MINUTES OF OCTOBER 15, 2009 RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS
PENSION PLAN
INTERIM MEETING

PRESENT

Members	Others
Michael Cross, Chairman	Jamie Biddle, Verdis
Michele Evans	Steven Bland, Retirement Administrator
Patrick Evans	Barry Bryant, Dahab Associates
Bruce Johnson	Henry Delicata, Verdis
Chris Lockwood	Arthur Lynch, Retirement Specialist
Shirl Mammarella (Alternate)	Theresa Nugent, Communications Specialist
Ed Milner	Jim Webb, RMK Timberland Group
Cheryl Orr	
Morgan Routt (Alternate)	
Al Tierney	
Laura Triggs	

CALL TO ORDER

The meeting was called to order at 8:34 AM on June 24, 2009.

MINUTES

There was a motion by Ms. Triggs and seconded by Mr. Johnson to approve the September 9, 2009 minutes. The motion was unanimously approved (8-0).

Mr. Johnson asked about Verdis presenting more than timber. Staff explained some on the Board thought two timber presentations may be too much. Mr. Bryant and staff agreed Verdis could present on timber in the broader context of real assets and thus provide the board additional perspective.

Ms. Evans arrived at 8:38 AM.

OLD BUSINESS

Staff referred to handout 2 i) Appendix A Actuarial Assumptions. When the 2008 actuarial valuation was presented earlier this year the mortality assumptions were changed for plan participants. A motion at the September 9, 2009 meeting directed this change be made in Appendix A. However, Appendix A also specifies the mortality assumptions for Contingent

Annuitants. Staff recommended a clarifying motion be made to also state the beneficiary mortality is the RP-2000 Healthy Annuitant Mortality Table for females.

Staff then discussed the provisions of section 6.6 of the plan document. This allows participants of the Retirement Income Plan to purchase an annuity at normal retirement date on an actuarially equivalent basis. The annuity is level, no COLA is provided. Staff recommended the assumptions for this option have the assumptions listed in Appendix A.

Chairman Cross asked if the annuity purchase made via the DROP account is with or without a COLA. Staff will research this and reply to Chairman Cross.

Mr. Tierney arrived at 8:46 AM.

COMMITTEE REPORTS

VALUATION AND TECHNICAL CORRECTIONS COMMITTEE

Chairman Cross reported on the progress of the proposed plan amendment. The purpose of the plan amendment is to: comply with the Pension Protection Act of 2006, comply with the HEART Act of 2008, and make the plan amendment and administrative practices consistent.

The first change was to make the Average Monthly Compensation based on wages earned rather than wages received. This is consistent with current practice as well as what was done in the Retirement Income Plan from 1979 through February 2004. Mr. Cross also mentioned the Fair Labor Standards Act. Ms. Evans asked about treatment of one time payments of $500. These one time payments are not subject to pension contributions nor are they includable in the Average Monthly Compensation.

The second change clarifies plan participation and makes the Plan Document consistent with administrative practice. Recruits have been receiving service credit but the plan document does not state that this should occur. The second change provides service credit to recruits, and creates Appendix C which lists job classes included in coverage. Appendix C may be updated without going through City Council. Instead the Appendix may be changed by the City Manager's Office upon consultation with the Board.

Ms. Orr suggested the Appendix may be updated right now to include the Firefighter Rescuer position. She would research this.

Ms. Orr suggested the order of the Fire Chief and Assistant Fire Chief be reversed in Appendix C.

Mr. Tierney suggested there may be challenges keeping the list updated. Chairman Cross discussed the negative approach of listing exclusions from coverage. In the end the committee elected the approach of only listing those included in coverage.

Ms. Nugent pointed out the lists were of job classifications and not job titles.

Ms. Mammarella pointed out lists of exclusions also have to be maintained. Ms. Orr suggested the intent to review the lists annually. Mr. Tierney said review may be set on the agenda annually. Mr. Johnson suggested staff review the plan document annually for items to bring to the board's attention. Ms. Mammarella said that was the role of the Valuation and Technical Corrections Committee.

The third change clarifies the CPI used for the plan's COLA calculations is not seasonally adjusted. Also, it clarifies the disability benefit is allowed to double and not triple. This is consistent with COLAS provisions for service retirees, the "old" fire and Police Plan, and in materials distributed to employees prior to the plan's enactment in 2004. Ken Hoffman, the Plan's attorney, has said this is a clarification, a technical correction and not a benefit change.

