MINUTES OF SEPTEMBER 8, 2011 RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN
DUE DILLIGENCE MEETING

PRESENT

Members	Others
Michael Cross, Chairman	Steven Bland, Retirement Administrator
Michele Evans	Barry Bryant, Dahab Associates
Tom Gates, Alternate	Arthur Lynch, Retirement Specialist
Morgan Routt	Bill Mitchell, Assistant Director, Human Resources
Al Tierney	Dean Molinaro, Prudential
Laura Triggs	Theresa Nugent, Communications Specialist
	Lisa Powell, Prudential
	Steve Roth, Dahab Associates

Mr. Gates served as a voting member throughout the meeting.

The meeting was called to order at 8:40 AM. In the absence of a quorum issues requiring a vote were deferred.

FINANCIAL REVIEW

Mr. Molinaro reviewed the defined contribution platform. The book includes data through June 30, 2011 and much has happened since then.

Oppenheimer, an emerging market fund, was been added to the platform and has been available to plan participants since September 1, 2011.

All funds from the defined contribution platform are from Prudential's manager of manager's platform. Prudential believes this adds an additional layer of review and oversight. LSV and Davis both have a Due Diligence Advisor (DDA) ranking of 4. LSV has done better since being placed on the watch list. He does not believe Prudential will drop LSV, so the Board would have to take that action.

Davis is a core manager with a value tilt. It has an overweight to financials: 28% vs. 14% in the S&P 500. There are only two participants using Davis with combined investments of $70,000. Chairman Cross asked if we might expect to see Davis on the watch list in November. Mr. Molinaro said that would be impacted by results through September 30.

Wells Fargo has not performed well recently. It has 25% of its funds allocated to energy companies vs. 8% of the Russell 2000. Thus, they are heavily impacted by performance in the energy sector. They have done better since June 30. The overweight to energy is longstanding and not a tactical move.

TRowe Price was replaced by Jenison. It is doing well.

Barrow Hanley has been doing better recently.

PIMCO has been out of treasuries at the wrong time. Treasuries are seen as a flight to quality and recently they have performed very well.

Mr. Bryant mentioned Times Square and CRM had done well.

The Oppenheimer fund had $91,000 in investments after only a week.

Mr. Molinaro mentioned PRISA was on the agenda. Staff said the agenda item was to mention a letter from PRISA management indicating damage from the recent Hurricane Irene was minimal. Mr. Bryant said since 2008 there was an exit cue to leave comingled real estate funds. Then very quickly in 2010 that turned into an entry cue. The cue is for trophy properties. There is a bifurcated market. There is less demand for second tier properties, recently completed properties not yet fully leased, or properties under construction.

Dahab suggested there may be prospects looking outside of the trophy quality property arena. Staff asked if this meant international properties or domestic second tier properties. Steve Roth indicated this meant domestic second tier properties.

PRISA I does have a cue, PRISA II & PRISA III do not. PRISA II is a value added fund and PRISA III more opportunistic.

Staff asked Mr. Molinaro of his view of the Debt ceiling debate, the U.S. Treasury bond rating downgrade, and related debt issues. Mr. Molinaro said there was an extremely low probability of default. He said the probability of a recession over the next six, twelve, or eighteen months was very low. However, the chances had been slowly increasing. Prudential's forecasts call for more prospects for corporate bonds and equities and less for U.S. Treasuries.

Mr. Bryant compared U.S. debt to that of emerging markets and by most measures the fundamentals of the emerging markets are better. The U.S. balance sheet is worse and getting worse still. Mr. Bryant believes the United States needs two things:

1) A fiscal stimulus with genuine infrastructure improvements, and
2) A reigning in of entitlement programs

Mr. Tierney arrived at 9:20 AM. Mr. Molinaro and Ms. Powell left.

FINANCIAL REVIEW

Mr. Bryant reviewed to page 4 of his quarterly performance book. The graph at the top right shows that real estate did well in the recent quarter. There was very little dispersion between the top performers and poorer performers. Riskier investments tended to not do as well as less risky investments. This is referred to as "Risk Off." This was the opposite of the preceding nine months which was more "Risk on."

Page three indicates small cap did very poorly, and the plan has more exposure to small cap than our peers.

Ms. Evans arrived at 9:27 AM.

