# MINUTES OF MAY 27, 2009 RETIREMENT BOARD
# CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN
# DUE DILLIGENCE MEETING

## PRESENT

| Members | Others |
|---|---|
| Michael Cross, Chairman | Chuck Arrington, SunTrust |
| Patrick Evans, Alternate | Steven Bland, Retirement Administrator |
| Bruce Johnson | Barry Bryant, Dahab Associates |
| Chris Lockwood | Arthur Lynch, Retirement Specialist |
| Shirl Mammarella, Alternate | Dean Molinaro, Prudential |
| Ed Milner | Theresa Nugent, Communications Specialist |
| Morgan Rout, Alternate * | Lisa Powell, Prudential |
| Al Tierney | Mike Sahakian, SunTrust |
| Laura Triggs | Christopher Spera |

* In the absence of management representatives Mr. Routt voted today.

The meeting was called to order at 8:34 AM.

Mr. Cross made several announcements. He welcomed Mr. Routt to the Pension Board. He congratulated Mr. Lockwood upon his recent retirement.

## MINUTES

There was a motion by Ms. Triggs and seconded by Mr. Milner to approve the April 1, 2009 minutes. Mr. Cross identified a typographical error on page 3. “Refereeing” should be referring. The motion is amended to correct the error. The motion was unanimously approved (7-0).

## FINANCIAL REVIEW

FINANCIAL AND ECONOMIC OVERVIEW

Mr. Bryant reported the economy is in recession. The pension portfolio lost 4.6% and this beat the benchmark. All sectors were negative except emerging markets and fixed income.

Industrial capacity was recently measured at 69.3%. Inflationary pressures tend to rise once industrial production reaches 82%. Inflation should be in check for a while. However, once production picks up inflation could be problematic.

INVESTMENT REVIEW – PENSION COMPONENT

Mr. Bryant directed the Board to page three of the defined benefit tab. Every equity manager did well in the quarter. The two notable underperformers were PRISA real estate and PIMCO fixed income. Fixed income and cash did well in the quarter. The recent move from value to growth was in our favor.

Mr. Tierney asked about real estate. Is there a long term outlook? Mr. Bryant indicated Dahab Associates expected a bottom in real estate in 0 -12 months, and most likely 3 to 6 months. PRISA had been more aggressive in writing down its troubled assets than other realty managers. The real proof of this will be in the performance numbers once the market recovers. Mr. Bryant asked SunTrust and Prudential representatives if they were in agreement – they were.

Mr. Bryant turned to page 5 of the Defined Benefit section. He discussed Artio and then PIMCO.

Mr. Molinaro said Artio was not on Prudential's watch list. Staff referred to page five of the Artio tab where quarter by quarter results were available. This view suggested in most years they did beat their benchmark. Artio had overweighted continental Europe, which was not an effective tactic for the first quarter. They also had poor security selection in the financial sector. They also had a meaningful emerging market exposure.

Mr. Tierney said Artio had underperformed for the quarter, one year, and three year periods. Artio had done reasonably well for most years. However, the recent quarter was impacting their 12 and 36 month averages. By looking at their year by year results one could see they beat their benchmark in most years. Mr. Bryant indicated the industry standard did not call for displaying each year's results, but instead rolling 1, 3, and 5 year performance. This may place undue emphasis on the last year. Also, he was comfortable with their performance prior to the three year cutoff, but there was not a full five year record.

PIMCO had done poorly in the first quarter. Much of this was due to overweighting Citigroup bonds. So far this has reversed in the second quarter and through May 26 they were well ahead of the year to date benchmark at 3.5% vs. 1.8%.

INVESTMENT REVIEW – DEFINED CONTRIBUTION COMPONENT

Mr. Bryant and Mr. Molinaro are both confident in LSV – the large cap growth manager. Their recent performance had been below par, but their long term performance was good.

INVESTMENT REVIEW – DISABILITY COMPONENT

Mr. Bryant reported manager performance in the disability plan was okay. The relative performance was due to EAFE (Europe, Asia, and Far East). EAFE was a terrible performer in this last quarter and the plan's exposure to EAFE was above average.

