MINUTES OF JANUARY 14, 2010 RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN
INTERIM MEETING

PRESENT

Members	Others
Michael Cross, Chairman	Steven Bland, Retirement Administrator
Michele Evans	Bill Boden, CIO Timbervest
Patrick Evans	Barry Bryant, Dahab Associates
Bruce Johnson	Tim Cayen, Hancock
Shirl Mammarella (Alternate)	Jason Harrison, AFD
Ed Milner	Arthur Lynch, Retirement Specialist
Cheryl Orr	Theresa Nugent, Communications Specialist
Morgan Routt	Jim McBride, SVP RMK Timberland Group
Al Tierney	Reginald E. Rich, A.F.D.
Laura Triggs	Joel Shapiro, CIO Timbervest
	Court Washburn, CIO Hancock
	Michael Wimer, A.F.D.

CALL TO ORDER

The meeting was called to order at 8:34 AM on January 14, 2010.

MINUTES

There was a motion by Ms. Triggs and seconded by Mr. Johnson to approve the November 19, 2009 minutes. The motion was unanimously approved (7-0).

The Chairman indicated items will be taken out of order to assure completion of certain topics.

Ms. Evans arrived at 8:38 AM.

OLD BUSINESS

Chairman Cross referenced the retirement of Christopher Lockwood, the vacancy on the Board, and the need to nominate a Fire Representative as well as an alternate. He recalled Mr. Evans legacy with the plan and recommended the Board appoint Mr. Evans as the Fire Representative to the Board for the remainder of 2010.

Mr. Cross then introduced Michael Wimer (who was in the audience) and outlined his career, credentials, and experience, including a law degree and some education in financial topics.

Ms. Evans made a motion that the Board recommend that City Council appoint Mr. Evans as a member representative from the Fire Department and Mr. Wimer as alternate representative from the Fire Department. The motion passed (8-0). Staff was asked to prepare a Docket memo as quickly as possible and Ms. Evans said she would expedite the process of preparing the item for City Council.

Chairman Cross had previously directed staff to work with Mr. Bryant to recommend an asset allocation for the disability component. Staff recalled the asset allocation recently adopted by the pension component had been developed for both pension and disability. However, the platforms at Prudential and SunTrust are different, making a perfect match impossible. Also, the scale of the pension makes limited partnerships available to it that would not be available to the disability component alone, making even a close match rather difficult.

Staff recommended the investment of the two plans be combined. This would entail moving the disability trust's fixed income investments with Seix Advisors to PIMCO at Prudential and the international equities index fund to Artio and Oppenheimer at Prudential. This would not only lead to consolidation but these particular managers at Prudential had better records than their counterparts at SunTrust.

The simplest move would be to transfer all the large cap core investments managed by Iron Oak Advisors – Chuck Arrington's group – to Prudential and split between Turner and Barrow Hanley. However, Chuck Arrington had a long term track record that had exceeded his benchmark by more than Turner and Barrow Hanley had exceeded their respective benchmarks. Retaining funds at Iron Oak would also prepare the Board for a contemporary approach to investing by having more money in separate accounts rather than in mutual funds with a third party administrator. Finally, the most complicated approach, but one recommended by staff and Mr. Bryant, is to keep the bulk of the large cap allocation with Iron Oak advisors but to retain a little bit at Prudential to facilitate rebalancing. Also, Mr. Arrington has a value tilt so it makes sense to keep more than a de minimis amount with Turner – the large cap growth manager.

Mr. Tierney raised the question of separating the liability of the disability and pension components. The potential issue was a significant change in disability claims or a lawsuit against the disability side having detrimental impacts on the pension side. If there was a consolidation it should be done in a way so as to not increase exposure to legal liability. Mr. Tierney requested a letter from Mr. Hoffman on the subject. Mr. Cross asked staff to set up a phone call with Mr. Hoffman for later in the meeting.

Mr. Tierney asked Mr. Bryant for his thoughts on consolidating funds. Mr. Bryant said it was a good idea. The Board should be aware that SunTrust was shopping their Ridgeworth subsidiary. Ridgeworth is SunTrust's asset management arm. They manage funds for wealthy families, pensions, endowments, etc. The fact that Chuck Arrington's firm may be sold is a consideration, but should not be a major consideration.

TIMBER

Mr. Bryant introduced the topic of timber. The topic had been discussed in detail in prior meetings so only highlights were mentioned at this time.

Hancock is significantly larger than the other two candidates. They employ leverage but usually to a limited degree. They have had international exposure for a longer time than their competitors.

RMK has recently added international exposure. They are structured to allow the customer to select their own weighting of domestic and international exposure.

Timbervest is employee owned and is entirely U.S. based.

