

**MINUTES OF JANUARY 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	Arthur Lynch, Retirement Specialist
Patrick Evans	Theresa Nugent, Pension Commun.Spec.
Bruce Johnson	
Ed Milner	
Cheryl Orr	
Al Tierney	
Laura Triggs	
Michael Wimer (Alternate)	

CALL TO ORDER

The meeting was called to order at 8:39 AM on January 13, 2011.

Chairman Cross reflected on the progress the board and the investment consultant had made in improving investment performance and diversification over the last six years.

Ms. Evans arrived at 8:40 AM.

ELECTION OF CHAIRMAN AND SECRETARY

Mr. Cross suggested that the term of office be changed from three years to match the election cycle. This would mean either two or four year terms. Ms. Evans and Mr. Johnson both suggested four year terms were too long.

There was a motion by Mr. Johnson to:

Make the term for the chairman and secretary two years coincident with the employee representatives elections.

Ms. Evans seconded the motion. The motion was unanimously approved 7 – 0.

There was a motion by Mr. Tierney to:

Nominate Michael Cross as Chairman for the calendar years 2011 - 2012.

Ms. Orr seconded the motion. The motion was unanimously approved 7 – 0.

Mr. Cross reminded the Board that since the Chairman is an employee representative the Secretary needs to be nominated from the management Board members. Also, he clarified the agenda stated "Vice Chariman" but the title is "Secretary."

There was a motion by Ms. Evans to:

Nominate Cheryl Orr as Secretary for the calendar years 2011 - 2012.

Mr. Johnson seconded the motion. The motion was unanimously approved 7 - 0.

Ms. Evans announced that Board member Shirl Mammarella was promoted to Lieutenant.

MINUTES

There was a motion by Ms. Triggs to:

Approve the November 11, 2010 Board minutes.

Ms. Evans seconded the motion. The motion was unanimously approved 7 – 0.

Ms. Orr asked that Kathleen Ognibene be identified as Deputy Director, HR.

The motion as amended was unanimously approved (7 – 0).

OLD BUSINESS

Staff reported that the Private Equity contract with Hamilton Lane was reviewed by council. Following legal council's approval the contract was signed by Ms. Triggs and Mr. Cross. Mr. Tierney's asked if it was submitted in time to meet Hamilton Lane's deadlines. Staff said the deadlines were met.

COMMITTEE REPORTS

Mr. Cross reviewed the committees that the Board has: Buyback, Disability, Technical Correction, Training Opportunities, and Vendor and Service Provider.

Mr. Milner arrived at 8:55 AM.

DISABILITY

Mr. Tierney noted the Disability committee has not met for a year. They finished their task of describing the disability process and presented it to the Board. He was under the impression that

Ms. Orr was working with it in relation to a City wide committee. Ms. Orr reported that the Fire Chief, City Attorney, and Risk Management were continuing to work on Workers Compensation and this is closely intertwined with disability. Ms. Triggs reported that the committee has a subcommittee on disability that involves Human Resources, Pensions, and Workers' Compensation.

A motion was made by Mr. Tierney to:

Discontinue the Board's disability committee.

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

Mr. Tierney stated his desire for the City to adopt a policy on the disability application process.

BUYBACK COMMITTEE

Mr. Milner noted that the buyback proposal is being readied to present to Council. Staff indicated the proposal is going to the Council Committee first and that the date is not set yet.

Mr. Milner reported that the committee needs to next take on the task of proposing a policy on future buy back issues.

Mr. Cross verified that the committee members are: Mr. Milner, Ms. Evans, and Mr. Evans.

TECHNICAL CORRECTIONS COMMITTEE

Mr. Cross noted that there are a number of technical corrections to work on, but that he could not provide a detailed listing at this time.

Mr. Cross verified that committee members are: Mr. Cross, Ms. Orr, Ms. Mammarella, and Ms. Triggs. They will continue to serve on these committees.

Staff reported speaking to the attorney, Mr. Hoffman, regarding a quote for the legal work needed to work on the proposed technical corrections. Without detailed information Mr. Hoffman cannot provide an estimate, but suggested the Board approve \$5,000-10,000 for now have the committee come back to the Board if more money needs to be approved.

Mr. Evans arrived at 9:03 a.m.

Mr. Milner made a motion to:

Authorize the Technical Corrections Committee to spend up to \$10,000 for legal expenses for researching and writing proposed plan amendments.

Ms. Triggs seconded the motion.

Discussion:

Mr. Johnson suggested staff report to the board as bills from Mr. Hoffman are received. Mr. Milner agreed to the idea.

Ms. Orr questioned if all the technical corrections from the previous year were approved. Staff indicated that all the topics that the committee had completed had gone through the Board and City Council. There were some topics on which the committee had not yet reached a resolution.

