

**MINUTES OF MAY 12, 2016 RETIREMENT BOARD  
CITY OF ALEXANDRIA  
SUPPLEMENTAL RETIREMENT PLAN  
DUE DILIGENCE MEETING**

**PRESENT:**

<u>Members</u>	<u>Others</u>
Shane Cochran, <sup>1</sup> Chairman (General Schedule)	Scott Brayman, Champlain
Charles Curia (Medic, Alternate)	Barry Bryant, Dahab Associates
Brenda D'Sylva (General Schedule, Alternate)	Bryan Capelli, Retirement Specialist
Jean Kelleher <sup>1</sup> (Management)	Kadira Coley, Retirement Administrator
Marietta Robinson (General Schedule)	Lauren Cross, Intern
Laura Triggs, <sup>2</sup> Secretary (Management)	Michael Cross, Fire & Police Board
Lillian Vagnoni (General Schedule, Alternate)	Patrick Evans, Fire & Police Board
Valarie Wright (Deputy Sheriff, Alternate)	Angie M. Holbrook, Champlain
Christina Zechman Brown (Management)	Arthur Lynch, Retirement Specialist
	Shirl Mammarella, Fire & Police Board
	Stephen McElhaney, Cheiron
	Ed Milner, Fire & Police Board
	Rick Muse, Fire & Police Board
	Al Tierney, Fire & Police Board
	Rich Tobin, City Resident
	Kathy Weaver, Cheiron
	Sergey Zelensky, Retirement Specialist

Absent:

Jack Browand <sup>2</sup> (Management)  
James Davis (Management, Alternate)  
Robert Gilmore <sup>1</sup> (Deputy Sheriff)  
Nancy McFadden (Medic)

<sup>1</sup>Technical Corrections and Plan Document Review Committee

<sup>2</sup>Vendor & Service Provider

**CALL TO ORDER**

The meeting was called to order at 8:35 AM on Thursday, May 11, 2016.

**EXPERIENCE STUDY**

Kathy Weaver and Stephen McElhaney from Cheiron presented the results from the 2010 – 2015 Experience Study. Staff gave a brief introduction on how experience studies are performed and why they are important.

### Aggregate Experience Results

- Gain on assets and loss on liability in 2015.
- With no assumption changes funded ratio decreases from 88.4% to 87.9% and the employer contribution increases to 5.7% of pay. Mostly due to lump sum rate being so low and the amortization period being down to 8 years.
- No changes recommended to actuarial methods.

### Economic Analysis

- Forward look as to what we expect to happen in the future. Look at a macro sense rather than individual or specific to City of Alexandria.
- Inflation look at CPI-U, bond yields and NASRA – based on this recommend staying at 3%. Within reasonable range and inflation could pick up in the future.

### Investment returns

- Average has moved down from 8% to closer to 7.5%. City of Alexandria in the middle compared to other Virginia Systems. Recommend staying at 7.5% because we are lower than average rate for large public systems but will review as part of projections.

### Real wage growth

- Social security average earnings over CPI. Last 10 years was less than assumed rate of .75%
- Recommend bring down salary assumption down to 0.5%. If lowered to 2.75 then recommend bringing all economic assumptions down.
- Administrative expenses recommend no changes
- Lump sum conversion rate – assumed to 5%, recommend decrease to 4.25% inflation rate plus 1.25%.
- Investment return, salary growth and lump sum conversion

### Demographic assumption

- Review experience and make recommendations-review creditability, actual versus expected experience
- Termination recommend change to service based table
- Retirement experience

Cost Impact – Cheiron ran through the cost impact of all the recommended changes and modeled the changes using the P-Scan modeler.

Ms. Triggs made a motion to:

Accept the recommended changes with a 7.25% assumed rate of return.

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

Cheiron left at 10:03 AM. The meeting reconvened at 10:10 AM as joint meeting with the Firefighters and Police Officers Pension Board.

## **MEETING RECORD**

Ms. Wright made a motion to:

Approve the April 6, 2016 minutes.

Ms. Triggs seconded the motion.

Ms. Kelleher noted that the notations for the committees was incorrect. Staff will update the minutes accordingly.

The motion was unanimously approved (7 – 0).

## **FINANCIAL REVIEW**

Dahab distributed their quarterly report booklet and reviewed the markets during the 1<sup>st</sup> quarter of 2016. Mr. Bryant then gave brief introduction to Champlain and their performance. Mr. Bryant noted that Dahab will incorporate performance net of fees in future quarterly performance reports.

