

**MINUTES OF FEBRUARY 7, 2007, RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS
PENSION PLAN
DUE DILIGENCE MEETING**

PRESENT

<u>Members</u>	<u>Others</u>
Dana Lawhorne (Chair)	Chuck Arrington
Michael Cross	Carl Beveridge, Trusco
Michele Evans	Steven Bland, Retirement Administrator
Pat Evans (Alternate)	Barry Bryant, Dahab Associates
Henry Howard	Dean Molinaro, Prudential
Mark Jinks	Lisa Powell, Prudential
Bruce Johnson (Alternate)	Boyce Reed, Trusco
Chris Lockwood	Robert Sherman, Seix Advisors (Trusco)
Shirl Mammarella (Alternate)	Thomas Winters, Seix Advisors (Trusco)
Joe Seskey	
Laura Triggs	

CALL TO ORDER

The meeting was called to order at 8:43 A.M. on February 7, 2007

MINUTES

There was a motion by Mr. Cross and seconded by Ms. Triggs to approve the January 22, 2007 minutes. The motion was unanimously approved (8-0).

CALENDAR

The following dates were set during the meeting:

February 28, 8:30 AM	Council Workroom	Special Meeting - Disability
April 17 th 8:30 AM	Council Workroom	Interim
May 10 th 8:30 AM	Sister City Room 1101	Quarterly Investment Review
July 10 th 8:30 AM	Sister City Room 1101	Interim
September 5 th 8:30 AM	Sister City Room 1101	Quarterly Investment Review
October 4 th 8:30 AM	Sister City Room 1101	Interim
November 7 th 8:30 AM	Sister City Room 1101	Quarterly Investment Review

All meetings should be held in the Sister City Conference room if it is available.

INVESTMENT REVIEW

TRUSCO

Boyce Reed, Bob Sherman, and Tom Winter represented Seix Advisors – the fixed income side of Trusco. Chuck Arrington represented Trusco’s equity funds. Carl Beveridge represented the administrative side.

Mr. Reed spoke to the strong market. He mentioned a rebalancing in fall and then called for specific rebalancing guidelines.

The fixed income benchmark moved from the Lehman Government Corporate to Lehman Aggregate. In both cases we restrict investments to grades A+ and better. The Aggregate index holds more mortgages. Adding mortgages should increase expected returns roughly 30 basis points (.30%) per year. Pooled government backed residential mortgages represent over 50% of the fixed income investments. Commercial mortgages are about 3%.

Mr. Bryant indicated Dahab associates use only the current benchmark for all years and does not use the “old” benchmark for measurement in “old” periods. Dahab has slightly understated how well Trusco has done.

Questions arose over the disability plan’s ability to fund a perceived increase in disability retirements. The Chair asked about actuarial experience studies and actual versus assumed disability rates. Ms. Evans asked for demographic information on the disability plan. Mr. Jinks said the City Of Alexandria’s Annual Financial Report has excellent footnotes on the retirement system. Staff was asked to copy and distribute these pages to the board.

Mr. Arrington viewed the investment market as phasing out of cyclical growth and into a slow growth mode.

PRUDENTIAL

Mr. Molinaro pointed out an omission on page 23 of his quarterly report. Real Estate should be added.

On page 25 the DDA is Prudential’s scoring of funds. The weighting is as follows:

5-Year Record	70%
3-Year Record	20%
1-Year Record	10%

Considerations are: performance, downside risk, alpha, and tracking error. The final result is a quartile ranking with 1 the best and 4 the worst.

Mr. Seskey asked about Munder, the Small Cap Value Manager. Mr. Molinaro did not recommend a change. Mr. Bryant did not recommend a change. Munder had out performed the benchmark net of fees for a five-year period. Also, while only a month they did out perform the benchmark in January.

Mr. Molinaro sought direction on real estate. Mr. Cross clarified the November 2006 motion called for a \$5 million allocation but only currently funded \$2.5 million. Mr. Jinks indicated capitalization rates are at an all time low. This is the worst time to buy more real estate. Mr. Cross asked if maintaining the allocation at 2.5% would impact the plan's risk profile as compared to the design of 5%. Mr. Bryant said the impact would not be noticeable. Mr. Molinaro indicated the plan has a place in line for future commitments to the real estate fund. We might be first in line in another 6 months. Mr. Bryant will seek a representative from the real estate fund to speak at a future meeting.

