

**MINUTES OF NOVEMBER 13, 2014 RETIREMENT BOARD  
CITY OF ALEXANDRIA  
FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN  
DUE DILLIGENCE MEETING**

**PRESENT**

| <u>Members</u>                                    | <u>Others</u>                                 |
|---|---|
| Jack Browand (Management, Alternate)              | Barry Bryant, Dahab Associates                |
| Michael Cross <sup>2</sup> Secretary (Fire)       | Bryan Capelli, Retirement Specialist          |
| Patrick Evans <sup>1</sup> (Fire)                 | Shane Cochran, Supplemental Retirement Board  |
| Tom Gates <sup>3</sup> Chairman, (Management)     | Kadira Coley, Acting Retirement Administrator |
| Jean Kelleher <sup>2</sup> (Management)           | Ryan Cooney, Hamilton Lane                    |
| Shirl Mammarella <sup>3</sup> (Police, Alternate) | Brenda D'Sylva, Supplemental Retirement Board |
| Ed Milner <sup>1</sup> (Police)                   | Bill Eger, Supplemental Retirement Board      |
| Rick Muse <sup>3</sup> (Fire, Alternate)          | Bob Gilmore, Supplemental Retirement Board    |
| Al Tierney <sup>2</sup> (Police)                  | Arthur Lynch, Retirement Specialist           |
| Laura Triggs <sup>3</sup> (Management)            | Nancy McFadden, Supplemental Retirement Board |
|   | Jackie Rantanen, Hamilton Lane                |
|   | David Sharer, ICMA-RC                         |
|   | Napoleon Stephenson, Hamilton Lane            |
|   | James Weight, ICMA-RC                         |
|   | Sergey Zelensky, Retirement Specialist        |

Absent:

Nelsie Birch (Management)

Terms: 1/1/2014 – 12/31/2015

<sup>1</sup>Purchase of Service Credit Committee

<sup>2</sup>Technical Corrections and Plan Document Review Committee

<sup>3</sup>Vendor & Service Provider

**CALL TO ORDER**

The meeting was called to order at 8:38AM on November 13, 2014.

**MEETING RECORD**

Mr. Milner made a motion to

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|--|
| Approve the September 11, 2014 and the November 5, 2014 minutes. |
|--|

Mr. Muse seconded the motion. The motion was unanimously approved (6 – 0).

Mr. Eger, Mr. Tierney & Ms. Kelleher arrived at 8:42 AM

## CALENDAR 2015

The Board accepted the proposed 2015 calendar (meetings on the 2<sup>nd</sup> Thursday of the month) with one exception. The May 2015 meeting will be moved to May 21, 2015.

## FINANCIAL REVIEW

Dahab distributed their quarterly report booklet. Mr. Bryant noted the following items:

- Domestic equities markets - major growth in large cap growth (up 1.5%); small cap down 8.6%
- Asset Allocation - Page 9 of the quarterly report
  - Private equity did better than stocks
  - PRISA real estate did better than bonds
  - Asset allocation “hurt” returns because portfolio has a lot of investments in small and mid-cap
  - Returns for averaged portfolios are tightly clustered between 0% and -2%
  - Portfolio had an average quarter relative to the market
- Manager/Fund Performance
  - Active managers helped us this quarter – all beat their benchmark except Champlain
  - Johnston had a great quarter
  - Emerging markets below benchmark but historically have done very well
  - PIMCO below benchmark – more on PIMCO later
  - Returns for Private Equity and Timber were not available at time of printing the books.

Mr. Cross arrived at 8:50 AM.

- Fixed Income Discussion
  - Reviewed previous PIMCO discussions
    - Concern has been raised about overexposure to PIMCO
    - Board has expressed interested in splitting bond allocation between domestic and foreign fixed income. Based on this desire Mr. Bryant recommends the portfolio move from PIMCO core+ to a dedicated domestic core bond manager and an international bond manager.
  - Fixed Income decisions
    - Will require an RFP for both types of managers.
    - This Board agreed to move forward with RFP(s).
      - Typical process – Dahab publish RFP, distribute by trade press, Dahab will narrow selections down to 2 – 4 options.
      - The Supplemental Board will need to make a decision on asset allocation study. This will determine if RFP can be done jointly.
    - A Board Member asked, “Would the quotes be different if both pots of money are included rather than individual inquiries? Dahab responded that they do not think the fees won’t be affected by this but it may affect who responds.
    - The Board ultimately agreed to wait until the Supplemental Board hosted its next interim meeting, where they will ideally complete their asset allocation study discussions, to publish the RFPs. The goal was set to have presentations from managers in February.
    - Separate special meetings will be needed for review of managers. Goal is still to have Champlain present at the February due diligence meeting.
- Risk and Asset Allocation – Mr. Bryant distributed an article to Board members
  - Article is titled, “Illusions of Precision, Completeness and Control: A Case for Simple, Transparent Portfolios.
  - The article is published by the Brandes Institute and discusses risk. It is recommended reading for all trustees.
- Hamilton Lane