### *Investment Manager Discussions*

#### **PIMCO All-Asset** (Supplemental only)

Noted this strategy did well through 2011 and had a bad year in 2015. They have been up 5.4% which is a strong positive reversal. This strategy outperformed all benchmarks.

#### **RAFI Emerging Market**

Invest in smaller cap stock and value stocks. Had a huge reversal due the fact that value did better than growth.

#### **Polen**

Had a bit of a rough quarter but not of concern. Mr. Bryant feels their strong strategy and philosophy will allow them to bounce back.

#### **PIMCO Small Cap Strategy** (Supplemental only)

Returns are tied to what PIMCO can earn in the fixed income strategies which did not perform well.

**PIMCO Total Return** – Mr. Bryant raised concern about this fund. He is not happy with their recent performance and recommended the Board keep watch on this fund. He also noted some complications with the two flavors of the fund that the City owns. Staff and Mr. Bryant are researching the history and on-going need for this split.

## **MID CAP GROWTH**

*Champlain*, Angie Holbrook & Scott Brayman began at 10:28AM

- Champlain provided an overview of the firm including discussing the expanded partnership and team resources.
- Described the holdings in the strategy including top detractors.
- Noted they feel they are positioned to well in higher interest rate market but are not dependent upon higher interest rates to attain strategy goals.

- A trustee raised concerns that net of fee returns are below the benchmark. Champlain responded that in April the 5-year numbers are now above benchmark and they expect that trend to continue.
- Less risk in portfolio relative to the benchmark
  - Focus on relative returns – run stock specific strategy so individual year could be stock based.
  - Cheap credit and low interest rates have affected the markets
  - Champlain high quality companies – page 25 EVA market – economic returns minus capital. Companies earn 5.5% spread where benchmark has 2.5%.
  - Page 25 chart also shows that fund not paying a premium for high quality stocks

Champlain left at 11:04 AM.

### **Investment Manager Follow-Up**

- Champlain – feels US valuations are currently stretched with record high profit margins
- Champlain mentioned they could do a performance based fee however given the markets they do not feel it is the right time to do a performance based fee.
  - Downside to variable fee – have a great year and pay all money in positive returns in fees.
- Mr. Bryant has asked for Champlain to provide potential new variable fee schedule
- During Champlain’s presentation they noted that we are in an unusual market. Mr. Bryant noted he does not agree we are in an unusual market –rather he feels we are always in an unusual market

### **ADMINISTRATOR’S REPORTS**

#### **Regular Investment Reports**

Reports were provided by Staff. No rebalancing is recommended at this time.

#### **Cash Flows Reports**

Reports are included in the Board Packet. (Hamilton Lane, Landmark, PRISA, & UBS)

#### **Other Items**

Education, seminars, conferences & training

- Staff provided an updated calendar of upcoming training sessions. The MAPS conference being held in Baltimore was highlighted as a new, local training option. The agenda was included in the board packet.
  - AMRS-VA – Staff has provided notes and summaries from the spring 2016 meeting.
- SRI follow-up – Staff provided an article from Pension & Investments that talks about CalPERS recent decisions on tobacco holdings.

### **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**

None.

**NEXT MEETINGS**

1. The status of the June meeting is unknown now that the retreat has been rescheduled to July. Staff will contact trustees about potentially rescheduling this meeting.
2. Wednesday – July 6<sup>th</sup> at 8:30 AM, Sister Cities 1101, Interim Meeting
3. Thursday – July 21<sup>st</sup> at 9:00 AM, Sister Cities 1101, Annual Educational Retreat

**ADJOURNMENT**

The meeting adjourned at 11:41 AM.

**HANDOUTS**

Distributed to Board members in the Board Packet:

Agenda
Minutes of Prior Meeting [1(a) – 1(c)]
Monthly Investment & Rebalancing Report [5(a)(i)]
Private Equity Cash Flow Report [5(a)(iii)]
Real Estate Cash Flow Report [5(a)(iv)]
Farmland Cash Flow Report [5(a)(vi)]
AMRS-VA Report – Charlottesville Spring 2016 [5(b)(i)(1)]
Training Opportunities Schedule [5(b)(i)(2)]
MAPS Conference Agenda [5(b)(i)(3)]
P&I Article – CalPERS Tobacco Holdings [5(b)(ii)]

Distributed to Board members at the meeting:

- Dahab Performance Review March 2016 (Specific to your plan)
- Dahab’s Deferred Compensation, Defined Contribution & ROTH IRA Performance Review
- Champlain’s Presentation Booklet
- NewSouth’s Presentation Booklet (Firefighters and Police Officers Board Only)
- Cheiron’s Experience Study Presentation (Supplemental Only)