MINUTES OF FEBRUARY 14, 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
Patrick Evans, Alternate	Dean Molinaro, Prudential
Bruce Johnson	Arthur Lynch, Retirement Specialist
Shirl Mammarella, Alternate	Theresa Nugent, Communications Specialist
Ed Milner	Lisa Powell, Prudential
Cheryl Orr	
Morgan Routt	
Al Tierney	
Laura Triggs	

The meeting was called to order at 8:40 AM.

Mr. Evans voted for Mr. Wimer throughout the meeting.

APPROVAL OF JANUARY 13 MINUTES

There was a motion by Ms. Triggs to:

Approve the January 13, 2011, Board minutes.

Mr. Evans seconded the motion. The motion was unanimously approved (5-0).

Ms. Orr arrived 8:42 A.M.

FINANCIAL REVIEW

FINANCIAL AND ECONOMIC OVERVIEW

Mr. Bryant provided the financial and economic review. In the fourth quarter the economy grew at a 3.2% annual rate. Historically this is considered the highest sustainable rate the economy can grow without inflation.

All sectors had positive return except bonds which posted losses. Referring to page 6 of the Defined Benefits tab the recent returns in the seventh and sixteenth percentile were about as good as it gets. This is probably because of the low bond and high equity allocation. Hancock had a high percentage return but a small allocation so it only contributed a small boost to returns.

Mr. Johnson arrived at 8:48 AM.

Mr. Tierney arrived at 8:49 AM.

Mr. Bryant pointed out the return distinction by size and by quality. Smaller & lower quality firms did better. Times Square is a mid-cap company with a bias for large cap, so that bias hurt its performance as did its picks in the technology sector.

Wells Fargo held 8% in cash which hurt its performance, as did its picks and overweighting to the energy sector. Energy in the small cap sector might be pipelines, equipment, and the things that make up the many pieces of major integrated oil companies.

Mr. Milner arrived at 8:52 AM.

Mr. Bryant distributed an errata page for the Defined Contribution section of the report. The errata page had a correction applicable only to the large cap sector in total. Each individual fund was reported correctly.

Chairman Cross asked if Thornburg was doing okay. Mr. Molinaro said Thornburg was an aggressive manager. Mr. Bryant said they had done better than in the past but underperformed for the recent period.

Mr. Cross mentioned Jennison expense ratio had declined but that Oppenheimer's had increased. Mr. Molinaro mentioned that Jennison's expense ratio was decreased as part of the changes in adding Jennison to the defined contribution and disability platform. The fee breaks applied to Turner were then applied to Jennison. Oppenheimer was a retail mutual fund and not of the same structure as many other options of the Prudential platform. By virtue of being a retail mutual fund Prudential had no control over the account fees.

Mr. Molinaro then reported the exit cue at Prudential had been eliminated. Mr. Bryant said real estate had done well in 2010 and many funds were returning to real estate.

Staff reported on Hamilton Lane. The Secondary fund called $575,000 in December. However, that turned out to be too much so a portion was returned. Those funds could be called again at a later date.

OLD BUSINESS

Mr. Cross referred to the minutes of February 10, 2011 special board meeting. Everyone took a few moments to read page two of the minutes as they provided background for the ensuing discussion on Custodial Bank Services.

Staff was asked to clarify a motion in the minutes to emphasize that the custodial services are for the defined benefit component and not the defined contribution plan.

Mr. Johnson distributed a handout titled, “Vendor Services.” The handout summarized the current tasks performed by Prudential; it outlined the proposed functions that would stay with Prudential and those that would move elsewhere. Finally, it listed some of the next steps.

Michele Evans arrived at 9:21 AM.

Mr. Molinaro discussed Prudential’s efforts to work with a major custodial services provider to expand options for clients. Plans could pick any investment manager and custody assets through Prudential. This program would be unveiled in 2011. The exact date was not yet determined. However, it would be far enough along that contractual terms would be known by the time our existing contract expires in June.

Ms. Powell offered to have prices available for unbundled services in two to three weeks. Staff said that was very good. Staff said that custodial services were a very small percentage of total investment and administrative services. Therefore, it should be reasonable to estimate total ongoing costs with the estimate delivered in two – three weeks and that the exact numbers on the custodial services would be estimated. Ms. Powell said the largest driver in costs would be the amount of assets left at Prudential. Staff said that the pricing estimates that Prudential would deliver should enable cost estimates for any amount of assets left at Prudential from 0% to 100%. Staff would take these estimates, create a worksheet, and forward it to Mr. Bryant for review.

Mr. Bryant said there were four pieces involved:

1. The custodian is someone that holds the assets. This is currently served by Prudential
2. The investment advisor provides independent analysis. Dahab currently serves this role.
3. The investment manager controls the portfolio. This is currently done by PIMCO, PRISA, CRM, Jennison, and so on
4. The administrator cuts checks and more importantly serves as record keeper. This is done by Prudential and the pension administration staff.

Going forward these four roles would be served by:

1. Comerica
2. Dahab Associates
3. Investment Managers to be determined (some new, some unchanged)
4. Third party administrator is unchanged

Mr. Bryant said that once the Board provided direction he would post an RFP within a week. The trade press picks these RFP announcements up and provides free advertising. Dahab Associates would then get anywhere from 20 to 100 responses and then bring from 2 – 4 finalists. The Board would then pick one. An account is established at Comerica. It is suggested this would take 2 ½ hours, three candidates with forty five 45 minutes for each presentation and fifteen minutes for the board to select one manager.

