THE BOARD OF MANAGERS OF THE CITY OF BIRMINGHAM FIREMEN'S AND POLICEMEN'S SUPPLEMENTAL PENSION SYSTEM met on Wednesday, November 18, 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
Marlon Tolliver, Member No. 3
Hazel Anthony, Member No. 4

Board Member Webb made the motion for the October 14, 2020 minutes to be approved. Board Member William Lipscomb seconded.

The Board Members APPROVED the October 14, 2020 minutes.

Board Member Webb referenced the September 2020 financial statements for the month of September 2020, and stated the money contributed by the pensioners and the City of Birmingham vs. direct expenses of the pension system going out is down $1.5 million dollars for the month of September 2020.

Board Member Webb made the motion for the financial statements for the month of September 2020 to be approved. Board Member Hazel Anthony and Board Member Lipscomb seconded.

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

Board Member Webb referenced the investment activity for the month of October 2020, and stated the Supplemental Pension System gained a profit of $906,000.00.

Board Member Webb made the motion to approved the investment activity for the month of October 2020. Board Member Lipscomb seconded.

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

The Board Members APPROVED the investment activity for the month of October 2020. (Lazard) – Anthony "Tony" Dote

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

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

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

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

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

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

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

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 Kenneth Bailey, an employee with the Fire Department, for SERVICE PENSION at the rate of $3,471.94 per month (DROP Amount $135,109.85, DROP Date 11/20/2017), effective November 21, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Jason T. Bryant, an employee with the Fire Department, for SERVICE PENSION at the rate of $2,651.82 per month, effective November 18, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Julius D. Franklin, an employee with the Fire Department, for SERVICE PENSION at the rate of $2,939.30 per month (DROP Amount $114,382.27, DROP Date 10/23/2017), effective October 24, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Norman E. Handley, an employee with the Fire Department, for SERVICE PENSION at the rate of $2,922.69 per month, effective November 7, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Priscilla A. Jones, an employee with the Fire Department, for SERVICE PENSION at the rate of $2,853.20 per month (DROP Amount $111,031.71, DROP Date 10/23/2017), effective October 24, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Jeffrey D. Weatherby, an employee with the Fire Department, for SERVICE PENSION at the rate of $2,571.42 per month (DROP Amount $100,066.30, DROP Date 11/24/2017), effective November 25, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Carlos A. Williams, an employee with the Police Department, for SERVICE PENSION at the rate of $3,221.29 per month, effective October 3, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Jesse O. Williams, an employee with the Fire Department, for SERVICE PENSION at the rate of $2,482.09 per month (DROP Amount $96,590.04 DROP Date 10/23/2017), effective October 24, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

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

Mr. Fishback introduced Ms. Lisa Shalett, Chief Investment Officer and Head of Wealth Management Investment Resources, of Morgan Stanley. Mr. Fishback stated Ms. Shallet has one of the most brilliant minds in the industry. Ms. Shallet can be seen on multiple media outlets, and is one of the leaders in Morgan Stanley's Global Investment Committee.

Ms. Shalett stated 2020 is going to be a year that no one will forget. The genesis of the crisis and the recession the United States find itself in, as pertains to COVID-19, was completely unexpected. COVID-19 was not forecasted by anyone; bringing levels of trauma and devastation to several individuals around the world. The hope is that COVID-19 should not be repeated. As much as being disruptive and disoriented 2020 has been, Morgan Stanley believes that capital markets have actually been very efficient and effective at navigating a very traditional recession playbook. Typically, in a recession, the market goes through four very distinct phases: 1) Bear Market – Markets tend to decline at least 20% as the recession is anticipated, and everyone understands that corporate profits are going to decline mightily; 2) Repair Phase – This tends to come with a retracement of that original bear market. There are some pretty significant policies coming from the Central Bank and sometimes from the US Federal Government; 3) Recovery Phase – There is a lot of churning in volatility and range trading. Investors will need the fundamentals to catch up to the anticipation that gets priced into markets. As investors retrace and the market churns and rotates, it is trying to find its footing to prepare for the next business cycle. On the other side of a recession, there is a new business cycle and it goes into (#4) the Expansion Phase.

Ms. Shalett stated Morgan Stanley believes that while the playbook plays out into thirty-six months, it was compressed into nine to twelve months. The market is now in Phase 3 – Recovery Phase. It passed through the Bear Market between February 19, 2020 and March 23, 2020 with a 34% draw down.

