

**MINUTES OF SEPTEMBER 10, 2015 RETIREMENT BOARD  
CITY OF ALEXANDRIA  
FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN  
DUE DILIGENCE MEETING**

**PRESENT:**

<u>Members</u>	<u>Others</u>
Jack Browand (Management)	Jonathan Aggett, Hancock
Michael Cross <sup>2</sup> Chairman (Fire)	Barry Bryant, Dahab Associates
Titania Cross <sup>3</sup> (Management)	Bryan Capelli, Retirement Specialist
Jean Kelleher, Secretary <sup>2</sup> (Management)	Kadira Coley, Retirement Administrator
Shirl Mammarella <sup>3</sup> (Police, Alternate)	Charles Curia Supplemental Board
Ed Milner <sup>1</sup> (Police)	Brenda D'Sylva Supplemental Board
Al Tierney <sup>2</sup> (Police)	Robert Gilmore, Supplemental Board
Laura Triggs, <sup>3</sup> (Management)	Jamie Houston, Molpus
Christina Zechman Brown (Management, Alternate)	Arthur Lynch, Retirement Specialist
	Nancy McFadden, Supplemental Board
	Theresa Nugent, Retirement Specialist
	Kevin Parker, ICMA-RC
	Marietta Robinson, Supplemental Board
	Logan Roise, Hancock
	Kendel Taylor, Finance Director
	James Weight, ICMA-RC
	Sergey Zelensky, Retirement Specialist

Absent:

Patrick Evans<sup>1</sup> (Fire)

Rick Muse, (Fire, Alternate)

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 8:37 AM on Thursday, September 10, 2015.

Introductions were made and Ms. Christina Zechman Brown was introduced to the board.

**MEETING RECORD**

Mr. Tierney made a motion to:

Approve the July 9, 2015 minutes.
-----------------------------------

Ms. Cross seconded the motion. The motion was unanimously approved (7 – 0).

## FINANCIAL REVIEW

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

- In general, City of Alexandria returns were good relative to market. There was not much return to be had 2nd quarter 2015
- Mr. Bryant walked through the index returns on page 4. Domestic bonds were down 2%, international equities are up 1%, and small to no returns in the domestic equity markets.

Manager Performance Summary (page 10)

- Composite return is 0.4% in quarter; in the 15<sup>th</sup> percentile (vs other public funds); shadow index is -0.1%
  - Polen returns are above benchmark for the quarter and since inception
  - Champlain – did well benchmark was negative but Champlain gained 2.8%, turnaround in performance in the past year – they are a defensive and have done well in past year
  - The negative in the portfolio is that it has more domestic stocks than international stocks
  - The difference in returns in Supplemental plan versus Fire and Police is the PIMCO small cap fund that only exists in Supplemental, better returns in private equity and the additional farmland allocation.
  - Active programs doing well when compared by the since inception numbers with exception of Herndon & NewSouth
  - Mr. Tierney asked if the returns on page 10 are net or gross of fees. Mr. Bryant noted that they are gross of fees as this is industry standard. Mr. Bryant will request that the next quarterly include return net of fees where available.

Manager Allocation and Target Summary (page 9)

- Review asset allocation. The portfolio diversifies bond allocation with alternatives such as real estate, timber and farmland. This allocation helped portfolio returns.
- Stocks – the portfolio was hurt by the large allocation to domestic equities. Mr. Bryant recommends we plan to review the allocation to domestic and foreign equities in the future.
- The future allocation to global fixed income would have helped the portfolio if it had been available this quarter.

Ms. Kelleher arrived at 8:44 AM; Ms. Robinson arrived at 8:55 AM.

The board had a discussion of active versus passive management. A trustee asked if the fire and police fund had always been in index funds since 2009 would the fund have made more money. Mr. Bryant noted that not all investments can be done via the index i.e. could not index timber, private equity, or real estate. It was requested the Dahab redo the second quarter report and campsite returns for only those fund that can be indexed. Mr. Bryant noted that the Board had made a decision to pursue active management and that decision will need to be reviewed after a full market cycle. The market cycle must include a down market which we have not had since the majority of managers were hired. Mr. Bryant predicted that we will see a down market in the third quarter of 2015. Mr. Bryant also recommended waiting out the full typical 5-year market cycle which would end November 2016. Mr. Tierney noted that he believes active management has been given more than 5 years since the move in independent management (from Prudential) occurred in June 2011.

### Investment Manager Discussions

- Herndon

- Mr. Bryant provided some history on Herndon. He noted that when the City hired them they had a great record and thus had a lot of money flow in.
- Herndon is a value manager. They are invested in energy and got into oil just as the price started to drop.
- They have had a good 3<sup>rd</sup> quarter; ahead of benchmark net of fees for year to date.
- Mr. Bryant recommended the fund invest the increased allocation to large cap value to the Vanguard large cap Russell 1000 fund or a comparable index fund

Ms. Mammarella made a motion to:

Allocate 5% to Vanguard Russell 1000 Value Index Fund Institutional Shares Fund (VRVIX) or a comparable index fund.

