

**MINUTES OF JULY 14, 2011 RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS
PENSION PLAN
SPECIAL MANAGER SEARCH MEETING**

PRESENT

<u>Members</u>	<u>Others</u>
Michael Cross, Chairman ^{2,4}	Steven Bland, Retirement Administrator
Michele Evans ¹	Barry Bryant, Dahab Associates
Patrick Evans (Alternate) ¹	Chuck Bryant, Kennedy
Tom Gates	Scott Brayman, Champlain
Ed Milner ¹	Christine Burns Patti, NewSouth
Cheryl Orr ^{3,4}	David J. Collon, Seizert Capital Partners
Morgan Routt ³	David Daglio, Boston Company
Al Tierney ⁴	Ryan Fitzpatrick, Boston Company
Laura Triggs ^{2,3}	Ignacio Galaz, PIMCO
	Steve Jones, PIMCO
	Tom Kenny, Seizert Capital Partners
	Frank Latuda, Kennedy
	Arthur Lynch, Retirement Specialist
	Brooke Morrow, New South
	Theresa Nugent, Pension Communication Specialist
	Judy O'Connell Champlain
	Steve Roth, Dahab Associates

Committee Membership

¹Buyback Committee

²Technical Correction Committee

³Training Opportunities Committee

⁴Vendor & Service Provider Committee

CALL TO ORDER

The meeting was called to order at 8:30 AM on July 14, 2011.

Mr. Gates and Mr. Routt arrived at 8:31 AM.

Mr. Cross introduced Mr. Gates, Assistant City Manager, as the Management Alternate. His is replacing Morgan Routt who became a Management Representative when Bruce Johnson left the Board to assume his duties as Acting City Manager.

PART I SMALL CAP INVESTMENT MANAGER PRESENTATIONS

Mr. Bryant introduced Mr. Roth, Dahab's director of research. Then Mr. Bryant described the RFP process.

Mr. Evans arrived at 8:34 AM

Mr. Bryant provided an introduction to the small cap manager search process and the three finalists. The three finalists represented the best of each of three different investment styles. He also described all the possible ways to configure mandates to cover the small and mid cap space. There were 50 responses to the RFP.

Ms. Orr arrived at 8:36 AM.

Mr. Bryant referred to the Dahab booklet. NewSouth Capital Management works in the small and mid cap space. They seek intrinsic value firms with near term issues that can be resolved. They are fundamental analysts and run concentrated portfolios. They have low turnover.

The Boston Company is the most diversified, has high turnover, and is partial to the relative value style. They are core with a value tilt.

PIMCO is the world's largest bond manager. They have a synthetic model.

Mr. Tierney asked how dangerous this was. Mr. Roth explained that unlike many other derivatives in the news the PIMCO approach uses futures and the futures are cleared through the securities exchange. Therefore settlement of the future is guaranteed by the exchange. Mr. Tierney said he was quite satisfied with the explanation.

Ms. Evans arrived at 8:43 AM.

Mr. Milner arrived at 8:45 AM.

Staff discussed the roll of a marketing agent or placement agent and referred to handout I, II, and IV, *Placement Agent, Pay to Play, and Disclosure*. Johnston Asset Management required a disclosure document be signed. The disclosure acknowledges use of a marketing agent. Staff distributed a copy of the Johnston disclosure letter along with some definitions of relevant terms. Staff noted that fees for agents are paid by the investment manager and are not in addition to their fees.

Mr. Bryant mentioned an oversight from the prior meeting. He had meant to disclose the marketing agent for Glovista briefly worked for Dahab on a contract basis. Mr. Bryant stated that this had no impact on their recommending Glovista. He further noted that Dahab had a contract with Glovista which they would terminate if the Board required. Mr. Cross asked if anyone had any questions on Glovista and would anyone have considered changing their vote had they had this information at the time the vote was taken. Everyone said they would have voted the same way.

NEWSOUTH

At 8:55 A.M. Brook Morrow and Christine Burns Patti from NewSouth made a presentation.

Ms. Burns Patti said the firm was in its twenty sixth year so they are stable. It had eighteen employees and was independent. The average holding period is five years. They hold concentrated portfolios of twenty five to thirty five securities. Their customers are eighty percent institutional and twenty percent high net worth individuals.

