MINUTES OF APRIL 1, 2009 RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN
INTERIM MEETING

PRESENT

Members	Others
Chris Lockwood	Steven Bland, Retirement Administrator
Michele Evans	Barry Bryant CFA, Dahab Associates
Patrick Evans	Arthur Lynch, Retirement Specialist
Bruce Johnson	Theresa Nugent, Communications Specialist
Shirl Mammarella (Alternate)	Christopher Spera, Acting City Attorney
Ed Milner	
Cheryl Orr	
Morgan Routt (Alternate)	
Al Tierney	
Laura Triggs	

CALL TO ORDER

The meeting was called to order at 8:48 AM on April 1, 2009. In Mr. Cross' absence Ms. Evans was Chair.

MINUTES

There was a motion by Ms. Triggs and seconded by Mr. Johnson to approve the January 27, 2009 minutes and to accept the notes from February 17. The motion was unanimously approved (8-0).

FOLLOW-UP ITEMS

Most of the follow up items were addressed via e mail or self explanatory handouts. The one handout distributed the day of the meeting was identified as 6) b) 3). It addressed Al Tierney's question on fund of fund fees. It was deferred to the discussion of item 6) b) – Private Equity.

COMMITTEE REPORTS

VALUATION AND TECHNICAL CORRECTIONS COMMITTEE

Staff reported that an outline of technical corrections had been sent to Ken Hoffman. He had begun drafting a plan amendment and expected to provide a draft to us April 15, 2009. The Committee might meet any time after that.

DISABILITY COMMITTEE

Mr. Tierney reported on the progress of the disability committee. The draft disability application was with ninety percent complete. He was waiting for comments from Rick Willsey and George McAndrews.

BUYBACK COMMITTEE

Staff reported the first phase of reviewing vesting in the Retirement Income Plan for those who transferred from positions as deputy sheriffs, medics, or fire marshal was complete. Over $54,000 was restored to participant accounts. Mr. Milner expressed concern that possibly more participants should have had accounts restored.

ADMINISTRATOR'S REPORT

MONTHLY INVESTMENT REPORTS

Staff reported the actual allocations were close to their targets. Rebalancing was performed by directing contributions to the most under allocated sectors. Then, twice there were rebalancing transactions of $1 million. The equity markets took off immediately following that. The rebalancing was particularly effective.

VOLATILITY REPORT

Staff reported volatility was down from its record highs in October and November 2008. However, it was still very high by historical standards. This may mean the markets' "roller coaster" ride may not be over and we might retest the market lows.

SUMMARY OF ACTIVITY BY FUND

The Summary of Activity Report was distributed. Staff pointed out the column with employer and employee contributions was typically stable. However, January had three pay periods instead of two. January contributions were about 50% higher than February.

COST OF LIVING ADJUSTMENTS

Cost of Living Adjustments (COLA) calculations are performed annually in March. Staff discussed the significant inflation in first half of 2008 followed by deflation in the second half of 2008. For an eleven month period January 31 to December 31 inflation was negative. Had the COLA been calculated at that time monthly benefits would have been decreased? In January

2009 inflation increased so the annual COLA was a positive .03%. The average retiree monthly benefit will increase one to two dollars.

There was a discussion of benefits going down in years of deflation. The plan might be amended to use a different measure of inflation with less likelihood of decrease or the language in the plan document referring to a “decrease” could be removed. Mr. Johnson asked staff to contact Fairfax County to determine what measure of the Consumer Price Index they use.

ADMINISTRATION

Staff reported a 56 year old firefighter requested information on a non-service connected partial disability benefit. This led to discussions with the plan’s outside counsel Ken Hoffman. Mr. Hoffman said a recent court case suggested the Plan was at risk for non-compliance with Age-discrimination laws. There are similarities between the facts and circumstances in the referenced court case and the City of Alexandria’s plan. Mr. Hoffman recommended two courses of action. First, the Board should consider a plan amendment that would extend eligibility for Non-Service Connected Disability to participants past Normal Retirement Date. Second, the participant in question should be provided a monthly disability benefit.

Staff provided an over view of the benefit to the 56 year old firefighter. He was treated as if he were 54 and 11 months, provided a disability benefit, and then immediately converted to a retirement benefit. The net result is that the retirement benefit offsets the vast majority of the disability benefit. The cost of the proposed amendment will go to the actuary. However, it is expected to be very small because of the small number of employees working past normal retirement date as well as the significant benefit offset provided by the retirement benefit.

COMMUNICATIONS

Ms. Nugent reported on the communication program and distributed a schedule of upcoming seminars.

Periodically a plan will require a Determination Letter from the IRS to demonstrate compliance with various laws and regulations. Ms. Nugent reported on the progress of our outside counsel’s efforts to obtain a determination letter following the eight plan amendments and plan restatement.

PRISA INVESTOR MEETING

Staff attended the March 5 Prudential Real Estate meeting in Washington D.C. The pessimism was significant. Staff believes the real estate would come reasonably close to tracking the benchmark. They were conservatively financed and making efforts at tenant retention. Also, they were unwilling to use their strong financial position to buy more properties with debt while prices were down. This would limit the downside, but also put a cap on the upside.

