

**MINUTES OF NOVEMBER 19, 2009 RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS
PENSION PLAN
DUE DILLIGENCE MEETING**

PRESENT

<u>Members</u>	<u>Others</u>
Michael Cross, Chairman	Steven Bland, Retirement Administrator
Michele Evans	Barry Bryant, Dahab Associates
Bruce Johnson	Arthur Lynch, Retirement Specialist
Chris Lockwood	Theresa Nugent, Communications Specialist
Shirl Mammarella, Alternate	Mike Sahakian, SunTrust Capital Management
Ed Milner	Tom Winters, Seix Advisors
Cheryl Orr	
Morgan Routt, Alternate	
Al Tierney	
Laura Triggs	

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

APPROVAL OF OCTOBER 15 MINUTES

A motion was made to accept the minutes of the October 15, 2009, meeting. Mr. Johnson seconded the motion. The motion passed unanimously (8-0).

2010 MEETING CALENDAR

The 2010 meeting schedule was reviewed and confirmed. Staff reminded Board members that the January meeting will be longer than the typical interim meeting because of the scheduled timber interviews.

FINANCIAL REVIEW

FINANCIAL AND ECONOMIC OVERVIEW

Mr. Bryant said that the fund did well and managers did not. This means the asset allocation was superior to our peers. Managers did not do as well as the benchmarks in what was referred to as a “Junk Rally.”

Mr. Bryant expects more inflation beginning within five years but not within the next two to three years. Inflation is a consequence of the Federal Reserve policies. However, factory utilization is so low that inflation is not expected for some time. Real estate will probably have negative returns through early next year. In an inflationary environment real estate is a good investment. Next year may be the best entry point to buy real estate.

Ms. Evans arrived at 8:40 a.m.

INVESTMENT REVIEW – PENSION COMPONENT

Mr. Milner arrived at 8:50 a.m.

In the second quarter asset allocation was very helpful. Manager performance was not. Small cap, emerging markets, and international investments helped. The junk rally that began in early March 2009 was driven by those stocks beaten down the most – the most leveraged, weakest companies in the most vulnerable industries. The better run but less leveraged companies did not fall as far nor did they bounce back as much. In this environment many of our managers did not perform particularly well.

Turner did not perform well in late 2008 and early 2009. They have done better recently. This is attributed to large investments in financial companies. PIMCO also did well. This was because PIMCO took more risks.

Several of the better performing asset classes were overweighted and this helped performance.

Dahab and Prudential figures do not match in the reports. Dahab figures are not net of fees. Dahab will resolve this issue.

INVESTMENT REVIEW – DEFINED CONTRIBUTION COMPONENT

Barrow, AJO, Essex, and Artio did not do well but Artio may be improving.

Ms. Evans feels most in the Retirement Income Plan have made an active election to manage their own funds. Therefore providing target date funds would not be helpful.

Ms. Evans left at 9:00 a.m.

INVESTMENT REVIEW – DISABILITY COMPONENT

Mr. Bryant noted that the asset allocation was outstanding. Domestic equity underperformed a little and international lagged a little. Mr. Sahakian reported the disability fund had grown to \$11.8 million. The Seix portfolio has a mandate of A rated securities and better. This is more conservative than the Barclays Aggregate Index (formerly Lehman Aggregate). Seix did not have exposure to lower quality fixed income that did very well over the last quarter. However, they did have less exposure to U.S. government securities and over weighted high quality corporate bonds, and this helped performance.

Mr. Winters discussed the large cap domestic equity portfolio performance for the quarter. Mr. Winters noted that consumers are not spending. When they do start spending it is expected there will be inflation. In addition to the large unemployment there is also large underemployment on account of people not able to get full-time jobs. People may need to make career changes in order to be employed or be employed full-time.

Two industries that are doing well are cable companies and local banking institutions. Cable companies are doing well because people are staying home and watching more television. Regional banks such as New York Mercantile, Bank of New York, and Northern Trust have done better.