Chairman Cross asked about the product capacity. Ms. Burns Patti said they would close the fund at \$3 billion. They are currently at \$120 million.

Ms. Morrow began by discussing the investment process on page four. They have a long time horizon. They avoid sectors like technology that are very difficult to understand. An important part of their analysis is to see where they are at variance with Wall Street. They have a concentrated portfolio. They do not believe risk should be measured by beta or benchmark error. They personally invest in the same stocks as the fund.

Ms. Morrow discussed page five of their book. The left side is defense and the right side offense. They minimize the importance of GAAP earnings which can be manipulated. They instead focus on cash flows. They are wary of acquisitions. They like management's interest aligned with the shareholders.

Referring to page six of the booklet Ms. Morrow said idea generation came from a weekly staff meeting. They had two analysts per idea to gain additional perspectives. The investment committee of five must unanimously support a security before it is selected.

Referring to page seven Ms. Morrow said the sweet spot was spinoffs, particularly those with very little Wall Street coverage. They seek a 50% discount from intrinsic value for deep discount securities and a 35% discount for discounted Franchise businesses.

Ms. Morrow turned to page eight of the booklet and discussed AutoZone, a long term hold. Page ten featured Home Shopping Network. New Management has made the company much more profitable and increased prospects. Margins have improved and can continue to do so.

Risk control is discussed on page thirteen. They are also concerned about macro economic factors. For each security they list which macro economic factors (interest, inflation, currency, etc.) the securities are sensitive to. Then they total up the exposure for each security in the portfolio.

Chairman Cross asked which benchmark is best for their product. Ms. Morrow said clients used the Russell 2000 & 2000 value but the former is more common.

In the 2000-2003 bear market the firm underperformed. Ms. Morrow said half the underperformance was weighting to banks and REITS. The other mistake was firms with too much leverage. They now stress clean balance sheets. They do not invest in turnaround situations.

Ms. Triggs asked for an example of one that got away. They said they sold Stanley tools too early.

Mr. Tierney said they had made purchases of five to eight new companies per year and none in 2011. They recently bought Thermon and Walter Investment Management.

Staff asked about cash levels. They average seven percent cash and have gone as high as twelve to fifteen percent.

The representatives of NewSouth left at 9:30 AM.

THE BOSTON COMPANY

At 9:35 A.M. David Daglio and Ryan Fitzpatrick from The Boston Company made a presentation.

Mr. Daglio joined the company in 1998 and has been lead portfolio manager since 2005. Mr. Fitzpatrick said the company is a bottom up fundamental analyst. They have \$1 ½ billion in their small cap product. The portfolio managers have equity ownership in the fund.

Turning to page five of their book they described their approach as an opportunistic look through all cap universe to find deals. The period 2005 – 2007 was driven by momentum and in those markets they tend to underperform. In other markets they have done better.

Chairman Cross asked why they did badly in 2002. Mr. Daglio said that was sector weighting. There was another portfolio manager at that time.

Mr. Daglio would like to own businesses that:

1. Have attractive long term growth rates
2. Have reinvestment prospects
3. Have stable and reliable businesses

Mr. Bryant said it was hard to determine future return on future investments. Mr. Daglio said it was more art than science but that there are indicators. As an example he said company reports will often show returns by segment and there is information on which segments have had the most recent investments.

Mr. Daglio said there are three reasons for mispricing:

1. There is fear, uncertainty, and doubt
2. There is a misstep or failure to meet an earnings target
3. There can be management mistakes

Of these the third is the worst.

To succeed in his portfolio approach he feels he needs two things:

He has to execute flawlessly

He has to have a team of people that thinks like he does.

Referencing page eight Mr. Daglio said the staff was hungry and passionate. His people have past experiences so they understand how businesses work. Of 2,000 stocks in the universe they might view 1,000 and then see 500.

Page ten of the book is about executing the approach.

Page 13 shows portfolio structure and the top ten holdings. They believe technology has huge potential. They discussed Micros Systems.

They believe China's economy had overheated and it had been cooled down. It was now okay. They have sold companies with exposure to Europe.

Ms. Triggs asked about the debt ceiling. Mr. Daglio said they had gone through this before, most recently in 1994. This was politics as usual.