Mr. Tierney asked if the plan can contractually stay with PRISA or if altering the administrative contract would impact this investment. It is believed the investment could be retained, but it is something to verify.

Ms. Evans left at 9:52 AM.

Mr. Tierney asked if defined contribution administration was to be reviewed. It should be reviewed after significant progress is made on restructuring the defined benefit component's investments.

Mr. Tierney asked if the plan should stay with PRISA from the investment perspective. Mr. Bryant suggested the plan could stay with PRISA but if for some reason Prudential terminated the relationship there were about a dozen other core managers with very similar results.

Staff referred to the handout "Selecting Investment Managers." The handout makes the point the plan currently has six managers covering six domestic equity mandates by style and capitalization. There are managers that invest over capitalization or over style. The handout suggests the Board direct Mr. Bryant in what it wants done and leaves him free in how to do it. The asset allocation targets are not to be changed, but there need not be one manager for one mandate and vice versa.

Mr. Tierney left at 10:11 AM

Ms. Evans returned at 10:12 AM

Mr. Johnson suggested some changes might require a change to the Investment Policy Statement.

Mr. Tierney returned at 10:13 AM.

There was a motion by Mr. Tierney to:

> Begin the following five step process:
> 1. Issue RFPS for Large Cap Value and Large Cap Growth managers for final interviews May 12, 2011
> 2. Issue RFPS for international managers for developed markets and emerging markets for final interviews June 9, 2011.
> 3. Issue RFPS for two investment managers to cover the small and mid-cap value and growth mandates with final interviews July 14, 2011. At the April interim meeting Mr. Bryant would report via staff of his preference in how to structure the managers to cover the four mandates.
> 4. Following completion of the three preceding steps Mr. Bryant will work with the Board to review the real estate mandate with Prudential.
> 5. Finally, the board will review its fixed income mandate. This will include board education prior to a manager search.

There was a motion by Ms. Triggs to:

DISCUSSION: Staff suggested Mr. Bryant be allowed but not required to bring large cap core managers in addition to large cap value and large cap growth. The idea was rejected.

The motion passed (8 – 0).

ADMINISTRATOR'S REPORT

Staff referenced the monthly Statement of Activity by Fund. Mr. Milner said totals did not match Mr. Bryant's report. The difference is two alternative investments, private equity, and timber. The timing of the reports, when information is available makes this difficult to coordinate. Staff will work with Mr. Bryant to resolve this.

Mr. Bryant left the meeting at 11:00 AM

COMMITTEE REPORTS

BUYBACK COMMITTEE

Mr. Milner provided a brief review of the efforts since the last interim meeting. The Board met with the City Council Committee on Benefits and Compensation. That committee will recommend to City Council the employee pay all (full actuarial cost) purchase of service credit (buyback). The docket memo is drafted and moving through the review process.

DISABILITY COMMITTEE

There was no Disability Committee Report.

TECHNICAL CORRECTIONS COMMITTEE

Chairman Cross reported the committee had not met.

TRAINNING OPPURTUNITIES COMMITTEE

Staff mentioned an upcoming AMRSVA meeting. There was a motion by Ms. Orr to:

> To have the fund provide expenses for staff to attend the spring meeting of the Association of Municipal Retirement Systems of Virginia in Richmond Virginia.

Mr. Milner seconded the motion.

DISCUSSION:

Ms. Triggs said other City plans would pay a proportionate amount.

The motion passed (8-0). Staff expressed thanks.

VENDOR AND SERVICE PROVIDER COMMITTEE

The committee had not met.

Mr. Bryant returned at 11:12 AM.

BOND ALTERNATIVES

Mr. Bryant distributed a report, "Bond Alternatives II."

Page 2 mentions reasons for concern that future bond returns will not be strong.

Page 3 lists the sector weightings of components in the Barclays Aggregate as well as the sectors excluded.

Page 4 explains the interaction of interest rates and bonds.

Page 5 lists bond investment risks.

Page 6 shows active bond managers make decisions based on credit and interest rate.

Page 7 is used to display a treasury yield curve.

Page 8 discusses the events effecting bonds in 2008.

Ms. Orr asked about high yield securities (junk bonds). Mr. Bryant discussed Mike Milken at Drexel and how he helped expand the high yield market.

Mr. Bryant left the meeting at 11:27 AM.

NEXT MEETING

The next meeting is April 14, 2011 in the Council Workroom second floor City Hall.

ADJOURNMENT

There was a motion by Mr. Johnson to:

Adjourn.

Mr. Tierney seconded the motion.

Meeting adjourned at 11:29 a.m.

Handouts distributed in advance

1) Agenda
2) Minutes of January 13 Interim Meeting
3) Investment Performance Review – Notes and Questions, third Quarter 2010
4) Retirement Plan Strategies, December 31, 2010, Prudential
5) Performance Review December 31, 2010, Dahab Associates
6) Private Equity Report, Hamilton Lane Cash Flows (4 a iii)
7) Private Equity Report, Hamilton Lane Cash Flows (4 a iii) (2)

Handouts distributed during the meeting

1. Revised Agenda
2. Minutes of February 10 Special Meeting
3. Selecting Investment Managers
4. Vendor Services
5. Treasury Yield Curve, Dahab & Associates
6. Board Meeting Schedule 2011
7. Bond Alternatives, Dahab Associates