MINUTES OF SEPTEMBER 9, 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, Alternate	Barry Bryant, Dahab Associates
Bruce Johnson	Arthur Lynch, Retirement Specialist
Shirl Mammarella, Alternate	Theresa Nugent, Communications Specialist
Ed Milner	Lisa Powell, Prudential
Cheryl Orr	
Al Tierney	
Laura Triggs	
Michael Wimer	

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

APPROVAL OF JUNE 17 MINUTES

There was a motion by Mr. Tierney to:

> Approve the June 17, 2010, Board minutes.

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

FINANCIAL REVIEW

FINANCIAL AND ECONOMIC OVERVIEW

Mr. Bryant began on page 4 of his quarterly review. The period has been marked by extreme volatility. The economy has been weak. Federal stimulus packages are seen as boondoggles and ineffective.

In the second quarter investors ran away from risk. Most markets did badly. As a whole the plan's managers did out perform their benchmarks. However, the target allocations are more aggressive than most of the plan's peers so the performance in the down market was worse than many of our peers.

Turner uses sector weightings from the S&P 500 and not the Russell 1000 Growth Index. The former over-weights the financial sector. This has particularly hurt Turner's performance recently. Turner had done well in the distant past, but not the most recent 3 & 5 year periods.

Barrow Hanley's performance was impaired by a few individual stock picks, including BP (British Petroleum) and Wellpoint (California based insurer formerly Blue Cross of California). Barrow Hanley focuses on quality companies and balance sheets so they did better in 2008 and worse in 2009.

Mr. Bryant reviewed the criteria for retaining a manager:

1) beat the benchmark net of fees
2) rank in the top half of a universe of peers with a like mandate

Both should be considered over a market cycle which is typically three to five years.

If Turner or Barrow Hanley were replaced it would be with another manager on Prudential's platform. Mr. Bryant cautioned, we do not want to chase performance. We do not want to part with a manager at the bottom to buy in with another at the top.

Staff said the performance discussed was through June 30 and then distributed a handout showing Turner and Barrow Hanley under performed their benchmarks in July and August and outperformed in September month to date. Essex had under performed in all three periods.

At the November meeting the board should discuss Turner and Barrow Hanley. Prudential should provide information on other investment options. Staff is to put this on the agenda.

Mid-cap manager CRM had a poor year but a good three year run.

Mr. Bryant discussed small cap growth managers. Columbus Circle had better performance than TimesSquare but was more volatile.

Mr. Johnson asked Mr. Bryant to touch on the Organizational Issues section of handout 2 (e) (ii) and to explain alpha and beta.

Mr. Bryant said Columbus Circle lives and dies by technology companies. Staff had pointed out the ten year history and compared it to the most recent five year period. The first five years included the dotcom bust and Columbus Circle performance was very weak in that period.

Mr. Tierney asked about fees. Mr. Bryant said all else being equal you go with the manager with lowest fees. However, these two managers were so very different, and the fee differential so modest, fees should not be a consideration.

Chairman Cross pointed out that Essex is also in the defined contribution plan. Any motion to change the small cap growth manager in the defined benefit plan should also consider the same move in the defined contribution plan.

Mr. Tierney asked Mr. Bryant if this was his money which would he choose and why. Mr. Bryant said technology was a good place to be so he would opt for Columbus Circle with performance being the reason.

Mr. Johnson then summarized the issue by saying the risk was technology. Mr. Bryant agreed.

Mr. Bryant summarized by saying he considered Columbus Circle first, but TimesSquare was a reasonable alternative because of its stability.

There was a motion by Mr. Tierney to:

> Replace the small cap growth manager Essex with Columbus Circle in the pension, disability, and defined contribution components.

Ms. Mammarella seconded the motion.

Discussion: Money in Essex in the defined contribution plan would be mapped to Columbus Circle. Lisa Powell would direct Prudential to mail fact sheets on Columbus Circle. There is currently only one participant with an allocation to Essex and that was for $18,000. The transition should be as quick as practical.

The motion was unanimously approved (7-0).

Wells Fargo (small cap value) performed well.

PRISA did well, beating their benchmark by about 3%.