Mr. Bryant said concentrated portfolios lead to better results. Mr. Daglio said there were better risk adjusted returns for having more diversified portfolios. They can have around 85 securities. If they only had twenty securities it is a lot harder to make venturesome investments.

Staff asked about their cash levels. It is usually very small. They are essentially fully invested at all times.

The representatives of The Boston Company left at 10:10 AM.

PIMCO

At 10:15 A.M. Ignacio Galaz and Steve Jones from PIMCO made a presentation.

Beginning on page two of the booklet the presenters said the stock plus approach has been used since 1986. They have at least twenty strategies using the stock plus approach. They are all PIMCO philosophy.

Mr. Jones described the equity index overlay. All overlay programs are integrated with the total return philosophy.

Turning to page three, the strategy relies on a liquid, well functioning market.

Referring to page four, use of the futures market was explained in greater detail. The idea is to use margin to buy the futures contract and place the rest in a bond fund. Page illustrate the return comes from the Russell 2000 index fund plus the differential between the interest rate imbedded in the futures contract and the earnings on the bond fund. There are two things they need to get right:

1. Successfully manage the fixed income fund
2. Successfully manage the futures contracts

Mr. Tierney asked if this was a small cap fund with a fixed income kicker or a fixed income fund with a small cap kicker. Mr. Jones said it was very highly correlated to the Russell 2000. Staff said it was a small cap fund.

Mr. Jones discussed the structural alpha in the PIMCO program. The yield curve is upward sloping. PIMCO seeks alpha from multiple sources rather than putting all its eggs into one basket. Mr. Roth asked what went into the total return philosophy. Staff provided Mr., Roth with a spreadsheet showing the exposure to various fixed income classes by quarter for a twelve year period and the average exposure. The classes included domestic and international, developed and emerging markets, quality and high yield, corporate and government, and mortgages. Mr. Roth complimented staff on the preparation and understanding of the product.

Page 6 provided a small amount of the detail staff had shown to Mr. Roth on the source of alpha.

Mr. Jones noted that Bill Gross manages the portfolio.

Turning to page seven Mr. Jones said we should not expect 600 basis points of alpha (excess return) going forward. Past results would not likely be matched and in all likelihood returns should be about 200 – 400 basis points above the benchmark.

There are no capacity constraints on this market. It is quite complimentary to portfolio construction because many other investment managers use different styles.

Mr. Jones referred to page eleven. The futures prices did not reflect the usual imbedded interest rate. Instead the Russell 2000 could be bought cheaply on the futures market. This is probably because hedge funds are very active in the small cap market. The differential has been persistent, though it is not expected to stay this high. The S&P futures market would have a cost of within five basis points of LIBOR. Research Affiliates would have a cost twenty to thirty basis points above LIBOR because it uses the swaps market.

Ms. Evans left the meeting at 10:40 AM.

Mr. Tierney said he did not like this because the futures were using leverage. Staff explained that if the fund gave PIMCO \$1 million they would buy \$1 million in futures, and no more.

There is a potential for underperformance if rates go up a lot. The yield curve right now is very steep. The excess returns from this one component are significant and added to other sources of return. The total return fund invests across a broad spectrum of domestic and international, government and corporate and mortgage, quality and high yield.

Ms. Evans returned at 10:42 AM.

Mr. Routt left at 10:42 AM and returned at 10:44 AM.

Mr. Cross asked about the underperformance in 2008. Mr. Jones said all fixed income other than U.S. governments slid.

Mr. Roth asked what the limits were on fixed income. Mr. Jones said the Total Return Fund stayed within two years of the duration of the benchmark. However, the assets backing the futures could have duration as short as one year.

Mr. Tierney left at 10:42 AM and returned at 10:50 AM.

The representatives of PIMCO left at 10:50 AM.

DISCUSSION

There was a motion by Ms. Triggs:

Mister Chairman, I move that the Fire Fighters and Police Pension Plan Board convene in closed executive session at this time, pursuant to Section 2.2-3711(A) (7) of the Code of Virginia, for the purpose of consulting with legal counsel and briefing by staff with respect to specific legal matters regarding the pension plan.

Mr. Milner seconded the motion. The motion was unanimously approved 8 – 0.

Ms. Triggs left at 11:20 AM.

The Board exited from executive session.

