

AGENDA

CITY OF BIRMINGHAM FIREMEN'S AND POLICEMEN'S SUPPLEMENTAL PENSION SYSTEM

Board Members: William Parker, Chairman
Robert Webb, Member No. 1
William Lipscomb, Member No. 2
Marlon Tolliver, Member No. 3
Hazel Anthony, Member No. 4

Meeting Time: Wednesday, November 18, 2020
via Teleconference at 1:30 p.m.

Minutes: Attached are the minutes of the
October 14, 2020 meeting

1. Approval of the minutes for the October 14, 2020 meeting.
2. Approval of the financial statements for the month of September 2020.
3. Approval of investment activity for the month of October 2020.
(Regions Investment Management) – George McCurdy
4. Approval of investment activity for the month of October 2020.
(Lazard) – Anthony “Tony” Dote
5. Approval of investment activity for the month of October 2020.
(Cooke & Bieler) – Thad Fletcher
6. Approval of investment activity for the month of October 2020.
(Great Lake Advisors) – Laurie Watson
7. Approval of investment activity for the month of October 2020.
(Penn Capital) – Steve Loizeaux
8. Approval of investment activity for the month of October 2020.
(Xponance, Inc.) – Charles Curry

9. **Approval of investment activity for the month of October 2020. (Blackstone) – Michael Cambias**
10. **Approval of investment activity for the month of October 2020. (Ithaka Group) – Scott O’Gorman, Jr.**
11. **Lorren Oliver, Secretary, submits the following agenda item for discussion by the Board: Ms. Lisa Shalett, Chief Investment Officer and Head of Wealth Management Investment Resources, of Morgan Stanley will be speaking to the Board Members.**
12. **Lorren Oliver, Secretary, submits the following agenda item for discussion by the Board: Performance Report Update given by Mr. Greg Burchell, Mr. Daymeon Fishback, and Ms. Whitney McDade of Morgan Stanley.**
13. **Lorren Oliver, Secretary, submits the following agenda item for discussion by the Board: 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.**
14. **Lorren Oliver, Secretary, submits the following agenda item for discussion by the Board: 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.**
15. **Lorren Oliver, Secretary, submits the following agenda item for discussion by the Board: 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.**
16. **Lorren Oliver, Secretary, submits the following agenda item for discussion by the Board: 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.**
17. **Lorren Oliver, Secretary, submits the following agenda item for discussion by the Board: 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.**

18. **Lorren Oliver, Secretary, submits the following agenda item for discussion by the Board: 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.**
19. **Lorren Oliver, Secretary, submits the following agenda item for discussion by the Board: 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 24, 2020 under the provisions of Act 59-556, Section 6 of the pension law.**
20. **Lorren Oliver, Secretary, submits the following agenda item for discussion by the Board: 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.**

THE BOARD OF MANAGERS OF THE CITY OF BIRMINGHAM FIREMEN'S AND POLICEMEN'S SUPPLEMENTAL PENSION SYSTEM met on Wednesday, October 14, 2020 via Teleconference Call and WebEx 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**

Board Member Webb made the motion for the September 9, 2020 minutes to be approved. Board Member William Lipscomb seconded.

The Board Members APPROVED the September 9, 2020 minutes.

Board Member Webb referenced the financial statements for the month of August 2020, and stated the City of Birmingham Firemen's & Policemen's Supplemental Pension System had a loss of \$493,000.00 in terms of pension contributions vs. pension payments going out. In July 2020, the financial statements reflected a \$580,000.00 loss.

Board Member Webb asked Mr. Aaron Saxton, Deputy Director of Finance, if the Supplemental Pension System is funded with the City. Mr. Saxton stated for recollection at last month's Board Meeting that the cash balance has a deficit of \$1.5 million dollars. Mr. Saxton stated Board Member Webb questioned him about it, and Mr. Saxton had stated he could not give Board Member a good explanation.

Mr. Saxton stated he went back to take a closer look at the cash balance. When the Supplemental Pension Board Meetings take place, the Finance Department had not closed out the books for the month yet and the cash statement has not been reconciled. When the bank account was reconciled, one of the staff members had found duplicated entries that were done by one of the IT staff members. The duplications caused an understatement roughly in the neighborhood of \$600,000.00. Since that time, it has been corrected. Being transparent, there is an entry that has yet to be posted because the system keeps gnarring out. The posting of the entry should raise the balance in the system, however the Supplemental Pension System currently has a \$1.8 million dollar-deficit after corrections. Board Member Webb stated the Board Members will hear from Morgan Stanley for a recommendation.