Mr. Bryant said Hamilton lane (private equity) was not reported in the quarterly report. It should have been. Performance will be lagged by one quarter due to delays in obtaining information. The most recent quarter will be plugged with a "0" return.

Mr. Bryant explained the private equity fund was below target because very little money had been called to date. Handout 6 (e) (ii) was referenced. Staff explained that the 5% target was set near the market bottom in March 2009. The contract terms were set at a fixed dollar amount and the fund had grown substantially since then. Also, the private equity was now co-owned by the disability component, so the expanded base made the fixed terms an even smaller percentage of the pooled funds.

There was a motion by Mr. Tierney to:

> Request Hamilton Lane to make a presentation to the Board about their current private equity as soon as practical.

Mr. Evans seconded the motion.

Discussion: Mr. Johnson asked if the Board might amend the motion to bring in other vendors. Mr. Johnson referred to the second page of the handout (6 (e) (ii)) and asked if real assets made sense.

Mr. Bryant said there are an increased number of offerings in the real asset and inflation protection arena since the Federal Reserve Board's actions beginning in 2008.

Mr. Tierney suggested the Board began a private equity process and that should be finished before looking into another asset class.

Staff clarified that the proposal to participate in a real asset partnership was private equity. It was private equity that was focused on investing in certain industries, such as energy, infrastructure, timber, real estate, etc. Staff asked Mr. Bryant to verify this and he did.

Mr. Tierney would not amend his motion to consider private equity partnerships investing in real assets.

The motion passed (7-0)

Ms. Orr asked why PRISA did well. Mr. Bryant said this may be due to their leverage. Also, PRISA tended to deal with trophy properties with higher lease rates. Staff added PRISA had above average exposure to apartment complexes and this sector did well, and below average exposure to hotels, and this helped.

INVESTMENT REVIEW – DISABILITY COMPONENT

Mr. Bryant and staff said the Disability report was unusual because the transfer of assets from SunTrust to Prudential occurred during the quarter. The reports were designed around the idea of tracking assets that are with an institution throughout a quarter. Staff referenced handout 2 (b) (ii) which showed that $4.6 million was transferred to Prudential and allocated to various accounts.

Mr. Bryant had several compliments for Mr. Arrington and the years of successful money management by SunTrust. He said their organizational issues of potentially selling the Ridgeworth subsidiary may dog them for a while.

INVESTMENT REVIEW – DEFINED CONTRIBUTION COMPONENT

Mr. Bryant brought to the Board's attention Thornburg's under performance but noted the manager had been on the platform for too short a while to make a retention decision. However, they should be monitored.

The Board discussed the option of receiving quarterly performance reports in pdf format in addition to or in lieu of paper copies. It was decided to distribute in pdf format in advance. Hardcopies should be made available for meetings. Vendors may send them to the Retirement Administration Division in advance for optional distribution or to make the vendor's travel less burdensome.

Ms. Powell confirmed the fee break promised for Turner, Barrow Hanley, and Artio for pooling assets of pension and disability components began August 1, 2010.

PRUDENTIAL ADMINISTRATION

CONSOLIDATING PENSION & DISABILITY COMPONENTS

Staff reported on the successful transition of administration and investment management from SunTrust to Prudential.

Mr. Tierney asked for assurance that the disability and pension funds remained separate. Staff and Ms. Powell said the funds were separate trust funds and amounts in each remained readily identifiable.

SELF DIRECTED BROKERAGE ACCOUNTS

Ms. Powell referred to handout 3 (b). She discussed the parameters of the program. There are two participants. Chairman Cross asked about member statements. Monthly statements are sent when there is activity. Otherwise statements are sent quarterly.

Chairman Cross asked when the last changes in fees were made. Ms. Powell said the fee structure had been in place since Prudential bought CIGNA.

Chairman Cross said he did not see any notice of this program on the website. Ms. Powell said the two participants would see details on their sites.

Disabled participants are not allowed to participate in this program.

Mr. Tierney said the next step was to lower fees.

SCHEDULE 2011 MEETINGS

Mr. Johnson suggested meetings be held the second Thursday of each month, except July & August,

There was a motion by Mr. Tierney to:

> Request schedule board meetings the second Thursday of every month. Emergency meetings or adjustment to this schedule should be made with the concurrence of the chairman and the administration.