From March 23, 2020 to September 2, 2020, there was a new all-time high in the market. Since September 2, 2020, investors are trading in this incredibly wide and volatile zone with the market lurching between growth and value; defense and cyclical; mega-cap and large-cap and small-cap; interest and international and disinterest. In terms of the Bear Market, this particular crisis was profoundly different because investors were able to put a very sharp pencil on the damage. When shut-downs were announced, the economists were penciling in zeroes for a third of the economy for approximately one hundred days. Those estimations allowed people to digest scale and scope very quickly, i.e. there was an immediate recognition that it was going to impact 20 – 30 million people in terms of unemployment. It was going to precipitate a loss of the US Gross Domestic Product (GDP) output somewhere between 5% and 10% or $1.5 trillion dollars and $2.5 trillion dollars. Rather than growing at an exponentially 10% in corporate profits vs. where it was in January 2020, they will probably shrink between 20% and 25% year over year. This kind of immediate calibration is not only captured in the stock market, but it was captured in the imagination of the policy makers. The policy response that Morgan Stanley received around March 23, 2020 was also completely unprecedented. Not only did the US Federal Government cut interest rates by one hundred basis points and committed to unlimited quantitative easing, they embraced an entire alphabet soup of all their legally-mandated programs to provide liquidity to the fixed-income market in a way they never done before. The US Federal Government opened up their lending programs for small-business lending, which complimented the extraordinary amount in fiscal stimulus.

Ms. Shalett stated during the financial crisis, it took the US Federal Government two and half years and four different quantitative-easing programs to add $3 trillion dollars to their balance sheet. In the two and half months from April to end of June, the US Federal Government added $3 trillion dollars to the balance sheet – two and half months as oppose to two and half years. In addition to that, the US Federal Government and US Congressional approvals allowed a distribution of another $3 trillion dollars of stimulus; that is $6 trillion dollars at a $2.5 trillion dollar-problem for loss output. That is the reason why there was a gargantuan response in the market; stock markets are up 10% year-to-date. The place where Morgan Stanley saw the bridging of the stimulus was really in the personal savings' rate, and it soared. As these stimulus payments came out, Morgan Stanley saw a huge amount of cash build up. The build-up of cash occurred not only in bank accounts of small business, but it occurred in the bank accounts of households. It allowed consumption levels to actually hold in, and prevent the recession from being much worse than it could have been. Retail sales recovered albeit with a different mix, but it fully recovered in August 2020.

Ms. Shalett stated Morgan Stanley thinks the ingredients for a V-shape economic recovery are fantastic. There was great recovery in manufacturing, housing, retail sales, and the labor market. Now that the uncertainties around the US Presidential Election and availability for a vaccine for COVID-19 have been removed, the real remaining uncertainty is what is going to happen with the next round of fiscal stimulus. In a tenuous two-month period, the markets were really originally thinking they were going to get a stimulus bill in September 2020 or October 2020 right before the presidential election.

Now the consensus thinking is "we [the markets] are not going to get that stimulus bill until probably after the January 21, 2021 US Presidential Inauguration; that is going to pressure the savings' buffer. The savings' buffer is estimated to be approximately $1.3 trillion dollars of excess savings, and it is being ran pretty aggressively. By the time January 2021 comes around, it will start to feel tight; that is probably the reason why the market is stuck in this zone. In 2021, the vaccine for COVID-19 will be distributed between March and June; the economy will exit the recession; the US GDP will be a stunning 6% reel in order for inflation to pick back up at 2%; and there will be an 8% or 9% growth in the GDP. It would be phenomenal and a major healing to labor market; unleashing extraordinary amount of pinned-up demand on the services' side of the economy. The consumer economy is approximately two-thirds of the total GDP; two-thirds of that was one-third of the entire economy in consumer services. Not only does it provide very strong growth and recovery in the labor market, it will probably stimulate a little bit of inflation which is going to be a good thing.

Ms. Shalett stated all of that will produce a scenario for the S&P 500 when it reaches approximately 3900 from current levels; approximately up 10% from where the market is today for a decent year in US stocks. The upward trajectory in the stock market is probably going to be accompanied by a rise in interest rates. Morgan Stanley is forecasting that the Ten-Year Treasury will go from where it is today at approximately eighty-eight basis points to something closer to one hundred forty-five basis points; it would be a much steeper yield curve. The best way to navigate in the portfolio is not to own the index, in terms of US stocks. The index is a very defensive with a concentration in long-duration secular growth stocks like Facebook, Apple, Amazon, Netflix, and Google i.e., things that have worked for the past eleven years. They are great companies, but Morgan Stanley's thesis is that these companies are not going to be great stocks. The way to do better is to actively own some value-oriented stocks and cyclical stocks like financials, industrials, materials, transports, and energy. These would be supplemented on the growth side with things like healthcare and consumer discretionary stocks. In addition to rates moving up, the fixed income objective will need to be met in more creative ways. As rates go up, the price of fixed income bonds goes down. Creative ways will need to take place to generate income, e.g. acquiring dividend-paying stocks. Preferred stocks, convertibles, investment-grade credit such as high-yield credit, structure credit, asset backs, and securities for income are very diversified approaches to generating income; making sure there is not too much rate-related duration in the fixed-income portfolios.

