

**MINUTES OF MAY 12, 2016 RETIREMENT BOARD  
CITY OF ALEXANDRIA  
FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN  
DUE DILIGENCE MEETING**

**PRESENT:**

<u>Members</u>	<u>Others</u>
Michael Cross <sup>2</sup> Chairman (Fire)	Scott Brayman, Champlain
Patrick Evans <sup>1</sup> (Fire)	Barry Bryant, Dahab Associates
Jean Kelleher, Secretary <sup>2</sup> (Management)	Shane Cochran, Supplemental Board
Shirl Mammarella <sup>3</sup> (Police, Alternate)	Kadira Coley, Retirement Administrator
Ed Milner <sup>1</sup> (Police)	Lauren Cross, Intern
Rick Muse, (Fire, Alternate)	Charles Curia Supplemental Board
Al Tierney <sup>2</sup> (Police)	Brenda D'Sylva, Supplemental Board
Laura Triggs, <sup>3</sup> (Management)	Robert Gilmore, Supplemental Board
Christina Zechman Brown (Management)	Angie Holbrook, Champlain
	Arthur Lynch, Retirement Specialist
	Christine Burns Patti, NewSouth
	Marietta Robinson, Supplemental Board
	Scott Rutlin, NewSouth
	Rich Tobin, City Resident
	Lillian Vagnoni, Supplemental Board
	Valarie Wright, Supplemental Board
	Sergey Zelensky, Retirement Specialist

Absent:

Jack Browand (Management)

James Davis (Management, Alternate)

<sup>1</sup>Purchase of Service Credit Committee

<sup>2</sup>Technical Corrections and Plan Document Review Committee

<sup>3</sup>Vendor & Service Provider

**CALL TO ORDER**

The meeting was called to order at 10:10 AM on Thursday, May 12, 2016.

**MEETING RECORD**

Mr. Tierney made a motion to:

Approve the April 14, 2016 minutes.
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Ms. Triggs seconded the motion. The motion was unanimously approved (7 – 0).

## **FINANCIAL REVIEW**

Dahab distributed their quarterly report booklet and reviewed the markets during the 1<sup>st</sup> quarter of 2016. Mr. Bryant then gave brief introduction to Champlain and their performance. Mr. Bryant noted that Dahab will incorporate performance net of fees in future quarterly performance reports.

### *Investment Manager Discussions*

#### **PIMCO All-Asset** (Supplemental only)

Noted this strategy did well through 2011 and had a bad year in 2015. They have been up 5.4% which is a strong positive reversal. This strategy outperformed all benchmarks.

#### **RAFI Emerging Market**

Invest in smaller cap stock and value stocks. Had a huge reversal due the fact that value did better than growth.

#### **Polen**

Had a bit of a rough quarter but not of concern. Mr. Bryant feels their strong strategy and philosophy will allow them to bounce back.

#### **PIMCO Small Cap Strategy** (Supplemental only)

Returns are tied to what PIMCO can earn in the fixed income strategies which did not perform well.

**PIMCO Total Return** – Mr. Bryant raised concern about this fund. He is not happy with their recent performance and recommended the Board keep watch on this fund. He also noted some complications with the two flavors of the fund that the City owns. Staff and Mr. Bryant are researching the history and on-going need for this split.

## **MID CAP GROWTH**

*Champlain*, Angie Holbrook & Scott Brayman began at 10:28AM

- Champlain provided an overview of the firm including discussing the expanded partnership and team resources.
- Described the holdings in the strategy including top detractors.
- Noted they feel they are positioned to well in higher interest rate market but are not dependent upon higher interest rates to attain strategy goals.
- A trustee raised concerns that net of fee returns are below the benchmark. Champlain responded that in April the 5-year numbers are now above benchmark and they expect that trend to continue.
- Less risk in portfolio relative to the benchmark
  - Focus on relative returns – run stock specific strategy so individual year could be stock based.
  - Cheap credit and low interest rates have affected the markets
  - Champlain high quality companies – page 25 EVA market – economic returns minus capital. Companies earn 5.5% spread where benchmark has 2.5%.
  - Page 25 chart also shows that fund not paying a premium for high quality stocks

Champlain left at 11:04 AM.

## **Investment Manager Follow-Up**

- Champlain – feels US valuations are currently stretched with record high profit margins
- Champlain mentioned they could do a performance based fee however given the markets they do not feel it is the right time to do a performance based fee.
  - Downside to variable fee – have a great year and pay all money in positive returns in fees.
- Mr. Bryant has asked for Champlain to provide potential new variable fee schedule
- During Champlain’s presentation they noted that we are in an unusual market. Mr. Bryant noted he does not agree we are in an unusual market –rather he feels we are always in an unusual market

## **ADMINISTRATOR’S REPORTS**

### **Regular Investment Reports**

Reports were provided by Staff. No rebalancing is recommended at this time.

