

THE BOARD OF MANAGERS OF THE CITY OF BIRMINGHAM FIREMEN'S AND POLICEMEN'S SUPPLEMENTAL PENSION SYSTEM met on Wednesday, September 9, 2020 via Teleconference Call at 1:30 p.m.

Board Member Robert Webb called the meeting to order: The following Board Members were present, namely:

**Robert Webb, Member No. 1
William Lipscomb, Member No. 2
Hazel Anthony, Member No. 4**

Board Member Webb made the motion for the August 12, 2020 minutes to be approved. Board Member William Lipscomb seconded.

The Board Members APPROVED the August 12, 2020 minutes.

Board Member Webb referenced the investment activity for the month of August 2020, and stated the Supplemental Pension System gained a profit of \$100,000.00.

Board Member Webb made the motion to approved the investment activity for the month of August 2020. Board Member Lipscomb and Board Member Hazel Anthony seconded.

The Board Members APPROVED the investment activity for the month of August 2020. (Regions Investment Management) – George McCurdy

The Board Members APPROVED the investment activity for the month of August 2020. (Lazard) – Anthony “Tony” Dote

The Board Members APPROVED the investment activity for the month of August 2020. (Cooke & Bieler) – Thad Fletcher

The Board Members APPROVED the investment activity for the month of August 2020. (Great Lake Advisors) – Laurie Watson

The Board Members APPROVED the investment activity for the month of August 2020. (Penn Capital) – Steve Loizeaux

The Board Members APPROVED the investment activity for the month of August 2020. (Xponance, Inc.) – Charles Curry

The Board Members APPROVED the investment activity for the month of August 2020. (Blackstone) – Michael Cambias

The Board Members APPROVED the investment activity for the month of August 2020. (Ithaka Group) – Scott O’Gorman, Jr.

The Board Members APPROVED the investment activity for the month of August 2020. (Morning Asset Management) – Yolanda Foreman

Board Member Webb referenced the financial statements for the month of July 2020, and stated the difference between contributions coming in and expenses going out is roughly an \$580,000.00 loss. The outcome regarding the preliminary financial statements for June 2020 is yet to be determined, but Board Member Webb suspects that will be ultimately unchanged.

Board Member Webb made the motion for the financial statements for the month of July 2020 to be approved. Board Member Lipscomb seconded.

The Board Members APPROVED the financial statements for the month of July 2020.

Board Member Webb made the motion for the Service Pension applications to be approved. Board Member Lipscomb seconded.

The Board Members APPROVED the application of Jeremiah Jackson, an employee with the Fire Department, for SERVICE PENSION at the rate of \$2,574.52 per month, effective August 7, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Beauowtin T. Marshall, an employee with the Fire Department, for SERVICE PENSION at the rate of \$2,829.92 per month (DROP Amount \$110,125.77, DROP Date 08/21/2017), effective August 22, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Michael R. Newton, an employee with the Fire Department, for SERVICE PENSION at the rate of \$3,151.70 per month, effective July 6, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Scott E. Praytor, an employee with the Police Department, for SERVICE PENSION at the rate of \$4,263.99 per month (DROP Amount \$165,932.32, DROP Date 09/4/2017), effective September 5, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Rodney E. Rogers, an employee with the Police Department, for SERVICE PENSION at the rate of \$2,587.23 per month, effective September 11, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Silburn C. Smith, an employee with the Police Department, for SERVICE PENSION at the rate of \$2,820.52 per month, effective August 29, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

Board Member Webb asked Mr. Aaron Saxton, Deputy Director of Finance, for an update on the City of Birmingham Firemen's & Policemen's Supplemental Pension System since there was a deficit for the month of July 2020. Mr. Saxton stated the cash balance has a deficit of \$1.5 million dollars as of today. The contributing factor may have been the increase in the employer contribution rate, which was not factored in for the end of the fiscal year. It caused an adjustment, which should have been approximately \$400,000.00.

