

**MINUTES OF OCTOBER 13, 2011 RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS
PENSION PLAN
INTERIM MEETING**

PRESENT

<u>Members</u>	<u>Others</u>
Michael Cross, Chairman	Steven Bland, Retirement Administrator
Michele Evans	Barry Bryant, Dahab Associates (telephonically)
Patrick Evans, Alternate	Arthur Lynch, Retirement Specialist
Tom Gates, Alternate	Theresa Nugent, Communications Specialist
Shirl Mammarella, Alternate	
Ed Milner	
Cheryl Orr	
Morgan Routt	
Al Tierney	
Laura Triggs	

Mr. Gates served as a voting member throughout the meeting.
Ms. Mammarella served as a voting member until Mr. Milner arrived.

The meeting was called to order at 8:38 AM.

APPROVAL OF SEPTEMBER 8 MINUTES

There was a motion by Ms. Triggs to:

Approve the September 8, 2011, Board minutes.

Mr. Routt seconded the motion. The motion was unanimously approved (7-0).

OLD BUSINESS

There was no old business brought to the board.

COMMITTEE REPORTS

PURCHASE OF SERVICE CREDIT

Staff reported that the window for purchase of service credit closed August 31. Some participants that began the process prior to August 31 are still in process.

TECHNICAL CORRECTIONS

Chairman Cross and staff reported. In 2007 annuity purchase options were expanded for disabled participants. More recently disability eligibility was extended to those beyond the normal retirement age. However, the annuity purchase provisions did not extend beyond the normal retirement age. To bring this into compliance with federal law and/or regulations the plan should be amended. At the January 13, 2011 meeting the Board authorized legal expenses of up to \$10,000 for the technical corrections committee. Staff will take this and some other issues directly to Ken Hoffman and then take his draft plan language to the Technical Corrections Committee, and ultimately to the board.

TRAINING OPPORTUNITIES COMMITTEE

Staff mentioned training programs hosted by the International Foundation of Employee Benefit Plans. The CAPPP program is in Boston in June. There is a series of three two-day classes in D.C. in October. A person can earn a certification for attending four such classes. The board may want to consider send people to three classes in D.C. with no travel expense and one additional class that may incur travel costs.

Staff suggested the Board consider supporting Theresa Nugent's attending a sequence of classes. The consensus is the Board needs to first adopt its guidelines on training and travel expense reimbursement. The committee members are: Ms. Mammarella, Mr. Routt, and Ms. Triggs.

NEW BUSINESS (taken out of order)

At 8:55 AM Barry Bryant joined the meeting telephonically. Chairman Cross introduced the topic of actively managed funds versus passively managed. Staff said that for this conversation the term "index funds" could be substituted for "passively managed funds."

Mr. Bryant said that the best case for active managers, including good managers, a good board, and a lot of work might get 50 basis points of incremental return over a period of time. For the City's defined benefit funds this would be roughly \$1 million per year, and it is worth the effort.

Positive results are less likely for defined contribution plans. Index funds will save on fees. Also, asset allocation makes significantly more difference than manager performance relative to the benchmark.

Mr. Bryant suggested the first decision should be whether or not the board wants to continue with Prudential. He could ask Prudential if they can come up with four to six index funds for different style boxes. If that effort was not successful then the Board could look elsewhere.

Chairman Cross distinguished the administration of defined benefit and defined contribution components.

Mr. Bryant suggested a bid for a TPA as a matter of process. The RFP might not require index funds but could say that they would be considered favorably.

Ms. Evans said Prudential's services were an old issue and must be dealt with.

Mr. Bryant said the reasons to change service providers were:

1. Dissatisfaction with their service,
2. Requirements change or the plans outgrow the provider,
3. Lower fees

That said, instability is a problem. It is not good to change providers for a 10% cost reduction, but for 50% it should be done.

Ms. Evans said if there is an RFP it should be made known to Prudential that this is motivated by Procurement/Contract issues and not performance.

Mr. Gates said an RFP must be quite specific

Mr. Evans arrived at 9:19 AM.

Mr. Bryant said the Retirement Income Plan was a small closed plan; it would not get many bidders. Packaging it with the deferred compensation plan would get more attention. He preferred to make more calls to defined contribution providers before going out with an RFP.

Mr. Bryant will send a draft of the RFP prior to the November 10, 2011 meeting.