Mr. Tierney interpreted page three of the defined benefits tab as evidence that the investment managers and the fund did poorly over the last year. Mr. Bryant said performance attribution routinely splits performance into two components: asset allocation and manager performance. Some of the investment managers did do poorly but the allocation was quite good.

Mr. Roth distributed a handout titled City of Alexandria New Manager Composite Performance, June 30, 2011. The report was for periods in which the managers were not handling funds for the plan. However, a report as this could be made available to the board in the future.

Staff asked Mr. Bryant to review any one of the private equity tabs because this was the first time they were reported in detail. The $279,878 distribution was questioned because it is so much larger than the others. Staff confirmed it was correct.

Mr. Tierney asked for confirmation of the 24.39% IRR figure provided by Hamilton Lane. Mr. Bryant acknowledged performance reporting is very complicated. Staff said the Chartered Alternative Investment Analyst exam materials had articles about the IRR calculation with some saying it is a great tool and others saying it is flawed.

APPROVAL OF JULY 14 MINUTES

There was a motion by Ms. Triggs to:

Approve the July 14, 2011, Board minutes.

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

FINANCIAL REVIEW (Continued)

Staff distributed handout 2, introduction of *Possible Addition of Asset Class(es).* The handout is to provide context for the subsequent discussion led by Mr. Bryant and Mr. Roth.

The first graph displays the efficient frontier created by combing domestic stocks and bonds in various weights to provide various combinations of risk and return.

The second graph shows the progression as the plan added asset classes, expanded the investment universe, and made more efficiencies possible. Staff suggested the low hanging fruit had been picked, but still, more could be done. Mr. Bryant and Mr. Roth would talk today about possible asset classes so the Board might select topics for more detailed education sessions in November.

1) Mr. Bryant said there are four primary asset classes and two secondary. The four primary are: Equities,
2) Fixed Income,
3) Real Assets, and
4) Currency

The two secondary asset classes are

1) Diversified (Global Tactical Asset Allocation), and
2) Absolute Return

The Plan's alternative investments do not currently include commodities. Equities are amply covered. Fixed income is now entirely with PIMCO. It is reasonably diversified in that it has exposures to a large number of sectors. However, the exposure in these sectors tends to be small.

Further diversification in fixed income is possible. Emerging market bonds were the best performer in the decade 2000 – 2010. Global bonds are a possibility.

Absolute return is another possibility. These are non-directional funds, funs that do not move in the direction of equity markets. Hedge funds and long short funds are possibilities. Dahab will do an RFI for non-directional funds and report the results to the Board.

Ms. Evans left at 9:57 AM.

Mr. Tierney said he had worked hard and prefers to take a breather. Staff acknowledged the period from May through July entailed more and longer Board meetings than usual. However, if there is any doubts about the need for more downside protection thoughts of the recent events of August 2011 come to mind. That is enough to prompt more asset allocation efforts.

Ms. Evans returned at 9:59 AM.

Mr. Bryant suggested Dahab Associates perform an RFI for non-directional funds and that he bring the results to the February meeting.

Mr. Roth mentioned he wrote a nine page paper on commodities. Staff asked for a copy of that report. Mr. Bryant said it is okay to add commodities to the plan's allocation.

ADMINISTRATOR'S REPORT

Staff referenced handout 3 (a) (i), the Status Report of the transition from Prudential to Comerica. There was one correction; the small cap rows should be deleted. The asset transition is largely done.

The back side of the handout listed remaining tasks. Rebalancing at Prudential had been slow and free. At Comerica it is fast and with a cost. The rebalancing strategies should change. Staff will work with Mr. Bryant to develop rebalancing rules.

The investment report, investment policy statement, and distribution of reports (SharePoint) were discussed.

Staff referenced handout 3 (a) (ii), 3 (a) (ii) (1), and 3 (a) (ii) (2). The intent of the work on the Investment Policy Statement (IPS) is to accommodate the many new investment managers' unique styles and to incorporate any needed technical corrections or clean up.

The frequency of the asset allocation study was mentioned in different parts of the IPS as three, four, or five years. The board believes it is sufficient to have a range of three to five (3-5) years.

Mr. Wimer and Ms. Evans left at 10:25 AM.

Page 14, section D refers to manager visits. The board believes annual is appropriate. These should begin in February. Staff recommends the two be similar such as two large cap managers, or two international managers. That way the issues discussed will have much in common and facilitate understanding.