Board Member Webb asked Mr. Saxton if what he had mentioned is reflected in the financial statements, or is it something that Board Member Webb would not have able to detect. Mr. Saxton stated the adjustment is not reflected in the financial statements as of June 2020. The contribution rate was sitting at 7.00% for employer contribution and 7.00% for the employee contribution. Per the statute, the employer contribution should have gone up to 8.5%. For the month of July 2020, and the employer contribution exceeds the employee contribution now.

Board Member Webb referenced the preliminary financial statements for June 2020, and stated the employer contribution is 4.43% and the employee contribution is 3.67%. For the month of July 2020, the employer contribution is 4.51 % and the employee contribution is 3.78%. Board Member Webb stated he does not understand why an increased rate of contribution from the employer, or employee, would create a greater deficit. Mr. Saxton stated he will provide more information to Board Member Webb, as Mr. Saxton was trying to understand how the cash balance account got a \$1.5 million-dollar deficit. In July 2020, the deficit was \$300,000.00. Mr. Saxton stated he will dig into the details, and get back with Board Member Webb.

Board Member Webb stated the funds are depleting, and the depletion has been going on for a couple of years. Board Member Webb asked Mr. Saxton about the possibility of the Board Members not having to instruct Morgan Stanley to make an allocation to the City at this time. Mr. Saxton stated that is fine, and he will get back with Board Member Webb. Mr. Saxton stated he does not know if the balance is true, or what it will be next month. However, Mr. Saxton stated he wants to make the Board Members aware of what the balance is showing right now.

Board Member Webb stated if it is necessary, Mr. Saxton can get in touch with Ms. Tina Goree, Recording Secretary, if the Board Members will need to have a Special Call Meeting between now and next month. Mr. Saxton stated that sounds good.

Board Member Webb thanked Mr. Saxton.

There were appearances by Mr. Greg Burchell, Mr. Daymeon Fishback, and Ms. Whitney McDade of Morgan Stanley.

Mr. Burchell stated he has a recommendation to liquidate \$3 million dollars, as noted on the Projects List. It seems like capital will be raised, as Mr. Saxton verifies some data and the recommendation could change to \$2 million dollars. Mr. Burchell stated he would not be opposed to raising the capital at this point, because the market had a very significant runoff. Mr. Burchell stated he would like to “fund the checkbook”. Board Member Webb stated he understands; the Board Members should realize some of those gains before they possibly disappear or evaporate.

Mr. Burchell stated it is at the pleasure of the Board Members as to what they would like to do. Board Member Webb stated he agreed.

Mr. Burchell stated his recommendation is take \$700,000.00 from Cooke & Bieler; \$1 million dollars from the Ithaca Group; \$400,000.00 from Great Lakes; and \$900,000.00 from Lazard. Board Member Webb stated for clarity that these are equity managers. Compared to the fixed income managers, the Supplemental Pension System has a significant balance in equities.

Board Member Webb stated he can see where the allocations are going, because he is looking at the balances prior to the allocation. Mr. Burchell made a good suggestion.

Board Member Webb made the motion to approve the allocation of \$3 million dollars pursuant to the suggestions of Morgan Stanley. Board Member Lipscomb seconded.

The Board Members APPROVED the allocation of \$3 million dollars pursuant to the suggestions of Morgan Stanley.

Mr. Burchell referenced the Projects List, and stated in May 2019 the Board Members approved the allocation of 15% of invested capital of the portfolio to Hamilton Lane Private Markets Opportunity Fund II. The contract is pending legal review. Given the liquidity structure of this vehicle, which is between seven and ten years and the recognition of the liquidity needs of the Supplemental Pension System, Mr. Burchell stated he would like to table that recommendation at this time. The pension fund needs some certainty on the future liquidity requirements, and the recommendation can wait until the actuary completes their work. Board Member Webb agreed.

Board Member Webb made the motion to table Hamilton Lane Private Markets Funding. Board Member Lipscomb seconded.

The Board Members APPROVED to Hamilton Lane Private Markets Funding.

Mr. Burchell stated Mr. Fishback will discuss the current market environment.

