MINUTES OF NOVEMBER 11, 2010 RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN
DUE DILLIGENCE MEETING

PRESENT

Members	Others
Michael Cross, Chairman	Steven Bland, Retirement Administrator
Patrick Evans	Barry Bryant, Dahab Associates
Bruce Johnson	Dean Molinaro, Prudential
Shirl Mammarella, Alternate	Arthur Lynch, Retirement Specialist
Ed Milner	Theresa Nugent, Communications Specialist
Al Tierney	Kathleen Ognibene, Deputy Director HR
Laura Triggs	Christopher Spera, City Attorney Office
Michael Wimer, Alternate	

The meeting was called to order at 8:38 AM.

APPROVAL OF OCTOBER 13 MINUTES

There was a motion by Mr. Johnson to:

> Approve the October 13, 2010, Board minutes.

Ms. Triggs seconded the motion. The motion was unanimously approved (6-0).

APPROVAL OF OCTOBER 14 MINUTES

There was a motion by Ms. Triggs to:

> Approve the October 14, 2010, Board minutes.

Mr. Milner seconded the motion. The motion was unanimously approved (6-0).

FINANCIAL REVIEW

FINANCIAL AND ECONOMIC OVERVIEW

Mr. Bryant referred to page 2 of the first section. The graph of the S&P 500 indicates a very strong market for the third quarter. It was the third strongest in five years. It followed a very weak quarter. Some volatility in the investment markets remains.

PIMCO has suggested there is a "New Normal" investment environment. In this environment returns will be subdued. Mr. Bryant suggested another view is held by growth managers that point to corporate balance sheets with $2 trillion in cash. No matter what they do with that money it is good for the stock market (buy back shares, pay down debt, pay dividends, expand research & development, or make acquisitions). Also, the emerging markets could drive demand economic activity, and commodity prices.

Portfolio performance was driven by strong results from midcap and international sectors, both of which were more highly weighted than in the allocations of our peers. Staff added that exposure to private equity and timber was quite low and those sectors did not perform well. This also helped performance.

Mr. Bryant distributed a handout on Barrow Hanley and Turner. T. Rowe Price is on the aggressive side. Barrow Hanley's style is to focus on dividends, value, and a company's franchise. LSV has a more quantitative approach. It may be counterintuitive, but he believes their approach is steady long term so following a period of underperformance they will bounce back. Fundamentals have not mattered for Barrow Hanley. If the investment climate changes then the value of fundamentals should return and Barrow Hanley should do okay. If the Board seeks a more opportunistic approach then it should consider LSV.

Mr. Johnson referred to page 2 of the Barrow Hanley tab and referred to the Total Net/Fees section. Mr. Bryant suggested the Board focus on Total Gross/Fees.

Mr. Molinaro said Barrow Hanley was not on the Prudential Watch List and that the fees were 65 basis points per year.

Mr. Tierney said that based on Mr. Bryant's comments there was not probable cause to get rid of Barrow Hanley.

Turner had outperformed for eight of the last ten years. They had underperformed each of the last three completed quarters and were behind quarter to date. In all likelihood Turner would underperform for 2010 also.

Turner weights its holdings in line with the S&P 500 and not with the Russell 1000 Growth Index. Had they weighted their holdings by sector to the Russell 1000 Growth Index Turner reports the performance would have increased by 4% annually.

Mr. Molinaro says they have a sub-advised mutual fund which means they can hire and fire at will. Prudential is responsible to evaluate Turner on an ongoing basis. The DDA rank is 4. They will probably go on the watch list as new results are reported.

Mr. Bryant suggested an alternative is Goldman Sachs with three year return of -3.78% and 5 year return of 2.97%. Another alternative is Jennison which he likes, and T Rowe Price, which Mr. Molinaro favors.

Mr. Tierney said 2008 killed Turner.

Staff pointed out the data is arithmetic and not geometric. If viewed logarithmically it indicates Turner would have to outperform by 20% to make up their shortfall in 2008.

Mr. Bryant said a valid reason to fire Turner would be their sector weighting, but not their past performance.