Mr. Tierney seconded the motion.

Discussion:

- No new money is to be given to Herndon. Staff is instructed to utilize this fund for balancing the large cap value allocation to 15% and any future rebalancing.
- Dahab is given the flexibility to select a similar comparable fund.
- Mr. Bryant noted that the paperwork for investing in this type of fund may ask why the fund in choosing this investment. They do not like to have money moved into and out of the fund.

The motion was unanimously approved (7 – 0).

- NewSouth – performance expectation and expected completion
  - Holding a lot of cash because they could not find stocks that met their criteria to invest. They currently have a 6.7% cash position (has historically gone as high at 8%)
  - Small Cap index down in first two months of third quarter.
  - Mr. Bryant recommends we watch NewSouth remainder of the year.
  - Mr. Bryant noted that we have an alternate small cap investment in the PIMCO small cap strategy. He noted that the fund creates exposure to small cap through exposures to generate cash to invest in fixed income strategies.
    - Mr. Tierney asked about how to measure risk of the PIMCO small cap strategy. Mr. Bryant recommended having PIMCO come in and asking that question of their representative.
    - Ms. Triggs asked if the PIMCO strategy could be added to the risk statistics included on page 13 of Dahab’s quarterly report.

Mr. Tierney made a motion to:

Keep NewSouth as the small cap manager and reduce the allocation per the asset allocation.

Mr. Milner seconded the motion.

Discussion:

- Mr. Bryant was asked if he had concerns about keeping NewSouth. He recommended the board keep them and watch them through the 3<sup>rd</sup> quarter. He also recommended the board continue to explore the PIMCO small cap strategy.

- What is Herndon's and NewSouth's history in down markets? It was noted that both were hired for downside protection and historically have done well in down markets. The market has not significant down turns since the managers were hired.
- The board has already approved the asset allocation and approved a motion to begin the process of rebalance per the updated asset allocation. Thus the motion on the floor may not be necessary.

The motion was withdrawn.

## **TIMBER**

*Molpus*, Jamie Houston (9:40 AM)

- Molpus Overview
  - Introduction of the firm and the team
  - Molpus is differentiated by – 4 pillars of success (see slide 1 for details)
- Investment & Management Presence (slide 2)
  - Investor on the ground in each area of investment
- Fund IV
  - 60% domestic capital, 40% international
  - Invested in 3 years
  - 10 year fund with series of extensions
  - Max 20% leverage, historical no leverage on funds but there may be opportunities to borrow at 3% and grow timber at 7%. Will not have to harvest to pay bank. 10 year locked in loans (also offer shorter but more comfortable with 10year loan)
  - Creating diversified fund. Previous fund invest in all 5 growing areas in US. Goal to do the same in this fund
- Strategy and sourcing
  - First acquisition and call has occurred. Should be called by end of October
  - Review 200 deals per years. Conclude 2.5 deals per year.
  - Acquisitions through source or relationship/nonpublic deal, not always the highest bidder but other constraints such as time allow them to close deals
  - A trustee asked if Molpus is buying land. Typical transaction buys land and the timber, sometimes lease land and buy rights to timber.
  - Strong relationships with US forest service. But no deals with them.
- Slide 5 – representative transaction – auction processes in 2010. Competitor won but did not have all capital raised, tried to raise money in 30 days. Purchased acreage at a discount.
- Market opportunity – great time to be buying. Fund IV is their only fund. Molpus is not raising capital for another fund until this fund is invested.
  - Slide 7 – housing starts – expect to get back to average by 2018. A lot of pent up demand in the housing markets. Lending standards are loosening. Graph shows underlying demand in comparison to housing starts. 3.7 million units underbuilt by end of 2015.
  - Pellets – 95% of product is going to Europe and being burned. Europe trying to meet 20 20 20. 20% renewable by 2020. Converted coal facilities to pellet burning facilities. Double amount of wood pellets by 2020. Pulp wood has continuously increased in value.