Federal government has pumped a lot of money into the mortgage industry buying mortgages as people are refinancing to prevent foreclosure. The government involvement is due to end first quarter 2010 or earlier. The hope is that interest rates will fall so consumers will be the new purchasers of mortgages. But there is a lot of volatility in the mortgage market. The mortgage speculation market has died and it is uncertain who the buyers will be. A positive is that banks do not want foreclosures so they have been working with borrowers who may be in financial difficulty.

Ms. Triggs arrived at 9:35 a.m.

Mr. Winters and Mr. Sahakian left at 9:43 AM

Mr. Bryant said we have witnessed two great quarters in stock market history. However, it will probably take a while for the fund's long term average earnings to reach the actuarial assumption of 7.5%.

PRUDENTIAL TOPICS

MILESTONE/TARGET DATE FUNDS

Mr. Bryant distributed a packet of Prudential fact sheets for retirement goal funds. The Board considered: a) adding the retirement goal funds in addition to the existing lifestyle funds, b) replacing the existing lifestyle funds with the retirement goal funds, or c) retaining the lifestyle funds and not adding the retirement goal funds. The consensus was that many participants would either manage their own funds or invest in the guaranteed deposit account. The demand for the retirement goal funds was not apparent.

Mr. Tierney made motion to stay with the current investment fund options. Mr. Lockwood seconded the motion. The motion passed 6-2. Ayes were Mr. Johnson, Mr. Tierney, Mr. Milner, Mr. Lockwood, Ms. Triggs and Ms. Evans. Nays were Mr. Cross and Ms. Orr.

REVENUE DISCLOSURES

Staff referred to handout 4 b), a Prudential report on expenses charges. The report combines the Fire & Police plan with the Supplemental Retirement Plan for reporting purposes. Staff

reviewed the charges for two funds: PIMCO and Artio. Total investment fees were \$1,384,927. Most went to investment managers but \$283,003 was directed to Prudential. There is an additional \$139,834 that is charged for administrative services, issuing monthly checks, calculating retirement benefits, preparing benefit statements, etc.

PRIVATE EQUITY

Staff did not distribute a Private Equity Cash Flow report because there were no calls for contributions during the third quarter nor were there any distributions. Cumulative cash calls to date were \$600,000 and the current worth is \$790,000.

TIMBER

Mr. Bryant said he could bring in two or three firms to present at the January 14, 2010 meeting. He also said he might bring in a real asset manager who combines timber, energy, and another asset class. The consensus was to complete the timber allocation first and to address a real asset commitment later.

Staff referred to handouts labeled 6 b). At the October meeting staff pointed out the varying levels of international exposures the different managers proposed for their future partnerships. Staff asked the Board to consider how much international exposure they wished in the plan. Mr. Tierney then asked how much currency exposure the plan currently had.

Staff's first handout addressed currency exposure. International developed markets (Artio) and emerging markets (Oppenheimer) each constituted 10% of the fund and were 100% exposed to currency risk. Private equity will grow to 5% of the fund and contribute almost 1% to foreign currency. PIMCO varies over time, but over the last 10-15 years it has averaged about 10% international investments and on average contributing 2% of the fund to currency risk. Finally, the timber might be 1/5th to 4/5^{ths} international. In sum, depending on the Board's choice of timber managers, the currency exposure will be 27% - 30%.

Mr. Tierney asked Mr. Bryant for his opinion on currency. Mr. Bryant said Currency is a zero sum game. That said, if one had to pick a side his firm would prefer the side of more international exposure rather than less. He noted that the dollar is depreciating and it is likely that the dollar may not be the reserve currency in the foreseeable future. Staff pointed out this currency exposure was not a trading tactic but a long term strategy.

Staff referred to the graph labeled "Buying at the Top, Return Varies with Holding Periods." Timber markets had long run up and peak in prices in 2008. At previous meetings some Board members had expressed concern about buying at elevated price levels. The chart illustrated that long holding periods tended to mitigate purchases at elevated prices.

The opposite side of the handout is labeled "Buying at the Top, Staggered Entry Improves Returns." This graph depicts the time lag between commitment to a partnership and when the asset purchases are made.

REVIEW REAL ESTATE ALLOCATION

The Board discussed the allocation to real estate since the actual is significantly less than the target. Mr. Johnson noted that commercial real estate is currently under significant stress. He suggested that the Board get into the real estate market once it shows signs of improvement. Mr. Tierney requested a copy of all of the documents that comprise the current contract.