Mr. Molinaro did say that Turner would go on the watch list if their return series continues. He holds Jennison in higher regard than Turner. Selling Turner would be a proxy for selling financials.

Mr. Johnson asked how much is with Turner. Staff said $15 million. Mr. Johnson asked if the Board wanted to split the $15 million. Mr. Bryant would keep all funds in one place. Ms. Mammarella said she would like to move funds from Turner to Jennison.

Mr. Tierney left at 9:19 AM

There was a motion by Ms. Mammarella to:

Move funds from Turner to Jennison in the pension and disability components.

Mr. Tierney returned at 9:20 AM.

Mr. Tierney seconded the motion.

Discussion: Mr. Bryant said he favored Jennison.

Ms. Triggs asked Mr. Molinaro why he liked T. Rowe Price. They have a bias toward larger capitalized companies. They had a higher weighting to technology than Turner and lower weighting to financials. She asked him to see if the fee break that had been granted to Turner might be extended to Jennison.

Mr. Johnson indicated there was not too much on past performance for Jennison.

Mr. Molinaro said Jennison would bring them closer to their asset allocation and better risk management.

Ms. Mammarella said if there were no index funds then they should go with Jennison.

Ms. Ognibene said she though Jennison provided better downside protection and 2010 return for Turner was tepid.

Mr. Bryant said Turner did well in 2000-2002 because financials did well. They did worse in 2008 because financials did worse in 2008.

The motion was unanimously approved (6-0).
There was a motion by Ms. Mammarella to:

> Stop offering Turner as an investment choice in the defined contribution component and replace it with Jennison.

Ms. Triggs seconded the motion.

DISCUSSION: Ms. Triggs asked if there would be a fee break. Mr. Molinaro said there would be discussions of a fee break.

The motion passed (6 – 0).

Chairman Cross and staff discussed the timeline for the project. The conversion would go very quickly for the defined benefit plan. However, ample notification is required for defined contribution participants so that they make informed decisions about their investment options. Staff will coordinate with Prudential.

INVESTMENT REVIEW – DEFINED CONTRIBUTION COMPONENT

Mr. Bryant indicated the midcap growth fund had Thornburg, whose investment strategy calls for a concentrated strategy. They have underperformed. There are only two participants in that fund. Thornburg is on the Prudential watch list.

Chairman Cross asked if there was a call to action. Hearing none the Board moved on.

SCHEDULE 2011 MEETINGS

Staff referenced a schedule of 2011 meetings. The Board will have a retreat the afternoon of May 11. Detail will be worked out between Mr. Bryant, the Training opportunities Committee, and staff.

ADMINISTRATOR'S REPORT

Staff reported on the monthly Investment and Rebalancing Report. As of October 31 no rebalancing was required. On November 9 the emerging market allocation exceeded its target. Funds were liquidated and reinvested in Turner and Barrow Hanley. This was done once for pension and once for disability. This duplication of effort called for further steps beyond the pooling of the two components.

Staff reported on a cash call by Hamilton lane for private equity. There were no calls by Hancock.

Staff referenced handout 4 (a) (v) and discussed the CPI for the last 12 months. Inflation is currently running at an annual rate of 1.22%. Staff expects all eligible participants to receive a modest COLA to be paid May 1, 2011.

Staff referenced handout 4 (b) (i). Staff provided a presentation on Selecting Economic Assumptions. The three points on the handout were:

1. Think of net returns, not gross returns,
2. Think of real returns (net of inflation), and
3. Think long term.

A fourth idea without a handout was that GASB'S Preliminary Views might encourage municipalities to hold two sets of books. The connotations of this are not positive. So, staff provided the example of the insurance industry that is required by law and regulation to create and maintain three sets of books. This example of a significant and credible organization with multiple books might provide a standard or example and thereby ease the angst that sometimes attends the suggestion to keep two sets of books.

Staff referenced handout 4 (b) (ii). This is a screen print of the GASB website. The highlighted portion showed how to access comments submitted to GASB on *Preliminary Views*. Staff emphasized that an official response from the City was not sent.

