

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
Hazel Anthony, Member No. 4**

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

The Board Members APPROVED the *CORRECTED APPLICATION* for Robert Walker, Jr., an employee with the Police Department, for SERVICE PENSION at the rate of \$2,487.96 per month (DROP Amount \$96,818.47, DROP Date 12/04/2017), effective December 5, 2020 under the provisions of Act 59-556, Section 6 of the pension law. ***NOTE: Mr. Walker was previously approved 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 at the Board Meeting on Wednesday, November 18, 2020.***

The Board Members APPROVED the application of Fredrick Chatman, an employee with the Fire Department, for SERVICE PENSION at the rate of \$3,880.65 per month (DROP Amount \$151,014.72, DROP Date 12/30/2017), effective December 31, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Curtis Coleman, an employee with the Police Department, for SERVICE PENSION at the rate of \$3,171.96 per month (DROP Amount \$123,436.19, DROP Date 12/18/2017), effective December 19, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Frank A. Foster, an employee with the Police Department, for SERVICE PENSION at the rate of \$2,613.62 per month (DROP Amount \$101,696.83, DROP Date 12/22/2017), effective December 23, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Warren D. Givan, an employee with the Police Department, for SERVICE PENSION at the rate of \$2,619.83 per month (DROP Amount \$101,950.16, DROP Date 01/25/2018), effective January 16, 2021 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Janice S. Hatcher, an employee with the Police Department, for SERVICE PENSION at the rate of \$2,493.88 per month (DROP Amount \$97,048.84, DROP Date 01/04/2018), effective January 5, 2021 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of William J. Hovies, an employee with the Police Department, for SERVICE PENSION at the rate of \$2,614.24 per month (DROP Amount \$101,732.63, DROP Date 12/18/2017), effective December 19, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of David S. Luke, an employee with the Police Department, for SERVICE PENSION at the rate of \$2,492.92 per month (DROP Amount \$97,011.48, DROP Date 12/30/2017), effective December 31, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of James F. Majors, an employee with the Police Department, for SERVICE PENSION at the rate of \$3,667.97 per month (DROP Amount \$142,738.32, DROP Date 12/18/2017), effective December 19, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Kimberly A. McDonald, an employee with the Police Department, for SERVICE PENSION at the rate of \$2,742.55 per month (DROP Amount \$106,725.78, DROP Date 01/20/2018), effective January 21, 2021 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Damarcus Miller, an employee with the Police Department, for SERVICE PENSION at the rate of \$3,359.63 per month (DROP Amount \$130,739.33, DROP Date 01/29/2018), effective January 30, 2021 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of John M. Walker, an employee with the Police Department, for SERVICE PENSION at the rate of \$2,169.76 per month (DROP Amount \$101,947.44, DROP Date 01/15/2018), effective January 16, 2021 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Roger D. Wyatt, an employee with the Fire Department, for SERVICE PENSION at the rate of \$4,190.16 per month (DROP Amount \$163,059.24, DROP Date 12/18/2017), effective December 19, 2020 under the provisions of Act 59-556, Section 6 of the pension law.

Board Member Webb made the motion for the December 9, 2020 minutes to be approved. Board Member Hazel Anthony seconded.

The Board Members APPROVED the December 9, 2020 minutes.

Board Member Webb referenced the November 2020 financial statements, and stated he reviewed pension contributions from the City and participants vs. the amount of pension fund expenses. The City of Birmingham Firemen’s & Policemen’s Supplemental Pension System spent approximately \$455,000.00 more than what was brought in, but the amount was not as large as what was seen in the past.

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

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

Board Member Webb referenced the investment activity for the month of December 2020, and stated the Supplemental Pension System gained a realized profit of \$446,000.00. Board Member Webb extended his appreciation to Morgan Stanley and Regions Bank for their efforts.