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

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

Board Member Webb referenced the investment activity for the month of September 2020, and stated the Supplemental Pension System gained a profit of \$87,839.00. In August 2020, the Supplemental Pension System had approximately \$100,000.00 in investments.

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

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

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

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

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

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

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

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

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

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

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

The Board Members APPROVED the application of Abdo G. Amer, Jr., an employee with the Police Department, for SERVICE PENSION at the rate of \$2,818.58 per month, effective September 12, 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.

Mr. Fishback stated so much has been going on with the market; it is ever flowing. A new bull market begins when a recession ends; it typically runs for years. The health crisis (COVID-19) had triggered the most recent recession, but it brought in an unprecedented monetary physical stimulus. The sentiment in positioning has remained skeptical due to the size and persistence of this rally, which leads Morgan Stanley to believe that the Supplemental Pension System should remain bullish as well.

Mr. Fishback stated the reasons why Morgan Stanley believes there could be a correction: 1) The breadth of this rally has deteriorated since June 2020; 2) The school re-openings are being challenged along with quite of few re-openings due to COVID-19 spikes that occurred on college campuses across the country; 3) Mr. Steven Mnuchin, US Secretary of Treasury and Mrs. Nancy Pelosi, Speaker of the US House of Representatives, had stated they are not sure if there is going to be another stimulus package before the November 3, 2020 US Presidential Election; 4) The US Federal Government's new inflation target has allowed for higher back-end rates that markets are expecting; and 5) The election outcome, which is likely to remain uncertain and not just until November 3rd, will possibly be contested.

Mr. Fishback stated Mr. Mike Wilson, Chief Investment Officer at Morgan Stanley, had talked about the occurrence a V-shaped recovery. The recovery happened faster than the market anticipated. The barbell growth cyclicals, with skew towards small- and mid-cap, are the recommendations for the Supplemental Pension System. The cyclicals are a mix of high-quality growth stocks with the biggest potential beneficiaries of a continued recovery. The US-style and sector recommendations that Morgan Stanley are overweight in mid-cap and small-cap over large-cap. Inflation is key to a secular bull market for stocks and a secular bear market for bonds. Morgan Stanley continues to recommend overweight in equities and credit; underweight in interest-rate risk; and use pullbacks for buying opportunities in stocks led by US cyclicals, small-cap, and mid-cap. Depending on who wins the US Presidential Election, the Covid Virus and the US-China Trade War will be ongoing.

Board Member Webb stated he is curious about the language that says "potentially much higher back-end rates than the markets are expecting". Does it mean that it will be a longer timeframe that interest rates will go up? Mr. Burchell stated part of that is directly related to potential inflation. Right now, the US Federal Reserve balances approximately \$6 trillion dollars and Morgan Stanley expects it to be closer to \$10 trillion dollars by the end of next year. The US Federal Reserve is printing money to do it. Morgan Stanley feels like that is going to attribute to inflation. Ultimately, the bond market will identify that and move in concert with it. Morgan Stanley has seen it already happening in a 10% - 15% move in rates. Mr. Burchell stated he thinks that is probably going to continue, and that language is probably referring to that. The back end of the yield curve is starting to move higher in the anticipation of inflation.

Board Member Webb stated for clarification the borrowing rate is for possible credit. Mr. Burchell stated that is correct.

Board Member Webb asked how does that relate to what the Supplemental Pension System is holding in terms of \$4 million dollars in fixed income. Mr. Burchell stated the duration of the pension fund's portfolio is probably an average of five years or less. When thinking in terms of the relation between bond prices and interest rates, it is a seesaw. The further one goes out on the other end of the seesaw – bond prices on one side and interest rates on the other – the further interest rates go up; bond prices will go down. If one is closer to the end of the seesaw, it will be three years. If one is closer to the middle, e.g. five years, one is not going to move as much. The long end of the curve should not have that big of an impact. It could be negative, but it is not going to be dramatic in Morgan Stanley's opinion.

Mr. Burchell referenced the Projects List, and stated Mr. Saxton had mentioned a \$1.7 million-dollar deficit. The funding of the deficit has not been completed yet. The \$3 million dollars that was approved at last month's Board Meeting has yet to be funded in the disbursement account, but it is expected to happen this week. It should leave approximately \$1.3 million-dollar credit balance to pay current pension obligations for this quarter.