- Why Europe is coming to US south? Low transport costs with straight route, consistency of products throughout the region. Comfort with legal/contractual situation.
  - Sell wood pulp to supplier. Supervise loggers but contract logging business out.
  - Canada devastated by pine beetle – 60% of soft wood is dead.
  - Quebec strict harvesting restrictions
  - All this indicates good time to be investing in timber
- Slide 10 – rotation for timber plantation – discuss rotation schedule
  - US south 25 to 30 year cycle for soft wood; hard woods have natural regeneration.
- Slide 11 – sustainability slide – fully certified. One full time employee monitors certifications. Internal & external audits on an annual basis.
  - What clout do you have if issues are found? Minor issues are asked to be fixed.
  - Are they seeing a bump in price due to certification? – Not necessarily but they are able to move more product due to certification.
- Slide 12 – Molpus differentiation – Pillar of Success
- Question/Answer
  - What was the cost of thinning and fertilization? – Thinning makes money. Fertilization can be expensive. Fertilizations costs are linked to costs of natural gas.
- Assets under management - Manage about \$1.6 billion, sweet spot is \$2 million so not planning to get much bigger.
  - Hoping to put 80% of the money to work. Only call capital when deal is on the table.
- Are there issues finding investments that will make the 7% model. It is challenging but firm is will to getting creative.
- A trustee is concerned about environmentally sustainable investment. Molpus appears to also be concerned about this. Europe is more concerned that US. SFI standards Growth is required to be greater than harvest.
- Molpus leave at 10:25AM

### Hancock

- Jon Aggett (portfolio manager) and Logan Roise
- Mr. Aggett – client relations, funding new acquisitions; Mr. Roise has been with Hancock for 4.5 years
- Firm Update
  - founded in 1985, subsidiary of John Hancock, now independent subsidiary of Manulife
  - Transaction volume had slowed down, picked up in the last few years
  - Can bring large amount of capital to market because large company backing them, acquisition history
- Overview of investment regions (page 4)
  - Yellow regions are geographies that monitor and may be of interest for new acquisitions
- Personnel updates
  - CEO, Dan Christianson, announce ret last week. Replaced by CFO, Dan will now chair HNRG board.
- Portfolio overview
  - Required 4 investments, have 6, 60.40 split between us and Australia
  - Fund will begin wind up in 2022 – see slide 7 for timeline

- Slide 8 structure
- Slide 9 – portfolio overview – show distribution since inception and assets breakdown
- Slide 10 & 11 – geographic diversification
- Slide 12 – portfolio performance
- Why did you sell Garnet Ridge Timber – large acquisition in 2012? Identify parcels that had environmental concerns. Assign a separate LLC that sold property and investors receive portion. Always the plan to sell. Property was sold for a premium. Another one has been sold and will show on books.
- Time weighted returns – note NCREIF is us only index and is unlevered and contains no depletion which results in higher income returns.
  - YTD lag NCREIF index attribute to strength of US dollar.
  - Long term – since inception above index. Currency over short term (strength of US dollar has hurt appraisals)
  - Appraisal Overview (page 14) – up in US dollars, strong log prices and anticipated higher cash flows due to age of property (speak about north river HQ plantation)
- Is there a way to hedge against currency issues?
  - Hancock noted that there is a way to hedge it is very costly to do.
  - Mr. Bryant noted that currency over long term does not matter. Over short term the fund will experience fluctuations but generally is a wash.
  - Does currency issues affect when exit? Yes it could but that is why you have the option for extensions.
  - Historically Hancock has extended funds. Not necessarily for currency but have for market environments
- Projected fund performance as of 1/1/2015 (Slide 16)
  - One of the Hancock’s top performing funds
- Market outlook
  - Page 18 – US end self-projected growth., strong US dollar, oil markets crashed and uncertainty in equity markets
  - Page 19 Most important in residential construction market – mostly positive – leads to additional demand for timber 2005/2006, historical housing starts – average at 1.5 - got up to 2.2; incredible drop in 2009. Gradually improving, currently 30% higher than June 2014
  - Page 20 – new home sales – compare 2014 to 2015 – every month new home sales higher this year in comparison to last year.
  - Page 21 – strong US currencies – can hurt competitiveness in comparison to other markets
  - Page 22 – historical prices for wood products
    - Plywood and oriented strand board (OSP) – OSP is cheaper to make than ply wood. OSP can use scraps – over past few qtrs. All prices down – Q1 due to winter and strong US dollar decreasing demand
  - Page 23 – projected increase by end of decade
  - Page 24 – china market – ghost cities large uninhabited cities
  - Page 25 – large amount of debt – non –government debt as % of GDP higher in China than US or Eurozone
  - Page 26 – who supplies lumber resource to China – historically had been Russia but Russia impose export restrictions and see changes to New Zealand
- Softwoods come from Canada – beetle destruction and export restrictions. Will that affect China exports? Yes it will

- Page 28 – price to saw logs
  - Pacific northwest – prices are fairly high – markets to pacific rim including china have driven prices up
- Have wildfires affected properties? – Inland west – fires this year have burned more than ever in history. Fund X – one inland west property has been affected to the tune of \$1million dollars. Will go in as soon as possible to harvest and then sell.
- Does Hancock insure against catastrophic events? They are self-insured.
  - Actual impact tends to be de minimis
- US south – very little access to export – wholly dependent on housing market
  - Selling logs to producers – do not have their own loggers – all outsourced. Have a forest management company that oversees
- Hancock – Agricultural, Timber, & renewable energy group – Renewable energy is a new group
  - Page 30 – Australia – run up in housing starts – boosted by low interest rates – demand for lumber is strong so demand for logs is also strong
  - Timberland properties – page 31 – plot discount rates over past decades for all transactions in the US – inverse relationship – competitive timber market we are in right so challenge putting money to work right now. Fund X is fully invested subsequent funds are struggling

Hancock leaves at 11:26AM.