- Dahab's introduction
  - Private Equity ("PE") is a portion of equity market. Encompasses private, younger companies. PE firms identify private companies and prepare them to be public.
  - PE firms work in sectors (tech, healthcare, etc.) because each company needs specific and individualized help (similar to Shark Tank television show). The City could not invest this way.
  - When investing in PE it is important to have diversification in both sector and vintage year. To reach that type of diversification we hire a fund of fund manager like Hamilton Lane or Landmark.
  - The Secondary PE market is buying a strategy that someone else has owned. Less volatility.
  - Portfolios are built by adding funds every X years and that fund reaches maturity after Y years.
  - When investing in PE there are calls for money in early years and in progressive years you'll begin receiving distributions. Cash flows in PE funds become complicated.
  - Major outstanding question is how we get the 5% targeted investment committed and then maintained with this type of investment.

## **MANAGER REVIEW – HAMILTON LANE ("HL")**

Ryan Cooney, Jackie Rantanen & Napoleon Stephenson

- Hamilton Lane distributed their Portfolio Review presentation and walked the board through the handout.
  - 70% firm owned by the employees & other investors including Bill Gates through his investment firm
  - Currently raising funds and seeking investors for Co-investment Fund III, Primary Fund IX, and Secondary Fund IV which will launch next year.
  - Page 2 & 3 – highlights the City of Alexandria's ("COA") investment with HL
    - Currently invest in both primary and secondary funds
    - IRR is 8.7% - beating benchmarks
  - Page 3 specifically focuses on the developments of the total COA's portfolio
    - \$22.5 million is committed, \$17.5 has been called
  - Page 4 shows the diversification of portfolio. HL pointed out how the funds are diversified across geography, vintage year and strategy.
  - Page 5 highlights the cash flows – dark blue shows calls in early years all calls, but in ladder years distributions have increased
  - Page 8 & 9 give an overview of funds – Fund VII– 2010 vintage year fund (vintage year is first year of call for investment) Fund VIII – 2012 vintage year fund – very early in fund.
    - HL discussed the indices shown on pages 8 & 9 - PME is a private market equivalent (done for S&P and MSCI) – if took money from PE and invest in S&P (or MSCI) the amount show is what you would have received. The returns are dollar weighted returns taking in account the cash flows
    - Cambridge PE (used as the benchmark in Dahab's quarterly report) is the average of all private equity funds.
  - PE is expected to outperform public markets in a 10-year period. The 12% return of the 4-year fund is expected to be even higher as we move forward.
  - Page 10 gives an overview of Fund II which is fully committed. 18% net IRR.
    - The fund has returned all money that has been called. Expecting another distribution this week.

- Page 11 – overview of Fund III – Capped at \$900million, 41% net IRR (expected to come down in future). This trend is normal for secondary fund higher IRR in the beginning. Fund is approximately 50% committed. By January expect to be 60% funded.
- Page 15 shows differences between primary and secondary funds.
  - Primary has exposure to the secondary exposure at 12%.
- Page 16 addresses the question - how do we get the fund to the 5% target. HL answers this question using horizon model. HL ran 3 scenarios specific to the COA circumstances.
  - Scenario 1 - page 17 – stop making PE commitments today – today 2.2% by 2019 decrease to 2.1% allocation to PE.
  - Scenario 2 - page 18 – commit \$10 million annually. This would incorporate a combination of both primary and secondary funds. This strategy would be similar to our current strategies.
  - Scenario 3 - page 19 – excludes secondary funds with a commitment to invest solely in primary funds every other year.
- Questions, Answers and Discussions
  - Barry noted that initial vision was to do primaries and added secondary funds to mitigate j-curve
  - Past discussion about including primaries and secondary funds. Consensus was to move towards primary only investments.
  - A Board member asked, “What percentage committed do we need to be to be 5% invested.” HL discussed this using their Horizon model. It was pointed out that there would need to be an over-commitment strategy because of the cash flows involved in PE.
  - A board member asked HL. “What makes you better than Landmark?” HL responded that they offer both secondary funds and primary fund of funds. They also noted that they are a team committed to private equity. They have feet on the ground and focus on smaller funds with value approach. Landmark only offers secondary funds.
  - HL noted that their Primary Fund IX has a target of \$400 million. Initial closing expected by the end of year. If COA wants to get in before the initial closing contracts would have to work through legal before the end of the year.

Mr. Tierney made a motion to

Pursue bringing the portfolio’s investment up to 5% investment utilizing Hamilton Lane Primary Fund IX in prudent manner to meet the commitment.

Mr. Milner seconded the motion.

Discussion:

- Request Hamilton Lane to run their Horizon Model on the plans individually.
- Further discussions will be held at the December board meeting.

The motion was unanimously approved (8 – 0).

