

**MINUTES OF NOVEMBER 9, 2006, 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, Trusco
Michael Cross	Steven Bland, Retirement Administrator
Michele Evans	Barry Bryant, Dahab Associates
Henry Howard	Brian Gartland, Prudential
Mark Jinks	Dean Molinaro, Prudential
Bruce Johnson (Alternate)	Lisa Powell, Prudential
Chris Lockwood	Boyce Reed, Trusco
Shirl Mammarella (Alternate)	Christopher Spera, Assistant City Attorney
Dan Neckel	Laura Triggs, Deputy Director Finance Dept.
Joe Seskey	

CALL TO ORDER

The meeting was called to order at 8:40 A.M. on November 9, 2006

MINUTES

There was a motion by Mr. Neckel and seconded by Mr. Howard to approve the August 30, 2006 minutes. The motion was unanimously approved (8-0).

There was a motion by Mr. Cross seconded by Mr. Jinks to amend the minutes of the December 15th 2005 meeting to clarify the description of the asset allocation. The motion was:

Page two, Paragraph two under the heading BOARD TRAINING AND ASSET ALLOCATION be clarified to read as the following:

“A motion was made by Mike Cross to accept Option 22, consisting of Large Cap Growth 10%, Large Cap Value 15%, Mid Cap Growth 5%, Mid Cap Value 15%, Small Cap Growth 5%, Small Cap Value 5%, International Equity 5%, Emerging Markets (Equity) 5%, Real Estate 5%, and Broad Market Bonds 30%, with a review of the allocation every three years.

Discussion: Mr. Seskey stated the motion was to clarify the minutes, and not to change the approved asset allocation. Option 22 from the Dahab study was distributed and it was pointed out the language of the motion was identical to the handout.

The motion passed unanimously (8-0).

OTHER

Mr. Neckels' retirement effective December 31, 2006 was announced. Numerous board members provided thanks and testimony to his professionalism and character. Ms. Triggs will be stepping in for Mr. Neckel until a permanent replacement is announced.

INVESTMENT PERFORMANCE

DAHAB

Mr. Bryant discussed the investment setting of the third quarter. The economy was slowing and investments were very strong.

Dean Molinaro stated Munder (Small cap value) under-performed due to over weighting the homebuilding sector. Questions followed on the risk and extent of this over-weighting. Mr. Bryant was asked to request information from Munder. Munder's three and five-year records were reviewed. When asked if they would recommend replacing Munder Mr. Molinaro said he would hold. Mr. Bryant also said he would retain Munder.

Mr. Bryant mentioned the universe comparison in the Dahab report was flawed in that most company performances were gross of fees but the City's investments including Munder were net. His firm will endeavor to fix this.

The Defined Contribution plan was discussed. Mr. Johnson noted 42% of investments appeared to be in cash. Mr. Bryant clarified that the Stable Value fund was somewhere between cash and an intermediate bond fund.

Trusco has invested well over the prior 3 and 5-year periods. The recent quarter showed under-performance because of overweighting energy stocks. Trusco had lowered their exposure in the sector, but it was still greater than that of the benchmark. They have positioned the portfolio in anticipation of Federal Reserve rate cuts in 2007.

Mr. Bryant discussed Real Estate. It is a good diversifier. However, in terms of timing we are closer to the top than the bottom of the cycle. He has recommended direct investments rather than investing in R.E.I.T.S that behave as much or more as stocks than as real estate.

PRUDENTIAL

Mr. Molinaro indicated the PRSSA fund was direct investment in real estate. It was not a Real Estate Investment Trust (R.E.I.T.). It is diversified geographically and by property type. It

included hotels, apartments, commercial research and development facilities. It is not liquid. It own properties built and rented, not raw land for future development. Mr. Jinks pointed out the structure of REIT'S compared to direct ownership.

Mr. Jinks asked Barry how the PRSSA fund is valued? It has been yielding 7-9% in distributions annually. Capital appreciation is less steady. It is appraised annually. (Typically one quarter of the properties are appraised each quarter). Cash flows in and out of the fund are done at the beginning of the quarter.

Mr. Seskey asked if we could check out the holdings. Most of the local holdings are in Washington D.C. Also, he asked once we are in the fund can we later buy more. Nearly always investors can increase their holdings, but fund managers retain the right to close a fund to new purchases.

Mr. Cross asked if Dahab's Asset allocation study had been done for Real Estate investments or REITS? Mr. Bryant indicated the study was for direct investment. The correlation between equities and direct investment real estate and REITS is about .7 and .2-.3 respectively.

Mr. Neckel made a motion to make initial commitment of \$2-\$3 million will be made to PRISA real estate if available. The remainder of the allocation as described in a handout is to be funded within 12 months. Ms. Mammarella asked about PIMCO'S performance vs. the Guaranteed account. Mr. Johnson asked about the handout in which fixed income was targeted at 35% vs. the previously mentioned 30%. Mr. Bland explained the Asset rebalancing could be thought of in two steps. The spreadsheet represented first step to be completed in a matter of a week or two. Later real estate commitments would be funded from the fixed income allocation – slowly bringing the 35% down to 30%.

Mr. Jinks suggested we do the rebalancing motion prior to Mr. Neckel's motion of funding Real Estate. Mr. Neckel agreed and withdrew his motion.

Mr. Neckel made a motion:

Staff is directed to instruct Prudential to rebalance the fund. The rebalancing should immediately reflect the over weighting of value vs. growth and the target allocations of Small-cap and Mid-cap funds.

