

**MINUTES OF NOVEMBER 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 (Fire)	Darshan Bhatt, Glovista
Patrick Evans (Fire)	Steven Bland, Retirement Administrator
Tom Gates, Chairman (Management)	Barry Bryant, Dahab Associates
Jean Kelleher (Management, Alternate)	Bryan Capelli, Retirement Specialist
Shirl Mammarella (Police, Alternate)	Shane Cochran, Supplemental Retirement Board
Rick Muse (Fire, Alternate)	Kadira Coley, Retirement Specialist
Nelsie Smith (Management)	Brenda D'Sylva, Supplemental Retirement Board
Al Tierney (Police)	Bill Eger, Supplemental Retirement System
Laura Triggs (Management)	Ignacio Galaz, PIMCO
	Ryan Larson, Research Affiliates
	Arthur Lynch, Retirement Specialist
	Nancy McFadden, Supplemental Retirement Board
	Theresa Nugent, Communications Specialist
	Marietta Robinson, Supplemental Retirement Board
	Valarie Wright, Supplemental Retirement Board

Absent:

Ed Milner (Police)

Morgan Routt (Management)

**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 8:34 AM on November 14, 2013.

**BOARD APPOINTMENTS**

Mr. Jinks has left the board as a management representative. Nelsie Smith has been appointed management representative.

## **APPROVAL OF MEETING MINUTES**

There was a motion by Ms. Triggs to:

Approve the October 10, 2013 minutes.

Ms. Smith seconded the motion.

The motion was unanimously approved (7 – 0.)

## **QUARTERLY INVESTMENT REVIEW**

Dahab Associates provided an economic and investment review. It was a very strong quarter from the investment perspective. The economy was not quite as strong.

Ms. Robinson arrived at 8:37 AM.

Growth has outperformed value, which seemed to surprise the consultant.

Mr. Tierney asked if the European Union was out of its economic doldrums. The consultant said that was not certain.

Ms. Kelleher and Ms. McFadden arrived at 8:40 AM.

The domestic managers have all underperformed except the PIMCO small cap fund.

Mr. Cochran said New South appeared to be a consistent underperformer. Staff said their cumulative returns were below the benchmark. However, quarter by quarter returns are in a later section of the quarterly report. They did reveal a limited number of very strong performances. The consultant said NewSouth had very limited exposure to technology companies. This hurt them.

There was a discussion of risk metrics, handout 3(d) Exhibits 1 - 3. The statistics are complex. The chart of Sharpe Ratios suggests the plans have largely performed well. The Risk measures distinguish risk from risk adjusted return.

Mr. Cross acknowledges the impact of the investment advice provided by our investment consultant, Dahab Associates, and pension administration staff. The fund performance ranked in the 90<sup>th</sup> percentile, meaning that 90 percent of funds performed better than our fund, when Dahab Associates was selected as the investment consultant in late 2005. As of the 3<sup>rd</sup> quarter 2013 performance review, the investment performance ranks at 12<sup>th</sup> for the quarter, 37<sup>th</sup> for one year, 15<sup>th</sup> for 3 years and 22<sup>nd</sup> since inception in 2007 (which included the 2008-09 market downturn). Barry Bryant, as the investment advisor, and Steven Bland, as the Pension Administrator, provided training for the Board and provided the recommendations toward a diversified platform that is providing such positive investment returns in comparison to other retirement plans. A handout was provided that details a timeline of recommendation and key investment decisions that have led to our current investment platform

## **CALENDAR 2014 MEETINGS**

The 2014 meeting calendar was proposed. The dates in the packet were accepted with one revision. The May 8<sup>th</sup> meeting will be changed to May 9<sup>th</sup>. The June Board Retreat has not been scheduled.

There was a motion by Mr. Cross to:

Approve accept the 2014 calendar with the May meeting date changed to the 9<sup>th</sup>.

Mr. Evans seconded the motion.

The motion was unanimously approved (8 – 0.)

