

THE BOARD OF MANAGERS OF THE CITY OF BIRMINGHAM RETIREMENT AND RELIEF SYSTEM met via Webinar and Teleconference Call on November 18, 2020 at 3:00 p.m.

The following Board Members were present, namely:

**Randall Woodfin, Member No. 1
Kenneth Crenshaw, Member No. 2
Steven A. Schultz, Member No. 4
Otis Luke, Member No. 6
Dale Wyatt, Member No. 7
Kasandra Brundidge, Member No. 8
Ronald Vaughn, Member No. 9**

Chairman Randall Woodfin, Mayor, called the meeting to order.

Chairman Woodfin welcomed the new Board Member Kenneth Crenshaw, and thanked him for serving on the R&R Board. Mr. Crenshaw replaces Martin P. Leonard, who served on the R&R Board for thirty-three years.

Board Member Ronald Vaughn made the motion to approve the October 14, 2020 Board Minutes. Board Member Otis Luke seconded.

Board Members Vaughn, Luke, and Chairman Woodfin: AYE

Board Member Kasandra Brundidge: OPPOSED

Board Member Kenneth Crenshaw: ABSTAINED

The minutes of the October 14, 2020 Board Meeting FAILED to pass due to lack of votes.

Board Member Vaughn made the motion to approve financial statements for the month of September 2020. Board Member Luke seconded.

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

Board Member Wyatt made the motion to approve the investment activity for the month of October 2020. Board Member Vaughn seconded. Board Member Crenshaw ABSTAINED.

The Board Members APPROVED the investment activity for the month of October 2020. (BBVA Compass) – Richard Underwood

The Board Members APPROVED the investment activity for the month of October 2020. (Quantitative Management/Prudential) – Kevin McGrory

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. (INVESCO Capital) – Mark Blackburn

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

The Board Members APPROVED the investment activity for the month of October 2020. (Thornburg Investment Management) – Greg Whitaker

The Board Members APPROVED the investment activity for the month of October 2020. (Rhumblin Advisers) – Denise D’Entremont

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. (Cooke & Bieber) – Thad Fletcher

Board Member Luke made the motion to approve Service Pension applications. Board Member Brundidge seconded. Board Member Crenshaw abstained.

The Board Members APPROVED the application of Ronnie Lee Colburn, an employee with Planning & Engineering, for SERVICE PENSION at the rate of \$1,912.69 per month, effective November 21, 2020 under the provisions of Article VI, Section 1 of the pension law.

The Board Members APPROVED the application of Billy Earl Conner, an employee with the Birmingham Public Library, for SERVICE PENSION at the rate of \$4,613.79 per month (DROP Amount \$99,046.46, DROP Date 01/23/2019), effective October 24, 2020 under the provisions of Article VI, Section 1 of the pension law.

The Board Members APPROVED the application of Raymond H. Crutchfield, an employee with the Police Department, for SERVICE PENSION at the rate of \$7,480.27 per month (DROP Amount \$279,894.70, DROP Date 10/23/2017), effective October 24, 2020 under the provisions of Article VI, Section 1 of the pension law.

The Board Members APPROVED the application of Terry L. Graham, an employee with Planning & Engineering, for SERVICE PENSION at the rate of \$2,928.40 per month, effective October 31, 2020 under the provisions of Article VI, Section 1 of the pension law.

The Board Members APPROVED the application of James E. Hawkins, an employee with the Public Works Department, for SERVICE PENSION at the rate of \$1,688.45 per month (DROP Amount \$24,390.50, DROP Date 09/06/2019), effective November 7, 2020 under the provisions of Article VI, Section 1 of the pension law.

The Board Members APPROVED the application of John D. Howse, an employee with the Finance Department, for SERVICE PENSION at the rate of \$3,063.30 per month (DROP Amount \$57,374.38, DROP Date 05/06/2019), effective November 7, 2020 under the provisions of Article VI, Section 1 of the pension law.