The disability plan uses an EAFE index fund with weighting by GDP. This is not the industry standard. Dahab will adjust its reports to use the MSCI EAFE GDP weighted index.

Mr. Arrington reported the allocation to international equities was underweighted, it is now on target. Cash holdings helped in the first quarter. Through April there was an outperformance of .25%.

Mr. Arrington reported the technology had been overweighted, this sector performed very well. They were usually not active traders but they did make some very good trades in the finance sector. The securities market recovery was much greater than any improvements in the economy. Profits were way down and may not recover quickly. There is concern the markets had gotten too far ahead of the underlying fundamentals. Also, volatility was down from fall, but was still much higher than it had been.

In the wake of huge federal stimulus packages Mr. Arrington had been looking into energy, natural resources, and gold.

Mr. Bryant asked Mr. Arrington to comment on this being a sucker's rally in a bear market as opposed to the first leg in a bear market. Mr. Arrington said expectations rebounded too quickly. He would not be surprised if the securities markets turned down.

Mr. Lockwood said he believed bondholders were taking a bath. Mr. Arrington indicated spreads between treasuries and corporate bonds were narrowing. Confidence was improving. Bonds were recovering. Mr. Arrington said Wells Fargo, BBT, and other banks were lining up to pay back federal TARP money as quickly as possible. The federal government was establishing rules for repayment. There was a concern if some banks paid off their debt very quickly then deposits would leave other banks to go to those banks making repayments. This would create an unintended "run on the banks."

Staff pointed to the rebalancing report. Fixed income in the Disability Component was under weighted. To that end 100% of all contributions had been directed to fixed income. Additionally, Mr. Sahakian said they would rebalance by month end.

## INVESTMENT POLICY STATEMENT

Staff alluded to the April 1, 2009 Board action to participate in a private equity limited partnership to be funded by midcap value and midcap growth funds. However, the Investment Policy Statement (IPS) was not amended to reflect that decision. Staff indicated there were three items to address in the IPS:

1. The $5 million allocation to Private Equity
2. The benchmarks the Board had been using were not formally part of the IPS. This included the clarification that in the Disability Component, the international equity benchmark should be the MSCI EAFE GDP Weighted.
3. The text of the IPS indicates the Board will adopt benchmarks. The text of the IPS could direct the reader to the appendix where the benchmarks are listed.

The meeting packet had two handouts relating to the IPS. Staff distributed a consolidated handout.

Mr. Tierney asked Mr. Bryant why the source of funding was midcap. Mr. Bryant said mid cap was over-allocated in that some small cap managers crept up into the midcap space, also some large cap managers had drifted down to the midcap space. Thus, the 20% figure we use may be understated.

Mr. Johnson requested the IPS have a footnote about the $5 million private equity commitment. Staff said there would be a footnote in the IPS as well as the regular rebalancing report.

Chairman Cross pointed out Disability component's Total Portfolio benchmark used Barclays Aggregate Index A+ whereas the fixed income used Barclays Aggregate Index without the "A+." Staff said that the "A+" should be included.

There was discussion of the 20% commitment to the sum of private equity and mid cap value and mid cap growth funds. There was a desire to break the 20% down into component parts. Refining the sector targets enables the Board to better monitor and rebalance. The challenge was that the total was a percentage (20%) and the private equity component was in dollars. Also, the cost basis of the private equity was undulating.

Mr. Tierney would prefer to not have blanks in the range column for real estate and private equity. Private equity and real estate are both illiquid. This makes rebalancing, and thus setting a range, problematic. Also, private equity has time lags in reporting and unpredictable cash calls and payouts. By specifying a range then staff is compelled to act when the asset class is out of balance. Setting an unrealistically wide range accomplishes little. The consensus was the range for private equity and real estate should be "Board Discretion."

Mr. Bryant thought staff's proposal was workable and that staff had always been extraordinarily diligent in monitoring asset allocation.

