

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

Board Member Webb made the motion for the November 18, 2020 minutes to be approved. Board Member William Lipscomb seconded.

The Board Members APPROVED the November 18, 2020 minutes.

Board Member Webb referenced the October 2020 financial statements, and stated \$743,000.00 in expenses went out of the City of Birmingham Firemen's & Policemen's Supplemental Pension System in October 2020. The Supplemental Pension System is \$756,000.00 dollars in the hole.

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

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

Board Member Webb referenced the investment activity for the month of November 2020, and stated the Supplemental Pension System gained a profit of \$218,000.00.

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

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

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

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

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

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

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

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

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

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

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

The Board Members APPROVED the application of Joshua J. Myles, an employee with the Fire Department, for SERVICE PENSION at the rate of \$3,361.37 per month, effective December 6, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Zavier M. Pitts, an employee with the Police Department, for SERVICE PENSION at the rate of \$2,736.83 per month (DROP Amount \$106,503.19, DROP Date 12/04/2017), effective December 5, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Brian Stringfellow, an employee with the Police Department, for SERVICE PENSION at the rate of \$3,076.67 per month, effective January 30, 2021 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Robert Walker, Jr., an employee with the Police Department, for SERVICE PENSION at the rate of \$2,490.24 per month (DROP Amount \$96,907.19, DROP Date 12/18/2017), effective December 19, 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 stated the market continues to have new highs after November 2020.

The S&P NASDAQ was up 11%. The small-cap Russell 2000 was up 18%. Morgan Stanley believes the resolution of the US Presidential Election uncertainty and the expectancy of a COVID-19 vaccine accounted for the bullish sentiment that brought on this rush of cash from the sidelines in the market. It is all in line with the forecast of Morgan Stanley's thesis about the V-shape economic recovery. Morgan Stanley has four reasons to support this view:

- 1) The Strong Consumer – Morgan Stanley has not seen such high unemployment accompanied with a rise in personal income; saving rates had doubled in one year; lower credit card balances; and higher net worth. For US Households and Aggregate, the ratio of debt in disposable income is down approximately one-third from where it was back in 2008 during the financial crisis.**
- 2) The Economic Lever is continuing to give strength in the housing market. Rising home values are contributing to consumers feeling wealthier, which leads to newer home constructions.**
- 3) Asset Growth will likely lead to inflation, on the upside. The monetary stimulus in the US Federal Reserve had led to dramatic growth that was amass by pressure on inflation and the price decline due to the COVID-19 recession.**
- 4) The Inflationary Dynamic works with monetary policy. The US Federal Reserve remains committed to a long-term bullish policy. At the same time, the US Congress seems likely to pass a fiscal stimulus bill before year end. The selection of former US Reserve Chairwoman Janet Yellen is US President-Elect Joseph R. Biden Jr.'s pick for US Secretary of Treasury is suggested among monetary thoughts that could include debt monitorization, which could likely lead to a weaker dollar and higher inflation.**

Mr. Fishback stated Morgan Stanley believes investments will continue to hold in order to add to the small-cap value in non-US stocks and emerging markets in 2021; bringing higher inflation.

Board Member Webb asked Mr. Fishback to repeat the part about debt comparison. Mr. Fishback stated the US household and aggregate ratio of debt to disposable income is actually down approximately one-third from where it was during the 2008 Financial Crisis. The reason this is brought up is because that power of increased spending capacity matches the pinned-up demand from people not going on vacation, going to restaurants, sporting events, entertainment venues etc. will lead to a surge in economic growth when the COVID-19 Pandemic finally ends.

Board Member Webb asked Mr. Burchell if Morgan Stanley has an opinion on when the Supplemental Pension System Board Members should anticipate inflation to become a factor. Mr. Burchell stated Morgan Stanley believes inflation will take place within the next twelve to eighteen months, but it is being hidden by the COVID-19 Pandemic situation and lower demand for goods and services. When the economy comes back on line, Morgan Stanley thinks the demands for increase will translate to higher inflation. The US Federal Reserve has an asset-backing program that protects some of the fallen angels from investment grade to low investment grade when buying bonds to support those prices. In doing so, the US Federal Reserve's balance sheet has grown to almost \$6 trillion dollars potentially into next year; they are doing so by increasing the money supply. The purchasing power will go down.