The Board Members APPROVED the application of Phillip A. Hyche, an employee with the Finance Department, for SERVICE PENSION at the rate of \$3,173.02 per month, effective November 7, 2020 under the provisions of Article VI, Section 1 of the pension law.

The Board Members APPROVED the application of Tracey Lee, an employee with the Public Works Department, for SERVICE PENSION at the rate of \$1,115.05 per month, effective October 24, 2020 under the provisions of Article VI, Section 1 of the pension law.

The Board Members APPROVED the application of Eddie L. Williams, an employee with Parks & Recreation, for SERVICE PENSION at the rate of \$774.81 per month, effective October 10, 2020 under the provisions of Article VI, Section 1 of the pension law.

The Board Members APPROVED the application of Steven C. Farr, an employee with the Police Department, for SERVICE PENSION at the rate of \$3,745.23 per month, effective September 29, 2020 under the provisions of Article VI, Section 5 of the pension law.

Mr. Farr has been receiving a Supplemental Pension in the amount of \$2,480.51 since April 4, 2019.

The Board Members APPROVED the application of Horatio M. Johnson, an employee with the Fire Department, for SERVICE PENSION at the rate of \$4,163.14 per month, effective November 23, 2020 under the provisions of Article VI, Section 5 of the pension law.

Mr. Johnson has been receiving a Supplemental Pension in the amount of \$2,767.50 since July 17, 2020.

Board Member Luke made the motion to approve Widow's Benefit applications. Board Member Wyatt seconded. Board Member Crenshaw abstained.

The Board Members APPROVED the application of Sandra L. Harris, widow of Willie J. Harris, Jr., an employee with Municipal Court, for WIDOW'S BENEFITS at the rate of 727.42 per month, effective October 1, 2020 under the provisions of Article VI, Section 10(A) of the pension law.

The Board Members APPROVED the application of Faye Isbell, widow of Donald Isbell, an employee with the Fire Department, for WIDOW'S BENEFITS at the rate of \$1,083.20 per month, effective August 17, 2020 under the provisions of Article VI, Section 10(A) of the pension law.

The Board Members APPROVED the application of Phyllis G. Meek, widow of William O. Meek, an employee with Municipal Court, for WIDOW'S BENEFITS at the rate of \$1,114.96 per month, effective September 5, 2020 under the provisions of Article VI, Section 10(A) of the pension law.

The Board Members APPROVED the application of Diane A. Patterson, widow of Sammie E. Patterson, an employee with the Fire Department, for WIDOW'S BENEFITS at the rate of \$1,066.73 per month, effective October 15, 2020 under the provisions of Article VI, Section 10(A) of the pension law.

The Board Members APPROVED the application of Joanne Reese, widow of James Elston, an employee with the Public Works Department, for WIDOW'S BENEFITS at the rate of \$320.00 per month, effective August 17, 2020 under the provisions of Article VI, Section 10(A) 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. Shalett has one of the most brilliant minds in the industry. Ms. Shalett can be seen on multiple media outlets, and is one of the leaders in Morgan Stanley's Global Investment Committee.

Ms. Shalett stated the year 2020 will be a year that the world will never forget. Whether it is the COVID-19 Pandemic or the recession that came with it, the markets have proven resilient at 10% to 12% Year-To-Date. The markets were shooting all-time highs two days ago. Why is that the case? As devastating as this crisis has been, the stimulus measures from the US Federal Reserve and US Federal Government have been unprecedented and gargantuan in their scale, speed, and scope.

It is Morgan Stanley's determination that the market behaved quite rationally by responding to the stimulus and the likelihood that a V-shape recovery will be seen exiting this recession in the middle of 2021. The F&P 500 will easily get to the target price of 3900, which is 10% to 12% higher than where it is today.