ADMINISTRATOR'S REPORT

MONTHLY REPORTS

Staff referred to handout 8 a) i) and reported the rebalancing report was modified. The page showing the actual and target allocations of the fund changed. The target was no longer 50/50. It is now 55/45.

The weighting of future biweekly contributions has changed to reflect the asset allocations adopted at the October 15, 2009 meeting.

Staff referred to handout 8 a). The fund has regularly transferred assets from the Guaranteed Deposit Account (GDA) to PIMCO. Transfers have been made in the context of the limitation 16% of the beginning of the year fund amount, net of contributions less benefits and expenses, may be transferred. In 2009 no contributions to the GDA were made. In effect this made the year end transfer take place 10 months early. To date PIMCO has earned well over 7% more than the GDA. The fund earned in excess of \$50,000 for this tactical transfer.

AMRSVA

The Association of Municipal Retirement Systems in Virginia met in Alexandria October 25 – 27, 2009. Staff provided a brief report and thanked those who attended.

One topic with evenly divided positions was corridor. When an actuarial valuation is performed assets may be smoothed. To prevent smooth assets from departing too far from market value a “corridor” may be imposed. The Firefighters and Police Officers Pension Plan does not impose a corridor. Smoothed assets may vary from market value without restriction. ERISA guidelines do not apply to public plans but they do provide a context. In private plans ERISA allows a corridor of up to ten percent. In public plans corridors may be larger. Several Virginia Plans had corridors but were considering changing them in the context of the market meltdown. Staff is asked to invite the plan’s actuary to discuss the topic of corridor with the Board prior to delivering the 2009 valuation. The goal is to make a policy decision and not one driven by the contribution rates in this particular year. The actuary might join the meeting live or telephonically.

Staff took notes of the entire AMRSVA meeting and will forward copies to anyone who is interested.

UPDATE ON ADMINISTRATION

Staff reported the valuation data was moving along quicker than it had in the prior years.

There was a case of frequent trading. It was of a person who had not previously been reported for frequent trading in the past. Staff is inclined to let this go if it occurs only once.

COMMUNICATION/SEMINARS

Staff referenced handout 8 d). A Retirement Workshop will be held at the Hoffman Center December 1, 2009. The focus is on those preparing for retirement or entering the DROP within a year or two. Mr. Tierney and Ms. Mammarella asked to be informed on the dates of the Police local training.

FOLLOW UP ITEMS

Staff reported that Christina Seix is stepping down as CEO of Seix Advisors. She remains as Chairman of the Board. The new CEO has been transitioning into this position for an extended period. There is no change in the portfolio managers. It is customary to report changes in key personnel at investment management firms.

Staff referenced handout 8 e) i), Bureau of Labor Statistics. Staff reported the CPI for the period from January 31, 2009 to date was 2.29%. The deflation Mr. Bryant had previously mentioned was for the 12 month period month-end September 2008 through month end September 2009. The beginning of that period was elevated from the oil shock of 2008. Staff felt it was no longer necessary to regularly report on inflation. It would still be monitored.

Mr. Tierney indicated that the Board should remind people that COLAs can be either positive or negative. Ms. Evans asked staff to make sure the possibility of a negative COLA adjustment was well advertised.

Staff referenced handout 8 e) ii), Fiscal Year 2010 benefit contributions. The data on the page was entirely public information. It may have been disseminated in an alternative format, but it was all public. The page had four figures highlighted in yellow. The two at left were from the actuarial valuations. They are recommended contributions to the pension fund. The two figures highlighted at right are slightly larger. They represent an expense load. This is to pay for a portion of the administrative expenses of the plan, a portion of Pension Administration Division salaries and benefits. Ms. Evans called attention to a typographical error for the GENERAL SALARY EMPLOYEES section. Staff will correct that.

COMMITTEE REPORTS

DISABILITY COMMITTEE

This was discussed while reviewing the Valuation and Technical Corrections Committee.

BUYBACK COMMITTEE

Mr. Milner distributed handout 9 b), Buyback Committee Proposal. The first page highlighted the rationale behind the recommendation. The second page outlined the proposal.