Mr. Bryant suggested staff bring a quarterly status report to the Board meeting and rebalancing take place at that time, if needed. Staff said that separate accounts can be rebalanced at any time. However, most of the comingled funds can be rebalanced only monthly.

An emergency board meeting to rebalance requires a three day notice.

Mr. Roth said rebalancing is "anti-lemming."

Chairman Cross would like to see rebalancing on each board meeting agenda.

Mr. Gates said page 17 says there may be rebalancing and page 18 said there is an obligation to rebalance.

There was a motion by Mr. Tierney to:

> Adopt the revised Investment Policy Statement. The adoption shall incorporate:
>
> 1) The term for rerunning the asset allocation shall be 3 – 5years,
> 2) Managers shall be asked to visit once per year, and
> 3) Barry's comments in 3 (a) (ii) (2)

There motion was seconded by Ms. Triggs.

DISCUSSION: Staff said the rebalancing ranges had not been determined. They could be worked out with Mr. Bryant and brought back to the board.

The motion passed unanimously (5-0).

Staff referenced handout 3 (a) (iii). The revised Monthly Investment Report was introduced. Since the data source had changed, and the fund structure was different, the report had to change. Staff may bring data for the pension component only.

Staff referenced handout 3 (a) (v) (2) and 3 (a) (v) (3). There has been a recent cash call from the Hamilton Lane secondary private equity fund and distributions from the primary funds.

There was no new information to report on the timber partnership with Hancock.

Staff referenced handout 3 (a) (viii). The volatility report format was changed. Entries of zero are now blank, leaving it easier to focus on the months with volatility events. Volatility has increased recently and staff finds this troublesome.

Staff referenced handout 3 (d) (ii). The handout shows how staff's time is allocated over the various City Plans. Mr. Tierney asked the context of this handout. A question was raised at a prior meeting of staff time, expense, and salary. Mr. Tierney asked if Ms. Orr had provided information on the issue of compensation for the Pension Administration Division. Ms. Triggs said that she had preliminary conversations with Ms. Orr but that they had not reached a conclusion at this time. Mr. Mitch said he had not been part of those conversations.

Staff referenced handout 3 (d) (iii). This handout refined a prior handout by splitting our Fire & Police and by adding DROP participants.

Staff referenced handout 3 (d) (iv). Staff said the GASB exposure draft on pensions had created quite a stir. Many of its controversial components had been removed. Others had been modified. Staff's only concern was that the amortization of investment gains and losses over five years remained in the exposure draft.

Staff referenced handout 3 (d) (vi). The letter from the actuary certifies that contribution rates for non-service connected partial disability will remain sufficient for distributions of disabilities that begin in 2012 are tax free.

There was a motion by Mr. Tierney to:

> Leave the employees' after tax contribution for non-service connected disability at .8%

The motion was seconded by Ms. Triggs. The motion passed unanimously (5-0).

DISCUSSION: Staff recommends this be reviewed following the next actuarial valuation.

COMMITTEE REPORTS

BUYBACK COMMITTEE

Staff distributed handout 4 (a). The option to purchase service credit was closed as of August 31, 2011. The option remained open only for a handful of employees who had contacted the Pension Administration Division in writing in advance of August 31, 2011 and for reasons such as incomplete data were unable to complete the purchase.

Staff asked the name of the "Buyback Committee" be changed to something that better reflects the committee's tasks. Also, the term "buyback" was a good descriptor of the 2007 program, but it was not a universally understood term.

There was a motion by Mr. Tierney to:

> Change the name of the "Buyback Committee" to the "Purchase of Service Credit Committee."

The motion was seconded by Ms. Triggs. The motion passed unanimously (5-0).

TECHNICAL CORRECTIONS COMMITTEE

Chairman Cross reported the committee had not met.

TRAINNING OPPURTUNITIES COMMITTEE

Staff mentioned an upcoming investor meeting with Hamilton Lane and requested expense reimbursement for transportation and one night's lodging. There was a motion by Mr. Tierney to:

> Reimburse staff for travel expenses to the September 14-15 meeting with Hamilton Lane.

Ms. Triggs seconded the motion.

DISCUSSION:

Hamilton Lane is a provider for the Fire & Police plan only, and none of the other City Plans. The expense cannot be shared with other plans but must be borne entirely by the Fire & Police plan.

The motion passed unanimously (5-0).

VENDOR AND SERVICE PROVIDER COMMITTEE

The committee had not met recently and there was no report.