## **ICMA-RC UPDATES**

David Sharer & James Weight

- ICMA-RC distributed a PowerPoint presentation on the City’s 401 and 457 plans.
  - They provided an overview of plan demographics
  - Page 3 – shows the allocation of money 9/30/2014 versus 12/31/2013. ICMA-RC noted that the majority of money that has transferred from plus fund has moved to the balanced funds.
  - Page 4 shows the allocation by age – there a number of younger people with money in plus fund. This could be because a number of younger individuals were disabled and more conservatively invested and may be skewing numbers

- Page 5 is the overview for the 457 plan.
- Page 6 shows the allocation of money 9/30/2014 versus 12/31/2013.
- Page 7 shows the asset allocation by age. The younger group of employees are highly invested in balanced/target date funds
- Page 8 displays a breakdown by asset class.
- ICMA-RC noted that their staff has been on-site quite a bit this year. The Pension Administration Division will be working with ICMA-RC to plan out the schedule for 2015. Board members are to contact staff if they have any specific requests.

## **ADMINISTRATOR'S REPORTS**

### **Regular Investment Reports**

No rebalancing was required.

### **Cash Flows Reports**

Reports are included in the Board Packet. (HL Fund II, HL Fund VIII, Real Estate & Timber)

### **Other Items**

#### **Education: seminars, conference and training**

- CAPP Series – A number of trustees and Staff just completed CAPP training (Mr. Capelli, Ms. Coley, Mr. Evans, Ms. Mammarella, Mr. Milner, Mr. Tierney & Mr. Zelensky) Some shared items they had learned or would like to follow-up on based on their training
  - Are foreign tax balances reclaimed? Does this happen automatically?
    - Staff noted that we have signed agreements with Comerica to pursue this. Staff will confirm this is being done.
  - Are death audits being completed?
    - Staff believes Prudential periodically performs this service. They will confirm with Prudential and report back to the Board.
  - Money in and money out – what kinds of access/oversight do we have?
    - Prudential issues report of controls annually. Internally – internal audit reviews.
  - Securities Monitoring – is this something we should be involved in. Mr. Evans noted that he is meeting with securities monitoring firm on November 19<sup>th</sup> and anyone who wants to sit in on the meeting can join him.
    - Staff noted that some work had previously been done on a securities monitoring contract and they will work to track down the progress on the contract, if any.
  - Secondary audit
    - Staff reported that we changed auditors 3 years ago. In general we are required to put items out to bid every 5 years.
  - Do we have any type of fiduciary insurance?
    - Staff noted that we are self-insured but is following up with Risk Management to get the specific details.
  - Evaluating managers and service providers
    - Staff is working with the vendor and service provider committee to ensure a regular review is occurring.

## **COMMITTEE REPORTS**

### **Technical Corrections and Plan Document Review Committee**

No report was given.

### **Purchase of Service Credit Committee**

No report was given.

Vendor & Service Provider Review Committee

No report was given.

**OLD BUSINESS**

PIMCO – Mr. Bryan noted that PIMCO has seen large cash outflows since the beginning of November. The amount of cash outflow has slowed in November. There is potential for large staff turnover to come. He noted that there is belief that members of PIMCO’s staff may be waiting to hear how end of the year bonus and salary will be reflected to make decisions about potential departures.

**NEW BUSINESS**

None.

**ASSET ALLOCATION STUDY**

Mr. Bryant distributed an updated asset allocation study. He noted that scenario 7 in the current study matches scenario 14 in the previous study. As requested at the previous meeting scenario 7 was run with tweaks to equity allocations. Mr. Bryant did not recommend scenario 7-2 or 7-3 because of the larger allocation to small cap. His recommendation would be scenario 7-1.

Mr. Milner made a motion to

Approve asset allocation 7-1.

Ms. Kelleher seconded the motion. The motion was unanimously approved (8 – 0).

**NEXT MEETINGS**

1. Thursday – December 11<sup>th</sup> at 8:30 AM, Sister Cities 1101, Interim Meeting

**ADJOURNMENT**

The meeting adjourned at 11:55 AM.

**HANDOUTS**

Distributed to Board members in the Board Packet:

|   |
|---|
| Agenda  |
| Minutes of Prior Meeting [1(a) & 1(b)]            |
| 2015 Potential Meeting Dates Calendar [2]         |
| Monthly Investment & Rebalancing Report [6(a)(i)] |
| Volatility Report [6(a)(ii)]                      |
| Private Equity Cash Flow Report [6(a)(iii)]       |
| Real Estate Cash Flow Report [6(a)(iv)]           |
| Timber Flow Report [6(a)(v)]                      |
| Farmland Cash Flow Report [6(a)(vi)]              |
| AMRS-VA October 2014 Report [6(b)(i)(2)]          |
| IFEBP – 2015 Calendar [6(b)(i)(3)]                |

Distributed to Board members at the meeting:

- Dahab's Asset Allocation Study – November 2014
- Dahab's Deferred Compensation, Defined Contribution & ROTH IRA Performance Review
- Dahab's Performance Review Report – September 2014
- Hamilton Lane's Portfolio Review Presentation Booklet
- ICMA-RC's City of Alexandria Education Plan Booklet – November 13, 2014
- Risk Article - Illusions of Precision, Completeness and Control: A Case for Simple, Transparent Portfolios