Ms. Shalett stated the emergence out of the recession is global. Many regions outside of the US are going to have good economic leverage because other attributes that are likely to be seen, besides inflation, is a much weaker dollar. If the dollar weakens for US investors, it creates a tailwind to invest internationally. The equity portfolios should be supplemented with some international stocks, in particular with emerging markets like Japan.

Ms. Shalett stated inflation protection is needed in the portfolio, and the best way to do that is with real assets such as gold; gold mining; infrastructure assets; and real estate-oriented assets. In terms of alternatives' universe, it has been extraordinary year for private equity. Morgan Stanley's view is that private equity probably provides below the average return over the next three to five vintage years, because valuations are so rich. So much capital has been committed, Price to Earnings Ratios are high, and Competition for deals are high; it is to the extent that investment in alternatives is needed or have an allocation to illiquid investments. Morgan Stanley has been more incline to put that towards hedge fund-oriented strategies, and strategies that can go long-short in the markets that potentially provide a buffer to equity volatility which Morgan Stanley thinks is going to remain elevated.

Ms. Shalett stated Morgan Stanley thinks the year 2021 will have a good economy, and decency in the stock market. The last eleven years were extraordinary for US stocks and bonds. US stocks compounded at 15% per year, bonds compounded at 9%, and a 60/40 portfolio delivered returns at 10%. Morgan Stanley's forecast for US stocks is 4.5% to 5.5% for the next five years and bonds will be 0% to 2%. When trying to get something closer to 7% to 10%, wider asset classes will need to be pursued. The next business cycle will be a different type compared to what it was like in the last eleven years. The dominance of the smart phone, ecosystem, social media stocks, and low interest rates provide tailwinds of very high-price multiplies for those stocks. Morgan Stanley thinks the next decade is going to be characterized by more reflationary themes that reward many more traditional industrial and service companies. These companies are going to benefit from changing demographics, i.e. the deglobalization from automation and digitalization of service businesses that moved to contactless business models. The US Federal Government will monetize the debt of the country, and it will be new territory for the US. The portfolio will have to be more diversified, and much more actively managed. The sources of return and risk management will have to be much more vigorous.

Board Member Webb stated to Ms. Shalett that she gave an excellent analysis.

Board Member Webb stated for clarity since March 2, 2020, the market had gone into the recovery phase which Morgan Stanley anticipates it continuing until end of the year. After the US Presidential Inauguration on January 21, 2021, the market will be in the expansion phase. Ms. Shalett stated that is correct. The market has been in the recovery phase since September 2020, and probably will stay between the 3100 and 3600 zip code. The market passed through the top end of that. Washington D.C. seems to be obsessed with politics, as opposed to focusing on stimulus. This is likely to continue through the resolution of things and the inauguration date. The country got to go through COVID-19; the numbers are going to get a lot uglier before they get better.

Ms. Shalett stated the Supplemental Pension Board Members has time to make decisions, and does not need to do anything drastic now. The market should be poised by the middle of January 2021 to take that next step up.

Board Member Webb stated the Board Members will look into possibly restructuring the Supplemental Pension System's portfolio in 2021; aim towards financials, industrials, materials, and emerging markets like Japan. Ms. Shalett stated that is correct.

Board Member Webb stated he was really surprised to hear Ms. Shalett mentioning gold, because one has to hit it perfect because the results can be imperfect. Board Member Webb asked Ms. Shalett about the energy markets.

Ms. Shalett stated gold is a very non-traditional call for Morgan Stanley. Morgan Stanley's clients are investors, and not traders. Gold tends to be a trader's instrument. With bonds and traditional treasuries losing their power to diversified equity risk, Morgan Stanley is looking for things that commute some of the equity market risk, and traditionally gold can pave that road in a reflationary environment. Morgan Stanley is not saying "back up the truck" but in a period over the next two to five years, a 5% commission in gold might buffer some the stock volatility. Gold is a negative asset class, and it does not generate income. Board Member Webb made a fantastic observation.

Ms. Shalett stated Morgan Stanley's view on energy stocks is that they provide value, and provide leverage to a very strong recovery. In terms of the dynamics around commodity prices and oil prices, restructuring is being done in terms of improvements in the assets.

