

**MINUTES OF OCTOBER 7, 2008, RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS
PENSION PLAN
INTERIM MEETING**

PRESENT

<u>Members</u>	<u>Others</u>
Michael Cross, Chair	Steven Bland, Retirement Administrator
Michele Evans, Secretary	Arthur Lynch, Retirement Specialist
Mark Jinks	Theresa Nugent, Communications Specialist
Bruce Johnson	Christopher Spera, Assistant City Attorney
Shirl Mammarella (Alternate)	
Kathleen Schramm (Alternate)	
Albert Tierney	
Laura Triggs	

CALL TO ORDER

The meeting was called to order at 8:45 A.M. on October 7, 2008.

MINUTES

There was a motion by Mr. Cross and seconded by Ms. Triggs to approve the September 9, 2008 minutes. The motion was unanimously approved (6-0).

MARKET UPDATE

Staff provided a market update. Equities are now in a bear market. Two items made this down market difficult. This is the first bear market that the Pension Board has experienced. In 2005, 2006, and early 2007 volatility had been at or near record lows. Now the market is experiencing record high volatility.

Staff referred to a handout and an e-mail from Richard E. Dahab and Barry Bryant. The e-mail summarized investment developments, products and decisions over the past two – three decades that resulted in significantly increased leverage in our financial system, and ultimately the current financial crises. Not included was what became known as the “Greenspan Put.” Named after the former Federal Reserve Chairman this was the practice to regularly lower interest rates and increase liquidity whenever there was any sign of financial stress. This lessened the need for reserves. It also created expectations that prior to any crisis there would be some kind of bail

out. Dahab believed that recovery could come soon and any further market drop would stem from any of the following: failure to pass an effective bank bailout bill, the election, and report of third quarter profits.

Staff next referred to a sheet with charts on yield curves, mutual fund cash levels, and commodities. Increasing amounts of cash being held in mutual funds is sign of an overly bearish market sentiment. The market is close to an intermediate bottom of the bear market in terms of time, yet there may be more drops in the weeks to come.

Mr. Jinks reported that he listened to a webcast from a market expert from Prudential the day before. The Prudential economist agreed with what staff was reporting. The Prudential economist indicated the market could come down and go back up or the market could be at a slow “L curve” for a while.

FOLLOW-UP ITEMS

Staff reported on the request from the September 9, 2008, meeting to survey neighboring jurisdictions’ practices with respect to alternative investments. Staff contacted Arlington, Fairfax Schools, and Fairfax, both general employees as well as Police & Fire Plans.

Arlington County has 6% of its assets in emerging markets, real estate, and private equity. Three private equity investments were made over time with the same manager. Spreading the investment over three fund of funds limited partnerships created geographic, business, and generational diversification. It also made for ease of administration. The time lags in receiving alternative investment performance reports created challenges for staff. Arlington’s board seemed to be happy with their decisions.

Fairfax County Schools had no timber and no private equity. Their administrative efforts were made easier by their investment consultant’s and legal counsel’s experience with alternative managers’ contracts.

Fairfax general employees and Police & Fire plans have extensive alternative investments. They began educating their board ten years ago. Education is the foundation of their efforts. At least quarterly there are presentations by outside experts. They have focused on risk allocation.

Staff spoke about Prudential’s actions to liquidate Munder and invest in Wells Fargo. This process took nine days to complete. Further discussion was held pending the arrival of the Christopher Spera, the Assistant City Attorney providing services to the pension plans.

COMMITTEE REPORTS

VALUATION AND TECHNICAL CORRECTIONS COMMITTEE

Chairman Cross reported the Valuation and Technical Corrections committee had not met since the last Board meeting. He then asked staff for an update on the 60-day notice process. Staff

reported that notice was sent to employees and that two meetings were held at the Lee Center and at the Hoffman Building. The meetings on the eighth plan amendment were also announced at the recent retirement seminars. The docket memos are in process. Staff expects to present them to City Council in early December or possibly late November.

Staff reported low attendance at the two public meetings. Mr. Cross and Mr. Tierney indicated that they had discussed the changes with inquiring co-workers.

Mr. Johnson arrived at 9:10 AM.

DISABILITY COMMITTEE

Mr. Tierney discussed the review of disability after normal retirement date. Participants who are 55 or older are not covered for Non-Service connected disability. Chances are remote that this will be an issue because there are very few active participants over age 55. However, this should be clearly advertised.

Staff asked Ken Hoffman if there is a potential Age Discrimination in Employment issue. George McAndrews is reviewing Workers' Compensation provisions for those over age 55 to determine if there are potential age discrimination issues.