Mr. Seskey asked Mr. Brant for an opinion on PIMCO. Mr. Bryan thought PIMCO was the best fixed income manager available to the plan.

The Chairman summarized our three options:

- Do nothing
- Limit the Real Estate investments to \$2.5 million
- Fund the last \$2.5 million bringing the total to \$5 million

The consensus was that there is no need to make a decision at this time. We have an option to invest more but are not obligated to do so.

Ms. Powell provided a handout of local properties owned by the real estate fund.

The board asked Mr. Bryant to invite a representative from the real estate fund and requested he send materials in advance for the board to read. Ideally the presentation would be 15-20 minutes.

DEFINED CONTRIBUTION PLAN INVESTMENT OPTIONS

Mr. Bryant indicated AJO was sub-advised and they had a new manager. The first manager was replaced in September 2005. The new manager – AJO – had slightly under-performed.

Mr. Bryant enumerated his criteria for the watch list:

- The manager must follow their mandate (follow restrictions)
- Performance relative to the benchmark over a market cycle
- Performance versus peers (the Lipper Universe)

Mr. Bryant made the following recommendations

Large Cap Core	Add Davis New York Venture
Large Cap Growth	T. Rowe Price
Small Cap Value	Wells Fargo
Small Cap Growth	Terminate Granahan and add Essex
Fixed Income	PIMCO

Mr. Bryant contrasted Barrow Hanley and LSV. The former has a small number of holdings with management that has been patient stock pickers whereas the latter are quantitative model driven investors with high turnover.

Mr. Cross made a motion:

In the Large Cap Value sector LSV is to be added to the list of investments available to Defined contribution accounts. No change is to be made to the Defined benefit investments.

Mr. Seskey seconded the motion.

The motion passed unanimously (8-0).

Mr. Cross made a motion:

In the Large Cap Core sector Davis Venture is to be added to the list of investments available to Defined contribution accounts. No change is to be made to the Defined benefit investments.

Ms. Triggs seconded the motion.

The motion passed unanimously (8-0).

Mr. Cross made a motion:

In the Large Cap Growth sector T. Rowe Price is to be added to the list of investments available to Defined contribution accounts. No change is to be made to the Defined benefit investments.

Chris Lockwood seconded the motion.

The motion passed unanimously (8-0).

Mr. Cross made a motion:

In the Mid Cap Value sector the Cooke and Bieler Fund is to be added to the list of investments available to Defined contribution accounts. No change is to be made to the Defined benefit investments.

Henry Howard seconded the motion.

The motion passed unanimously (8-0).

Mr. Cross made a motion:

In the Mid Cap Growth sector the Artisan Fund is to be replaced by the Times Square Fund in the defined benefit plan. The Artisan fund is to be replaced by both the Time Square Fund and the Thornburg Core Growth Fund in the list of investments available to Defined contribution accounts.

Chris Lockwood seconded the motion.

Discussion: Ms. Powell suggested we pick a default mapping for members who do not make a timely choice of where their funds in the terminated fund should be directed. It was decided in the absence of direction from the participant they should be directed to the Time Square fund.

The motion passed unanimously (8-0).

Mr. Cross made a motion:

In the Small Cap Value sector Wells Fargo is to be added to the list of investments available to Defined contribution accounts. No change is to be made to the Defined benefit investments.

Ms. Triggs seconded the motion.

The motion passed unanimously (8-0).

Mr. Cross made a motion:

In the Small Cap Growth sector Granahan is to be replaced by Essex in the defined benefit plan. Essex is to be added to the list of investments available to Defined contribution accounts.

Chris Lockwood seconded the motion.

The motion passed unanimously (8-0).

International mandates were discussed. Mr. Jinks asked that the topic be discussed at another meeting after materials were prepared in advance.

Mr. Cross made a motion:

In the fixed income sector PIMCO is to be added to the list of investments available to Defined contribution accounts. No change is to be made to the Defined benefit investments.