OLD BUSINESS

Ms. Triggs reported the Risk Management Oversight Committee had been in hiatus and meetings were resuming this month. However, subcommittees were active. Most departments now have a safety officer. The earthquake and hurricane highlighted their need for the safety officer. The Police Department is reviewing the requirement for annual physical examinations. Chairman Cross said that annual physicals in the Fire Department had been successful in uncovering some health issues at early stages. Mr. Tierney would have little concern about the process of physical exams if the department then provided an exercise program and work time for the employees who needed it. Would physicals be required for those already retired? Ms. Triggs said it was possible, but a much lower priority than for those currently employed by the Department.

Mr. Bryant and Mr. Roth discussed administration of defined contribution plans. Mr. Roth distributed two handouts:

1) New York Taft-Hartley Annuity Fund, Direct Contribution Platform Search, Dahab Associates

2) Florida Public Client, Record Keeper for a Defined Contribution Plan, Dahab Associates

The first handout was for a bundled provider, the latter was for a record keeper. Mr. Cross asked Mr. Roth to focus on the bundled provider.

Mr. Bryant said he was directed to focus on the economics of the plan. The cost might be 50 – 60 basis points annually. The Retirement Income Plan for Firefighters and Police Officers (RIP) has fewer assets than those in the plan of the sample RFP. Also, the RIP is closed so there will be no new assets. The RIP costs would be higher.

Staff will send census data to Dahab associates so they can get rough estimates of potential costs. Dahab will contact the companies who bid for the New York Taft Hartley Annuity Fund: MassMutual, Principal Financial Group, and Vanguard.

Mr. Cross mentioned the only economical index fund on the Prudential platform is the S&P500 fund.

There was a motion by Mr. Tierney to:

Ask Dahab associates to perform a RFP for the defined contribution plan administrator.

Ms. Triggs seconded the motion.

DISCUSSION:

Mr. Tierney's motion did not have a timeline. There are numerous administrative complexities. Staff recommended that Mr. Cross, Ms. Triggs, and Mr. Bryant agree on the timeline.

There was a question of efficiency, might the RFP be done in a way so as to allow others to join the effort. Staff said the City Schools do not have a defined contribution plan, but they had discussed the possibility and they might find it helpful to either joint he process or to sit in and learn even if they do not participate at this time. Ms. Triggs will contact ACPS.

The motion passed unanimously (5-0).

ADJOURNMENT

There was a motion by Mr. Routt to:

Adjourn.

Mr. Gates seconded the motion. The motion passed unanimously (5-0).

NEXT MEETING

The next meeting is October 13, 2011 in the Council Workroom second floor City Hall.

Handouts distributed in advance

1. Agenda
2. Minutes of July 14, 2011 meeting [1]
3. Dahab Performance Review June 30, 2011 with memo dated September 1, 2011 from Steven Bland and Investment Performance Review Notes and Questions
4. Investment Review, Prudential
5. Status Report – Transition to Comerica [3(a)(i)]
6. Statement of Investment Policy with revisions [3(a)(ii)]
7. Addendum to Statement of Investment Policy - New South [3(a)(ii)(1)]
8. Private Equity Cash Flow Report – Hamilton Lane Primary [3(a)(v)(2)]
9. Private Equity Cash Flow Report – Hamilton Lane Secondary [3(a)(v)(3)]
10. Administrator's Follow-Up Items [3(d)]
11. Time Allocation by All Plans [3(d)(ii)]
12. Retirements By Year and Department [3(d)(iii)]

13. GASB Write Ups [3(d)(iv)]

14. Prudential Investment Revise Second Quarter 2011

Handouts distributed during the meeting

1. Revised Agenda

2. Introduction: Possible Addition of Asset Class(es) [2]

3. Monthly Investment & Rebalancing Report [3(a)(iii)]

4. Volatility Report [3(a)(viii)]

5. Letter from Cheiron regarding Employee Disability Contributions [3(d)(vi)]

6. New York Taft-Hartley Annuity Fund, Direct Contribution Platform Search, Dahab Associates

7. Florida Public Client, Record Keeper for a Defined Contribution Plan, Dahab Associates

8. Contract in 2011 to Purchase Service Credit in the Firefighters and Police Officers Pension Plan (buyback) [4(a)]

9. New Manager Composite Performance, June 30, 2011, Dahab Associates

10. Barry's Comments to Revised Investment Policy Statement [3(a)(ii)(2)]