There was a motion by Mr. Milner:

Mister Chairman, I move that the Fire Fighters and Police Pension Board reconvene in open session.

_____ seconded the motion.

All members read the following language and agreed:

WHEREAS, the Alexandria City Fire Fighters and Police Pension Plan Board has this 14th day of July, 2011, recessed into closed executive session pursuant to a motion made and adopted in accordance with the Virginia Freedom of Information Act; and

WHEREAS, § 2.2-3712 of the Code of Virginia requires a certification by the Board that such closed executive session was conducted in accordance with Virginia law;

NOW, THEREFORE, BE IT RESOLVED that the Board does hereby certify that, to the best of each member's knowledge, only public business matters that were identified in the motion by which the closed executive session was convened, and that are lawfully exempted by the Freedom of Information Act from the Act's open meeting requirements, were heard, discussed or considered by

the board during the closed executive session.

The motion was unanimously approved 8 – 0 with a roll call vote. Mr. Cross, Mr. Evans, Mr. Tierney, Mr. Milner, Ms. Evans, Ms. Orr, Mr. Gates, and Mr. Routt voted “Aye.”

Ms. Triggs returned 11:22 AM.

There was a motion by Mr. Tierney:

Select NewSouth Capital Management to manage the small cap mandate subject to fee negotiations.

Ms. Triggs seconded the motion. The motion passed unanimously (8 – 0).

Ms. Triggs and Ms. Evans left at 11: 24.

PART II MID CAP INVESTMENT MANAGER PRESENTATIONS

Mr. Bryant described the RFP process.

Mr. Bryant provided an introduction to the mid-cap manager search process and the three finalists. The focus was the first four pages of Dahab’s manager search booklet. The three finalists are Mid Cap managers with a Small Cap tilt. Mr. Bryant and Mr. Roth passed out the handout *Mid Cap Manager Search Upside/Downside Ration vs Russell Mid Cap Index* and *Small Cap Equity Manager Search Upside/Downside Capture Ratio vs Russell 2000 Index*. Both handouts were as of March 31, 2011.

SEIZERT

At 11:30 A.M. David Collon and Tom Kenny from Seizert Capital Partners made a presentation. They have an investment staff of six. They prioritize preservation of capital by focusing on the downside. They validate earnings with cash flow, increase in receivables, etc. As value managers they sometimes buy too early.

The balance sheet is the first thing they review. Next they look at the cash flow. Finally they review the cyclical of the business.

They probability weight their best case, their worst case, and their mid case.

Mr. Roth asked how much of their work was qualitative and how much quantitative. They go from about 1500 names down to 150 by quantitative means. Then they get to 75 via qualitative methods. They spend 20% of their time on models and 80% of their time on fundamental analysis.

Mr. Roth asked if they would do any fundamental work on a company that did not have a good quantitative score. They might.

Cash is usually around five percent. They usually do not get beyond ten percent.

Mr. Bryant asked if they every tactically held cash so as to buy stocks later when hopefully they would be cheaper. In 2007 cash reached an all time high of 27%.

Mr. Kenny said deriving an implied growth rate is part of the screening process.

Mr. Collon said they try to ignore sectors and focus entirely on the security. They are mostly bottom up, but they do spend a little time on macro economic factors.

Page thirteen shows the emphasis on companies with low debt to capital ratios and high return on equity.

After viewing page fourteen the presenters said underperformance came in narrow momentum driven markets. They will outperform in weak markets.

The representatives of Seizert left at noon.

The meeting went into recess for lunch.

The meeting resumed at 12:30 PM.

PART III INTERIM MEETING

Board Members present were Mr. Cross, Mr. Evans, Mr. Milner, Mr. Tierney, Mr. Routt, Mr. Gates, Ms. Orr, and Ms. Evans. Also present were Mr. Bryant, Mr. Roth, Mr. Bland, Ms. Nugent, and Mr. Lynch.

MINUTES

There was a motion by Ms. Orr:

Accept the Minutes of the June 9, 2011 meeting.

Mr. Milner seconded the motion.

The motion passed (7 – 0).

OLD BUSINESS

At the June 15, 2011 meeting staff discussed the need to revise the Investment Policy Statement (IPS) to reflect the new investment structure and to accommodate the new investment managers' policies. Staff reported that the managers' policy guidelines will be handled via addendums signed by the chair and the investment manager. Staff referred to handout 11(i) *Specimen*. Staff responded to Ms. Orr's question that the contracts with the investment managers are "at will" and can be terminated as the Board wishes.