Mr. Muse arrived at 9:00 AM.

## **GLOVISTA**

The consultant introduced Darshan Bhatt of Glovista and emphasized his firm's use of ETFs and top down processes. Their guidelines allow them to allocate up to 10% of assets into individual company securities (vs. ETFs).

Mr. Bhatt said the availability of financial instruments had turned Tactical Asset Allocation (“TAA”) into Global Tactical Asset Allocation (“GTAA”). He believes GTAA can increase returns and lower risk.

The consultant asked if Glovista invested in corporate debt or sovereigns. Mr. Bhatt said they invest in both.

Mr. Bhatt discussed in detail the five strategies on page eight of his handout:

- 1) Rotation/timing between equities, fixed income, and cash
- 2) Domestic sector rotation
- 3) Global country rotation
- 4) Global fixed income country selection
- 5) Currency selection

He believes there are inefficiencies created by home country bias, boards moving slowly, and so on.

GTAA has a low correlation to other asset classes.

Page 11 offered a comparison between GTAA and hedged funds.

Page 12 discussed overlay funds.

Page 13 discussed GTAA as a fully allocated mandate or allocation. They are transparent and there are no derivatives. Fees are a lot lower than hedge funds.

Mr. Cross left at 9:45 AM.

Staff asked Mr. Bhatt to explain how he quantitatively makes allocation decisions. Mr. Bhatt mentioned the Federal Reserve Board's (FED) model that compares the earnings yield (E/P ratio) to bond yields. He also uses relative value comparisons. Relative value comparison is to historical norms because some sectors have ratios that are always higher than another, such as the P/E ratio of technology and energy.

Currency returns can be almost half of all returns. Glovista focuses on central banks and inflation.

The consultant asked what causes US equities to be as high as they are. Mr. Bhatt said it was entirely liquidity. He then cited Shiller's Cyclical Adjusted Price to Earnings Ratios.

Mr. Bhatt left at 9:58 AM. Ms. McFadden left at 10:00 AM.

## **RESEARCH AFFILIATES (RAFI)**

Mr. Larson and Mr. Galaz introduced themselves.

RAFI is a research oriented organization. They publish significant number of articles and encourage peer reviews. Mr. Larson distributed a packet and referenced *Research Affiliates Fundamental Index, Efficient Indexing for an Inefficient Market*.

They have \$70 billion assets under management in their Asset Allocation Funds. Their other significant focus is Fundamental Indexation.

Long term, the performance drag on capital weighted vs. fundamental weighted indices is roughly 2%.

Referring to slide 8, RAFI believes fundamental indexation underweights overpriced securities and overweights underpriced securities.

Slide 10 distinguishes market perspectives on capital weighted view versus an economy centric view of markets.

Ms. Mammarella and Ms. Wright left the meeting at 10:22 AM.

Slide 17 attests to the value of rebalancing at different frequencies. The most significant factor is the transaction cost of rebalancing.

Ms. Mammarella returned at 10:24 AM.

Slides 31 – 34 discussed enhancements to the fundamental indexation process. They include adjustments for companies with regular write-downs; cash flow for companies consumed by debt, sales for low margin businesses, and includes stock buybacks in dividends.

Staff asked that slides 23 and 41 are compared. The information on slide 23 suggested significantly wider excess earnings for the fundamental indexation strategy with small cap and emerging market strategies than the other strategies. Mr. Larson said it was due to two factors. First, transaction costs do not exist in theoretic back-testing but do exist in running money live. Second, markets were less efficient years ago. Going forward he would expect 2% or possibly 2% - 3%.

Mr. Galaz said equities are now more correlated to interest rates. As stocks get into trouble it is presumed that the Federal Reserve Board will step in and stimulate the fixed income market.

Mr. Galaz discussed the relationships between PIMCO and RAFI.

Page four mentions the two sources of return. They should be uncorrelated.

PIMCO offers two long short funds, one with a domestic focus and the other global.