### **ICMA-RC** Kevin Parker & James Weight

- Kevin Parker was introduced to the Board. He is the new Retirement Plan Specialist.
- Participation Study
  - How many employees are taking an active role in 457
  - COA is City D – slightly better VA average and National average
  - Do we know how many shown jurisdictions offer a matching contribution? – E had matching and stopped 5 years ago. City B has matching program for those being paid less than \$35,000 match up to \$40 per month
  - Page 3 shows the average annual contributions – COA at top of range
  - Page 5 show a breakdown of the asset allocation
- Plan review
  - 401 plan demographics – 48.7% in Plus fund at transition now 44.2% as of 7/31/2015
  - Page 4 – shows breakdown by age
  - 457 – 28.8% in stable value as compared to 27%
  - 457 distribution in line with national average
  - Concern about high percentage of loans – Further discussion is requested and topic will be put on a future agenda
  - Retirement readiness report- ICMA could produce total expected retirement income.

Mr. Milner left at 12:02pm

### **ADMINISTRATOR’S REPORTS**

#### *Regular Investment Reports*

Rebalancing is not recommended at this time.

#### *Cash Flows Reports*

Reports are included in the Board Packet. (Hamilton Lane)

### Other Items

#### Education

- AMRS-VA – details are included in the packet. Registration deadline in Monday, September 28<sup>th</sup>. Contact Staff if interested in attending.
- Manager Staffing Updates
  - Staff provided details in the packet on the staffing transition at Landmark.
  - PIMCO staffing update was covered during Dahab's financial review.

### Follow-up Items

Hancock – this topic was covered during Dahab's financial review.

## **COMMITTEE REPORTS**

### Technical Corrections and Plan Document Review Committee

No report was given.

### Vendor & Service Provider Review Committee

No report was given.

## **OLD BUSINESS**

None.

## **NEW BUSINESS**

### Dual Role Service Provider

The fire department has begun the process of implement dual role firefighters and medics. A brief update on this topic was provided. It was noted that if medics who chose to cross-train desire to switch to the firefighters and police officers pension plan they will start in the F&P plan with no service.

Ms. Mammarella asked will board see study of the impact on the plan if new members are brought on the plan and does the demographic makeup affect the plan?

Ms. Triggs confirmed that if members come into the plan they only will come on new members with no service.

It was clarified that the increase in pension benefits that was mentioned in a handful of places in the reference materials is strictly due to the fact that an increase in pay will result in an increase pension payments. There are no other changes to retirement benefits. Furthermore the enhanced disability is a reference to the fact that firefighters are covered by heart lung provision and medics are not.

What percentage does the City put in for fire vs Medic? Mr. Curia noted that a medic may be getting less since they are doing the firefighter's job and getting less in contributions. The rates are approximately 49% for fire and 26% for medics.

Is there a way for medics to get additional benefits – could that be used to purchase LEOS benefits? Currently the additional benefits are limit by state rules and LEOS would not be an option.

**NEXT MEETINGS**

1. Thursday – October 8<sup>th</sup> at 9:30 AM, Sister Cities 1101, Interim Meeting
2. Thursday – November 12<sup>th</sup> at 8:30 AM, Sister Cities 1101, Due Diligence Meeting
3. Thursday – December 10<sup>th</sup> at 8:30 AM, Sister Cities 1101, Interim Meeting

**ADJOURNMENT**

The meeting adjourned at 12:46 PM.

**HANDOUTS**

Distributed to Board members in the Board Packet:

Agenda
Minutes of Prior Meeting [2(a)]
Monthly Investment & Rebalancing Report [6(a)(i)]
Volatility Report [6(a)(ii)]
Private Equity Cash Flow Report [6(a)(iii)]
AMRS-VA – Spring 2015 Details [6(b)(i)(3)]

Distributed to Board members at the meeting:

- Dahab Performance Review June 2015 (Specific to your plan)
- Dahab’s Deferred Compensation, Defined Contribution & ROTH IRA Performance Review
- Hancock Presentation Booklet
- ICMA-RC Presentation
- Molpus Presentation Booklet