Mr. Fishback stated the market has been off to a tremendous start due to record returns during the last quarter. Record highs were expected on the S&P 500 over the last two weeks, but they were down 6% or 7%. Why did that occur? Morgan Stanley felt like it was long overdue, but they do not expect that correction to derail the market. Morgan Stanley assessed the market, but does not know where it will settle out. It will settle out somewhere, and Morgan Stanley believes this the beginning of the bull market and not the end. The market got a little overextended. One of the reasons for the correction is because the US Federal Government stated they fully expect long-term interest rates to go up substantially. Morgan Stanley does not expect interest rates to go down. With the US Federal Government allowing long-term interest rates to go up Morgan Stanley feels like this is a positive signal, i.e. there is enough stability in the economy to allow those longer rates to go up. It is a reminder of when the US Federal Government started to taper and caused a 7% or 8% decline on the downside in 2013. The market adjusted, and continued onward to go higher.

Mr. Fishback stated there are some concerns of uncertainty that will cause volatility, which why the Supplemental Pension Board Members made the decision to approve the Hamilton Lane Private Markets Funding. The US Fiscal Stimulus Bill has not been completed, and there are questions about unemployment checks and job concerns. The 2020 US Presidential Election will not be a normal election, because it will be possibly contested. This possible contested election is going to cause uncertainty due to COVID-19. There has been plenty of conversations about the possibility of COVID-19 coming back in early fall or winter, and that could create additional volatility as well. However, the good news is that the Supplemental Pension System's portfolio has proper asset allocations. The allocations have the Supplemental Pension System Board Members ready to weather those storms and the volatility going forward.

Board Member Webb asked about the thoughts of the 2020 US Presidential Election, i.e. a republican victory vs. a democratic victory. What would be the influence on the market given the other thousands of variables that the Supplemental Pension System Board normally does not have vs. what it has now? Mr. Burchell stated Morgan Stanley did a study on the US Election Cycles dating back sixty-five years for both democratic and republican administrations. The study showed that it does not matter who is in office, but it is the economic cycle that the US is in. Looking back over a number of years, Morgan Stanley had seen many of the nice returns that came during a democratic administration in the White House. When asking most market experts, they would say the market likes gridlock. The market does not like a lot change, and it does not like a lot of activity going one way or the other. The ideal scenario would be to have one political party (democrat or republican) both in the White House and Congress. At this point in the market cycle with coming off COVID-19 and the oil debacle with Russia and Saudi Arabia, the market is in the repair phase. The stimulus was massive from the fiscal policies of the US Government and monetary policies from the US Federal Reserve. The motto "Don't Fight the Fed" is what is being played out in the markets. The markets moved ahead of earnings at this point. If earnings do not follow through, there will be an increase in volatility and a potential pullback.

Depending on the time period of the current US President Election Cycle, whether it is Joseph R. Biden, Sr. leading in the polls or Donald J. Trump, Sr. improving in polls, the markets continued to move higher over the last several months. The markets are also showing that they are not concerned if it is a democratic candidate or a republican candidate in office. More than likely, things are going to stay in place on near term at least. Either way, there is going to be a lot of volatility

Board Member Webb asked if “Don’t Fight the Fed” refers to both monetary and fiscal policies. If not, which one? Mr. Burchell the motto refers to monetary policy. The US Federal Reserve does not control fiscal policy, e.g. tax cuts; checks in the mail; and the stimulation of bills for the economy.

Ms. McDade referenced the Projects List, and stated Morgan Stanley is always looking for opportunities to provide additional education for the Supplemental Pension System Board Members. Ms. McDade stated she is looking to invite either an investment manager or a Morgan Stanley strategist to speak at the Supplemental Pension System Board Meetings once a quarter. Ms. McDade stated she would like to go ahead and schedule the first speaker for the November 2020 Board Meeting. A Morgan Stanley economist will speak, and the main speaker will come on afterwards.

Board Member Webb stated that is a great idea, and thanked Morgan Stanley for their presentation.

Board Member Webb made the motion to adjourn. Board Member Lipscomb seconded.

There being no further discussion, the Board Members APPROVED to be adjourned.

ATTEST:

Lorren Oliver
Secretary

Robert Webb
Chair Pro – Tem