BOOK REPORT

A Board member had asked Barry Bryant for a book recommendation. Staff read and reported on U*nconventional Success: A Fundamental Approach to Personal Investments* by David Swensen. The author ran the Yale endowment for twenty years and was also a professor at the university. The first half of the book discusses asset classes, the second half mutual funds. The book has brief summaries at the end of each section. By skipping straight to the summaries one could read the entire text in an hour or so. Staff strongly recommends the book.

OLD BUSINESS

COMPENSATION FOR PARTICIPANT REPRESENTATIVES

Ms. Orr reported on Compensation for Participant Representatives. A recommendation was presented to the City Manager the preceding day and it was accepted. Firefighters will be paid comp time for attending board meetings and committee meetings.

Funding for the board member compensation will come from the member's department. If a member attended a meeting while on duty and "backfilling" occurred (another employee was paid at overtime rates to fill in for the board member) then the Department would again fund that.

Mr. Lockwood asked if there would be compensation for retirees. Ms. Orr said there would not be.

PRIVATE EQUITY

Staff referred to handout 6) b) 1) and began with setting the background for the private equity discussions. Performance of investment managers was essentially in line with manager benchmarks. However, the plan was underperforming peers. This suggests the asset allocation is responsible.

Staff suggested the portfolio may not be on the efficient frontier.

Staff referred to handout 6) b) 2) and discussed the approach of one large limited partnership as opposed to two or more staggered or layered partnerships. The advantage of multiple partnerships is that the fund may be funding one while another is making distributions, keeping net exposure to the asset class somewhat stable. One large commitment tends to have a long series of contributions followed by an even longer series of distributions. The cost basis could be rather uneven. A board member asked if fees were higher for two partnerships as opposed one partnership of twice the size. Mr., Bryant said fees would be the same either way.

Mr. Bryant discussed the handout labeled 6) b) 3). This handout compared the fees of three private equity fund of fund providers. There was an assumed set of contributions into the fund and distributions paid out to the investor. Given those assumed cash flows the three managers were asked to calculate the annual fees. The results are displayed on the handout.

Mr. Bryant summarized all he had heard at the current and prior meeting and thought a commitment to a secondary private equity fund with Hamilton Lane would best suit these needs. He said a commitment of about 5% of the fund was in the range he thought appropriate. Ten percent was too high. Two percent is too low.

Mr. Bryant discussed reinvestment, the investments of distributions from the investment. He saw three possibilities: 1) Reinvesting in secondary private equity funds with Hamilton Lane, 2) Reinvesting in secondary private equity funds with someone other than Hamilton Lane, and 3) Investing in primary private equity funds.

Mr. Tierney asked about the source of funds for the private equity. Mr. Bryant distributed a handout. The handout displayed projected risk and return characteristics of the current portfolio along with alternative allocations. The allocations included adding 5% to private equity and subtracting 5% from different allocations.

The Sharpe ratio is a composite measure of return and risk. The larger the number is the better.

A board member asked if private equity was a risky investment. Mr. Bryant said the question was not if the investment is risky but what does adding it do for the entire portfolio's risk profile? It would diversify the portfolio, and therefore lower risk while adding return.

The handout was calculated using returns from the last 20 years. This is one of three scenarios available. Dahab Associates also has at its disposal a 70 year history as well as a return to mean scenario.

The last ten year history has been unusual in that bonds have out performed stocks. This is atypical but does have precedent. This is not likely to repeat in the next ten years in that bond yields are now lower than they were ten years ago and repeat drop of that magnitude would result in negative interest rates.

Mr. Bryant discussed the difference between investing, speculating, and gambling.

"Conf." is a column heading on the handout. This stands for "Confidence" the likelihood of reaching the level of the plan's estimated liabilities.

Mr. Bryant suggested the private equity commitment be funded through reducing either the midcap or fixed income allocations. The reason for reducing Midcap is that there is a certain amount of style drift. Large cap investors tend to have some holdings that are a little low for their mandate and are actually midcap. Similarly, small cap managers sometimes have securities that perform well and end up in the mid cap arena. Therefore, the midcap allocation may be over weighted.

Mr. Bryant summarized and suggested the two best sources for funding a private equity commitment were fixed income and then mid cap.

Ms. Mammarella made a motion:

> The fund shall commit five million dollars with Hamilton Lane in a secondary fund of funds to invest in secondary private equity. Funding will come from mid cap allocations.

Mr. Tierney seconded the motion.

The discussion included the possibility of market changes so 5% today would be $5 million, however, in a year or two that same $5 million could be a very different percentage of the fund. It was agreed specifying the dollar amount at $5 million was the best approach.

Staff suggested the motion include the words, "Subject to legal review" to allow for a way out if the contract review raised concerns. Ms. Mammarella and Mr. Tierney agreed to the change and amended the motion.

The motion passed (8-0).

Mr. Bryant said it was okay to add an illiquid long term investment.