Board Member Webb referenced the allocation handout, and stated the Board Members will be approving to take \$1 million dollars from the Ithaka Group and \$900,000.00 will be coming out of Lazard. Is it the rationale to maintain a heavier balance in internationals, or is it the lack in liquidity? Mr. Burchell stated when looking at where the markets performed in different segments, particularly in the S&P 500, there has been tremendous growth in the consumer staples and technology stocks. This is dominated in the Ithaka Group portfolio. Ithaka has done extremely well this year, & it kind of goes against human nature to take money away from them. However, at the same time Morgan Stanley would like for the Supplemental Pension System Board Members to take some money off the table. The money should come from areas that have appreciated, as oppose to areas that has not done as well. The Supplemental Pension System Board Members has taken money away from areas that have done well in order to leave most of the pension fund in areas that Morgan Stanley thinks have yet to perform.

Ms. McDade stated Projects List, and stated the discussion regarding inviting asset managers is a continuation from last month's Board Meeting. Investment managers can speak to the Supplemental Pension System Board Members once a quarter. The meetings can be done via WebEx or in person, depending on what the future may hold. Next month, a Morgan Stanley analyst will talk about the monthly outlook post US Presidential Election. Ms. McDade stated she has outlined a proposed schedule to bring in an investment manager who has underperformed or one who has significant outperformance.

Board Member Webb asked about the January 2021 brief closing. Mr. Burchell stated it is the Blackstone Real Estate Income Fund that Morgan Stanley is currently invested in. There is \$1.5 million dollars in that portfolio, and Mr. Burchell stated he wants Blackstone to talk about how they are going to close this position out and ultimately disburse funds back into the Supplemental Pension System.

Mr. Burchell referenced the Projects List, and stated the actuary will do an experience review. The Supplemental Pension System has had some unusually high withdrawal rates. For Fiscal Year 2019, the pension fund withdrew \$4.3 million dollars which 27% of the total fund. That is not sustainable obviously because it draws a lot of concern. It is important for the actuary to update the actual experience, and Mr. Burchell stated he is not going to say what it specifically relates to. Morgan Stanley's concern is to stay in their lane, which is looking at the withdrawal rates as illustrated. Along with the experience review once the actuary updates their information, Morgan Stanley would like to update their asset allocation study. The US economy is in a multi-year rate adjustment and normalization period where a much lower bond return is expected. Lower returns coincide with low-rate inflation, and Morgan Stanley needs to update those inputs. Morgan Stanley will take the projected withdrawal schedule from the actuary and import into their asset liability study. Morgan Stanley want to stress test it to see what the probability of success is for the Supplemental Pension System in the current allocation, as well as look at potentially other scenarios that they might present.

Board Member Webb stated the Supplemental Pension System currently has \$27 million dollars, and it is soon to be reduced by \$3 million dollars. Mr. Burchell stated that is correct. The pension fund received a little bit of return this month, and it will be closer to \$24 million dollars or \$25 million dollars.

Board Member Webb thanked Mr. Burchell.

Board Member Webb asked Mr. Saxton about the Supplemental Pension System funding the City. Mr. Saxton stated \$3 million dollars will be transferred in, but there is \$1.7 million-dollar deficit. Looking at the activities of the fund, Mr. Saxton stated the pension fund has been averaging net disbursements of approximately \$700,000.00 a month; this is what coming out of the cash account. This will probably last two months.

Board Member Webb thanked Mr. Saxton for the analysis.

Board Member Webb stated the Board Members will be receiving more advice at the November 2020 Board Meeting and experience analysis coming in from the actuary and possibly repositioning the portfolio. The information will be coming at the right time to carry the pension fund through the end of year with deficit spending. The Board Members will see where the Supplemental Pension System is; this year has been a very difficult.

Mr. Burchell stated he agrees with Board Member Webb. It is going to be a critical year for the Supplemental Pension System. Morgan Stanley will do their asset allocation study, and the actuary will do their experience review.

Board Member Webb thanked Mr. Burchell, Mr. Fishback, Ms. McDade, and Mr. Saxton for their presentations. Board Member Webb also thanked Board Member Lipscomb and Board Member Tolliver for their public safety services in the community.

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

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

ATTEST:

**Lorren Oliver
Secretary**

**Robert Webb
Chair Pro – Tem**