The prior week the Governmental Accounting Standards Board (GASB) adopted an Exposure Draft on pension reporting. This is significant because there are rarely changes of any significance between an exposure draft and the final version.

At a prior meeting the preliminary results of the 2010 Fire & Police plan's Actuarial Valuation was discussed. A preliminary report was distributed some time later and some edits, corrections, etc. were needed. The final report was delivered this week. Given that this was the first valuation delivered by the actuary staff preferred to read it thoroughly before distributing it.

PART IV MID CAP MANAGER PRESENTATIONS - continued

Board members present were Mr. Orr, Mr. Routt, Mr. Gates, Mr. Cross, Mr. Evans, Mr. Milner, Mr. Tierney. Also present were Mr. Bryant, Mr. Roth, Mr. Bland, Ms. Nugent, and Mr. Lynch.

KENNEDY

At 12:40 P.M. Frank Latuda and Chuck Bryant from Kennedy Capital Management made a presentation.

Mr. Latuda said Kennedy was research focused. They were founded by engineers. They measure analysts' performance. They have retained several accounts for fifteen or more years. Compliance is highly valued, so the compliance officer reports directly to the Board of Directors. Portfolio construction is from the bottom up. They have eight interns working twenty hours per week up to two years.

On average stocks are held two years.

They try to evaluate a business on core business fundamentals and separate out the financing decisions. For example, two otherwise identical businesses would have different looking financial statements if one leased their building and the other owned it. The way to place these in a comparable mode is to convert the statements of the company leasing to what it would be like if it bought its property.

They look for reinvestment acquisition, not share buybacks.

Mr. Bryant asked how one determines return on future investments. Mr. Latuda said they break apart the composite statement that has sales, margins, etc.

Page 20 indicated Kennedy has forty to sixty holdings.

Page 21 indicated ten year returns.

They believe they focus on low risk securities. They typically have sector weightings within 5% of the benchmark.

The representatives of Kennedy left at 1:15 P.M.

CHAMPLAIN

At 1:20 P.M. Scott Brayman and Judith O'Connell from Champlain made a presentation.

There is \$1.3 billion in their mid cap product. The company is one hundred percent employee owned. Everyone on the investment committee owns ten percent or more of the company.

Mr. Brayman said it takes courage to make or not lose money. Turning to page five he said the focus is on absolute return. Their underperformance coincided with periods when low quality companies did well, such as 2003 and 2009.

Mr. Brayman turned to page six and mentioned they seek good business models at a discount.

Page seven graphically depicts their investment approach. It often leads to exiting a firm too early. However, they retain a margin of safety.

Turning to page eight Mr. Brayman said the key risk to industrial firms is business risk, the economy in general. Champlain would not want to invest in steel as that is a commodity and there is little to distinguish one firm from another. They prefer to invest in "Problem Solvers" and innovators where R&D or some other distinguishing feature will provide value added.

It is hard to find midcaps with extensive international exposure. They believe consumer staples are an effective way to do so.

They do not want to invest in hardware companies because prices keep coming down. However, software does provide value added. They like Qlik Technologies in Radnor PA.

They focus on cash flow and R&D. They do ask for time with management. However, they find that the proxy statement, incentives, and equity in the game are more revealing. They would rather bet on a business than on management. They do not own highly cyclical businesses, but they may have some slightly cyclical ones.

The sell discipline is described on page ten.

They make their employees have a stake in the firm by making them shareholders.

They believe the Russell midcap core is the best benchmark.

Mr. Bryant asked them to name a failure for them, a poor stock selection? Mr. Brayman said for profit education has not worked out yet. They have not sold, but they have also not seen the results they would expect. They thought Flowserve would be good but they eventually swapped out for Dover and Pentair.

Staff asked about their review of macroeconomic factors. They create a mosaic of macro information semi annually. Recently their mosaic is rather negative.

Typically cash is 5% to 10%.

Chaplain will close the fund at \$4 ½ billion.

At 1:55 the representatives of Champlain left.

DISCUSSION

Ms. Triggs returns at 1:55 PM.