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

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

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

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

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

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

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

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

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

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

Mr. Fishback stated Morgan Stanley does not think that 2021 will not be as good as 2020, in terms of the market. Morgan Stanley expects more interest rate risk, however there is a positive catalyst for banks now. The banks will be able to do buybacks in 2021. A new virus mutated in the United Kingdom that briefly caused a market sell-off during this momentum bull market, and there is more conversation about another possible lockdown. The bull market is still very active. This past week, the State of Georgia had two runoff for the Senate Seat and it was a Democratic Sweep. The negative causes to the market would be more regulations and the possibility of tax increases. The positive side is a possible increase in stimulus money, and Morgan Stanley is guessing about another trillion dollars. Morgan Stanley does not want the Supplemental Board Members to look over that number, because that would be an additional 5% to the overall Gross Domestic Product (GDP) which is a lot of money. Morgan Stanley expects more pressure on inflation. Long-caps were up as much as 6%; materials were up 9%; and S&P was up 1.8%. Asset management is price-momentum driven, and Morgan Stanley do expect rates to move up. As a result, there could be an anticipated correction. Morgan Stanley is advising anyone bringing in new money to be more patient. In last few months, financials have continued to outperform but the most important thing is that even though there could be volatility in the future and correction, the bull market is very much active today.

Mr. Burchell stated Morgan Stanley is in the process of doing an asset allocation study update, however it needs to be taken to a new level. Mr. Burchell stated he is recommending to the Supplemental Board Members to form an informal task force to really look at what the potential exposure will be for the Deferred Retirement Option Plan (DROP) over the next few years. Mr. Rocky Joyner and Mr. Jeff Williams of the Segal Company should have the number for the Supplemental Board Members, but obviously there is no way to know when DROPs are going to be executed in any given year or month. But, the Segal Company can certainly (or probably) calculate the potential liability in the next few years on monthly withdrawals or quarterly withdrawals.

Board Member Webb stated he agrees with Mr. Burchell. The Board Members will need to know what the worst-case scenario is, along with any moderate scenarios.

Mr. Burchell stated he is recommending the members of the task force would be any one of the Board Members, a member from the Finance Department, Morgan Stanley would be happy to be involved, and the actuary. The purpose is to identify the potential exposure to the DROP; to see if it is a long-term or short-term aberration; and potentially take any actions as a result of the findings.

Board Member Lipscomb stated he is good with it. Rumors can be very damaging when it comes to the DROP. It needs to be made clear that the task force will need to do an analogy. The Board Members do not want to get rid of the DROP. If the rumor gets out that that the Board Members want to get rid of the DROP, it would be a catastrophe. Rumors are very killing when to comes down to the pension fund.

Mr. Burchell stated he agrees with Board Member Lipscomb. The task force should be driven by the Board Members, and it would be information for the Board Members to make an informed decision about things.

Board Member Webb stated he will review the Board Minutes from the past year and a half within the next week or so but at some point, the Board Members started seeing an increasing number of DROPs executed. The Board Members can tell from the monthly cashflow expected budget and anticipated flow that Morgan Stanley prepares, and it will show where the Board Members will need to begin. The report will show the DROPs were not anticipated nor actuarially or statistically anticipated. It just happened, and the Board Members will need to evaluate that. If anyone who has a problem with that, it is based upon people leaving the City and not the actions of the Board Members.

Mr. Burchell stated it is more of a change in the expected experience. It is prudent for the Board Members. Board Member Webb stated based on upon that change, the Board Members will need to evaluate what it would be potentially in the future should it continue.

Mr. Burchell stated he feels that it is an aberration; it is not going to be the norm.

Board Member Lipscomb stated at one point, it was a moot point for the Board Members to talk about the DROPs because there was certain selection of police officers retiring. There were a certain selection of firefighters retiring, and the Board Members had a discussion about that. When look at people on this month's Board Agenda of who has gotten tenure in their career and the DROPs, they probably reached their twenty-ninth-year mark. The employees had to leave now, or go to thirty-three years. The DROP amounts on today's agenda is probably one-time thing, but the Supplemental Pension System will have people leaving at twenty years or choosing to stay twenty-nine years and eleven months.