FIRST TIMBER PRESENTATION: HANCOCK

Tim Cayen of Hancock spoke of integrating forestry and finance. The parent insurance company will have a 10% interest in the fund.

In 2009 they estimate the rate of return will be -5%. They prefer to own land, but will lease. They want to have managed plantations as opposed to harvesting native stands.

Their scale is significant. Their smallest purchases tend to be in the range of $18-$20 million and their largest a $1 billion.

Staff asked if investment were not attractive how long they can defer purchases. Funds must be committed in three years. However, by diversifying they may find if one area is overpriced another area, or country, may have lower priced assets.

Peak to trough they expect a 30% drop in prices from 2006 to 2010. They are seeing write downs in appraisals, which sometimes lags sales.

Their debt has averaged 17%.

Their closing date is March 31, 2010.

Mr. Tierney sees their international exposure as limited to Australia and New Zeeland. Mr. Cayen said exposure to South America is growing.

Mr. Evans inquired about fees. Mr. Cayen said the annual fee was .95% and that with their conservative approach it tended to not escalate any more than with the CPI-U. Performance fees are based on real returns.

Mr. Johnson asked about recent returns. 2008 was a tough year. The United States was positive but there were write downs internationally. In 2009 it was reversed as international was positive but there were write downs domestically. The net each year was roughly a 5% loss.

Mr. Johnson asked about currency and hedging. Hancock does not hedge as cash flows are uncertain. That said, they will incorporate currency into buy decisions.

Mr. Bryant said Hancock used a Real Estate Investment Trust (REIT) structure. The REIT has certain tax advantages that are helpful with respect to the Unrelated Business Investment Tax law.

SECOND TIMBER PRESENTATION: RMK

Mr. McBride of RMK introduced himself and his company. RMK Timber is owned by Regions bank and part of the Morgan Keegan asset management arm of the bank. Regions bank has $7 billion in excess capital. Page 6 shows the credentials of the key employees. Eighteen of the 24 people are foresters.

RMK uses little leverage.

They recently made their first acquisition in Hungary. They are negotiating a deal in South Africa.

They have a three year investment period. Typically funds are invested in fifteen to eighteen months.

Mr. Tierney asked about page seventeen. He said he interpreted the map to suggest RMK was not in many of the countries indicated. Mr. McBride clarified to say RMK was actively doing research and pursuing deals in these areas but they had not yet acquired property.

Mr. Tierney asked if RMK preferred to own or rent. They prefer to own.

MR. McBride said the expectation was to invest 80% of the funds abroad and 20% domestically.

Staff asked about the proximity to lumber mills. Mr. McBride said land acquisitions were always near mills. Ms. Triggs asked about markets for South American timber. The Uruguay timber is almost all exported. However, Brazil has a significant population and uses a significant portion of their harvest, exporting the rest.

The largest acquisition is $260 million, the smallest $1 million. The average purchase price is $20-$40 million. The parcels may be split at sale.

The final close is December 31, 2010. The first close will be in a month. Their expectation is a 6% real return for the domestic partnerships and 10% for international partnerships.

THIRD TIMBER PRESENTATION: TIMBERVEST

Joel Shapiro and Bill Boden introduced themselves and Timbervest. They are employee owned. They put $3-$5 million of their own money into the partnerships.

They acquire land within 75-100 miles of mills. They believe the U.S. has the best infrastructure.

They do not acquire a property without having an exit strategy.

They identify their sweet spot as $2 million to $25 million.

Their investment period is 36 months.

They do not build roads. They are not needed for smaller properties. However, for the 100,000 acre properties road building is required. This is one of the advantages of their approach.

Each project has a particular employee with responsibility from start to finish, acquisition, growth, disposition, etc. They are incentivized for the project.

Mr. Tierney asked how long they own land. On average six years.

Smaller properties have greater liquidity than larger properties.

The meeting recessed at 11:25 AM.

The meeting resumed with a quorum at 11:33 AM.

OLD BUSINESS (Continued)

The Plan's attorney Ken Hoffman was contacted by phone. Chairman Cross reviewed the issues and questions surrounding the potential consolidation of the Disability and pension components.

Mr. Hoffman provided background on the structure of the Retirement Income Plan, the Defined Benefit Component, and the Disability Income Plan. The latter two may be consolidated for investment purposes; however, they must be accounted for separately. This last point was properly stated in staff's handout but miss-stated in the presentation. The point was restated to assure clarity.

The pension benefits are offered through a VEBA 501(c)(9) Trust. VEBA is Voluntary Employee Benefit Association. The pension benefits are offered through a 401(a). Mr. Hoffman said it make sense to create a new structure where all benefits are provided by a 401(a) plan. However, the assets in the disability component could not be transferred to the new plan. All future contributions would go to the new plan and the existing VEBA would be slowly drained.