Staff referenced handout 4 (b) (iii). Staff discussed columns (B) – (D) which showed the impact of lowering some economic assumptions and all economic assumptions. Staff suggested if the time came for the board to review assumptions then the Board might move all economic assumptions in concert.

Staff referenced handout 4 (c) on NCPERS (National Conference on Public Employee Retirement Systems) and MAPS (Mid Atlantic Plan Sponsors). The organization has its legislative meetings in D.C. in late January early February annually. Mr. Johnson asked staff to keep the board apprised of local meetings & opportunities, especially NCPERS.

Staff reported on the Guaranteed Deposit Account (GDA). Each year since the current staff has helped manage the plan there has been a 16% withdraw from the fund (net of contributions in less benefit and expense payouts). Staff will repeat this process in 2010. The calculations will take place following the December 1 benefit payments.

Staff asked Dean Molinaro to briefly mention Prudential's restructuring of client service. Lisa Powell will remain as our primary contact. However, she will team with other plans' primary contacts so that every plan will have the benefit of the expertise of each person on the team available to them.

The meeting had a recess at 10:27 AM.

The meeting reconvened at 10:37 AM.

Staff reported that during the break Mr. Molinaro said interest rates were so low at present that there might be no penalty for withdrawing more than 16% from the GDA this year. Staff recalled the motion from prior years directing annual withdrawals of up to 16% and recommended a motion that would allow withdrawal of up to the maximum amount that might be allowed without a penalty or interest rate adjustment.

There was a motion by Mr. Johnson to:

> To liquidate the entire GDA if there is no interest rate adjustment or withdrawal penalty and transfer the funds to the PIMCO total return fund not-withstanding amounts needed for cash flow purposes.

Mr. Milner seconded the motion.

DISCUSSION:

Cash flow purposes means a modest balance for the current month's expenses and benefits

The motion passed (6-0).

COMMITTEE REPORTS

BUYBACK COMMITTEE

Mr. Milner provided a brief review of the efforts since the last meeting. The plan's attorney Ken Hoffman drafted plan language. A letter surveying member's interest in the buyback/purchase of service credit was sent to members. Staff read the results. Approximately 90% of respondents expressed interest in the option to purchase service credit. Two thirds of the participants responded to the survey. Staff believes most of those who did not respond were probably not interested in the opportunity. The communications went out via letter, Mr. Milner contacted over half the participants personally, and staff emailed all participants saying a letter was being sent to their home. It was very unlikely anyone was missed by all three efforts.

Mr. Milner distributed copies of a motion he was about to make.

There was a motion by Mr. Milner to:

> Direct staff to take steps to move forward the purchase of service credit – also known as the buyback. This will include the Board:
>
> - Accepting the language of the proposed plan amendment distributed in the Board packet allowing the purchase of service credit as detailed in the plan amendment
> - Recommending to City Council the adoption of the employee purchase of service credit at 100% of the actuarial rate and no financial impact to the plan
> - Preparing a docket memo

- Setting a meeting with the City Council subcommittee
- Inviting the Pension Board to that meeting
- Announcing the meeting in compliance with open meeting laws
- Scheduling, announcing, and holding at least two meetings with plan participants pursuant to the 60-day notice rule

Ms. Evans seconded the motion.

Discussion:

Ms. Mammarella indicated she did not support the buyback.

Mr. Tierney said the draft plan amendment did everything the board asked it to do.

Chairman Cross indicated this is a closed group; there is a one time opportunity.

Chairman Cross objected to the plan language on Page three of the Plan Amendment. He asked that the reference to the Retirement Income Account be changed to specify this account is with the Retirement Income Plan for Deputy Sheriffs, Emergency Rescue Technicians, and Fire Marshals. Mr. Millner amended the motion to direct staff and the plan attorney to make this change. Ms. Evans seconded the amendment.

There was a question as to where the October 14th date came from. Staff said it was arbitrary. The Board had provided direction to close the window at some time, but did not provide direction as to when to close the window. The October 14th date was the day of the Board meeting.

The motion passed (5-2).

Ayes: Ms. Evans, Mr. Wimer, Mr. Johnson, Mr. Milner, Ms. Triggs
Nay: Mr. Cross, Mr. Tierney

DISABILITY COMMITTEE

There was no Disability Committee Report.