Ms. Triggs seconded the motion.

The motion passed unanimously (7-0).

Mr. Cross made a motion:

As a default mapping for members who do not make a timely choice of where their funds in the terminated Artisan fund should be directed they should be directed to the Time Square fund.

Ms. Triggs seconded the motion.

The motion passed unanimously (8-0).

The board took a break at 10:55 AM.

The Board reconvened at 11:05AM.

Staff asked about a timeline for communications to plan participants. Mr. Jinks indicated a policy had been previously created and sample letters already existed.

DISABILITY COMMITTEE REPORT

The Committee's Chair, Mr. Seskey, provided a report. He outlined the notes from the January 30th committee meeting that were include in the board packet. This included a historical perspective and providing copies of documents. The committee passed a motion that would seek authorization to incur legal expenses to draft plan amendments. Mr. Jinks indicated the City would provide the needed funds. He also said long term the policy of the general fund providing all of these expenses merits review, but this was not the time for such a review.

A schedule was proposed. Staff pointed out the timeline might be rather protracted. To expedite events the following schedule was proposed:

Request Ken Hoffman begins work immediately on plan amendments.

February 22nd the Disability Committee meets again and prepares recommendations for the full board.

February 28th 2007 there will be a special meeting of the Board for the sole purpose of disability conversion to retirement. Staff will provide meeting materials to members as quickly as possible.

Staff will seek to schedule a meeting of the Employee Pension Compensation Committee of City Council for early March.

REVIEW PRUDENTIAL'S RETIREMENT CALCULATIONS

PROGRESS TO DATE

Staff provided an update to the progress report included in the packet. One participant had been moved from the "Records reviewed and questions remain" classification to "Records need to be updated." Of the three records involved no change will exceed \$2,000 in present value (lump sum basis).

Staff explained Ms. Evans' idea brought up in the January meeting - the notion of developing a procedures manual. This should improve processes for both Prudential and the City Of Alexandria. The bulk of the work is already done in reviewing the past calculations. While a precise timeline was made a suggestion was the bulk should be completed in several months.

POLICY ON BENEFIT ADJUSTMENTS

Staff provided a proposed interest rate adjustment policy. The consensus was to provide interest at the actuarial rate – currently 7½% - for underpayments and not charge interest for overpayments.

Mr. Jinks made a motion:

Benefit adjustments revised upward will be made with interest at the actuarially assumed rate (currently 7½%).

Ms. Evans seconded the motion.

Discussion: Adjustments for overpayments should be brought to the board on a case-by-case basis.

The motion passed unanimously (8-0).

Staff will rewrite the interest rate policy to reflect the above motion.

UPDATE/FOLLOW UP ON OLD BUSINESS

BOLT/KLINE

Staff indicated Ms. Bolt had signed a distribution agreement.

PENSION PROTECTION ACT

Information from Mr. Ken Hoffman was distributed without comment.

COMMUNICATIONS PROGRAM

Information was distributed without comment.

NEW HIRE-COMMUNICATIONS POSITION

Mr. Jinks indicated that while the budget has not been finalized funds should be available for this position. The Finance Department should proceed with the interviewing process.

ELECTION PROCEDURES

Shirl Mammarella and Pat Evans volunteered to review the draft election procedures.

ICMA & PRUDENTIAL \$3000 TAX FREE DISTRIBUTION - MEDICAL INSURANCE

Information from ICMA and Prudential was distributed. Ms. Powell reported the issue for Prudential was issuing a 1099 that might indicate a non-taxable distribution when some of the required information was outside of Prudential's domain. Prudential could not guarantee the qualified for the preferred tax treatment nor that the participant had not already used up some or all of the allowable \$3,000 from other sources, such as ICMA-RC.

SERVICE CREDIT BUYBACK

Members asked for an update on the Service Credit buyback proposal. Ms. Evans reviewed a letter to council. Her suggestions were being incorporated into the letter.

ADJOURNMENT

Mr. Cross made a motion to adjourn. Mr. Jinks seconded the motion. The motion passed unanimously (8-0). The meeting adjourned at 11:35 AM.