### **Cash Flows Reports**

Reports are included in the Board Packet. (Hamilton Lane & PRISA)

### **Other Items**

Education, seminars, conferences & training

- Staff provided an updated calendar of upcoming training sessions. The MAPS conference being held in Baltimore was highlighted as a new, local training option. The agenda was included in the board packet.
- AMRS-VA – Staff has provided notes and summaries from the spring 2016 meeting. SRI follow-up – Staff provided an article from Pension & Investments that talks about CalPERS recent decisions on tobacco holdings.

The Supplemental Board meeting ended and Ms. Triggs left at 11:25 AM.

## **SMALL CAP MANAGER**

*NewSouth*, Christine Burns Patti and Andrew Rutlin began at 11:29AM

- NewSouth provided an overview of the firm highlighting that they are bottom-up stock pickers
- 26 holding in their portfolio
- NewSouth is a value investor and they buy when below the intrinsic value
- 2015 was a challenging year for all domestic equities and small cap equity was the worse of the domestic equities
- A trustee inquired why 6% of the fund was being held in an iShares account. NewSouth noted that they were a number of take overs and activity recently and they did not want to be forced to put money to work when it did not fit their strategy. The City of Alexandria has limited cash holding to 10% and iShares is a workaround for the cash holdings about the maximum threshold.
  - NewSouth further expanded that there is more cash in this strategy than any of their other strategies because there have been many buyouts and acquisitions in this space. Cash holdings increased greatly in 2013.

NewSouth left at 12:06pm

- Staff asked to Dahab to expand on NewSouth's performance relative to the market. Mr. Bryant noted that NewSouth is a good manager for the market that is forecasted ahead when valuations are stretched. He also noted that 2013 was a nightmare scenario for this strategy because markets rose and there was a large holding in cash. Mr. Bryant recommended staying the course with this manager.

## **PLAN SPECIFIC – ELECTIONS 2016**

Staff provided an update that the request for nominations has been sent out and is now posted on the website. The deadline for nominations will close in early June.

## **COMMITTEE REPORTS**

### *Technical Corrections and Plan Document Review Committee*

No report was given.

### *Vendor & Service Provider Review Committee*

No report was given.

### *Purchase of Service Committee*

No report was given.

## **OLD BUSINESS**

### *USERRA*

There was a brief discussion about USERRA. Staff reminded the Board that Cheiron had completed an actuarial study which was presented during the April meeting. Following that discussion the technical corrections committee began work on updating plan language to have the employees (and the City) pay the contributions while the employee was on military leave.

Staff reported that the plan attorney has confirmed that a participant would have the option to not repay the missed contributions and thus not get credit for the service with on military leave. USERRA mandates that the employee would receive eligibility service (which would affect their vesting) but not the service that is used to calculate the benefit.

Trustees asked Staff to follow up with the plan attorney about the repayment period to purchase the service. Staff noted that the USERRA law dictates the amount of the time an employee can take to repay the contributions when using installment payments. There is a need to clarify is there is a period of time in which the repayment must begin and if that period time differs between lump sum payments and monthly repayments.

The effective date of this change is yet to be determined. It was clarified that this change would be grouped with a number of changes most of which would be technical in nature.

## **NEW BUSINESS**

None.

## **NEXT MEETINGS**

1. The status of the June meeting is unknown now that the retreat has been rescheduled to July. Staff will contact trustees about potentially rescheduling this meeting.
2. Thursday – July 14<sup>th</sup> at 8:30 AM, Sister Cities 1101, Interim Meeting
3. Thursday – July 21<sup>st</sup> at 9:00 AM, Sister Cities 1101, Annual Educational Retreat
4. Thursday – August 11<sup>th</sup> at 8:30 AM, Sister Cities 1101, Interim Meeting

## **ADJOURNMENT**

The meeting adjourned at 11:41 AM.

## **HANDOUTS**

Distributed to Board members in the Board Packet:

Agenda
Minutes of Prior Meeting [1(a) – 1(c)]
Monthly Investment & Rebalancing Report [5(a)(i)]
Private Equity Cash Flow Report [5(a)(iii)]
Real Estate Cash Flow Report [5(a)(iv)]
Farmland Cash Flow Report [5(a)(vi)]
AMRS-VA Report – Charlottesville Spring 2016 [5(b)(i)(1)]
Training Opportunities Schedule [5(b)(i)(2)]
MAPS Conference Agenda [5(b)(i)(3)]
P&I Article – CalPERS Tobacco Holdings [5(b)(ii)]

Distributed to Board members at the meeting:

- Dahab Performance Review March 2016 (Specific to your plan)
- Dahab’s Deferred Compensation, Defined Contribution & ROTH IRA Performance Review
- Champlain’s Presentation Booklet
- NewSouth’s Presentation Booklet (Firefighters and Police Officers Board Only)
- Cheiron’s Experience Study Presentation (Supplemental Only)