Board Member Lipscomb stated again that he is all for the study, because he was thrown off guard when saw the agenda. Board Member Lipscomb stated he reached out stating this month's Board Agenda was the biggest he had seen in terms of all applicants taking a DROP and he has been on the Supplemental Board for a long time. Moving forward, the Supplemental Pension System will probably not have a lot of employees that will get tenured to where they will go at one time.

Board Member Lipscomb stated he would still like to have the information on the DROPs; look at a forecast in order to prepare the Board Members for what is down the road. Board Member Webb and Mr. Burchell agreed with Board Member Lipscomb.

Mr. Burchell referenced at an older actuarial report and stated if the numbers were updated, the Supplemental Pension System would probably be somewhere between 200 and 300 public safety employees in the fifty years of age and older category retiring.

Mr. Burchell stated if he was a Board Member, he would want to know “what does that number look?” Is it \$10 million dollars, or \$5 million dollars in potential DROPs? The Board Members will need to account for it. Mr. Burchell stated that he understands that the Supplemental Pension System is shorter-term in nature due to its structure, with a ten-year benefit.

Board Member Webb stated he agrees with Mr. Burchell, but the Board Members will need to know specifics instead of statistical probability. The Board Members will need to know some actual numbers, e.g. how many people are going to hit this fund specifically in “X” years and how much money is that? Board Member Webb stated he will contact the appropriate parties, including the Board Members, after this meeting to get something started with that.

Board Member Lipscomb stated it sounds good to him.

Mr. Burchell gave his appreciation to the Board Members, and stated part of the conversation can be about the asset allocation study. The ultimate goal for all parties is to make sure that the Supplemental Pension System stays positive and continue to provide benefits for public safety employees.

Mr. Burchell stated he and Ms. McDade discussed about bringing asset managers to speak to the Board Members on a quarterly basis. The asset managers will discuss their mandate, and Morgan Stanley will discuss what they are doing. Today, the Board Members will be hearing from Blackstone. Blackstone was specifically involved in managing real estate debt strategy for the Supplemental Pension System. Within the year that the pension fund decided to closed the strategy, Mr. Burchell wants the Board Members to hear why Blackstone is closing the strategy; what their exit plan is; and how they are really trying to get the most of the remaining time for the fire and police pension.

Mr. Burchell introduced Mr. Michael Wiebolt of Blackstone. Mr. Wiebolt is the Managing Director of the Real Estate Debt Strategies Group at Blackstone, and is very active in liquid real estate debt.

Mr. Wiebolt thanked the Board Members for partnering the Supplemental Pension System with Blackstone. Mr. Wiebolt stated he wants to discuss three things: 1) The time-line whine down with respect to the pension fund; 2) Provide a quick update on the state of the market in 2020 vs. early 2021 and the impact it has had on the pension fund; and 3) and Give an update on where the portfolio is today and what Blackstone believes could happen going forward.

Mr. Wiebolt stated in July 2020, Blackstone announced their intention to seek shareholder approval to initiate the gradual liquidation of the fund. The decision was discussed and debated at the highest levels at Blackstone and externally with their partners at Morgan Stanley. Ultimately, Blackstone made the recommendation to shareholders pursue this course of action that Blackstone believed that was in the best interest.

Blackstone was really trying to balance, and is trying to balance, two key goals: 1) The desire to provide liquidity to investors and 2) Do everything they can to fight as hard as they can to optimize investor [inaudible].