Board Member Webb stated the Supplemental Pension System is "hemorrhaging", but Morgan Stanley has served the Supplemental Pension System very well with outstanding performance. However, the pension fund has so much money going out that was unprecedented and unpredicted. The Supplemental Pension System will get liquidity when Blackstone comes in with $1.5 million dollars at the first of the year.

Board Member Webb asked Mr. Burchell if the Board Members will need to consider changing the investment requirements with reductions to fixed income during a potential Board Meeting. Mr. Burchell stated absolutely. Morgan Stanley is in the process of starting an asset allocation study. The actuary will do an experience review by looking at all the variables that goes into their calculations. Morgan Stanley is going to do their study, and log the data put out by Ms. Shalett's team for Mr. Burchell's team. The numbers will be incorporated in the asset liability study, and Mr. Burchell's team will look at how efficient the portfolio is based on the return objectives. There are some challenges that will need to be addressed for the Supplemental Pension System, but Mr. Burchell's team will probably come back with a portfolio that they will recommend for the next phase of the economic cycle before end of the fiscal year.

Board Member Webb stated that is great. The Board Members will need to present something to the state legislature earlier rather than later.

Board Member Webb thanked Ms. Shalett for her presentation.

Mr. Burchell stated the Supplemental Pension System has $27.8 million dollars. The pension fund recovered $7 million dollars, but most of it went to pay pension obligations. The portfolio has $7 million dollars in fixed income; $18 million dollars in equities; and a small piece in the Blackstone Real Estate Income Fund. Mr. Burchell will be talking about the Blackstone fund with the Board Members in January 2021, and the Blackstone representatives are invited to talk about how they are going to unwind that particular portfolio.

Mr. Burchell discussed the Fire & Police performance report. The Total Fund had return of 7.98% for the quarter ending since June 2020 at $1.9 million dollars. The quarter ended with $27.3 million dollars. The benchmark outperformed at 1.5%, or $385,000.00. The outperformance is attributable to the equity managers, and the distracters were fixed-income managers. The performance report is a good representation of the challenge that faces the Supplemental Pension System. With a prudent allocation, there is no better diversifier than having a bond portfolio in a down market. In face of rising interest rates, most of the return will have to come from the equity managers or non-bond managers.

Mr. Burchell stated the Supplemental Pension System was cash positive for years, or flat in terms of withdrawals in the portfolio. Until 2013, the withdrawals were significant. From 2001, the pension fund had approximately $25 million dollars. If the pension fund had not earned a dime, it would have been a negative $14 million dollars. The portfolio made approximately $40 million dollars in that time period. Mr. Burchell commended the Board Members for sticking with their discipline in the portfolio while in the face of a real challenging market this year. There are a lot of portfolios that did not do that. As a result, they did not participate in the recovery and that would have been very dramatic and almost terminal for the Supplemental Pension System.

Board Member Webb stated Mr. Burchell's team does a great job; it is very amazing.

Board Member Webb stated for clarity the Board Members will worry between now and the end January 2021. Afterwards, the Board Members will refocus and reallocate the investment portfolio. Mr. Burchell stated that is one of the things that is on the horizon. The new phase of the economic cycle will be approaching, and it will be a great time to evaluate. The expected returns for all asset classes, relative to the risk premium it brings to the portfolio, will be looked at along with the projected withdrawal rates from the actuary. The probability of success will be determined by the possibility of different portfolios.

Board Member Webb asked Mr. Jay Turner, Board Counsel, if he heard the discussion about state legislation. Mr. Turner stated yes.

Board Member Webb stated the legislation would require Mr. Turner's involvement. Mr. Turner stated that is correct, and he thinks outside counsel will be involved.

Mr. Burchell stated in terms of pension law, he believes it is pretty broad at this point, but he would give it to Mr. Turner or outside counsel.

Board Member Webb stated he is referring to reducing the required fixed income requirement. Mr. Burchell stated fixed income is close to 12%; there is some room. Mr. Burchell stated he will probably go below 12%, but it will need revisiting.

Board Member Webb thanked Mr. Burchell for that correction.

Board Member Lipscomb stated Morgan Stanley turned some things around, the Board Members made some wise investments due to paying attention to the stock market, and the pension fund gained $6 million dollars.

Board Member Lipscomb stated Mr. Turner is supposed to be instrumental, as it relates to any kind of legislation that pushes the pension fund's agenda forward. Mr. Turner will have additional support that will help guide him also, and Board Member Lipscomb will contact Mr. Turner.

Mr. Burchell encouraged the Board Members to continue to work forward in minimizing the withdrawals, as Morgan Stanley is doing everything they can on their part. Morgan Stanley monitors the withdrawal rate for the pension fund, and it is pretty dramatic.

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

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

ATTEST:

Lorren Oliver	**Robert Webb**
Secretary	**Chair Pro – Tem**