The motion was approved unanimously 8 – 0.

TRAINING OPPORTUNITIES COMMITTEE

Mr. Bland reported on his progress on his studies for the CAIA certification and thanked the Board for its support.

A handout was distributed regarding Wharton Investment Courses to be held May 23 – 26, 2011, and September 12 – 15, 2011, in Philadelphia. Mr. Johnson would like to receive funding from the Board to attend the May meeting. He will prorate the funding from all of the pension plans. The classes fit his schedule and the subject matter was relevant to being on the Board.

The Board discussed who might want to attend the Wharton Investment Courses. Ms. Evans suggested the Board bring people in one or two times a year to provide training on topics such as these that all of the Board would like to hear. Ms. Evans also noted that there are many webinars that might be of interest to the Board. Mr. Cross suggested Training Committee make recommendations. Fire representative Mr. Wimer and management representative Mr. Johnson will be on the committee.

Mr. Milner made a motion to:

Approve travel and conference expenses for up to three Board members and staff to attend May Investment Course at Wharton. Members and staff with shared responsibilities for multiple plans will have their costs allocated to the plans in proportion to the plans' assets.

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

Mr. Cross indicated that Mr. Johnson, Mr. Wimer, Mr. Milner, and staff will work to revise the suggested training needs and minimum training requirements for new Board members.

Staff handed out summary information on pension meetings in 2011. Many of these will be held in the area and thus reduce travel time and cost. Staff will email more detailed information on the meetings upon request.

Staff also reminded that the Board retreat will be in May. Any topic can be discussed including investments and due diligence.

VENDOR and SERVICE PROVIDER COMMITTEE

Mr. Cross reported that the committee still has work to do. Dahab was selected as the financial consultant. Staff reported that the contract with Cheiron, the actuary, was not signed until after the November Board meeting. Staff has met with Cheiron and was impressed with their review of the 2009 Valuation and their preparation for the 2010 valuation.

The signing of the actuarial contract was delayed in order to clarify how the plan would use Cheiron's software. There was vague language that might have implied the City was buying Cheiron's software. This was not the intent. So long as Cheiron brings the software on their computer and they display it, the plan will not be charged extra for its use.

Mr. Cross verified the committee members: Mr. Cross, Ms. Orr, Mr. Johnson, and Mr. Tierney.

ADMINISTRATOR'S REPORT

FOLLOW UP ITEMS

Staff reported on the annual transfer of the Prudential's GDA to PIMCO'S fixed income fund. The market value adjustment would have been significant so the transfer was limited to the maximum allowable annual amount, which is 16% of beginning of year balance, net of contributions, benefits, and expenses. Staff reported that since this process began in 2006 the cumulative amount of transfers, applied to the average return differential between PIMCO and the GDA would just about pay his annual salary.

Staff referred to handout 5 (i) (2) and reported on the CPI which drives the annual COLA calculation. For the ten months of data that were on the books the increase in the CPI was .98%. Annualized the rate is 1.17%. Staff believes the chance of negative COLA for 2011 is nil. However, in the near future it is possible.

MONTHLY REPORTS

The monthly Rebalancing Report was distributed by e mail. Large cap growth and value were the weakest performing sectors of the markets. These were the closest to needing rebalancing.

Staff referred to Handout 5(ii) (2), the Volatility Report now listed annual average volatility. Staff reported volatility for 2010 had exceeded the sixty year average but was below the levels of turmoil of the recent years.

Staff referred to handout 5 (ii) (3), the Summary of Activity Report combined pension and disability components in August. Beginning 2011 the report would be combined for the entire year. The report showed a positive cash flow, though not quite as strong as when the report showed only the pension component.

Staff referred to handout 5(ii) (4) and reported on Private Equity. The partnership had called \$900,000 in December. The total called to date exceeded \$2,200,000 or 44% of the commitment.

To minimize taxation for its clients Hamilton Lane was arranging a corporate entity in the Cayman Islands. Staff, Barry Bryant, Chris Spera, and Hamilton Lane were all involved in the discussions. In the end it was deemed best to not participate in this offshore vehicle but to stay onshore. Even though no action was taken, this was reported to the board so there was an appreciation of the varying levels of administrative complexity of limited partnerships vs. mutual fund types of structures.

ADMINISTRATION

Staff referred to handout 5 (iii) (1). At the November meeting the Board directed Prudential to end the large cap growth mandate with Turner and to have Jennison manage the mandate. Similarly Turner was removed from the defined contribution platform. Regrettably the notice to plan participants was not provided on a timely basis. Lisa Powel at Prudential is asked to address this at the February meeting.

Mr. Tierney asked that more notices be sent via e mail instead of paper.

The actuarial consultant agenda item was taken out of order and discussed as part of the Committee Reports on the Vendor & Service Provider Review Committee (above).