There was a motion by Ms. Triggs:

Mister Chairman, I move that the Fire Fighters and Police Pension Plan Board convene in closed executive session at this time, pursuant to Section 2.2-3711(A) (7) of the Code of Virginia, for the purpose of consulting with legal counsel and briefing by staff with respect to specific legal matters regarding the pension plan.

Mr. Milner seconded the motion. The motion was unanimously approved 8 – 0.

The board entered executive session at 2:00 P.M.

The Board exited from executive session at 2:32 P.M.

There was a motion by Ms. Triggs:

Mister Chairman, I move that the Fire Fighters and Police Pension Board reconvene in open session.

Mr. Milner seconded the motion.

All members read the following language and agreed:

WHEREAS, the Alexandria City Fire Fighters and Police Pension Plan Board has this 14th day of July, 2011, recessed into closed executive session pursuant to a motion made and adopted in accordance with the Virginia Freedom of Information Act; and

WHEREAS, § 2.2-3712 of the Code of Virginia requires a certification by the Board that such closed executive session was conducted in accordance with Virginia law;

NOW, THEREFORE, BE IT RESOLVED that the Board does hereby certify that, to the best of each member's knowledge, only public business matters

that were identified in the motion by which the closed executive session was convened, and that are lawfully exempted by the Freedom of Information Act from the Act's open meeting requirements, were heard, discussed or considered by the board during the closed executive session.

The motion was unanimously approved 8 – 0 with a roll call vote. Mr. Cross, Mr. Evans, Mr. Tierney, Mr. Milner, Ms. Triggs, Mr. Gates, Ms. Orr, and Mr. Routt voted “Aye.”

There was a motion by Mr. Tierney:

Contract with Champlain Investment Partners for the domestic mid-cap equity mandate.
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Mr. Evans seconded the motion. The motion was approved 6 – 1.

Mr. Evans, Mr. Cross, Mr. Milner, Mr. Tierney, Mr. Gates, Mr. Routt voted in favor of the motion.

Ms. Orr voted against the motion.

Ms. Triggs abstained.

PART V INTERIM MEETING - continued

Staff referenced handout 14(a) (2) on developing markets. There was a notion to add an emerging markets mutual fund offering to the defined contribution platform. One approach was to ask Mr. Bryant to initiate a study and bring recommendations to the Board in September. Another approach was to select from the possibilities distributed to the Board.

Oppenheimer was endorsed by Mr. Bryant and staff. The fund was used by the Board on the defined benefit side for about six years with good results. The fund had low fees as emerging markets funds go. It had a five star Morningstar rating. The Board felt staff and Mr. Bryant had already performed adequate research.

There was a motion by Mr. Milner:

Add Oppenheimer emerging markets fund to the Retirement Income Plan for Firefighters and Police Officers investment platform.

Mr. Evans seconded the motion. The motion was unanimously approved unanimously (8 – 0).

Mr. Bryant distributed a handout with returns for shadow policy returns, *Return Estimate 2Q 11*. This was the March 31, 2011 weightings and index returns for the quarter, ignoring any intra-quarter cash flows and manager under or over performance.

Chairman Cross distributed an article on fees, *Doing Your Homework: Understanding Fees and Making Every Basis Point Count*, and requested trustees to read the article prior to the next meeting. Staff should place the topic of fees on the next meeting agenda.

Mr. Bryant and Mr. Roth left at 2:45 P.M.

COMMITTEE REPORTS

BUYBACK COMMITTEE

Mr. Milner asked Staff to provide a brief update. Staff directed the Board to a handout on the status of participants in the buyback program. When the program is complete the report will be updated and distributed. There are currently 16 applications to purchase service. Mr. Milner reported that he expects the group to reconvene in the future.

TECHNICAL CORRECTIONS COMMITTEE

No activity to report.

TRAINING COMMITTEE

Ms. Triggs noted that Ms. Mammarella circulated some language for the Committee to present to the Board.

VENDOR SERVICES COMMITTEE

Mr. Cross noted the Board is using Mr. Bryant's services to issue RFPs for the investment managers. Ms. Orr asked if the Board is done with selecting vendors. Mr. Cross said the TPA vendor still needs to be addressed. Staff indicated that the Board also needs to finish up on the Fixed Income investment manager.