Mr. Tierney requested documentation of the phone call with Mr. Hoffman.

Ms. Evans made a motion that staff proceed with the consolidation of the pension and disability components of the plan. The consolidation is for investment purposes only. Staff is to report back to the Board. Staff indicated that contract negotiations and other administrative issues would take a while and that no formal or binding action would take place prior to reporting the February 16, 2010 Board meeting.

Discussion: Chairman Cross requested an example of the method of separate accounting for the disability and pension components. Both Ms. Triggs and staff agreed they can do this.

Staff said the first steps consolidation project are review of contracts, and then the domestic and international equities and fixed income. Once these asset classes are consolidated the alternative assets will need review. Real estate and private equity are both below their 5% target for the pension component, and will be further below the 5% of the consolidated total assets.

The motion passed (8 – 0).

TIMBER (Continued)

Mr. Bryant provided a recap of the three presenters. The talks followed the presentation books and previously distributed information. Mr. Bryant said there were no surprises and the best summary was essentially to repeat his introductory remarks.

Mr. Tierney asked if leverage is an issue. Mr. Bryant said lawyers tend to write contracts to maximize their client's options. This does not mean Hancock will necessarily overuse leverage.

Chairman Cross asked about the NCREIF index. The belief is it is entirely domestic. Mr. Milner said currency is also a factor in performance measurement.

Mr. Tierney asked about international exposure. Hancock is allowed to go up to 50% international. RMK has two separate investment classes – domestic and international. This allows client to create any mix of domestic and international investments.

Mr. Johnson said Hancock has a slightly lower fee structure, it has been international longer, and would appear from the outside as the safer investment.

Ms. Mammarella made a motion to investment with Hancock. Mr. Milner questioned if the alternate should make motions if the two voting members were present. He then offered to make the motion to assure the propriety of the motion. Ms. Mammarella agreed.

Mr. Milner made a motion to invest $7 million with the Hancock timber limited partnership subject to legal review. Mr. Tierney seconded the motion.

Chairman Cross asked for a roll call

> Those voting in favor of the motion:
> Mr. Cross, Ms. Evans, Mr. Evans, Mr. Johnson, Mr. Milner, Mr. Tierney, Ms. Triggs
>
> Those voting against:
> Ms. Orr

The motion passed (7 – 1).

Staff is to keep the Board apprised of progress on the contract

REAL ESTATE UPDATE

Chairman Cross asked for a report on real estate. Staff mentioned that real estate had been under allocated for some time. However, the asset class had been in a free fall for some time and that rebalancing had been put on hold. The Board may be asked to increase commitments to real estate at the February meeting. Therefore, an update was in order. Mr. Bryant provided some evidence and anecdotes that the free fall was likely over. The recovery may start soon, or might be delayed for a while, but looking back at this point the risk reward is increasing by tilting in favor of an increased real estate commitment.

COMMITTEE REPORTS

BUYBACK COMMITTEE

At the November meeting Mr. Milner asked Mr. Johnson for funding for an actuarial study. Mr. Johnson had spoken with senior management. They are willing to spend $5,000 to $7,000 for an actuarial study of a potential buyback proposal. However, there is to be an understanding that the funding will be one time and one time only. The study will not go back to actuary for refinement and repeated pricing.

Mr. Evans was appointed to the Buyback committee. The members are Mr. Milner, Ms. Evans, and Mr. Evans.

VALUATION AND TECHNICAL CORRECTIONS COMMITTEE

Chairman Cross discussed the proposed First Plan Amendment.

The first change makes pay “as earned” as opposed to “as paid.” This has been the administrative practice.

The second change provides service credits to recruits. This has been the practice.

The third change clarifies the COLA limit. Benefits are capped at 200% of the original benefit – alternatively phrased – the COLA is limited to 100% of the original benefit.

The fourth change clarifies the CPI is not seasonally adjusted.

The fifth change clarifies the COLA provided by the Retirement Income Plan in the conversion at normal Retirement Date.

The sixth change clarifies a participant working through the last scheduled shift of the month receives service credit for the month. The November meeting discussion of this change included references to leaves of absence. Ms. Orr referenced a memo she wrote that suggested changes be made to address leaves of absence. Staff acknowledged the consistency between VRS, the Supplemental Plan, and the Fire & Police Plans in Ms. Orr's suggestion. Unfortunately there were cost implications in her suggestion so they could not be included in a cost neutral technical corrections package.

The seventh change is required for compliance with the Pension protection Act of 2206. Ms. Mammarella asked if the hardcoded $3,000 limit might be changed to something flexible, such as"…the maximum allowable by law…" and thus not requiring another amendment by City Council when the $3,000 limit is changed.