Staff said there were two departures at our asset managers. It is best practice for investment managers to notify customers when there is a personnel change. Staff referenced two handouts. One was a notice from Prudential that the company had a new CEO of the Prudential Investment Management subsidiary. The other was an email from NewSouth notifying us of the departure of a recent hire. Mr. Bryant was aware of the later change and believes it would not impact performance.

Mr. Milner arrived at 9:30 AM

ADMINISTRATOR'S REPORT

The CPI has increased 2.87% over the last seven months. We are on track to have a 3% increase to retirees eligible to receive a COLA May 1, 2012.

Monthly Investment & Rebalancing Report (handout 4 (ii) 1) was revised. Private equity had been omitted. Once corrected the differences between actual and target allocations were much smaller. No rebalancing was required.

The report was constructed when index funds and ETFs were used. This permitted daily valuation. With some of the managers selected there was a more attractive fee structure for going with a comingled fund as opposed to a separate account. The flip side of this is that comingled funds often do not provide daily valuation. The result is that several of the figures on the rebalancing report are a month old. The report will be tweaked to remedy this.

Staff reported the volatility report (handout 4 (ii) 2) showed volatility had increased. This may have foretold the significant September market drop or there may be more to come.

Staff reported the recent capital calls for private equity (handout 4 (ii) (4) (a)) showed that the secondary fund had called 55% of the commitment and the primary fund under 20%.

At the September meeting Mr. Tierney had a question about the Internal Rate of Return (IRR) calculated by Hamilton lane and displayed in the Dahab performance report. Staff prepared a handout (4 (ii) (4) (b)) on the IRR calculation.

PRISA made a distribution of \$96,186. Typically rental income is the majority of return from real estate. However, the last few years have had significant volatility and capital gains and losses have outweighed the income aspects. However, the rental component is as expected.

Timber investments made their first distribution, \$61,064. Hancock does not release information while it is in negotiations. However, there is an expectation that a parcel will be bought soon that will lead to a \$1,000,000 capital call.

Staff summarized the work done on the Investment Policy Statement (IPS) at the September meeting. He then referenced handout 4 (iv). There are changes to the rebalancing guidelines on page twelve. Ms. Orr asked the abbreviation for Not Meaningful be clarified or footnoted.

On page thirteen there is a requirement to put rebalancing on each meeting agenda. Also, there is a policy for two signatures to initiate any transaction through Comerica. The one exception is for capital calls from limited partnerships.

There was a motion by Mr. Evans to:

Accept the revisions to investment policy statement

The motion was seconded by Ms. Triggs. The motion passed unanimously (8-0).

NEXT MEETING

Mr. Chairman asked if meeting on the second Thursday of the month was a good date. Everyone is encouraged to check their personal calendars as well as City and department calendars for conflicts.

The Board is considering an annual retreat June 14 or June 28, 2012.

The next meeting is November 10, 2011 in the Council Workroom second floor City Hall.

The chairman asked if there was other business. There was a motion by Mr. Milner to:

Create a committee for the sole purpose of researching a cost neutral DROP

program at twenty five years of service.

The motion was seconded by Ms. Evans.

DISCUSSION: Mr. Milner said there are about 48 plan participants that will be eligible for retirement in twelve to eighteen months. Mr. Cross, Evans, and Tierney made statements in support.

Staff asked if the motion might be amended to consider the DROP or similar programs such as the PLOP. The intent is to consider alternatives while respecting the intent of the motion. The suggestion is accepted.

Ms. Triggs points out that the cost of legal and actuarial vendors in developing benefit enhancements cannot be funded by the plan assets. Staff will check with Ken Hoffman to see if plan assets can be used for legal and actuarial expenses in developing cost neutral benefit options.

Committee members will include: Ms. Evans, Mr. Evans, Mr. Milner, and Ms. Orr.

The motion passed unanimously (8-0).

ADJOURNMENT

The meeting adjourned at 10:00 AM.

Handouts distributed in advance

1. Agenda
2. Minutes of September 8, 2011 meeting [1]
3. Monthly Investment & Rebalancing Report [4 (ii) 1]
4. Volatility Report [4 (ii) 2]
5. Private Equity Cash Flow Report [4 (ii) (4) (a)]
6. Internal Rate of Return [4 (ii) (4) (b)]
7. Addendum to Investment Policy Statement [4 (iv)]

Handouts distributed during the meeting

1. Revised Monthly Investment Rebalancing Report [4 (ii) 1]

2. Email from Christine Patti Burns: Departure at NewSouth
3. News Release: Prudential