ADMINISTRATOR'S REPORT:

Staff referenced handout 14 (i) (d), *Status Report, Transition to Comerica*. Staff provided a quick report and promised an update in September.

The transition at Comerica involved a different reporting structure than the inputs for the Prudential reports. It will take a while to recreate a report format using this different input format.

The Volatility Report 13 (ii) (2) was discussed. Staff suggested a significant market drop has not been foreshadowed by volatility.

The handout Private Equity Report 13 (ii) (3) showed the fund was approaching the midpoint in the calls. Just under \$2 ½ million had been called out of the \$5 million commitment to the secondary private equity fund with Hamilton Lane.

Staff referenced handout 13 (iii) (1) (1), *New Disabilities by Year & Classification*. This report was similar to the prior year except two horizontal lines are added to display the average before and after the change in disability provisions. The reverse side had a table of retirements. The second date should read June 30, 2010 (it read June 30, 2009). Staff created a handout with distributions of retirements by year, 13(iii)(2) *Retirements By Year*. Staff reported that 13 participants are currently in the DROP. Staff was asked to add another two columns of DROP participants by department and also retirements by department.

Staff said a routine internal review of DROP calculations caught an error. This prompted a review of all DROP calculations. There were no additional errors found.

Staff provided a brief update on the VRS Modernization program. Even though this is for another pension plan trustees may want to know because the same pension, I.T., and Payroll staff that works on their plan also works on the VRS Modernization effort.

Staff provided a very brief update of the contract with Prudential.

There was a motion by Ms. Triggs:

Mister Chairman, I move that the Fire Fighters and Police Pension Plan Board convene in closed executive session at this time, pursuant to Section 2.2-3711(A) (7) of the Code of Virginia, for the purpose of consulting with legal counsel and briefing by staff with respect to specific legal matters of the pension plan.

Mr. Milner seconded the motion. The motion was unanimously approved 8 – 0.

The board entered executive session at 3:00 P.M.

The Board exited from executive session at 3:25 P.M.

There was a motion by Ms. Triggs:

Mister Chairman, I move that the Fire Fighters and Police Pension Board reconvene in open session.

Mr. Milner seconded the motion.

All members read the following language and agreed:

WHEREAS, the Alexandria City Fire Fighters and Police Pension Plan Board has this 14th day of July, 2011, recessed into closed executive session pursuant to a motion made and adopted in accordance with the Virginia Freedom

of Information Act; and

WHEREAS, § 2.2-3712 of the Code of Virginia requires a certification by the Board that such closed executive session was conducted in accordance with Virginia law;

NOW, THEREFORE, BE IT RESOLVED that the Board does hereby certify that, to the best of each member's knowledge, only public business matters that were identified in the motion by which the closed executive session was convened, and that are lawfully exempted by the Freedom of Information Act from the Act's open meeting requirements, were heard, discussed or considered by the board during the closed executive session.

The motion was unanimously approved 8 – 0 with a roll call vote. Mr. Cross, Mr. Evans, Mr. Tierney, Mr. Milner, Ms. Triggs, Mr. Gates, Ms. Orr, and Mr. Roult voted “Aye.”

Staff was asked to follow up with Mr. Spera in the City Attorney’s office on contract questions.

NEW BUSINESS

Staff referenced handout 14 (b) on defined contribution fund performance. There was a motion made and passed in September 2005 that called for a published watch list. Since then there were other Board discussions – without motions – that addressed the notion of a watch list. Some called for a more prominent display of a watch list. Others thought that a warning was inappropriate if the fund ultimately came off the watch list.

There was a motion by Mr. Tierney:

To rescind the September 2005 motion pertaining to the watch list.
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Mr. Evans seconded the motion.

Discussion:

Ms. Orr asked if the participant would feel compelled to act if a fund was placed on the watch list. Mr. Cross noted that participants can visit the Prudential web site for fund information, but the web site does not indicate a fund is on the watch list. Ms. Orr thought funds that are on the watch list should be posted on the Pension web page so that participants can see the notice and request further information if they wish. Mr. Milner noted information would be in the minutes. Mr. Cross pointed out that there is a delay in minutes being posted on the web page. Staff noted that Prudential reports funds on the watch list in their quarterly reports.

The motion passed (7 – 1).