Mr. Johnson seconded the motion.

Discussion: There was a question as to whether or not the City Manager's scheduled monthly manager meeting might have been rescheduled to February 10th (the second Thursday in February). Staff will research this.

The motion passed (7-0).

There was a motion by Mr. Tierney to:

> Request the board schedule a retreat March 10, 2011 with the topics to be determined at a later date.

Mr. Milner seconded the motion.

Discussion: Staff will contact the Training Opportunities Committee and others to come up with ideas. The motion passed (7-0).

BREAK

The meeting recessed at 10:25 AM and reconvened at 10:35 AM.

Mr. Milner left the meeting. Ms. Mammarella, who began the meeting in a non-voting role as Alternate, served the voting role of participant representative.

ADMINISTRATOR'S REPORT

Staff reported on past real estate purchases.

There was a motion by Ms. Triggs to:

> To invest an additional $1.2 million September 30, 2010 in real estate in the existing PRISA fund.

Mr. Tierney seconded the motion.

Staff clarified that the funds will come 92% from Pension component and 8% disability component. The motion passed (7-0).

COMMITTEE REPORTS

The Vendor and Service Provider Committee reported that the handout "Organizational Conflict of Interest (OCI)" needs to be signed by all Board members voting in the Investment Consultant RFP process. This is required by procurement.

There was a motion by Ms. Triggs to:

> Have staff provide a summary of documents submitted by the two finalists in for the investment consultant position for the plan. Not to provide a ranking or scoring by committee members of the applicants.

Ms. Orr seconded the motion.

Discussion: Mr. Tierney said that everyone should read 600 pages of material. The motion passed (5-1).

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

The Actuarial RFP is in process. Chairman Cross asked for volunteers. Mr. Milner and Ms. Triggs volunteered to serve on the committee.

ADMINISTRATOR'S REPORT (Continued)

AMRSVA – OCTOBER MEETING

Staff requested support for the upcoming meeting in Danville.

There was a motion by Mr. Johnson to:

> Reimburse travel and meeting expenses for staff to attend the AMRSVA meeting in Danville.

Mr. Tierney seconded the motion.

Discussion: Mr. Johnson asked staff to report back to the Board following the meeting. Ms. Triggs indicated the Fire & Police Plan did not have to pay the entire cost and that other plans would share the costs. The motion passed (6-0).

ELECTIONS

Staff announced election results. Mr. Cross said officers' terms would end December 31, 2010. He indicated the election cycle for Board officers would be for two-year terms. Staff said the term was not set by the Plan Document but by the motion that affected the election of officers in January 2008. The Board was free to set the term of office to two years, but it was not obliged.

NEW BUSINESS

The discussion of business models for pension plans was deferred, again.

NEXT MEETING

The next meeting is September 14, 2010. The following meeting will be October 13, 2010.

ADJOURNMENT

There was a motion by Ms. Orr to:

Adjourn.

Ms. Triggs seconded the motion.

Handouts distributed in advance

1) Agenda
2) Minutes of June 17, 2010 (1)
3) Investment Performance Review – Notes and Questions, First Quarter 2010 (2)
4) Retirement Plan Strategies, June 30, 2010, Prudential
5) Performance Comparisons SunTrust (2 b)
6) Asset Summary, Sub Fund: A (2 b ii)
7) ESSEX, Small Cap Growth (2 e i)
8) Performance Review June 30, 2010, Dahab Associates
9) Diversifying Disability Assets (3)
10) Self Directed Brokerage (SDB) Option (3 b)
11) Summary of Activity for 2010 – Disability Component (4 a ii)
12) Timber Report (4 a iv)
13) Expenses Paid in Fiscal Year 2010 (6 d)
14) Follow Up Items (6 e)
15) ELECTION RESULTS (6 e iii)
16) Business Models for Pension Plans (9 a)

Handouts distributed during the meeting

1. Organizational Conflict of Interest (OCI),
2. Performance Vs. Benchmark
3. Under Allocated Partnerships (6 e ii)