Mr. Galaz and Mr. Larson left the meeting.

## **ADMINISTRATOR'S REPORTS**

### *Regular Investment Reports*

Rebalancing is not required at this time. (Handout 7 (a) (i))

The volatility report suggests a steep market drop is not imminent. (Handout 7 (a) (ii))

There was no real estate activity to report.

There was no timber activity to report.

Ms. Mammarella left at 11:05 AM.

## **EDUCATION: SEMINARS, CONFERENCES & TRAINING**

### *Standing Motion for AMRS-VA fees*

Staff recommended a standing motion for authorizing the pension plan to fund and/or reimburse expenses for AMRSVA meetings.

There was a motion by Mr. Tierney to:

Approve the standing approval for expenses for AMRSVA.
--

Mr. Evans seconded the motion.

### DISCUSSION:

This is part of agenda item 7(c) on page 58.

The motion was unanimously approved (7 – 0.)

AMRS-VA October Meeting Follow-up

Alexandria hosted the semiannual meeting of Virginia’s public pension plans (AMRS-VA). Staff provided a quick overview. All presentations are available electronically.

Infrastructure Conference

Macquarie is hosting a conference on Infrastructure in Washington, DC on December 10<sup>th</sup>. Trustees are to contact Mr. Bland if they are interested in attending or would like additional details. Ms. Smith left at 11:38 AM.

Market Overview

Staff referenced handout 7 exhibit 2, Frothy markets. There were a dozen signs or indicators of an overheated market, followed by two strong reasons for hope. Finally, there was no apparent catalyst or trigger to create an inflection point and turn the upward market downward.

Handout 7 exhibit 3 is a graph of the S&P 500. Its highs and lows are coincident with peaks and troughs in share repurchases. Staff said the tech bubble also had a peak in stock repurchases. However, that peak was probably smaller than more recent peaks because interest rates were higher in 2000 than at the other market peaks.

How to Read Hamilton Lane’s Quarterly Report

Hamilton Lane sends quarterly reports for all of its funds. The reports are lengthy. Most of the material may not interest most board members. However, a portion is extremely useful and easy to obtain.

Staff presented four pages from the report and focused on interpreting data on these key pages. Currently the reports are available upon request. It is hoped that the report will be available soon on SharePoint.

**OLD BUSINESS**

Strategic Discussion

The strategic discussion of equity exposure was deferred.

Farmland Presentation

Dahab Associates and Staff are to follow Farmland and alert the Board if a viable opportunity presents itself. The prospect that seemed reasonable did just announce a closing date that would be so soon it would preclude proper due diligence. Staff recommended the topic be dropped from the current meeting but remain as an ongoing project.

Mr. Cross returned at 11:48 AM.

### Risk Discussion

Dahab Associates distributed a three page excerpt of prior board quarterly performance reports. The first page highlighted gross portfolio losses of 27.3% in 2008. The second page highlighted gross 25.8% returns in 2009 and 1% annualized returns for the period ending December 31, 2009. The third page highlighted gross returns for the Quarter, year, three year, and five year periods. The net returns were below the Shadow Index for each period except the one year return. Protection from downturn losses is critical to reduce the amount of make-up performance returns required to break even, including the assumed performance returns over the period of make-up performance.

The investment consultant said that it was okay to lose a lot of money in one year (2008) if it was followed by two good years (2009 & 2010) and the fund then broke even. Staff suggested that breaking even was not adequate. That the fund needed to average 7 ½% per year so that breaking even over three years would put it behind and it would need a one-time jump of almost 25% to catch up. The consultant acknowledged that his reasoning had omitted that.

There was a discussion of risk. The consultant recommended an RFP for Global Tactical Asset Allocation of 5% to 10% of plan assets. There was a consensus.

It was agreed that risk measures would be a topic to include in the June board retreat. During the retreat our investment consultant will present a one page summary of risk statistics and bibliography of recommended items to assist trustees in learning more about risk and risk measures.