The fourth change provides that an employee who works through the last scheduled shift of the month and then retires will receive service credit for that month. This has been the practice. However, the plan document suggests the participant has to work the entire month, without precisely defining this. Mr. Tierney asked if this meant that someone hired on the twenty eighth of the month would receive service credit for that month. No, the participant would not.

Chairman Cross indicated there were unresolved issues regarding leaves of absence. Ms. Orr had requested a meeting with the police chief to address this. Also, she had received a letter from the Pension Administration Division on leaves of absence. Hopefully the leaves of absence issues will be resolved on a timely basis. If not then Chairman Cross will recommend the Plan amendment proceed without addressing this issue and that leaves of absence be addressed at a later date.

The fifth change addresses the Pension Protection Act of 2006. It provides an exemption from taxable income for certain health insurance premiums to eligible disability retirees and service retires who retire on or after the Normal Retirement Date (NRD). The law includes long term care as a health insurance premium. However, payroll deduction for long term care ends at retirement. There is no facility to have premiums deducted from pension checks and thus utilize the tax benefit provisions of the Pension Protection Act of 2006 for long term care premiums.

The sixth change is to facilitate extending the provisions of the Pension Protection Act of 2006 that provide tax advantages for certain medical and long term care insurance premiums to more plan participants. The provisions apply to those who retire under disability provisions or service retirement after the Normal Retirement Date (NRD). Many will elect to retire with an early, unreduced benefit with 25 years of service. They frequently have not reached the NRD and therefore are not eligible for the provisions. The NRD is changed for PPA purposes only. The NRD is now defined as the earlier of age 55 with five years of service or age 50 with 25 years of service. This definition of NRD is for retirement eligibility only and does not impact disability to retirement conversion. Mr. Tierney asked if there were unintended consequences. Chairman Cross said, "No."

The seventh change clarifies interest is not credited to the DROP account once the participant exits the DROP.

The eighth change clarifies that when a partial disability becomes reclassified as a total disability then retroactive payments may be made. This will make administrative practice and plan document consistent.

The ninth change brings the disability provisions into compliance with the Age Discrimination in Employment Act. Disability eligibility no longer ends at NRD. Ms. Evans asked the cost of this. Staff indicated there would be a cost, but most participants are hired at relatively early ages so if they were to be disabled after NRD their retirement benefit would completely offset their disability benefit and thus there would be no cost to the disability component.

The tenth change is for compliance with the HEART Act. Under the HEART Act, if a participant dies during qualified military service, the plan must treat the participant as if he died during covered employment with the plan. Mr. Tierney recommended staff add wording in the summary that specifically refers to military service.

The eleventh change changes a typographical error in referencing another section of the plan document.

Ms. Evans was concerned how these benefit changes are described to plan participants. Staff discussed the 60-day notice procedures. Prior plan amendments had included employee meetings, web postings, letters mailed to participants' homes, and e mails. Ms. Nugent added that there were meetings with retirees too.

The meeting recessed at 10:07 AM

The meeting reconvened at 10:21 AM.

TIMBER\REAL ASSETS

Mr. Bryant introduced the topic of timber. Referencing page two of his October 2009 Asset Allocation Project he showed changing the timber allocation from 10% to 5% had little impact. However, changing the allocation from 5% to 0% was more detrimental.

The Board would hear a presentation from Jim Webb of RMK Timberland Group on timber and then another from a real assets hedge fund. The Board may want to consider timber narrowly, or a broader real assets strategy

Mr. Bryant introduced Mr. Webb. Mr. Webb introduced himself as a forester. RMK began domestically. It is expanding rapidly internationally. Currently his firm has about 15% of its assets deployed overseas. Going forward new commitments are expected to be 80% foreign. They are in Uruguay and Brazil. Their core is still the U.S. southeast.

Mr. Webb responded to a recent Barrons article on timber. Harvard had sold much of their domestic timber, but not international. Harvard sold the domestic timber at a very high price and is again seeking timberland today at lower prices. Demand for timberland was going down so entry points would be lower.

They buy land and manage it for 10-18 years. The rotation varies by species and region. In the U.S. it is typically 25 years. However, eucalyptus in the southern hemisphere can have a rotation of eight years. Eucalyptus is used for paper.

RMK believes Higher and Better Use (HBU) for timber land is timber. They will make the most of occasionally selling land with a significant appreciation for real estate development. However, this is not something to plan on. Timber yields are more predictable so they make their purchase decisions and financial planning centered on timber and not HBU.