Mr. Tierney discussed the requirement that disability determination be made prior to Normal Retirement Date. He suggested that eligibility should be based on the date of application for disability instead of the date of determination of disability. Ms. Evans asked for a legal review of this question. Ms. Evans asked what other jurisdictions do

Disability benefits from the plan are offset by monthly benefits from Workers Compensation. However, cash settlements for Workers Compensation do not offset monthly disability benefits. The question was raised, should these lump sum payments be considered in the disability benefit calculations? Mr. Tierney was aware of at least two individuals who received Workers' Compensation settlements and therefore had no reductions to their monthly disability benefits.

Mr. Tierney reported that Mr. Greenblum suggested the Board consider a benefits policy statement. It was hard to make design suggestions without a clear understanding of the intent the plan's intent. Mr. Hoffman agreed.

Mr. Tierney reported that both Mr. Hoffman and Eli Greenblum suggested the need for a written disability process. Mr. Tierney will pursue what is needed in the way of procedures.

Mr. McAndrews and Mr. Willsey do their work of reviewing Workers' Compensation cases without written procedures. They are consistent in the procedures they follow, but there are two concerns. First, Mr. McAndrews and Mr. Willsey will not always be around. Second, they are only involved in the process for service-connected disability benefits. They are not involved in the processing of Non-service connected disability benefits.

The processing of non-service connected disability was discussed. Ms. Schramm reported a disability event always qualifies as a FMLA event. A minimum of 12 weeks passes before

action is taken, but typically the time lapse is 12 months. She indicated that the steps to process a disability are not always accomplished in the same sequence. Therefore, the idea of a chronological process may be too rigid.

Staff is directed to capture the demographics of those near or over age 55 (non-coverage for non-duty disability).

The Board discussed creating a brochure on disability application process. The contents of the brochure may be added to a Frequently Asked Questions (FAQ) handout. The Pension Administration Division is working with Personnel Services to prepare a pre-retirement handbook. Initially, Pension Administration Division will write modules on the pension plans and deferred compensation; Personnel Services will write on the topics of life insurance and medical insurance. The subsequent steps are under discussion.

BUYBACK COMMITTEE

Chairman Cross asked staff about the Buyback Committee. Staff said they were waiting for data from Prudential.

ADMINISTRATOR'S REPORT

MONTHLY INVESTMENT REPORTS

Staff directed attention to the updated Monthly Investment Report. The first addition is a graph displaying the plan's assets, liabilities, and unfunded liabilities. The pages comparing actual to target allocations called for rebalancing.

Chairman Cross made a motion:

Staff is directed to rebalance investments as near to target allocations as possible with the exception of real estate.

Mr. Tierney seconded the motion.

Discussion: Mr. Jinks indicated the investment markets were in uncharted waters. Staff should verify with Barry Bryant whether or not rebalancing was appropriate.

Mr. Johnson suggested an alternative of rebalancing one million dollars at a time.

Ms. Schramm asked if there was a cost to rebalancing. There is not. The costs are included into one bundled fee.

Mr. Cross said he was willing to amend his motion to rebalance the first one percent to bring the fixed income account to within range of the target allocation.

Mr. Tierney suggested the decision be left to Barry Bryant. Mr. Johnson suggested the Board reframe the motion to consult with Barry Bryant to determine whether we should rebalance to the end of the target range or the middle of the range.

Ms. Mammarella expressed concern that the Board was setting a precedent that staff always has to consult with Mr. Bryant before rebalancing. Mr. Cross did not think a precedent was being established.

Chairman Cross amended his earlier motion:

The Retirement Administrator is given the authority to reallocate investments as near to target allocations as possible with the exception of real estate. Administrator will consult with Dahab for recommendation on this reallocation and will go by Dahab recommendation as long as it is within guidelines of current asset allocation policy.

Mr. Tierney seconded the amended motion. The motion was unanimously approved (7-0).

Staff disclosed that the allocation of biweekly contributions would also be amended.

Mr. Spera arrived.

MUNDER

Staff reported on the execution of the September 9 motion to sell the small cap value manager Munder and replace it with another small cap value manager Wells Fargo. Prudential was directed to make the sale September 9. It was executed September 18. Lisa Powell of Prudential did disclose at the September 9 Board meeting that the purchase of Wells Fargo's fund would take longer than other purchases. Unlike many other sub-advised funds the Wells Fargo managed fund is a retail mutual fund. Staff felt the delay of the Wells Fargo sale should not have delayed the sale of Munder. Typically Prudential takes three days to complete a sale. Munder performed very poorly during the period from September 9 – 18. Staff posed the question, should Prudential make the plan whole for the protracted period of selling the Munder fund?

Mr. Jinks asked staff to provide information on when the value of Munder dropped during the period September 9 – 18. Staff will provide this information and performance for the Russell 2000 Value Index during the same period.

