquisition and selling teams.

Page six shows statistics for the City's current investments in Fund X, and page seven their location. The best acquisition was in taking public property private.

Brazil has provided land ownership challenges. It is best to find a business partner from Brazil. Staff asked if Hancock finds the right partner how much are they willing to invest in Brazil. Hancock is willing to invest around 25% of the partnership in Brazil.

Ireland may privatize some national forests.

There were questions about leasing land versus ownership. Some trustees believed a lease offered little land appreciation. Hancock said the leases were for 99 years. They are often renewable and transferable. The lease may share in the land appreciation. Also, historically, the greatest value from timber investments is from timber appreciation and timber growth, not from land price appreciation.

Page eight displays Fund XII objectives.

The map on page nine explains that the bulk of the world's investable forestland is in the United States. The fund will focus on Australia, New Zealand, and Brazil. They will consider Chile Uruguay, Ireland, Sweden, and Finland. The concerns about Brazil are confiscation and previous land appreciation.

Mr. Cochran asked about environmental screening and third party certification. Hancock has over 99% certified.

Ms. Niebauer asked about environmental violations. Hancock has not paid any environmental related fines.

Mr. Eger asked if Hancock assigns value to biofuel. They do not assign value to higher and better use or to carbon credits.

Pages ten and eleven display the supply & demand for timber.

Pages twelve through eighteen discuss the partnership strategies for Fund XII. These include location, alignment of interests, value added timber sales, forest management, carbon credits, certification of sustainability practices, and scale.

Terms are on page twenty. Staff indicated that Hancock's profit participation after 7% of real return was a significant benefit to limited partners in inflationary times.

Pages twenty six through twenty nine explain which countries Hancock finds advantageous for investing, and which ones not.

Staff asked if prices appeared high in the Pacific Northwest would Hancock invest more in the Southeast. Hancock would likely invest more in the South.

Mr. Cayen and Mr. Sarno left at 12:10 PM.

The meeting recessed at 12:10 PM.

The meeting resumed at 12:22 PM.

Mr. Tierney made a motion to:

Make a \$1.5 million commitment to Molpus Fund IV with an allocation of 94% to the Pension Component and 6% to the Disability Component, subject to legal review of the contracts.
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Mr. Routt seconded the motion.

DISCUSSION:

Mr. Bryant said he is a lover of simplicity.

The motion passed (7 – 0).

ADMINISTRATOR'S REPORTS

There was no rebalancing required and the balance of the administrator's report was summarized in a memo. There were no questions from trustees.

TOPICS FOR FUTURE MEETINGS

Staff presented on gains and losses from fixed income and suggested PIMCO further the conversation at the May 9th meeting.

The joint meeting with the Supplemental Board ended at 1:02 PM.

COMMITTEE REPORTS

ADJUSTMENT MECHANISM COMMITTEE

Meetings have been held weekly with representatives of employee associations. At this point, no definitive actions have been taken nor recommended.

OLD BUSINESS

ICMA-RC Update. Staff provided an update on the implementation of a new Defined Contribution Plan Third Party Administrator. ICMA-RC contacted the Pension Administration Division to raise questions about the proposed transition. The proposed mapping to target date funds did not accommodate CDs. Those who saved via CDs were subject to an early withdrawal penalty. ICMA-RC offered a price on the assumption there would be funds in the stable value fund. If there is a mapping to target date funds then they will not meet their revenue goals and must raise their fees. Mr. Cross expressed strong concern with the raising of fees. He was also concerned that as discussion become more protracted plan participant fees remained high. Staff will follow up on the letter.

NEW BUSINESS

Staff communicated a request from Mr. Muse. He wished to attend the CAPPP meetings in Chicago June 2013.

Mr. Cross made a motion to:

Provide registration and travel expenses for Mr. Muse to attend the CAPPP class in Chicago in June, 2013.

Mr. Tierney seconded the motion.

DISCUSSION:

The motion should be for one of the two parts.

The motion passed (7 – 0).

NEXT MEETINGS

1. Thursday - May 9th 8:30 at AM, Sister Cities 1101, Due Diligence – joint meeting
2. Thursday - June 13th 8:30 at AM, Sister Cities 1101, Board retreat – all day
3. Thursday – July 11th 8:30 at AM, Sister Cities 1101, Special Meeting
4. Thursday - September 12th 8:30 at AM, Sister Cities 1101, Due Diligence – joint meeting
5. Thursday - October 10th 8:30 at AM, Sister Cities 1101, Interim Meeting
6. 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

Mr. Tierney made a motion to:

Adjourn the meeting of the Firefighters and Police Officers Pension Board.

Mr. Evans seconded the motion.

The meeting adjourned at 1:23 PM.

HANDOUTS

Distributed to Board members in the Board Packet:

1. Agenda
2. Minutes of Prior Meeting [2(a)]
3. Timber Finals [3]
4. Administrator’s Report Cover Memo [4(a)]
5. Monthly Investment & Rebalancing Report [4(a)(i)]
6. Cash Flow Report [4(a)(iii)]
7. Private Equity Report Cash Flows [4(a)(iv)]
8. Real Estate Report Cash Flows [4(a)(v)]
9. Administrator’s Follow-Up Items Report [4(b)(ii)]
10. Manager Presentations [4(b)(ii) – Exhibit 2]
11. Private Equity Commitment Verification
12. Recommended Motions [4(c)]
13. June Board Retreat DRAFT Agenda [7(a)]
14. Fixed Income Returns [7(a)(ii)]

Additional Handouts at the Meeting:

1. Email from ICMA-RC

Booklets distributed to Board Members:

1. Cheiron – Actuarial Valuation Results as of July 1, 2012
2. Dahab – Timber Manager Search – dated April 11, 2013
3. Hancock Timber Packeter – dated April 11, 2013
4. Molpus Timberland Investments April 2013