MINUTES OF MAY 13, 2010 RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN
DUE DILLIGENCE MEETING

PRESENT

Members	Others
Michael Cross, Chairman	Chuck Arrington, Iron Oak Advisors
Michele Evans	James Bland, Honors Student
Bruce Johnson	Steven Bland, Retirement Administrator
Shirl Mammarella, Alternate	Barry Bryant, Dahab Associates
Ed Milner	Arthur Lynch, Retirement Specialist
Cheryl Orr	Dean Molinaro, Prudential
Morgan Routt, Alternate	Theresa Nugent, Communications Specialist
Al Tierney	Lisa Powell, Prudential
Laura Triggs	Mike Sahakian, SunTrust Capital Management
Michael Wimer	

The meeting was called to order at 8:32 AM.

APPROVAL OF APRIL 15 MINUTES

Ms. Orr made a motion to accept the minutes of the April 15, 2010, meeting. Ms. Triggs seconded the motion. The motion passed unanimously (8-0).

Staff mentioned there was a handout with meeting notes from May 5, 2010. Board members met with mayor Euille and Councilman Smedberg to discuss the proposed plan amendment. The notes are to confirm the formal process of posting a meeting notice and having three or more Board members gathered to discuss pension topics. However, there was not a quorum, so minutes are not appropriate. The Chairman asks this meeting's minutes reflect. The May 5th meeting took place and notes were taken.

FINANCIAL REVIEW

FINANCIAL AND ECONOMIC OVERVIEW

Mr. Bryant said that the quarter's 3.2% increase in GDP is about a typical year. This much in a quarter is atypical, except coming out of a recession. Industrial capacity is 73.2%. Inflation usually does not become a problem until it reaches into the eighties.

All sectors did well. Mr. Tierney and Mr. Milner arrived at 8:36 AM.

The real estate benchmark NCREIF ODCE gain .8%. While this is a modest amount it is above zero, which is more than the last several quarters.

Several relationships of prior periods reversed themselves this last quarter. Domestic equities outperformed international. Large cap stocks outperformed small cap. It had been the other way around.

Mr. Johnson arrived at 8:38 AM.

Mr. Bryant said that the NCREIF ODCE includes PRISA

INVESTMENT REVIEW – DISABILITY COMPONENT

Mr. Bryant said the prior remarks were important in understanding the Disability component's performance. International developed markets (EAFE) are more heavily weighted in the Disability component than most plans, and it did not do too well. Staff added that the fixed income component is very high quality. This segment of the market does not have as high returns as the broader fixed income market index.

Mr. Arrington said the fund had reached $12.7 million and had since settled back to $12.4 million. He had underweighted discretionary consumer spending stocks and this hurt performance. He had overweighted steel and gold, and these had helped. Financials did well. Berkshire Hathaway (BRKA) had split its "B" shares (BRKB) as part of its purchase of Burlington Northern. This added liquidity to the security and thus increased its value. The company was then added to the S&P 500. This creates a demand for the stock.

In the telecom area Mr. Arrington dropped Verizon and ATT – large companies - and added smaller companies. He indicated there was a modest tilt to the portfolio; Staff asked how much growth tilt there was to the portfolio. Mr. Arrington answered the process was to select individual stocks from a bottom up approach and not to force a decision of x% growth and y% value.

Utilities and telecom did worst. Mr. Arrington is carefully watching increases in volatility as a sign of fundamental changes in the market. He believes Europe is being driven by a fear of credit markets. However, there is a lot of stimulus money still out there.

He believes liquidity drives the electronic trading network.

Mr. Johnson asked a question about page 15 of the SunTrust book. Mr. Arrington had overweighted industrials. They tend to do well in the second year of a recovery.

Mr. Arrington discussed the possible sale of parts of SunTrust's Ridgeworth subsidiary. Ridgeworth has roughly $68 billion assets under management. Iron Oak (domestic equities), Certium (international and index funds) and Seix (fixed income) have roughly $40 billion and the money market funds have $28 billion. Current discussions are over sale of all the pieces except the Money market portion. A formal press release was issued in April. Since then no action has been taken and no press releases issued. There is no assurance of the sale taking place. Custody arrangement may go or it may stay with SunTrust. Mr. Johnson asked who the other party was. Henderson is a United Kingdom money manager. They are large, but with little U.S. exposure.