OTHER

Staff reported Prudential announced the credited rate on its GDA (stable value fund). In the defined benefit plan Prudential will credit 2.5% on existing deposits and 3.3% on new deposits. In the defined contribution plan Prudential will credit slightly less.

NEW BUSINESS

Mr. Johnson reported that as part of the budget process the Mayor and Council had expressed concerns over pensions. Therefore, it is expected the City Council will create a Benefits Advisory Group at an upcoming meeting. There will be 13 members of the group. Six will come from the three groups: two from Fire & Police, two Deputy Sheriff, Fire Marshals, and medics, and finally two general employees. The Fire & Police representatives could come from the board but do not have to. The meetings will be subject to open meeting laws so anyone not formally appointed to the group may attend the meetings.

The group is to create a verbal presentation in October and a written version in November, in time for recommendations to be incorporated in the FY 2013 budget process.

Ms. Evans asked that staff distribute an article from GFOA on the, *Public Employee Pension Transparency Act* introduced in Congress by Rep Nunes and Ryan.

Staff referred to handout 6 (ii), *Pension & Investment Vocabulary*. Board members are encouraged to contact staff with terms or acronyms that might be added to the list.

Staff referenced handout 6 (iii), *Bond Alternatives*. The context is that to prepare for the Board retreat in May we will have to select topics and speakers. This presentation and Barry Bryant's presentation at the February 14 meeting will introduce some topics that the Board may elect to pursue in greater detail in May.

Staff discussed the secular bull market in bonds drawing to a close. This means extended periods of high returns from domestic high quality bonds is very unlikely.

Also, there was concern the plan is at risk if there is another market meltdown similar to that of 2008.

Staff discussed the efficient frontier. Staff argued that following the great market rally of 2009 – 2010 the efficient frontier today would offer less than a comparable one in 2009. Staff suggested a frontier created from an expanded universe would offer: a) the possibility for higher returns with the same risk, b) lower risk with the same expected returns, or c) a combination of each.

If the Board elected to consider expanding the efficient frontier staff provided a list of three potential groups: 1) fixed income, with a focus on increasing returns, 2) alternative asset strategies, with a focus on reducing total portfolio risk, and 3) alternative asset classes, with some of each.

Staff discussed the asset allocation study process with Barry Bryant. The consensus is that certain fixed income investments, or small allocations to other asset classes or alternative investments could be done without a new study. Some larger allocations or more aggressive allocations might merit a new study. It is suggested this be a point of discussion with Barry Bryant at the February meeting or May Board retreat.

Staff referenced the handout titled, *Investing in Fixed Income & Bond Substitutes*. The list on the first page covers risks to fixed income investments. On page two staff recommends the section reading "RISKS of BOND SUBSTITUTES" be changed to "CONSIDERATIONS."

Mr. Johnson asked if the list of fixed income items were all higher risk investments than the existing fixed income investments. Staff commented the key question is what does the addition of any of these classes do to the total portfolio's risk profile, not what is the asset class' risk profile.

Mr. Johnson directed staff to make a handout on the asset classes of strategies in the handout 6 (iii), *Bond Alternatives*. The handout should have a definition, example, or short handout of each item.

Staff is directed to update the labeling on the periodic table of investment return. The Lehman Agg which has been renamed the Barclay's Agg.

Mr. Tierney requested information on sector allocations within the PIMCO fund.

NEXT MEETING

The next meeting is **Monday**, February 14, 2011.

ADJOURNMENT

Mr. Johnson made a motion for:

The meeting to adjourn.

Mr. Tierney seconded the motion. The motion passed (8-0). The meeting adjourned at 10:45 a.m.

HANDOUTS

Distributed in advance to Board members

- 1) Agenda
- 2) Minutes of November 11, 2010 [2]
- 3) Administrator's Follow-Up Items [5(i)]
- 4) Chart on Consumer Price Index as of November 2011 [5(i)(2)]
- 5) Volatility Report – Number of days with change in S&P 500 exceeds 1% [5(ii)(2)]
- 6) Summary of Activity Report [5(ii)(3)]
- 7) Emails Regarding Delayed Communication from Prudential Retirement [5(iii)(1)]

Distributed during the meeting:

- 8) Private Equity Report [5(ii)(4)]
- 9) Pension & Investment Vocabulary [6(ii)]
- 10) Bond Alternatives [6(iii)]
- 11) Index Weighting: Cap Weighted and Fundamental Weighted [6(iv)]
- 12) Conferences and Seminars 2011

- 13) Handout regarding IBEFP courses held at Wharton, University of Pennsylvania, May 23 – 26, 2011 and September 12 – 15, 2011 to be held in Philadelphia.
- 14) Investing in Bonds & Bond Substitutes