Board Member Webb asked Mr. Burchell to explain what monetizing the debt means. Mr. Burchell stated it is putting money towards paying the debt. Some people do not have that luxury to do that, but the government does.

Board Member Webb asked if going to twelve to eighteen months, in terms of inflation, is going to hit the economy in the first or second quarter. Mr. Burchell stated it could go in reverse. If there is an economic shutdown across the country again, the demand will decrease temporarily. As the COVID-19 Vaccinations encourages economy to reopen, it could be pretty aggressive on the back end of this year. There was a flood of oil in the economy for a while, with the demand being low in Russia and Saudi Arabia pumping oil in the markets. It has kind of stabilized, but there could be a spike in oil prices. People are going to be traveling, e.g. flying, and there is going to be pinned-up demand for things they have been left out of for the last twelve months. During 2020, there has been a big jump in home prices and home renovations because people are sitting at home. The money that people would normally spend went towards spending on houses instead of restaurants, traveling, and entertainment. It really kind of unprecedented to see unemployment the way it is now, as personal savings rates and net worth has increased.

Board Member Webb stated he recalls Ms. Lisa Shalett, Chief Investment Officer and Head of Wealth Management of Morgan Stanley, mentioning the cycles that had gone through at last month's Board Meeting, and he did not understand it. Mr. Burchell stated the difference is that people cannot spend money on what they did before. Prior to the downturn in the market, people were spending money on what they wanted and they are not able to do that now; they are not traveling or able to do things they did in the past. The people who cannot pay their rent are getting a stimulus from the government; that is a little unprecedented too. Normally in an unemployment environment, there is no increase in stimulus from the government.

Mr. Burchell referenced the Projects List, and stated Morgan Stanley is going to update their asset allocation study for the Supplemental Pension System. Mr. Burchell stated he will continue the Board Members to look at what is causing the increase in the withdrawals rates from the pension fund. Is it a temporary situation, or is it something that is going to be longer-term in nature?

There needs to be a better understanding of that because the pension fund's asset levels are approaching \$26 million dollars, just like where it was in the early 2000's. According to the last month end, the pension fund was at \$26.476 million dollars; this with the Fiscal Year-To-Date withdrawals at \$3 million dollars or almost 11%.

Mr. Burchell stated he understands that the Board Members have been contact with Mr. Rocky Joyner of the Segal Company, as they need to continue to look at the withdrawal rate to see if it is longer-term in nature or if it is shorter-term in nature. This will help to get a better handle on the actual projection on an annual basis. The Supplemental Pension System has been significantly over its projections in terms of withdrawals at somewhere around \$10 million dollars. It is probably an anomaly as it relates to rehires for public safety employees. Being that the Supplemental Pension System is a ten-year benefit, it is probably shorter-term in nature. The Board Members and Morgan Stanley will need to get a better understanding of what the Supplemental Pension System looks like, and the Segal Company will be able to do that.

Mr. Burchell asked if the Board Members have any questions.

Board Member Webb stated he does not have any questions, but stated for clarity the \$3 million dollars was taken out of the pension fund as of July 1, 2020. That is of the Fiscal Year, and the Supplemental Pension System is not even six months into the twelve-month period. Mr. Burchell stated that is correct.

Mr. Burchell asked Mr. Aaron Saxton, Deputy Director of Finance, about the balance for pension obligations. Mr. Saxton extended his apologies by stating he has not had the chance to get with Mr. Burchell prior to today's Board Meeting, but the cash balance to date is negative \$436,000.00.

Mr. Burchell asked Mr. Saxton wants to fund the cash balance this month, or wait until next month. Mr. Saxton stated it is at the pleasure of the Board Members at this point.

Board Member Lipscomb stated it can be done today or next month.