Chairman Cross asked for clarification of the chart on the top right of page 16. Mr. Arrington said that recently there was a huge spread between the best and worst sector performance. The difference between good and bad had not been this wide since the tech boom in the late 1990s and bust beginning in 2000.

FINANCIAL AND ECONOMIC OVERVIEW - Continued

Mr. Bryant said the defined benefit component underperformed passive management. Artio is conservative and underperformed in 2009, a period when weaker, more leveraged companies did well. It did help a lot to have small and mid cap companies as well as emerging markets.

Mr. Molinaro referred to tab III page 6. He explained Prudential has sub-advised account. It retains a role and can fire managers at any time. Its DDA (Due Diligence Advisor) rankings are qualitative, they are formula driven. They are based on risk adjusted returns.

Performance shortfalls tend to be due to short periods, for Turner it was 2008, Artio first half of 2009, Essex it was longer, 2008 & 2009.

For Turner Prudential put a stake in the ground and said they must perform better in 2009 and they did. Their style is to retain a sector neutral weighting to S&P 500. This is most unusual for a Growth manager. Mr. Molinaro does not suggest Prudential is close to dismissing Turner.

Mr. Johnson asked about Artio’s distinguishing traits. Mr. Molinaro said their niche was high quality companies. This compares to Turner’s approach that is sector neutral with less concern for quality.

Mr. Johnson asked if Artio’s approach bodes well for the future. Mr. Bryant said yes. He would like to keep Artio. Mr. Johnson asked if we want to keep Turner. Turner’s future is not as clean as Artio’s. Essex may have to go if they do not turn around soon.

Ms. Mammarella asked Mr. Bryant’s recommendation. Mr. Bryant recommended the Board keep Artio. Turner should be evaluated at year end. He is not as sure on Essex. He might evaluate Columbus Circle.

Ms. Mammarella made a motion; Mr. Bryant should study Columbus Circle as a possible replacement for Essex. Mr. Johnson seconded the motion. The motion passed (8-0).

Artio’s exposure to Greece is 0%. The combined exposure to Spain, Portugal, Ireland, and Italy is less than 1%. This is underweighting these countries. Artio underweighted developed Europe and overweighted emerging markets. Their emerging markets exposure is largely in Asia technology companies.

INVESTMENT REVIEW – DEFINED CONTRIBUTION COMPONENT

Mr. Bryant's view is focused on 3 year rates of return. Davis is a buy and hold investor. They are heavy on financials. LSV tends to have long periods of weak performance followed by long periods of strong performance. He likes LSV.

Mr. Molinaro said he could investigate the availability of Times Square. Mr. Milner made a motion: Mr. Bryant should evaluate Times Square if it is available. Ms. Triggs seconded the motion.

Discussion: Ms. Orr asked if the study was to make a replacement now or at year-end. Mr. Molinaro referred to Tab A page 4. Times Square could replace Essex. Was the replacement for now or year end? The study is to take place now.

The motion passed (8 – 0).

The Board was directed to tab II, page 11 of the defined contribution section of the Prudential book. There are two participants in this fund with an account value of $27,000. Chairman Cross asked if it was best to close this fund and map the fund to another. Mr. Bryant suggested that administratively it was best to close the fund and move to another. However, if the fund takes off someone might get angry. Mr. Tierney suggested it is removed from the platform. Mr. Milner asked how many defined contribution participants there are. There are 142. Two participants out of 142 is barely 1%. The option should be closed. The board reviewed pages 16 & 17 of this section. The tables show participants by age and investments. Ms. Evans suggested input is needed before the plan is closed. Ms. Mammarella suggested if the Board removes the fund for the defined benefit plan then the board should do the same for the defined contribution plan. Mr. Bryant referred to page 18 of the same section and suggested plan participants were already taking their money out of Essex.