Mr. Spera said the City Attorney's office would review the contract. Mr. Bryant said the fund of funds would have a "drop dead date." It is quite advantageous to sign a contract before any of a series of closing dates. Those signing after the closing date are subject to payments to other investors. Mr. Bryant would contact Hamilton Lane about the closing dates.

NEXT MEETING

The meeting schedule had to be rearranged for May, June, and November.

Ms. Orr made a motion to change the May meeting to May 27, and the June date to June 24. Ms. Triggs seconded the motion. The motion passed (8-0).

Ms. Orr made a motion to change the November meeting to November 19. Mr. Johnson seconded the motion. The motion passed (8-0).

Staff is directed to verify room availability and send a revised calendar to all interested parties.

NEW BUSINESS

Mr. Spera spoke about the State Legislature's action to create term limits for certain boards, and commissions. This legislation would not impact the Retirement Board. The Retirement Board is governed by the plan document, and that document does not specify term limits.

MUNDER

The City Attorney's Office reviewed the recordings of the meetings in which Prudential was directed to sell the Munder holdings and buy Wells Fargo. The execution of the Munder trade fell into the realm of poor customer service. However, it was not specific enough to support a lawsuit.

Mr. Spera suggested the board or the Finance Department write a letter to Prudential specifying expectations for selling holdings on the "Watch List" are different than rebalancing trades. In ending a position in a poor performer the Board wishes to sell as quickly as possible. The sale should not wait until arrangements can be made for a purchase of a replacement fund. On the other hand a rebalancing sale should be done concurrent with a rebalancing purchase.

Ms. Evans suggested that the Finance Department is in the best position to craft such a letter. Ms. Triggs said her Department could do that.

Mr. Tierney made a motion that the Finance Department writes a letter to Prudential clarifying expectations for rebalancing trades may follow Prudential's protocol and trades made to entirely exit positions in under-performing funds need to be made as quickly as possible and should not wait until another fund is available for purchase. Mr. Tierney seconded the motion. The motion passed (8-0).

FIDUCIARY RESPONSIBILITY

Mr. Spera discussed the board members' fiduciary responsibility. As long as members are acting within the scope of their duties they are covered by the City's self insurance program up to $2 million as well as the excess policy for amounts from $2 million to $10,000,000. Insurance and legal support from the City Attorney's Office did not extend to acts outside the scope of board duties, such as theft. However, if board members are sued for an investment not working out, and steps were taken to assure Due Diligence were taken, members would be defended by the City Attorney and in the event of a judgment the City would pay up to the limits mentioned above.

Mr. Tierney asked if there were federal laws that super-cede state laws on fiduciary duty. Mr. Spera said no, there were not.

Mr. Bryant left at 10:48 AM.

OTHER BUSINESS

Mr. Tierney asked if there was progress in finding a contract with Prudential and what was the best way to clean it up. He asked if the plan had run afoul of city contract law or procurement procedures.

The existing contract is a collection of pieces from predecessor companies, amendments, and references to contracts for other plans, typically the Supplemental Retirement Plan.

Ms. Triggs indicated the contracts had been originated when pension were managed by Human Resources.

A board member asked when the contracts could be terminated. They can be terminated on 60 days notice.

Mr. Johnson said it was inevitable to rebid the contract, and it may be sometime soon. There would be a difficulty in that there were several contracts with Prudential.

Mr. Tierney indicated if the Firefighters and Police Officers Retirement Board deemed the best interest of the plan was on a different path than that chosen by the City then the Board could pursue a separate course of action.

Mr. Spera indicated that in the event of a conflict of interest the Board must get outside counsel.

Mr. Tierney asked if there was a timeline for a RFP.

Mr. Johnson said staff was working on such a timeline. Some board members suggested a RFP timetable be brought to the May meeting. Others said the May meeting was a long Due Diligence meeting and June would be better.

Ms. Triggs said she would confer with Steve Gordon of the Procurement Department.

ADJOURNMENT

A motion was made by Ms. Evans, and seconded by Mr. Milner to adjourn. The motion passed (8-0). The meeting was adjourned at 11:00 AM.

HANDOUTS

Distributed in advance:

- Agenda
- Draft of the January 29, 2009, minutes (1a)
- Draft of the February 17, 2009, minutes (1b)
- Follow-up Items/Old Business (2)
- Monthly Investment Reports dated January 21, 2009: 1) Current Allocation of Biweekly Contributions and 2) Actual vs. Target Allocation (Percent over Target) (5a)
- Performance Measurement (5b)
- Summary of Activity by Fund (5c)
- Pension Administration Division 2009 Education Events (5f)
- The City of Alexandria Firefighters & Police Officers Pension Plan 10.4 Conduct of Business 6) a)
- Risk & Return 6) b) 1)
- Private Equity, Ever Changing amounts at work 6) b) 2)

Distributed during the meeting:

- Calendar of 2009 with proposed date changes
- Quarterly Volatility Report
- Private Equity, Fees & Carry 6) b) 3)
- Invitation to Prudential Real Estate Investment Meeting (5h)
- Follow-up Items – Munder (2a)
- City of Alexandria Firefighters and Police Officers Pension Plan as restated on January 1, 2009
- Chart of Fund Performances 1980 - 2008