TECHNICAL CORRECTIONS COMMITTEE

Chairman cross reported

There was a motion by Ms. Triggs to:

> I move that we authorize legal fees for Ken Hoffman assuming that for the Technical Corrections Committee getting a quote from him before hand before we approve the amount that we spend.

Mr. Milner seconded the motion.

The motion passed (7 – 0).

VENDOR AND SERVICE PROVIDER COMMITTEE

At the October 13th meeting the Board selected Dahab Associates as the investment consultant. At that time staff was asked to develop a method for allocating investment consultant costs among the defined benefit plans. Staff distributed handout (6 e i), Allocating Investment Consultant Expense. Staff explained the easiest way to allocate expense was as a percentage of assets. However, some of Dahab's efforts were not in proportion to assets, nor was the benefit the plans receive. Staff presented a breakdown as a percentage of assets as well as another with smaller plans paying a higher proportion than their share based on assets. Staff recommended the later.

There was a motion by Ms. Triggs to:

> Direct staff to allocate investment expense as recommended in handout (6ei):
> Firefighters & Police officers Pension Plan Pension Component 37 ½%
> Firefighters & Police officers Pension Plan Disability Component 12 ½%
> Supplemental Retirement Plan 37 ½%
> Post Employment Benefit Trust (OPEB, Retiree Medical and Life insurance) 12 ½%

Mr. Milner seconded the motion.

Discussion: Mr. Johnson asked staff to review the asset breakdown and allocation of expenses and to report to the Board annually.

The motion was amended to include the annual reporting of the expense breakdown. The amended motion was seconded.

The motion passed (7 – 0).

NEW BUSINESS – HAMILTON LANE PRESENTATION

Hamilton lane was represented by Jackie Rantanen, Napoleon Stephenson, and Melissa Nigro.

Mr. Bryant provided an introduction. In addition to general statements about private equity there were specifics about the pace of our commitment being called and the reinvestment issue.

Hamilton Lane distributed their booklet on their private equity fund VII.

Ms. Nigro spoke of a robust pipeline saying the secondary market was seeing a lot of transactions. Also, investors may target up to a multiple of 1 ½ times their target as a way of dealing with their funding level being below their target.

Mr. Stephenson said his firm was largely unchanged since the plan's original commitment. There were now 40 employee owners of the total 140 employees. Ms. Nigro provided an update on the secondary fund. The net IRR was over 30%. Ms. Rantanen provided a macro view of the firm and its partnering arrangements. It preferred value over growth with a high preference for top flight operations.

Referring to page seven of their booklet Hamilton Lane discussed their past performance. Figures were net of fees. Page eight was the composite of primary and secondary funds.

Page ten displayed statistics on twelve of Hamilton lane's competitors and their J-Curve mitigation. Mr. Tierney challenged the authenticity of the data. Hamilton Lane said they displayed 100% of the data for all the comparable vendors. Preqin, the data source is the largest provider of private equity data.

Ms. Nigro referred to page 19 and mentioned the ability to split the plans weighting between US and non US components.

Mr. Tierney sought clarification on the amount of fees, they are charged on committed assets, not called assets.

Ms. Evans returned at 11:48 AM.

The fund tentatively set its final close for February 9th 2011. Mr. Bryant should join the Board telephonically for the January 13th meeting to discuss Hamilton Lane's private Equity fund. It is pointed out the agenda lists the next meeting date incorrectly and the January 13, 2011 date is clarified.

Mr. Bryant distinguishes primary and secondary funds. Primary funds were longer, often reaching fourteen years. Secondary funds tended to last about ten years.

Hamilton Lane preferred to keep their fund below $600 million and to not be involved in auctions. Auction markets are efficient and more profit is to be made in inefficient markets.

Staff asked about the secondary market becoming more crowded. Also, staff referred to page nineteen and pointed out the two pie charts of domestic and international funds was extremely similar. Government responses to fiscal crisis were very different in various parts of the world and this might lead to different investment climates. Could Hamilton Lane invest differently in each area? Ms. Rantanen said yes, they could.