Chris Lockwood seconded the motion. The motion passed unanimously (8-0).

Mr. Neckel made a motion:

An initial commitment of \$2-\$3 million will be made to PRISA real estate if available. The remainder of the allocation should be funded within 12 months.

Mr. Lockwood seconded the motion. The motion passed unanimously (8-0).

Discussion: Funding the real estate investment should come from PIMCO.

Mr. Neckel made a motion:

Staff is instructed to work with Prudential and Dahab to resolve the issue of withdrawals from the Guaranteed Account exceeding the 16% limit. Staff is directed to make any needed additions to the Guaranteed account by transferring funds from the (Dryden Index Fund/PIMCO Fixed Income account).

Mr. Howard seconded the motion.

Discussion: Mr. Cross asked of the long-term investment implications of having funds with the guaranteed deposit account. Staff will check into this. MR. Howard indicated the need for a checking account function. Mr. Jinks asked what was the right amount? We are paying out a rather predictable \$200,000/month and contributions are \$600,000 or more. Mr. Neckel indicated we are taking steps to address this. Mr. Seskey asked what are the best practices in the industry? Mr. Jinks asked if we were to liquidate the account and take a potential market value adjustment is taken, how long would it take to earn it back? Chairman Lawhorne directed staff to continue monitoring the account. Mr. Jinks indicated pension plans tend to have very stable cash flows, lessening the need for significant cash balances in accounts as these.

The motion passed unanimously (8-0).

TRUSCO

Mr. Reid of Trusco presented the portfolio's performance vs. the benchmark. They had been overweighted in energy related companies for some time. They had recently begun to lighten up their energy holdings but were still overweighted during the third quarter. This hurt performance in the quarter.

DEFINED CONTRIBUTION INVESTMENT OPTIONS

DAHAB

Mr. Bryant pointed out the motivation behind the five potential additions to the investment options menu. In each case it was to fill a gap. We have large cap growth and large cap value, but no large cap core – hence the Davis fund. We have international manager (excluding U.S.) yet no global (including U.S.), hence the LSV Asset Management fund. We do not have anything close to REITS. Although REITS are probably close to the top of their cycle, long term they do offer greater diversification than anything else on the recommended list.

PRUDENTIAL

When asked if there was a cost to adding funds Prudential said no, there was not. Mr. Bryant recommended one or two funds at most at this time. If additional funds were added they might be added at a later date.

Chairman Lawhorne asked that we defer a decision until the interim meeting in January. Staff was directed to place it on the agenda for information gathering in January and a potential decision at February's meeting.

PRUDENTIAL ERROR CORRECTION

Henry Howard made the following motion:

Mister Chairman, I move that the Fire Fighters and Police Pension Plan Board convene in closed executive session at this time, pursuant to Section 2.2-3711(A)(7) of the Code of Virginia, for the purpose of consulting with legal counsel and briefing by staff with respect to specific legal matters regarding a potential claim arising out of the administration of the pension plan.

A brief explanation of the need for executive session was made and members of the audience not participating in the confidential matter were asked to temporarily leave the room. Mr. Jinks seconded the motion. The motion passed unanimously. The meeting entered executive session at 10:45 AM.

The meeting returned from executive at 11:25 AM

Mr. Howard made the following motion:

Mister Chairman, I move that the Fire Fighters and Police Pension Board reconvene in open session.

Mr. Neckel seconded the motion. The motion passed unanimously (8-0).

Mr. Howard made the following motion:

Mister Chairman, I move that the Board adopt the following resolution:

WHEREAS, the Alexandria City Fire Fighters and Police Pension Plan Board has this 13th day of June, 2005, recessed into closed executive session pursuant to a motion made and adopted in accordance with the Virginia Freedom of Information Act; and

WHEREAS, § 2.2-3712 of the Code of Virginia requires a certification by the Board that such closed executive session was conducted in accordance with Virginia law;

NOW, THEREFORE, BE IT RESOLVED that the Board does hereby certify that, to the best of each member's knowledge, only public business matters that were identified in the motion by which the closed executive session was convened, and that are lawfully exempted by the Freedom of Information Act from the Act's open meeting requirements,

were heard, discussed or considered by the board during the closed executive session.

Mr. Jinks seconded the motion. Roll call was taken. The certification was unanimous.

Chairman Lawhorne appointed a subcommittee of Joseph Seskey, Chris Lockwood, Steven Bland, and Brian Gartland from Prudential to review all initial distributions made to retirees from the defined benefit component.

BOARD TRAINING

Mr. Cross asked about potential conflicts of interest in legal representation of the City Of Alexandria and the board or board members. Mr. Spera explained the City Attorney's procedures in such events. Mr. Lockwood asked about liability coverage for board members. Mr. Jinks explained coverage did exist and Mr. Spera enumerated circumstances that were covered or not covered. In the case of conflict of interest there would be separate attorneys. One would represent the City Council and one would represent the board. Chris Spera would be a witness to both.

SERVICE CREDIT BUYBACK

This topic will be covered November 28th at 4:00 PM. Mr. Lockwood was the only member with aware of a schedule conflict. Mr. Jinks pointed out with this timetable the earliest possible time for bringing to City Council is December.

PARTICIPANT TRAINING

Mr. Lockwood asked about participant training. Mr. Bland told of tentative dates for six seminars in January. A more complete communications program will be announced in January.

Adjournment

Mr. Cross motioned the meeting adjourn. Mr. Lockwood seconded the motion. The motion passed unanimously (8-0).