Ms. Shalett stated in terms of contextualizing the stimulus that was mentioned earlier, the size and speed of it has been extraordinary. The US Federal Government is engaging in absolutely, unprecedented programs to participate in providing liquidity not only to treasury markets and the mortgage-back securities' markets as it was done for quantitative easing during the great financial crisis, but they are purchasing short-duration municipal securities and investment-grade corporate credit this go round. The US Federal Government has been spending, and is spending at an unbelievable rate at approximately \$120 billion dollars per month. Between April 2020 and June 2020, the US Federal Government injected close to \$3 trillion dollars into the economy and markets, and expanded the balance sheet. During the great financial crisis, it took the US Federal Government four Quantitative Easing Programs to add \$3 trillion dollars to their balance sheet just to spend that much money. At the same time, the US Federal Government came through with stimulus close to \$3 trillion dollars with the Personal Protective Equipment Program (PPE); Extension of Unemployment Benefits; and helicopter money for those most in need. This combination of \$6 trillion dollars equates to almost 40% of US Gross Domestic Product (GDP). While in a recession and experiencing the loss of output, the services' side of the US economy had a loss between \$1.5 trillion dollars and \$2.5 trillion dollars approximately. The stimulus is approximately three times that. The gap was bridged between the devastation of twenty to thirty million people being unemployed; housing going up; manufacturing going up; durable goods going up; and the healing of the labor markets. It all because the bridge of the stimulus. Even retail sales recovered to levels to where they were in January 2020. The stimulus has been absolutely key to what is going on.

Ms. Shalett stated the market is in a precarious part of the cycle, which is the recovery phase. Over the next two months as the end of the year draws to a close with getting through COVID-19 and the transition in Washington D.C. with new terms in US Congress, the markets are currently stalling. The markets will be in a churning period with a lot of volatility. On a day-to-day basis, the markets are lurching between being defensive and owning all the old winners like the tech names; the work-from-home names; and the pro-cyclical, e.g. financials, industrials, materials, transports; consumer discretionary-type stocks. Once the markets get through this tough period between now and the middle of January 2021, Morgan Stanley sees a robust scenario. The robust scenario will be a V-shape recovery; US GDP being very strong and growing at 6%; inflation running about 2%; and the Ten-Year Treasury moving up in yield from its current eighty-eight basis points to one hundred forty-five basis points. The good news with the rise in basis points with Ten-Year Treasury is that it will be a much steeper yield curve and that is good for cyclicals, financials, and banks. However, it is not great from some of the fixed income investments that Retirement & Relief System may have.

While maintaining exposure to stocks and some of these cyclical sectors, one of the things that can be done is to shorten the duration in fixed income and focus on generating income from credit vehicles. Investment-grade bonds, high dividend-paying stocks, and high-yield are examples of credit vehicles.

Ms. Shalett stated Morgan Stanley believes the recovery is a global recovery from COVID-19. The year 2021 will not only be the year for US stock markets to do well, but it will probably be a year for international stock markets to do well also. The US Dollar has begun to weaken under the weight of very aggressive federal policies and US-target inflation; providing a tailwind for international stocks. The portfolio should have some international stocks, and some protection for inflation. The portfolio should also own real assets that hold their value in proportion to any increase in inflation, e.g. real estate; infrastructure-type assets; commodities; gold; and goldmining as a compliment to the fixed income parts to the portfolio that may not be providing the types of diversification to stock risk.

Board Member Wyatt stated Ms. Shalett talked about the infusion of the stimulus money from the US Federal Government.