Mr. Tierney made a motion to:

- Revise the Investment Policy Statement to include the benchmarks in the handout as well as Cambridge U.S. Private Equity Index for Private Equity.
- Adjust the asset allocation to include a grouping of private equity, midcap value, and midcap growth with a 20% weighting. The allocation table should footnote the $5 million private equity commitment.
- The rebalancing directions may be initiated by two people from the three designated groups. The third group "Either Deputy City Manager" will be replaced by "Either the Deputy City Manager serving on the Board or the CFO."
- The Disability Component's domestic fixed income benchmark will be Barclays Aggregate Index A+.
- The Disability Component's international equity benchmark will be MSCI EAFE GDP Weighted.
- The range for real estate and private equity shall be "Full Board Discretion."

Mr. Cross seconded the motion.

The motion passed (7-0).

Mr. Sahakian and Mr. Arrington left the meeting at 10 a.m.

## PRIVATE EQUITY

Staff reported the Private equity contract was reviewed by City Attorney's office and then signed by the Chairman and Plan Administrator. To date we have not received a copy of the contract with Hamilton Lane's signatures. The Investment Policy Statement had not been amended to reflect the April 1 motion to sign a private equity contract. Hamilton Lane indicated there will be a call for roughly 10% within two weeks. This would be roughly $500,000.

## REAL ESTATE REVIEW

Real estate had been discussed in the context of several other meeting topics. Mr. Bryant indicated that both he and Mr. Molinaro did not feel Real Estate had hit bottom yet. Staff recapped by suggesting allocations to real estate be placed on the September 9th Agenda.

Chairman Cross asked Mr. Bryant if it was time for a new asset liability study. Mr. Bryant said they could do a new one. Staff recommended they wait until an actuarial study is completed. It is expected for the June 24 meeting.

Mr. Bryant said the new study would use the twenty year period from 1989 - 2008. Previously they had used rates from the period 1988 – 2007. By using the most rest 20 year period they dropped 1988 and included 2008. By replacing a good year with a very bad one the average is brought down significantly. The net result is to lower the projections based on the current twenty year period.

Mr. Bryant said the study is most effective if they can begin with an understanding of the asset classes and ranges under consideration. For example, should timber be considered?

## ADMINISTRATOR'S REPORT

Monthly Reports were presented. Staff suggested their purpose had been met. Staff offered to continue creating the reports but to circulate them less often. The Board agreed.

The rebalancing report was discussed during the Financial Review.

Staff attended the spring meeting of the Association of Municipal Retirement Systems of Virginia (AMRSVA) in Norfolk. Administrators shared concern over funding, OPEB funding, the implications of increased lifespan, and the possibility of GASB making changes in valuation discount rates.

Alexandria and Fairfax schools will co-host the fall meeting. Everyone was invited to attend the October 25-27 meeting. It begins Sunday afternoon and runs through Monday midday for trustees. Then from Monday afternoon through Tuesday morning the meeting changes focus for plan administrators.

Mr. Johnson discussed information that staff recently sent him and Ms. Triggs on proposed GASB changes. Mr. Johnson requested staff distribute that information to all Board members.

Mr. Lynch report efforts were made to streamline the disability payout process. Staff was able to get workers compensation to change their payout from one based on number of days in a month to level monthly amounts. This will make it easier to coordinate Workers Compensation with disability. Efforts to have one entity cut checks for both workers compensation and disability may not be as successful.

Ms. Nugent reported on recent seminars: 1) Investment with Gloria Moody from ICMARC presenting, 2) Social Security with one of their representatives speaking, and 3) Retirement Workshop - for those within 12 to 24 months of retirement, hosted by the Finance Department. Also, annual statements did go out about two weeks faster than last year.

Staff was asked to review “Checklists” or other documents to assure the information a member brings to sign retirement papers (including birth certificate) are properly reflected.

Staff distributed an article on Social Security and Medicare funding. The article foreshadows a funding crisis. Staff’s written comments were to highlight the differences between Social Security’s pay as you go approach and a pension plan’s approach.