### Pension Administration Staff Professional Development

Staff asked for support of professional development expenses by having the plan pay a pro rata share of expenses for administrative or investment credentials, certifications, or designations.

There was a motion by Mr. Cross to:

Approve use of plan funds in proportion to all City retirement plan assets for support of professional development expenses by having the plan pay a pro rata share of expenses for administrative or investment credentials, certifications, or designations.
--

Mr. Tierney seconded the motion.

#### DISCUSSION:

The motion was consistent with the recommended motion on pages 58 and 59 of the board packet.

The motion was unanimously approved (6 – 0).

### ICMA-RC Transition

Staff provided an update on the transition of the Retirement Income Plan to ICMARC and the restructuring of the investment options on the deferred compensation (457) platform. Three staff

members hosted a total 17 meetings at various worksites around the city. They were attended by 116 plan participants.

Attitudes among those attending were mixed. However, much of the anticipation was relieved when the presentation explained that the new program was going to be beneficial. Many had a reluctance to change and “change” was the concern, not the program specifics.

## **JOINT BOARD MEETING ADJOURNMENT**

The joint meeting of the boards ended when the Supplemental Board adjourned at 12:19 PM. The Fire & Police trustees continued their meeting with plan specific issues.

## **OLD BUISNESS**

Staff clarified a motion from a previous meeting. The cost of the experience study for Fire & Police Pension Plan was mistakenly communicated as \$25,000. It should have been \$35,000.

There was a motion by Ms. Triggs to:

Approve use of plan funds to pay \$35,000 for the experience study.

Mr. Evans seconded the motion.

### **DISCUSSION:**

The motion was consistent with the recommended motion on pages 58 and 59 of the board packet.

The motion was unanimously approved (6 – 0).

## **NEXT MEETINGS**

1. Date for the December meeting is to be determined.
2. Thursday, January 9<sup>th</sup> 8:30 at AM, Council Workroom, Interim Meeting

## **ADJOURNMENT**

The meeting adjourned at 12:25 PM.

## **HANDOUTS**

Distributed to Board members in the Board Packet:

Agenda

Minutes of Prior Meeting [2(a)]
Investment Performance Review [3(c)]
Risk Metrics [3(d) – Exhibit 1]
Sharpe Ratio Comparison [3(d) – Exhibit 2]
Risk Schematics [3(d) – Exhibit 3]
2014 Potential Meeting Date Calendar [ 4 ]
Administrator’s Report [ 7 ]
Market Considerations – Frothy Markets [ 7 – Exhibit 2]
S&P 500 Dividends and Buybacks [7 – Exhibit 3]
Monthly Investment & Rebalancing Report [7(a)(i)]
Volatility Report [7(a)(ii)]
Private Equity Report Cash Flows [7(a)(iii)(1)]
How to Read Hamilton Lane’s Quarterly Report [7(a)(iii)(2)]
AMRS-VA October Meeting Report [7(b)(ii)]
Follow-Up Items [7(b)(ii)]
F&P Follow-up Item – Current & Proposed Allocations [7(b)(ii)(1)]
F&P Follow-up Item – Active vs. Passive Management Returns [7(b)(ii)(2)]
Action Items & Recommended Motions [7(c)]
Equity Exposure [8(a)]
Supplemental – Proposed Plan Change Documents [10(b) – Exhibit 1-4]

Distributed at the meeting:

1. Dahab Associates - Performance Review September 30, 2013
2. Prudential Investment Review September 2013
3. Glovista Investments LLC – Global Tactical Asset Allocation Strategy Report
4. Research Affiliates Package including Research Affiliates Fundamental Index, Efficient Indexing for an Inefficient Market
5. PIMCO’s Fundamental Advantage Strategies dated November 14, 2013
6. Dahab Associates Handout – distributed by F&P Board Member Mike Cross
7. Dahab Associates Risk/Historical Manager Return Summary – distributed by Barry Bryant