Staff said that the Board was reviewing the fund line up with the possibility of removing certain fund offerings. There were asset classes with no offerings at all. Staff referred to the defined contribution section, tab A, pages 2 – 11 there were no offerings for: mid cap blend, global value, global growth, international value, international growth, and high yield bonds.

Staff asked Mr. Molinaro if trading costs were monitored. He said they were scrutinized as part of the hiring process and reviewed quarterly thereafter. Currency trading costs are also reviewed.

Staff recalled that the real estate manager PRISA had presented to the Board. The thought was that other managers might do the same. Due to compliance concerns, a representative of Prudential must attend these presentations. This restricted the options. If we invited one manager to each due diligence meeting we would have the benefit of Mr. Molinaro and Mr. Bryant being present. However, these meetings may then run rather long. Another alternative is to have one day devoted to a special board meeting with nothing but manager presentations. This might be in January following Board elections or April/May when it would easier to entice visitors to Alexandria because the City is at its best. Mr. Johnson asked how we would decide which managers to invite. Staff said it was up to the board, it might be those managers with the largest share of our funds, those managers that are underperforming, or those with whom we are considering changes in allocations.

CONSOLIDATING PENSION & DISABILITY COMPONENTS

Chairman Cross introduced the topic of pooling of disability and pension funds for the purpose of increasing returns in the disability component, reducing risk, and streamlining the review process.

Ms. Powell discussed the pooling of funds. Ms. Powell said Prudential has the administrative capability to maintain separate accounting – or sub accounting - of the funds. The transition is such that it would take about 2-3 months.

The steps would be:

- Signing a service agreement for the administrative processes
- Signing an investment agreement
- Communicating to participants
- Transferring assets
- Establishing financial reports

Chairman Cross explained he would like clarity with Prudential that he knew how much administration cost, how much investment management cost, that he might then know what the limits and proper fees should be for going on or off Prudential's investment platform.

One option is to consolidate all disability and pension assets with Prudential.   If assets under management increased $12 million there would be fee savings to the City of approximately $90,000 per year from the current fee structure if the SunTrust Assets are moved to Prudential. Prudential proposes reducing the ARTIO fee by 30 basis points (.30%), and both Barrow Hanley's and Turner's fees by 10 basis points (.10%). The $90,000 would be the combined savings to both the Fire & Police Plan and the Supplemental Plan. The vast majority of the savings would come from the Fire & Police Plan (The Supplemental Plan currently has no investments with Turner or Barrow Hanley.

Mr. Cross reiterated the desire to split administrative and investment fees in unbundled contracts. Ms. Triggs asked for the price points at which fees changed. Mr. Johnson requested that the Board provide two or three scenarios and that Prudential provide a fee structure for each.

Mr. Bryant said in concept he did not like Bundled providers. However, he believes Prudential is doing a good job and their managers are performing.

Ms. Powell will send an annual revenue disclosure to Chairman Cross. Also, on new business Prudential is only quoting bundled services.

Mr. Tierney said it may not be in the plan's best interest to have a bundled platform.

Ms. Mammarella asked if the plan double pays when they go off platform. Mr. Johnson said no.

Mr. Bryant said if one took the average of Turner's return and Barrow Hanley's the result is extremely close to that of SunTrust. The returns are too close to be of predictive value.

Mr. Johnson said he would like to see the disability component get a higher return. He would like to see simpler administration, and he would like to see all but the large cap moved to Prudential.

Ms. Mammarella made a motion to support management's intent to move administration functions from SunTrust to Prudential. Also, assets of the pooled structure should have the same allocation as the current pension component. Mr. Tierney seconded the motion.

Discussion: Mr. Johnson stated that this motion is to address the administrative aspects. The investment allocation decisions that remain regarding the issue of large cap domestic equity is for the board. That said, management does look to the board in an advisory roll. The participant members are prominent among their respective groups so their thoughts and ideas are meaningful and management wants to listen to them. The motion passed (8 – 0).