Ms. Mammarella left at 1:30 p.m.

The eighth change provides expanded eligibility for coverage the Pension Protection Act of 2006. Ms. Evans asked that staff is particularly careful in explaining this benefit enhancement as confusion might mislead people to thinking it is a takeaway – which it certainly is not.

The ninth change clarifies interest is not provided after a participant exits the DROP.

The tenth change clarifies that if Social Security is awarded retroactively then past disability benefits may be increased retroactively.

The eleventh change complies with the Age Discrimination in Employment Act by providing disability benefits beyond Normal Retirement Date.

The twelfth change complies with the Age Discrimination in Employment Act by providing COLA benefits for those disabled after Normal Retirement Date.

The thirteenth change clarifies that disability benefits are offset by Workers Compensation benefits for loss of income but are not offset by workers compensation benefits for loss of use.

The fourteenth change is a technical correction that corrects a typographical error.

The fifteenth change allows participants on a leave of absence to purchase disability coverage for non-service connected partial disability.

The sixteenth change is for compliance with the federal HEART Act.

The seventeenth change is an administrative request to facilitate filing of QDROs and DROs.

The eighteenth change is an administrative request that would reduce actuarial expenses and simplify communication of an optional participant benefit.

Ms. Evans left at 1:55 p.m.

Mr. Milner made a motion the Board accept the recommendations made by the committee except:

a) the 8th change is deleted,
b) the 11th change is deleted, and
c) staff is directed to request the Plan's attorney Ken Hoffman to write the language regarding the $3,000 Pension Protection Act language as flexibly as possible so that the City Council need not amend the plan each time the limit is changed.

Mr. Tierney seconded the request.

The motion passed (7 - 0)

The Chairman thanked all those involved in the plan amendment for so long.

DISABILITY COMMITTEE

Mr. Tierney asked for language to make a change to the disability provisions. Staff referred to a handout in the packet 6 (i) (1) a follow up item as it did not stem from a committee meeting. Ms. Triggs indicated that if the City decides to go forward on this then a fiscal impact report is needed. This is not a technical correction, it would change benefits.

Mr. Tierney discussed the process of disability application and procedures. Ms. Evans discussed the aspects of disability programs that are processed by the Human Resources Department. The City's Risk management Oversight Committee should receive a copy of Fire & Police Plan disability application procedures.

ADMINISTRATOR'S REPORT

Staff indicated no rebalancing was needed at this time. Volatility has been low recently.

Benefits paid by Prudential continue to be reviewed. Two benefits required correction. One participant was a retiree from the Fire & Police plan, the other from the Supplemental Retirement Plan.

Deferred Compensation limits did not change in 2010.

Elections will be held in 2011. After reviewing the prior timetable of the previous election staff will report back at the February meeting.

Prudential sent notice that the guaranteed account interest for the next six months would be 3.2%.

The packet included an article on high yield that was of interest because it discussed risk and how people measure risk.

A training and education policy was included in the packet. Mr. Johnson suggested discussion be delayed to a later meeting.

NEW BUSINESS

None.

NEXT MEETING

The next scheduled meeting is February 16 at 1:00 PM.

ADJOURNMENT

Mr. Milner made a motion to adjourn. Mr. Evans seconded the motion. The motion passed (8-0). The meeting adjourned at 2:15 PM.

HANDOUTS

Distributed in advance:

- Agenda
- Draft of the November 19, 2009, minutes (1)
- Timber Manager Presentations (3)
- Disability Income Plan, Asset Allocation Recommendations 4(i)
- Training and Education Policy Guidelines, Procedures & Expense Limitations Administrator's Follow-up Items (5(iii))
- First Plan Amendment (5(iv)(1))
- Summary of Proposed Changes Made by the First Amendment (5(iv)(2))
- List of Changes made by First Plan Amendment (5(iv)(3))

- Administrator’s Follow Up Report (6(i))
- Third Amendment (6(i)(1))
- Monthly Investment & Rebalancing Report (6(ii)(1))
- Volatility Report (6(ii)(2))
- Summary of Activity by Fund (6(ii)(3))
- Letter from Prudential - Declared interest rate on GDA for first half 2010 (6(iv)(1))
- A Junk Bubble? (6(iv)(2))
- TIMBER MANAGER SEARCH, Dahab Associates
- Timbervest
- RMK: Timberland Investment Management
- Hancock Timber Resource Group

Distributed during the meeting:

- Memorandum, Timbervest’s Response to the Barron’s Article entitled, “Trouble in the Forest” dated August 10, 2009
- Hamilton Lane Fund II – Secondary Private Equity – an update