Mr. Tierney asked if RMK buys or leases land. Mr. Webb said they typically buy land; however there are circumstances where they will lease.

The highest use of timber is paper, pulp, and packaging. Next is food packaging. Lumber for construction does not create as large a demand as many believe.

Paper mills have slowly been shuttered in the south. There used to be 93. Now there are fewer. There have been mills opened in the southern hemisphere. Labor is cheaper. Environmental laws are easier to work with. Lumber exports are small. Exports are largely pulp.

Ms. Mammarella asked about replanting and how long it takes before soil is spent. Mr. Webb said they may add fertilizer when they plant. However, pine is not as demanding on the soil as many other species. Ms. Mammarella asked what impact environmentalist had on their work. Mr. Webb said they had to take care of the land in order to resell it after harvest and replanting. So, the biggest impact on their work was not their environmental efforts, but record keeping of their efforts. There are organizations that certify compliance with environmental protocol. Many buyers require certification. Mr. Tierney asked if the board had bought timber five years ago where they would be today. Mr. Webb said if they bought U.S. timber exclusively they would be underwater. If they bought a portfolio diversified by species (softwoods and hardwoods), age class, and by location (domestic and international) they would be ahead.

Mr. Webb referred to page 11 of his booklet. He said real (after inflation) returns had been 8% through 1995. Thereafter they began to come down somewhat. The picture at the top left represented the cycle where at certain stages wood was used for pulp, paper, and packaging, and later for lumber, paneling, and plywood. Illustrated at the top left investors had been asking for diversification. On the bottom right a joint venture between Royal Dutch Shell and Volkswagen was producing a bio-diesel fuel. The industry was looking for new uses for timber. Most new money was going outside the U.S. to places including Africa, South America, and Central and Eastern Europe.

Ms. Mammarella asked about harvesting rainforests. Mr. Webb indicated they had no expertise in that area. They had tree farms, which were distinctly different.

Mr. Lockwood asked about fires, disease, and insects. Mr. Webb said their biggest loss ever was 1,400 acres. Typically they loose no more than .2% of their forests annually to all these forces combined. They only buy land ten or more miles inland to minimize hurricane damage.

Mr. Tierney asked if RMK buys insurance for their timber. Mr. Webb said insurance in the United States was not cost effective. In Uruguay it was government subsidized so they did buy it.

Mr. Webb listed a number of countries that were politically unstable and RMK avoided investing in those countries.

Mr. Evans asked what it meant to store on the stump. Mr. Webb said if timber was biologically ready to sell, but prices were too low, then they would hold off on cutting it. The timber inventory would be "stored on the stump" and continue to grow while they wait for better prices.

Real Estate Investment Trusts (REITS) have an obligation to pay dividends. Also, they were frequently leveraged and had interest and/or principal payments due. They were selling into a weak market because they were obliged to. Their continued selling would put downward pressure on timberland prices. RMK had not sold timber in twelve months.

Ms. Orr said that paper plants frequently smelled awful. Communities often fought paper companies in the permitting process. Mr. Webb said this was from sulfur. The technology had changed and new plants did not use sulfur in the process.

Mr. Webb discussed their newest fund. They were beginning with a target of 150 million Euros (about $225 million) for their international fund and about $50 million for the domestic fund. The first close would be very soon and the final close June 2010.

Mr. Bryant discussed international timber investing the extent of currency exposure of the plan's entire portfolio. The timber, international, and emerging markets would total about a quarter of the fund. Currency generally is a zero-sum event. However, it does add diversification.

Mr. Tierney asked if the timber funds were illiquid. Mr. Bryant said it was the most illiquid investment he would bring for consideration, typically having a life of 12-15 years.

Chairman Cross asked if the fund was valued quarterly, and how long would it take for all funds to be called. Mr. Webb said it was valued quarterly and appraised annually. Money is called over a period of 12 to 24 months.

Mr. Evans asked if recycling had made a difference to the industry. Mr. Webb said it had, but there were limits. Paper is usually not made from 100% materials but tended to have at least 20% new pulp and no more than 80% recycled materials. After a while paper will lose its strength. This concluded Mr. Webb's presentation and he left at 11:15 AM.

Mr. Bryant introduced Jamie Biddle and Henry Delicata of Verdis Investment Management. Their product is a fund of funds. Their fund encompasses real estate, timber, and power plants.