Mr. Milner referred to the issues surrounding the 2003-2004 conversion from a defined contribution plan to a defined benefit plan. He also mentioned how costs had increased since he first requested a buyback.

Ms. Mammarella referred to the plan's unfunded liability and was opposed to a purchase of service credit if it cost the plan.

Staff explained one part of the 2007 program to purchase service credit that was sub-optimal was the vendor expense. As the proposal was repeatedly tweaked it repeatedly incurred more legal and actuarial expense. This proposal was designed to be easily tweaked without going back to these vendors and without incurring additional expense.

VALUATION & TECHNICAL CORRECTIONS COMMITTEE

Chairman Cross reviewed the status of the Plan Amendment and the work of the Valuation and Technical Corrections Committee.

Mr. Tierney asked staff to provide an update on his request to change the date of determination for non-service disability from the date of an accident to the date the doctor's determination. This language has been requested at a meeting with Christopher Spera and Kenneth Hoffman. It had been agreed Mr. Hoffman would draft language and forward it to Mr. Spera for review. No funds had been allotted for actuarial review of this benefit increase.

TRAINING OPPORTUNITIES COMMITTEE

Staff referenced handout 9 d), the Training Opportunities Committee Meeting Notes from November 11, 2009. The recommended topics were briefly outlined.

Mr. Johnson suggested that one criteria for the Training Committee be making the most efficient use of funds. Staff will draft a policy outline for the Board's consideration.

VENDOR & SERVICE PROVIDER COMMITTEE

Staff distributed handout 8 e ii), Fiscal Year 2010 Estimated Benefit Contributions: with Administration. Two figures in each of two columns are highlighted in yellow. The smaller percentages at left are directly from the actuarial valuation. The percentages immediately to the right include an incremental amount for certain plan expenses. These expenses are salaries and benefits of the Pension Administration Division for the proportion of time spent administering the pension and disability components.

OLD BUSINESS

Staff referenced handout

NEW BUSINESS

Chris Lockwood resigned from the board effective January 1, 2010. Staff was directed to review the plan document for the appointment of a replacement or the election procedures.

NEXT MEETING: JANUARY 14, 2010 SISTER CITIES ROOM 1101

Staff reminded board members the January meeting will run longer than most Interim meetings because there will be two timber presenters.

ADJOURNMENT

A motion to adjourn was made and seconded. The meeting adjourned at 1:15 p.m.

Handouts distributed in advance

- 1) Agenda
- 2) Minutes of October 15, 2009 (1)
- 3) Board Meeting Schedule 2010
- 4) Prudential Fund Fact Sheet: Retirement Goal Funds (4 a)
- 5) Excerpts from Investment Policy Statement (4, 5, 6 a ii)
- 6) Summary of Activity by Fund (6 a i)
- 7) Annual Administrators' Meeting & Trustee Training Sessions (6 b)
- 8) City Purchase Order renewing Prudential Contract DB and DC plans (6 d ii)
- 9) Administrator's Follow Up Report (8 e)
- 10) SunTrust 2nd Quarter 2009 report
- 11) Prudential Investment Review Second Quarter 2009
- 12) Dahab Performance Review September 2009
- 13) Investment Performance Review Second Quarter 2009 Notes and Questions (2 a c)

Handouts distributed during the meeting

- 1) Factors Driving Return, Harris Investment Management (from Mr. Bryant)
- 2) Prudential Fund Fact Sheet: Retirement Goal Funds (distributed by Mr. Bryant)
- 3) City of Alexandria, Defined Benefit Contract, Prudential Estimated Revenue Available for Recordkeeping Expenses (4 b)
- 4) Buying at the Top (6 b)
- 5) Guaranteed Deposit Account, Monthly Contributions (8 a)
- 6) Monthly Rebalancing Report (Excerpts) (8 a i)
- 7) Corridor (8 b i)
- 8) Retirement Workshop, (8 d)
- 9) Bureau of labor Statistics (8 e i)
- 10) Fiscal Year 2010 Estimated Benefit Contributions (8 e ii)
- 11) Buyback Committee (9 b)
- 12) Training and Opportunities Committee Meeting Notes, November 11, 2009 (9 d)