Mr. Wiebolt stated the reason he mentioned that is because the markets they invest in, specifically real estate-related debt and securities, were highly impacted by the volatility experienced in March 2020; April 2020; and May 2020 to some extent. Blackstone owns bonds that are backed by different types of real estate collateral that includes apartments; single-family homes; offices; etc. The COVID-19 pandemic affected commercial real estate in a fairly huge way, e.g. shutting down every hotel and retail center in the US for an inactive period of time. It resulted in a lot of volatility in the fund, and Blackstone believed at the time that the fund had fundamentally credit-protected investments that were very negatively impacted from a pricing standpoint. However, Blackstone wanted to have the ability to make sure that they were not going to sell those securities. The first thing that Blackstone did in March 2020 and April 2020 was to make sure they shored up enough liquidity to weather the storm, which they were able to do. When thinking what would be the best path forward, Blackstone ultimately arrived at the recommendation that Mr. Wiebolt mentioned earlier. If Blackstone offered liquidity to investors at that point in time, it would have been disadvantageous for other investors and Blackstone would have been forced to sell securities at suppressed prices. Blackstone recognized that investors want and need liquidity, and Blackstone chose the middle path. The middle path required approval from the shareholders of the fund, and Blackstone put it to a vote. The majority of the shareholders voted in favor of this plan as of the middle of October 2020. What is the plan? As it was announced initially, the plan was to pursue an orderly liquidation of the fund over a little less than three quarters. Beginning with the vote in October 2020, Blackstone would return about a third of the capital in the fund to their investors on a quarterly basis. Right after Q4; Q1; and Q2, investors would be fully redeemed by that point.

Mr. Wiebolt stated the emphasis was Blackstone would continue to manage the process to optimize shareholder value. The guideline of “a third, a third, a third” was really a guideline and Blackstone would continue to fight when making the best decision for their investors. Blackstone will be distributing about 12% of the fund to shareholders in the coming weeks in the 4th Quarter distribution. The reason the number is a little bit lighter than the 33% is because Blackstone had a lot of conviction coming at the end of 2020, and they were going to see a strong rally in down markets. Blackstone saw the rally, and it continued at the beginning of 2021. Blackstone was really underselling in the 4th Quarter, and the benefit from that performance estimates were posted with a positive 2.95% return. The objective from here is to continue to be patient, and balance the dual goals of providing liquidity and optimizing those returns.

Mr. Wiebolt stated in terms of the market, he had mentioned earlier about some of the challenges Blackstone had seen that was associated with the pandemic in the spring and summer. As a result of that that, the commercial markets were more heavily impacted than the broader market relative to corporate credit and equities.

Since that time, there has been a string of positive months for Blackstone; ending with a positive December 2020 performance. When Blackstone constructed the portfolio, they focused on finding securities that were low-leverage and relatively short in duration. Those factors are in still in place, and Blackstone feels good about what they own. During the 4th Quarter, Blackstone focused on being patient when selling. Blackstone sold asset classes that recovered more quickly to their pre-pandemic levels. When thinking about commercial real estate, Blackstone has seen multi-family and industrial-related commercial real estate assets do really well. What is being seen in 2021 is a lot of optimism in a vaccine for COVID-19 and the magnitude of the stimulus, given the political dynamics in Washington D.C. The market is beginning to correct more rapidly back to previous levels, given there is not a lot of yield and return around the world.

Mr. Wiebolt stated Blackstone continues to see a significant momentum for supply and demand. Blackstone had seen record issuances in the corporate credit market and a lot of credit market activity. The markets that Blackstone traffics in has been much more subdued. There are not enough bonds created relative to the number of people who want to buy the bonds. Following the approval from the shareholders of the plan to whine down the fund in October 2020, Blackstone is no longer charging fees on the fund from the first of November and until its final liquidation date. It is Blackstone's best intention to give their investors the best experience going forward.

Board Member Webb stated Mr. Wiebolt gave a great presentation. The Board Members appreciates Blackstone's circumstance and its efforts to alleviate it; e.g. working with everybody, not taking any fees since making the decision, and still provide service in the work.

Board Member Lipscomb thanked Mr. Wiebolt for Blackstone's generosity.

Mr. Wiebolt thanked the Board Members for doing business with Blackstone.