Mr. Biddle began a review using his booklet. Page four highlighted how different groups of asset classes impacted a portfolio. Equity risk is accepted because of the high expected returns. Hedged risk has low correlation to equity risk. Deflation hedges protect from some risks but provide low returns. Inflation hedges have volatility and when combined with deflation hedges reduce portfolio fluctuations.

Page eight suggests inflation will not hit hard too soon because capacity utilization is so low. It is unprecedented that inflation increases significantly while factory utilization is low.

Page nine, banks have limited their lending. This may exacerbate the recession and delay inflation.

Page ten shows federal debt is rapidly rising and at levels not seen for over 50 years. Page eleven shows the breakdown of federal spending. Unlike WW II expenditures much of the expense is in mandatory programs. Mr. Johnson broke these down into Social Security, Medicare & Medicaid, and debt service. Mr. Biddle said the three ways out of this debt problem are: 1) a combination of higher taxes and reduced spending, 2) bankruptcy, and 3) inflation.

Page 12 demonstrates how dramatically the monetary base has expanded.

Page 16 compared the attributes of many asset classes.

Page 17 showed how adding asset classes expand the efficient frontier.

Mr. Delicata began his presentation. Southern pine was the focus of their timber. Timberland prices in the southeast had increased form $1,200/acre to $1,700 - $1,800/acre. Some transactions even exceeded that. At the same time lumber prices were too cheap. So, they did not buy any timberland for their last fund (limited partnership) that closed in 2007.

The NCREIF timberland benchmark hit a peak at $1,650 - $1,700. Then there were few transactions as prices fell. Only now are there some transactions. Prices are down 20% - 25%.

REITS need cash to pay dividends. Leveraged TIMOS (Timber Investment Management Organizations) must sell.

Staff asked if they ever make purchases in the secondary market. Mr. Delicata said their focus was primary. If they ever bought in secondary markets it would be in partnerships that had "dry powder" meaning nearly 100% undeployed assets. He expected to buy timber in a year or two. Following the 2007 closing roughly one third of the commitments have been called.

Mr. Delicata mentioned two books as good resources. First, *Trees are the Answer* by Moore. The other was *Timberland Investing* by Zinkhar, Sizemore, Mason, and Ebner.

Mr. Tierney asked if the fund was as illiquid as timber. Mr. Delicata said yes it was illiquid, but the life of the fund was shorter than timber funds.

Mr. Lockwood asked if oil and gas projects were domestic. Mr. Delicata said largely, but not quite 100%. This was similar to their real estate which was 80% in the U.S. and 20% large European Cities.

The life of oil and gas projects used to be 3-5 years. Now it is closer to 4 – 6 years.

Mr. Lockwood asked if the oil and gas was on government land or private. Mr. Delicata said most were on private land.

Mr. Lockwood asked why there was no agricultural land. They seek managers that can control and improve land. Output from agricultural land is highly variable. They seek less volatility.

This concluded the presentation and Mr. Biddle and Mr. Delicata left the meeting at 12:15 PM.

NEW BUSINESS

The tentative schedule for 2010 meetings follows:

Date	Time	Meeting Format	Location
January 14	8:30 AM	Interim Meeting	Sister Cities Room 1101
February 16	***1:00 PM***	Due Diligence Meeting	Sister Cities Room 1101
April 15	8:30 AM	Interim Meeting	Sister Cities Room 1101
May 13	8:30 AM	Due Diligence Meeting	Sister Cities Room 1101
June 17	8:30 AM	Interim Meeting	Sister Cities Room 1101
September 9	8:30 AM	Due Diligence Meeting	Sister Cities Room 1101
October 14	8:30 AM	Interim Meeting	Sister Cities Room 1101
November 11	8:30 AM	Due Diligence Meeting	Sister Cities Room 1101

Ms. Evans requested the calendar be distributed via e mail.

OLD BUSINESS (Continued)

ASSET ALLOCATION STUDY

At the May 27 meeting Chairman Cross requested an asset allocation study. At the September meeting Mr. Bryant delivered a first report. There were several issues raised and Mr. Bryant's model was rerun with new asset mixes. The results were distributed in the board packet and discussed. Mr. Bryant referred to page 2 and explained the column headings, the mean, standard deviation, Sharpe Ratio, and Terminal Value at various percentiles. The 50^{th}, 75^{th}, and 95^{th} percentiles represented the expected, bad case, and worst case.

Mr. Bryant discussed Asset mix #1 which had been asset mix #7 in the September report. He said pulling some timber out was okay, but pulling it all out may not be best.