Hamilton Lane left at 12:07 PM.

Mr. Johnson indicated a 5% target would amount to $8 million.

Mr. Tierney made an analogy to over hiring, the process of committing to more employees than budgeted because turnover would reduce ranks before the "over hires" could finish training and become sworn officers.

There was a motion by Mr. Tierney to:

> Commit $5 million to Hamilton Lane's Private Equity Fund VII.

Mr. Milner seconded the motion.

Discussion: Mr. Bryant suggested the default option of a 60/40 split between domestic and international. Mr. Tierney and Mr. Milner agreed.

The motion passed (7 – 0).

There was a motion by Ms. Triggs to:

> Enter executive session for the purpose of discussing legal hearing candidates for actuarial consultant and to consider contract terms.

Ms Evans seconded the motion. The motion was unanimously approved (7-0).

The Board entered Executive Session at 12:20 PM.

The Board exited Executive Session at 1:11 PM.

There was a motion by Ms. Triggs to:

> Certify that to the best of each member's knowledge, only public business matters that were identified in the motion by which the closed executive session was convened, and that are lawfully exempted by the Freedom of Information Act from the Act's open meeting requirements, were heard, discussed, or considered by the board during the closed executive session.

Ms. Evans seconded the motion. The motion was unanimously approved (7-0).
Mr. Milner Aye
Mr. Tierney Aye
Ms. Evans Aye
Mr. Evans Aye
Ms. Triggs Aye
Mr. Cross Aye

There was a motion by Mr. Johnson to:

> Award the actuarial consultant contract to Cheiron to provide annual valuations and a comprehensive audit and other services at the fees listed.

Mr. Tierney seconded the motion.

Discussion: Staff indicated that as part of the process of performing the first valuation with a new client the actuary would reconcile the prior year's valuation. This was essentially all the work of an audit without the formality of an audit letter. Staff recommended the Plan proceed without an audit and only if Cheiron uncovers a huge problem to deal with it at that time. This approach would save a significant expense.

Mr. Johnson amended the motion. The amended motion was seconded.

The motion passed (7 – 0).

Mr. Johnson distributed a handout to City Council for its October 19, 2010 meeting. The topic was Pensions and employee benefits.

NEXT MEETING

The next meeting is January 13, 2011. (Note, the agenda erroneously mentioned January 14th. The calendar distributed during the meeting did properly list January 13th).

ADJOURNMENT

There was a motion by Mr. Milner to:

Adjourn.

Ms. Triggs seconded the motion.

Chairman Cross thanked the Board for its stamina and productivity through a long meeting and thanked all of staff for a job very well done.

Meeting adjourned at 1:24 p.m.

Handouts distributed in advance

1) Agenda

2) Minutes of October 13 Special Meeting (1 a)

3) Minutes of October 14 Interim Meeting (1 b)

4) Investment Performance Review – Notes and Questions, third Quarter 2010 (2)

5) Retirement Plan Strategies, June 30, 2010, Prudential

6) Performance Comparisons SunTrust (2 b)

7) Performance Review June 30, 2010, Dahab Associates

8) Board Meeting Schedule 2011 (3 a)D

9) Private Equity Report, Hamilton Lane Cash Flows (4 a iii)

10) Update on Consumer Price Index (4 a v)

11) A Potpourri of Considerations for Selecting Investment Assumptions (4 b i)

12) GASB Comment Letters on Preliminary Views (4 b ii)

13) Pension Assumption Change – Case Study (4 b iii)

14) NCPERS & MAPS information (4 c)

15) Administrator's Follow Up Items (4 d)

16) Potential Proposed Second Amendment for purchase of Service Credit (6 a ii)

17) Allocating Investment Consultant Expense (6 e i)

<u>Handouts distributed during the meeting</u>

1. Motion for Buyback

2. Dahab & Associates analysis of Barrow Hanley & Turner

3. Public Pension Plans for Alexandria Employees in FY 2012 and Beyond, Budget Work Session October 19, 2010

4. Survey Response, Purchase of Service Credit

5. Hamilton Lane Private Equity Fund VII, L.P.