Mr. Cross, Mr. Evans, Mr. Milner, Mr. Tierney, Ms. Triggs, Ms. Orr, Mr. Roult voted in favor of the motion.

Mr. Gates voted against the motion.

Mr. Cross discussed the Retirement Administrator's compensation. He pointed out that there was an opening for the number two investment position in Arlington and the pay range significantly exceed the City of Alexandria's pay. He indicated that he thought the job was created at a time when the job duties were less demanding than they are today. He said that the Retirement Administrator has many relevant professional designations and is half way through earning another.

Mr. Milner asked if the Board could supplement the Retirement Administrator's salary. Ms. Triggs said staff will provide at the September meeting a spreadsheet showing how all pension administration salaries are reimbursed by the plans.

Mr. Milner suggested that Ms. Nugent and Mr. Lynch be included in any review of salaries.

Ms. Orr said these positions are not under the auspices of the Board. She feels they have to be vetted differently than similar positions in Arlington and Fairfax County and that they should be compared to VRS connected positions. She responded that it is inappropriate to bring this matter before the Board.

There was a motion by Mr. Tierney which was amended by Mr. Milner:

To ask the Human Resources Department to perform a review of the Pension Administration Division salaries and show the results to the Retirement Administrator in advance of the meeting and to have staff and/or the Finance Department explain how compensation is allocated from the fund.

Mr. Milner seconded the motion.

The motion passed (8 – 0).

NEXT MEETING

The next meeting is Thursday, September 8, 2011. This is a Due Diligence Meeting.

ADJOURNMENT

There was a motion by Ms. Orr:

The meeting adjourns.

Mr. Milner seconded the motion.

The meeting adjourned at 3:59 PM.

HANDOUTS

Distributed in advance to Board members

- 1) Agenda
- 2) Minutes June 9, 2011 [2]
- 3) Manager Searches, Firefighters and Police Officers Pension Plan July 14, 2011 [I, II, IV]
- 4) Futures Contracts [3(c)]
- 5) City of Alexandria Firefighters and Police Officers Pension Plan, Mid Cap Equity Manager Search
- 6) City of Alexandria Firefighters and Police Officers Pension Plan, Small Cap Equity Manager Search
- 7) Specimen, Sample Addendum to Investment Policy Statement [11(i)]
- 8) Volatility Report [13(ii)(2)]
- 9) Private Equity Cash Flow Report [13(ii)(3)]
- 10) New Disabilities by Year and Classification [13(iii)(1)(1)]
- 11) QMA Emerging Markets Fund Fact Sheet [14(a)(1)]
- 12) Oppenheimer Developing Markets A [14(a)(2)]
- 13) Oppenheimer Developing Markets Fund [14(a)(3)]
- 14) Retirement Income Plan For Firefighters & Police Officers, Three & Five year Performance Report [14(b)]
- 15) Money Management, Investors need to shift focus, Fink says [General – Education]
- 16) Follow-up Items [4(i)]

Distributed during the meeting:

- 1) Agenda (revised), July 14, 2011
- 2) Retirements by Year 13(iii)(2)
- 3) Status Report, Transition to Comerica [14(i)(d)]

- 4) Disclosure letter Johnson Asset Management and Definitions for Placement Agent, Pay to Play, and Disclosure [I, II, and IV]
- 5) City of Alexandria, Return Estimate 2Q 201
- 6) Doing Your Homework, Understanding 401 (k) fees and Making Every Basis Point Count
- 7) Disclosure letter Johnson Asset Management
- 8) Champlain Investment Partners
- 9) Mid Cap Value, Kennedy Capital Management
- 10) NewSouth, Small Cap Value Equity
- 11) PIMCO, Small Cap Stock Plus Total Return Fund
- 12) Seizert Capital Partners
- 13) The Boston Company, US Small Cap Value Equity Management
- 14) City of Alexandria Firefighters and Police Officers Pension Plan Small Cap Equity Manager Search: Upside Downside Capture Ratio vs. Russell 2000 Index
- 15) City of Alexandria Firefighters and Police Officers Pension Plan Mid Cap Equity Manager Search: Upside/Downside Capture Ratio vs. Russell Mid Cap Index
- 16) Manager Searches, City of Alexandria Firefighters and Police Officers
- 17) Retirement Administrator Compensation