Mr. Saxton asked the Board Members if the balance is strong enough to hold them over, or if they want to wait until next month.

Board Member Webb asked Mr. Burchell what would be the inclination for where the funds will need to come out of, based on the discussion with Mr. Burchell and Mr. Saxton. If the Board Members fund the balance now or in January 2021, will it come out of fixed income or equities. Mr. Burchell stated he personally thinks the Supplemental Pension System is pretty close to where it wants to be in the fixed income allocation at 17%. Mr. Burchell stated the Board Members should look at large-cap growth, with the majority of it coming from there, and large-cap value. It would be the Ithaca Group and Cooke & Bieler accounts.

Board Member Webb asked when will the Supplemental Pension System expects to get some money back from Blackstone. Mr. Burchell asked Ms. McDade to give the status on that.

Ms. McDade stated Blackstone will pay out in dividends until the principal has been paid back. Morgan Stanley does not have an exact date when it will be paid out but it should be fourth quarter/first quarter, and Blackstone expects to have the entire amount paid by June 2021 or July 2021.

Board Member Webb stated given that potential, he understands that Mr. Saxton is not a position to make a decision for the Board Members. Mr. Saxton gives advice, and explains where the pension fund is.

Board Member Webb asked Mr. Burchell if he has an opinion on what the Board Members should do. Mr. Burchell stated no, but is always nice to have a bird in hand than two in the bush. The Board Members know what they have now. Despite the asset levels being low as they are, the portfolio had some pretty good performance. Mr. Burchell stated he would not be opposed to raising funds at this point at \$1 million dollars; \$600,000.00 coming from Ithaka and \$400,000.00 coming from Cooke & Bieler.

Board Member Webb stated for clarity the realized gains would be in that \$5 million-dollar account. Mr. Burchell stated that is correct.

Board Member Webb stated that given that thought process, he suggests the Board Members funding the cash balance of the City right now. The Board Members should follow the suggestion of realizing some approximate gains; getting \$1 million dollars from equity and turning it into cash or liquidity. The Supplemental Pension System will have it, in case Mr. Saxton asks the Board Members for money prior to the next Board Meeting.

Board Member Webb asked Mr. Saxton if that sounds reasonable to him. Mr. Saxton stated that sounds good.

Board Member Webb asked Mr. Burchell, Ms. McDade, and Mr. Fishback if that sounds reasonable to them. They stated yes.

Board Member Webb asked the Board Members if that sounds reasonable to them. The Board Members stated yes.

Board Member Webb made the motion to withdraw \$600,000.00 from the Ithaka Group and \$400,000.00 from Cooke & Bieler, per the recommendation from Morgan Stanley, to fund the cash balance and for Morgan Stanley to authorize the transaction. Board Member Lipscomb seconded.

The Board Members APPROVED to withdraw \$600,000.00 from the Ithaka Group and \$400,000.00 from Cooke & Bieler, per the recommendation from Morgan Stanley, to fund the cash balance and for Morgan Stanley to authorize the transaction.

Ms. McDade referenced the Projects List, and stated Blackstone will discuss the Blackstone Real Estate Income Fund (BREIF) at next month's Board Meeting. At the April 2021 Board Meeting, Orleans Capital will speak on their outlook on interest and how their portfolio is positioned to handle that. At the July 2021 Board Meeting, Great Lakes will be presenting. At the October 2021 Board Meeting, the Ithaca Group will be presenting. At the December 2021, a Morgan Stanley Economist will be presenting their outlook for the following year.

Board Member Webb asked what is the purpose of Blackstone if the Board Members are exiting their fund. Board Member Webb stated he is fine with it, but curious. Ms. McDade stated it will be a logistical conversation about they chose to close; what it means for the pension fund's assets; how to protect the principal; and how they are going to pay back that principal. This will help Morgan with the planning of pension payments and raising money.

The Board Members and Morgan Stanley wished each other a Merry Christmas and Happy New Year.

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

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

ATTEST:

**Lorren Oliver
Secretary**

**Robert Webb
Chair Pro – Tem**