Mr. Spera suggested a review of the contract. Also, we should review the customary practices of the industry.

Mr. Johnson suggested we review the meeting tape. Mr. Spera said if staff provided the tape he would have it transcribed.

Mr. Spera was asked what information he would require to review Prudential's execution of the sale of Munder. After some discussion among the members, staff was asked to provide Mr. Spera with certain information so he could get back to the Chairman with an opinion at a later time. The Board also agreed to ask Prudential to explain the trade and how it viewed its responsibility to execute this trade to the Plan under its contract at the next Board meeting.

Chairman Cross asked Mr. Spera whether limited partnerships were acceptable for the plan investing in private equity? Mr. Spera said limited partnerships are quite common as an investment by pension funds and are permitted by Virginia law.

Mr. Cross asked if the Board found a suitable investment contract that required signing a limited partnership could Mr. Spera review it? Mr. Spera said he had experience and he could review such a contract.

Mr. Jinks asked what are the next steps? Chairman Cross said Barry Bryant should explain the next steps at the November meeting.

Mr. Jinks suggested the Board may want to consider limited partnerships that would be picking up distressed assets over the next couple of months.

Ms Evans, Mr. Jinks, Mr. Johnson, and Mr. Spera left the meeting at 10:30 AM.

COMMUNICATIONS

Ms. Nugent reported on the September 15-17 seminars. Participation was outstanding from the Fire Department. Nearly 90% of the sworn officers attended. During the seminars, especially the ones held at Firehouse 208, Firefighter participants were called away to emergencies.

Feedback was very favorable. However, it was suggested the presenters break the talks into smaller units.

Attendance of Police Officers was discussed. Mr. Tierney suggested staff train the trainers. Police Officers might be most comfortable discussing retirement issues with another Police Officer.

Ms. Mammarella reiterated that FAQs need to be on the web site soon. She also said it was important to go beyond discussing pensions. Life insurance and medical insurance costs need to be covered. Ms. Schramm said it was important to stress that certain benefit decisions were irrevocable. Too many City employees were used to exceptions being made through their careers and they expected insurance carriers to also make exceptions.

ADMINISTRATION

Mr. Lynch reported that one of the four participants with payroll contracts to buyback service has completed his contract.

The meeting recessed at 11:00 AM.

The meeting resumed at 11:15 AM

BOARD EDUCATION

Staff presented on investment topics. Areas covered included:

- Simple vs. Compound Interest – to illustrate the impact of interest on interest. This and the next three topics all built towards Performance Measurement and the idea of standardized reporting.
- Alpha and Beta – to isolate returns based on exposure to the market (beta) and manager skills once market exposure is stripped away (alpha).
- Relative Performance – to illustrate how alpha and beta may be used to identify manager effectiveness.
- Rates of Return – to distinguish time weighted and dollar weighted rates of return methods.
- Performance Measurement – to tie together the prior topics as well as to report that Dahab associates adheres to industry standards.
- Attribution Analysis – to demonstrate how manager performance may be split into sector allocation and stock picking.
- Survivorship Bias – discussed the data problem in reporting only funds that stay in business for the entire period of a study.
- Active vs. Passive Management – listed some of the larger more commonly referenced indices
- Volatility – discussed the close link between volatility and drops in equity markets. A context for the current unprecedented volatility was provided.
- Diversification – this critical topic was explored with a series of coin tossing experiments. Each successive experiment introduced an additional concept. Correlation was discussed and examples were provided.
- Real Purchasing Power – The points were distinguishing saving from investing and how cash flows impact investing.
- Option Adjusted Spreads – the value of an option was discussed and refinancing a mortgage was used as an example.
- Yield Curves – names were provided for the many shapes of yield curves.
- Monthly Investment Report – this report is regularly used for rebalancing.
- Summary of Activity Report – this regular report is used for monitoring cash flows.

ADJOURNMENT

A motion was made by Chairman Cross, and seconded by Ms. Schramm to adjourn. The meeting was adjourned at 11:46 AM.

NEXT MEETING

The next regularly scheduled meeting will be November 11, 2008, at 8:30 a.m. in the Council Workroom 2410 on the second floor of City Hall. Board members should bring their calendar to plan the 2009 meeting schedule.

HANDOUTS

Distributed in advance:

- Agenda
- Draft of the September 9, 2008, minutes
- Revisions to chapter five of January 7th Board Retreat notebook relating to investments
- Follow-up Items/Old Business

Distributed during the meeting:

- Revised Agenda
- Market Update Packet, including e-mails from Dahab Associates and Suntrust, and market summary from staff
- Alternative Investments
- Monthly Investment Report (updated through October 6, 2008)