Staff said retiree checks may change March 1 due to annual changes in IRS tables, May 1 for COLAS, July 1, for retiree medical insurance, or Jan 1 for life insurance deductions. Ms. Powell indicated that beginning June 1, 2010 each member receiving checks via direct deposit would receive a letter each month.

COMMITTEE REPORTS

Ms. Evans spoke in Mr. Milner's absence. She asked the Buyback Committee be deferred and placed first on the agenda at the June 17 meeting.

Mr. Cross reported on the Valuation and Technical Corrections Committee. The proposed plan amendment has gone to the City Council Committee on pensions and is scheduled to go before City Council on June 22, 2010.

Ms. Evans had a comment on Councilman Smedberg's demographic questions. Staff will reflect these comments in the revised docket memo.

Ms. Evans asked Fire representatives to contact Mayor Euille to show support of the memo.

The Vendor and Service Provider Review Committee reported their progress on the RFP for the investment consultant, actuary, and third party administrator. Work has been done with the City Schools (ACPS). Mr. Johnson asked if the Board wants to see the draft RFP. The consensus was that Board members should be given two weeks to read and comment on the RFP.

Mr. Johnson made a motion to delegate authority to publish the RFPS for the investment consultant, actuary, and third party administrator given that Board members have two weeks to view the RFP in advance. Ms. Orr seconded the motion.

Discussion: Ms. Orr asks for clarification. Was the authority for all RFPS or just the most current? Mr. Johnson amends his motion to specifically state the authority shall be for all remaining RFPS: Investment consultant, actuary, and third party administrator. Ms. Orr approves the amendment.

The motion passed (8 – 0).

Mr. Cross discussed the difference between putting out one RFP and giving providers the option to select between responding to any or all requests or for providing separate RFPS.

OLD BUSINESS

POOLING ASSETS - CONTINUED

Mr. Bryant said it would be easy to map and move assets.

Mr. Tierney made a motion: That all assets from the disability component should be moved to Prudential and the pooled fund should use the asset allocation of the pension component prior to the pooling. This transfer is subject to receipt and approval of Prudential's fee disclosures. Ms. Mammarella seconded the motion. The motion passed (8-0).

Staff will not transfer assets at SunTrust to Prudential until Prudential's fees are distributed and approved.

NEW BUSINESS

The discussion of business models for pension plans was deferred.

Staff and Mr. Johnson reported that the amount of pension contributions budgeted matched the valuation from the respective period. In other words, the City continues to fund in full, consistent with the plan document.

Ms. Evans asked the change to the Supplemental Plan regarding forfeiture of pensions due to crimes against the City be compared to language in the Fire & Police Plan for a consistency check.

A Board member suggested a purchase of a new tape recorder. No mention was made of a funding source. A question about the security of pensions accrued to date (Budget memo # 53) was answered by reference to the plan document article 12.2. Potential changes to collective bargaining were discussed. These topics are non-investment in nature so what is memorialized is reduced to mention of the topics.

NEXT MEETING

The next meeting is May 24, 2010. The actuary will present the 2009 valuation.

The following meeting will be June 17, 2010.

ADMINISTRATOR'S REPORT

The Administrator's report was deferred until the next meeting.

ADJOURNMENT

Ms. Triggs made a motion to adjourn. It was seconded by Mr. Wimer. The meeting adjourned at 12:10 PM.

Handouts distributed in advance

1) Agenda
2) Minutes of April 15, 2010 (1)
3) Investment performance Review – Notes and Questions, First Quarter 2010 (2)
4) Diversifying Disability Assets (3)
5) Summary of Activity for 2010 – Disability Component (4 a ii)
6) Timber Report (4 a iv)
7) (6 d)
8) T 7(c)(i)

Handouts distributed during the meeting

1) Administrator's Follow Up Report
2) One page from Dahab Performance Review December 2009 – distributed by Mr. Bryant
3) Diversifying Disability Assets – (revised to show column totals) (3)
4) Notes of the May 5th meeting with Mayor Euille and Councilman Smedberg
5) Private Equity Report
6) VRS Legislative Summary