Board Member Wyatt asked Ms. Shalett about her thoughts on the growing national debt, and how it will affect the R&R's investment principles and decisions over the next ten to forty years. The pension fund is supposed to last forever. Ms. Shalett stated Morgan Stanley is seeing the deficit accelerate. As the year 2021 approaches, the total debt of the US will probably be approximately 116% of the GDP which is over 100%; it is quite a lot of debt. The first way it will manifest itself is probably through a much weaker US Dollar. At a certain point, funding that debt will happen through borrowing from international investors and non-American investors; that is one thing that weighs on the dollar. In turn, a weaker dollar ends up contributing to inflation. With inflation, it is the way to manage debt burdens a little better because the debt will be paid back in currencies worth a little bit less. Ultimately over the time periods that Board Member Wyatt is referring to, the normalization of interest rates will come into play. There is going to be a little bit of pain. As interest rates normalize, a normal interest rate on the ten-year will be closer to 2% or 2.5%. On a thirty-year period, a normal interest rate will be closer to 4%. The bad news is that journeying from here to there, there will be a downside to prices of treasuries. It will be a headwind to markets – stocks and bonds – because as interest rates goes up, price-earnings ratios go down. There will be a period where capital market returns will be lower. However, as interest rates normalize, the pension fund will be able to earn in fixed income and treasuries, e.g. 4% on long-duration treasury and potentially 6% - 8% on credit-oriented instruments of long-duration. This is a much more normal world in which to finance long-term liabilities that the pension fund has. There is a light at the end of this tunnel ultimately but in the intermediate term, tough choices will need to be made. Inflation will go up at the same time the US Dollar goes down. Interest rates are going up, and some of the value in the bond portfolio will be pressured. Things will renormalize, but it may take a decade to do that.

Board Member Wyatt thanked Ms. Shalett.

Mr. Burchell thanked Ms. Shalett for her presentation.

Ms. Shalett thanked the Board Members for hearing her presentation.

Ms. McDade referenced the Projects List, and stated there is a correction on the handout. Money was raised for pension obligations, and it was voted and approved at last month's Board Meeting to raise \$18 million dollars. The handout reflects \$15 million dollars, and it should reflect \$18 million dollars. The \$18 million dollars has been processed, and it is completed. The money is in the cashflow account, and is ready to be sent out to make pension obligations.

Ms. McDade stated Grosvenor representatives will be speaking at the January 2021 Board Meeting. Grosvenor will be speaking about their portfolio and strategies. Grosvenor and Hamilton Lane are approaching the two-year mark on three years of funding.

Mr. Burchell referenced the R&R Performance Report, and stated the total fund had a return of 6.27% or \$62.5 million dollars since June 30, 2020; ending the quarter with \$1.43 billion dollars. \$15 million dollars was withdrawn for pension obligations. The pension fund outperformed the benchmark by approximately \$12 million dollars. Mr. Burchell commended the Board Members for being disciplined in a difficult economic environment.

Mr. Burchell referenced the Value-Added Investment Portfolio vs. the Capital Invested handout and stated by broadening the allocation with allowable investments and with a favorable economic environment, the portfolio returns' averages were 7.7% over the last ten years; increasing the value by \$250 million dollars while counting over \$500 million dollars in withdrawals. With the recent changes in the benefits' structure and increased contributions, Morgan Stanley believes that the slope of the red line reflected on the handout will start to flatten. In turn, it will keep more assets invested in building in the total market value of the portfolio; further assisting in reducing the unfunded liability.

Chairman Woodfin thanked the Mr. Burchell, Mr. Fishback, and Ms. McDade for their presentation.

Ms. Jill Madajczyk, Director of Human Resources, stated she will do the presentation on the Pension Buyback Calculations. Ms. Madajczyk stated she had spoken with Mr. Jay Turner, Board Counsel, about this because of the potential of litigation. Ms. Madajczyk and Mr. Turner asked the Board Members to go into Executive Session.

Mr. Turner typed in the chat box due to having issues with his microphone. Mr. Turner wrote “he is an attorney in good standing with the Alabama State Bar and general counsel to the system. Mr. Turner requested the Board Members to go into Executive Session, and certify that the reasons for entering into Executive Session are consistent with the Alabama Open Meetings Law”.

Board Member Wyatt made the motion to go into Executive Session. Board Member Luke seconded.

The Board Members APPROVED to go into Executive Session.

The Board Members EMERGED from Executive Session.

Chairman Woodfin asked Board Member Crenshaw if he would like to say anything. Board Member Crenshaw stated he is happy to be a part of this great board, and looks forward to adding value.

Board Member Wyatt made the motion to adjourn. Board Member Schultz and Board Member Luke seconded.

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

ATTEST:

**Lorren Oliver
Secretary**

**Randall Woodfin
Chairman**