The Follow Up memo was distributed without comment.

## COMMITTEE REPORTS

DISABILITY COMMITTEE
Mr. Tierney discussed the workgroup’s effort to produce standardized procedures for the service connected and non-service connected disability application process. The drafts were forwarded to the Plan Administrator. Ms. Triggs did review the draft procedures; she and staff made edits, and returned them to Mr. Tierney.

Mr. Tierney’s concern was that no timeframes are included in the documents. Also, he was opposed to the date of determination of disability being the date of accident for an acute event, but the date of determination being dictated by a procedural sequence for those disabled by virtue of disease, illness, repetitive stress, or other chronic condition. Staff clarified this was not a conscience policy choice nor necessarily a “good” or a “bad.” This was Ken Hoffman’s opinion of how the courts would interpret the plan document. Mr. Tierney said that was not in the Plan Document. Staff agreed that the language supporting this argument was not directly found in the plan document. Sometimes court decisions are made by combining the document and legal precedents, court decisions, etc.

VALUATION & TECHNICAL CORRECTIONS COMMITTEE

Mr. Cross reported on the work to prepare a plan amendment. A cost item will be compliance with the federally mandated HEART Act. The other changes are technical corrections.

Ms. Mammarella left.

Chairman Cross asked about the forfeiture account. Staff said it was somewhere near $30,000. Mr. Cross suggested the forfeiture account was there to pay expenses; also, it was the Board's responsibility to oversee the forfeiture account. Staff should begin a review of expenses and the treatment of the forfeiture account for the June meeting. Staff indicated a more complete review of expenses will take place at the September meeting. The forfeiture account could be discussed in greater detail at the September 9th meeting.

BUYBACK COMMITTEE
Staff reported the clean up of the Retirement Income Account for Deputy Sheriffs, Emergency Rescue Technicians, and Fire Marshals is complete. The current focus is on vesting and withdrawal of accumulated contributions from the Supplemental Plan for employees who became participants in the Firefighters & Police Officers Pension Plan. Letters have been sent to Prudential and are under review by their compliance unit.

TRAINING OPPORTUNITIES COMMITTEE
There was no report on this committee.

The Board began a recess at 11:04 AM.

Mr. Milner, Mr. Molinaro, and Mrs. Powell left.

Mr. Spera arrived.

The Board reconvened at 11:15 AM.

Mr. Bryant left.

## EXECUTIVE SESSION

Ms. Triggs made a motion to go into executive session. Mr. Tierney seconded the motion. The motion passed (6-0).

Ms. Triggs made a motion to exit executive session. Mr. Tierney seconded the motion. The motion passed (6-0).

Ms. Triggs made a motion to attest the Board complied with open meeting laws and during executive session. Mr. Tierney seconded the motion. The motion passed (6-0).

The Board exited executive session at 12:12 PM.

## NEXT MEETING: JUNE 24, 2009, SISTER CITIES ROOM 1101

## ADJOURNMENT

Mr. Cross made a motion to adjourn. Mr. Tierney seconded the motion. The meeting adjourned at 12:15 PM.

Handouts distributed in advance

- Agenda
- Minutes of April 1, 2009 meeting
- Investment Policy Statement
- Social Security, Medicare Depleted, reprint Express 5/13/2009
- Investment Performance Review Fourth Quarter 2008 Notes and Questions
- HEART Act - Summary
- Trusco First Quarter 2009 Report
- Prudential Performance Results as of March 31, 2009
- Dahab March 2009 Performance Review
- Investment Reports, First Quarter 2009 Staff Comments
- Summary of Activity by Fund, Disability Component, March 31, 2009
- Summary of Activity by Fund, Pension Plan, April 30, 2009
- Follow Up Items
- 2009 Meeting Schedule

Handouts distributed during the meeting

- Rebalancing Report (excerpts) – Data as of May 20, 2009
- Investment Policy Statement - Appendix 1
- Analysis of discrepancies – Trusco and Dahab Reports