Ms. McDade stated the Supplemental Pension System has \$1.5 million dollars invested in the BRIEF fund since Blackstone announced that 12% distribution at the end of Q4. The pension fund should be receiving a little less than \$200,000.00 some time this month. The amount will go into the cashflow account to help with the DROPs and upcoming pension liabilities. Morgan Stanley will let the Board Members know when each distribution is announced. Board Member Webb thanked Ms. McDade.

Mr. Burchell stated given the current market valuation and expected need to raise capital, he stated he would not be opposed to raising funds today. Mr. Burchell stated he can make a recommendation, if that is what the Board Members want.

Mr. Burchell stated Morgan Stanley is expecting volatility in the market, but not necessarily anything dramatic other than normal course of market action. At the current valuation, it might be somewhat prudent to raise some funds but not necessarily a significant amount. Mr. Burchell stated he thinks there is \$1 million dollars in the cash account.

Board Member Webb stated his phone went out, but asked Mr. Burchell what the Board Members need to do. Mr. Burchell stated he does not think there is a particular need for this month. Board Member Webb stated the Supplemental Pension System was a little overfunded in December 2020.

Mr. Burchell stated that is correct. Given the action today for pension obligations, more money will need to be raised next month. Board Member Webb stated he agreed.

Board Member Webb asked Mr. Burchell for a recommendation. Mr. Burchell stated given the current state of the US markets, he recommends liquidating approximately \$1 million dollars for pre-fund future pension obligations. Mr. Burchell stated he would not be opposed to that, or would he be opposed to raising more than that next month. Given that is an on-the-fly recommendation, Mr. Burchell stated he would certainly be comfortable with \$1 million dollars and possibly more.

Board Member Webb asked Mr. Burchell if he is thinking the \$1 million dollars should come from Cooke & Bieler, or somewhere else. Mr. Burchell stated it should be done pro-rata based on the allocation of the equity managers.

Board Member Webb asked if the Board Members were to take \$1 million dollars pro-rata based on the 75% allocation to equities, should they not consider allocating that towards small-mid cap sector? Mr. Burchell stated the current allocation does not show this but as of December 31, 2020, small-cap was up 8%. That is not to say that they will continue to rise.

Board Member Webb stated for clarity that small-cap was up 8%. Board Member Webb asked Mr. Burchell if the 8% is the holding of the 75% that increased over the 9% as of December 31st. Mr. Burchell stated he thinks that is right.

Board Member Webb stated for clarity the Board Members would be realizing gains, as opposed to potentially being in a place of having lesser gains to realize but still needing liquidity to execute. Mr. Burchell stated the Board Members would the money, realize the gains, and take the currency to help sell funds.

Board Member Webb made the motion to authorize Morgan Stanley to execute with the intent of achieving approximately \$1 million dollars, plus or minus, in cash taken from the equity portfolio in a pro-rata fashion. Board Member Anthony seconded.

The Board Members APPROVED to authorize Morgan Stanley to execute with the intent of achieving approximately \$1 million dollars, plus or minus, in cash taken from the equity portfolio in a pro-rata fashion.

Board Member Webb asked Mr. Burchell if that fits what he is suggesting. Mr. Burchell stated it does. Mr. Burchell stated he is never opposed to having money on the sidelines, but it needs to be balanced with the current funding of the portfolio and the potential need of current pension obligations.

The Board Members may be dealing with more money being liquidated in the near term. From a specific valuation standpoint, it was always be a good time to raise cash in any portfolio and not just this one.

Board Member Webb stated for the past three or four months, the Board Members have heard things are well now but do not continue to expect that. That is what Board Member Webb’s takeaway has been.

Board Member Webb stated he would rather the Supplemental Pension System to get liquid with money earned through profits, rather than get liquid with principal. Mr. Burchell stated he agreed.

Mr. Burchell thanked the Board Members.

Board Member Webb stated to Mr. Aaron Saxton, Deputy Director of Finance, that the Board Members will get with him next month. Mr. Saxton stated that is fine with that.

Board Member Webb made the motion to adjourn. 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**