Mix # 11 had 10% in private equity. Its expected return was so high that the large standard deviation was still okay. Other good mixes mentioned were # 12 (with more fixed income), # 3 (with more large cap value), and # 7 (with more small cap value).

If the Board liked timber, asset mix # 8 was a good one. It provides currency exposure and diversification. Mr. Tierney asked if the timber was international would the plan be over exposed to currency. Mr. Bryant said probably not.

Asset mix #20 had no timber and a 75% chance of meeting the 20 year funding goal. Mix # 23 would not have the same 75% confidence but would be close.

Mr. Routt asked if he understood Mr. Bryant as saying he liked a number of models but #8 was best because he did not believe fixed income would perform going forward as it had for the last 20 years.

Mr. Johnson had said Mr. Bryant had focused on the minimum return because all of the portfolios performed better under the other scenarios (70-year history and return to mean). To handle a poor environment the fund must invest in an asset class that carries some risk. This comes down to the question, where does the fund put the last 5%, into timber, emerging markets, or Private equity? He did not believe 15% in private equity is appropriate.

Mr. Tierney made a motion to change the plan's asset allocation to asset mix number 8. Ms. Triggs seconded the motion.

Discussion: Mr. Cross clarified the asset mix was #8 from Mr. Bryant's ASSET ALLOCATION PROJECT October 2009. That mix is:

10%	Large Cap Value
10%	Large Cap Growth
5%	Mid Cap Value
5%	Mid Cap Growth
5%	Private Equity
10%	Small Cap Value
5%	Small Cap Growth
10%	International Developed
10%	Emerging Markets
5%	Real Estate
5%	Timber
20%	Fixed Income

Mr. Cross asked if Mr. Tierney and Ms. Triggs agreed with that clarification. They did.

Ms. Orr asked what percentage of private equity was international. Mr. Bryant discussed the class and suggested the majority was domestic.

Staff asked for clarification on where the 5% allocation to timber should reside until the timber allocation is funded.

The motion passed (8-0).

Mr. Johnson asked if the rebalancing should be done now or later. Mr. Bryant said now. Staff was directed to rebalance as soon as possible.

Mr. Bryant said he could bring in timber managers: Hancock, RMK, and Molpus Woodlands. He might be able to really push and get an RFP completed by November 19. However, Mr. Bryant suggested the board listen to a presentation on Real Assets at the Association of Municipal Retirement Systems of Virginia Fall conference in Alexandria on October 25. The board may want to consider a mix of timber and other real assets. This would mean bringing in presenters January 14, 2010.

Chairman Cross called for a motion for a timber RFP. Ms. Orr made a motion that Dahab and Associates issue a RFP and bring presenters to the January 2010 meeting. Mr. Milner seconded the motion. The motion passed (8 – 0).

Chairman Cross asked staff to defer until the next meeting the discussion of the many excellently prepared handouts on rebalancing, investment results, timber, fixed income, private equity, target date funds, consumer price index, and Turner, our large cap growth manager.

NEXT MEETING

The next scheduled meeting is November 19 at 8:30 AM. Members are advised it may be a long meeting and please keep calendars clear through 1:00 PM.

ADJOURNMENT

Mr. Johnson made a motion to adjourn. Mr. Milner seconded the motion. The motion passed (8-0). The meeting adjourned at 1:45 PM.

HANDOUTS

Distributed in advance:

- Agenda
- Draft of the September 9, 2009, minutes (1)
- Administrator's Follow-up Items (4i)
- CPI Review (4 v)
- Verdis: Real Asset Investing
- RMK: Timberland Investment Management
- Article: Borrowing and boom ties are bursting bond bubble
- Article: Debate over target date funds
- Article: Terminations not worrying Turner
- Article: Private equity exits, values keep falling
- Excerpt from American Timberland Fund I LP report
- Asset Allocation Project, October 2009, Dahab Associates
- APPENDIX A ACTUARIAL ASSUMPTIONS
- Letter from Prudential Real Estate Investors dated June 15, 2009 (4vi)
- Investing in Timber & Real Assets

Distributed during the meeting:

- RMK Timberland Group's Official Response to the Barron's Article Titled, "Trouble in the Forest.".
- Summary of Activity by Fund for 2009
- City of Alexandria Firefighters and Police Officers Pension Plan Investments, Fixed vs. Domestic vs. Foreign vs. Real Estate

- Buying at the Top
- Appendix Actuarial A Assumptions (5d)
- PRISA/PRISA II/PRISA III Information Sessions