

THE BOARD OF MANAGERS OF THE CITY OF BIRMINGHAM FIREMEN'S AND POLICEMEN'S SUPPLEMENTAL PENSION SYSTEM met on Wednesday, February 10, 2021 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 January 13, 2021 minutes to be approved. Board Member William Lipscomb seconded.

The Board Members APPROVED the January 13, 2021 minutes.

Board Member Webb referenced the December 2020 financial statements, and stated the pension fund is \$770,000.00 in the hole, i.e. money that was contributed into the system and money paid out to pensioners. In November 2020, the pension fund was \$450,000.00 in the hole.

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

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

Board Member Webb referenced the investment activity for the month of January 2021, and stated the Supplemental Pension System gained \$525,000.00.

Board Member Webb made the motion to approved the investment activity for the month of January 2021. Board Member Hazel Anthony seconded.

The Board Members APPROVED the investment activity for the month of January 2021. (Regions Investment Management) – George McCurdy

The Board Members APPROVED the investment activity for the month of January 2021. (Lazard) – Anthony “Tony” Dote

The Board Members APPROVED the investment activity for the month of January 2021. (Cooke & Bieler) – Thad Fletcher

The Board Members APPROVED the investment activity for the month of January 2021. (Great Lake Advisors) – Laurie Watson

The Board Members APPROVED the investment activity for the month of January 2021. (Penn Capital) – Steve Loizeaux

The Board Members APPROVED the investment activity for the month of January 2021. (Xponance, Inc.) – Charles Curry

The Board Members APPROVED the investment activity for the month of January 2021. (Blackstone) – Michael Cambias

The Board Members APPROVED the investment activity for the month of January 2021. (Ithaka Group) – Scott O’Gorman, Jr.

Board Member Webb made the motion to approve the Service Pension applications. Board Member Marlon Tolliver seconded.

The Board Members APPROVED the ****CORRECTED APPLICATION** of John M. Walker, an employee with the Police Department, for SERVICE PENSION at the rate of \$2,619.76 per month (DROP Amount \$101,947.77, DROP Date 01/15/2018), effective January 16, 2021 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 \$2,169.76 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 at the Board Meeting on Wednesday, January 13, 2021.*

The Board Members APPROVED the application of Teresa Colston, an employee with the Police Department, for SERVICE PENSION at the rate of \$3,213.92 per month, effective January 29, 2021 under the provisions of Act 59-556, Section 6 of the pension law.

The Board Members APPROVED the application of Henry G. Lucas, Jr., an employee with the Police Department, for SERVICE PENSION at the rate of \$2,592.33 per month (DROP Amount \$100,880.00, DROP Date 02/25/2018), effective February 26, 2021 under the provisions of Act 59-556, Section 6 of the pension law.

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

Ms. McDade referenced the Projects List, and stated Morgan Stanley received the projected liability withdrawal schedule from the actuary. The asset allocation study is in full-force, and Morgan Stanley hopes to get that to the Board Members soon. Last month, the representatives of Blackstone spoke to the Board Members about the closure of their BREIF fund. In April 2021, the Board Members will hear presentations from Orleans Capital. The representatives will talk about their outlook in the bond market.

Ms. McDade stated the Supplemental Pension System's balance is \$27,265,463.00 as of January 31, 2021. There is \$2 million dollars in the cashflow account that was raised in last one or two months.

Ms. McDade asked Mr. Aaron Saxon, Deputy Director of Finance, if that amount is sufficient for last month's Deferred Retirement Option Plans (DROPs), or if additional money is needed. Mr. Saxton stated the cashflow is good right now.

Board Member Webb stated the pension fund had \$27.5 million dollars in December 2020, and it is currently at \$27.2 million dollars for January 2021. Morgan Stanley is making it happen.

Ms. McDade referenced the Cashflow vs. Actual report and stated for the next ten years, the actuary is projecting that the expenses are less; the contributions are more; and the benefit payments are slightly lower.

Board Member Webb stated communication had taken place with Mr. Rocky Joyner of the Segal Company since last month's Board Meeting. Board Member Webb asked about the pension fund's level of comfort in relation to the new set of numbers. Mr. Burchell stated he feels the Segal Company is using the previous information in regards to what they estimated before in terms of experience. The main contributing factor is the inflows in benefit payments. However, the biggest thing the Board Members and Morgan Stanley need to address what the actual has been vs. what is being projected; a discussion is needed with the Segal Company and make sure there are no hidden things the Supplemental Pension System Board Members need to be made aware of. How many DROPs are the Segal Company is expecting? What is the valued risk?

Board Member Webb referenced the report that Morgan Stanley sent to the Board Members this week, and stated for clarification the new numbers may not have taken that unexpected difference into account yet under the Fiscal Year-To-Date Difference column. Mr. Burchell stated that is correct. The Segal Company may dig into what is actually happening vs. what was expected to happen. Years ago, there were conversations about how things would change when given a new benefit structure but it has not happened. The Segal Company wants to revisit that, i.e. "how is it going to perform based on the most recent experience?"

Board Member Lipscomb discussed the comparisons of hiring trends that occurred between 1989 and 1992 vs. the trends that occurred between the mid- and late 2000's within the public safety.

Board Member Webb asked Board Member Lipscomb if public safety had large influx of personnel that were hired between 1989 and 1992. What is preventing public safety personnel hired between 1993 and 1995 from doing the same thing as those hired between 1989 and 1992? Board Member Lipscomb stated when the "big scare" occurred about the possibility of the pension fund being taken over by the Retirement Systems of Alabama (RSA), some public safety personnel left with twenty years or twenty-six years.

Some public safety personnel had left during the big buyout in 2010. Public safety personnel hired during the mid- and late 2000's will not be leaving as quickly compared to those in the past.

Board Member Webb stated to Mr. Burchell that he did not bother to contact Mr. Joyner in January 2021. Board Member Webb asked Mr. Burchell about a timeframe of receiving updated projections from Mr. Joyner. Mr. Burchell stated his recommendation would be to review it. The projections vs. the actuals are dramatically different, as it may be contributed to what Board Member Lipscomb had mentioned earlier. The Board Members, Morgan Stanley, and the Segal Company will look at the projections from all sides. The projections may get better, which is hopeful. If a public safety employee is taking benefits earlier [than expected] from the Supplemental Pension System, they will go to the City of Birmingham Retirement & Relief System earlier. The Board Members and Morgan Stanley wants the actuary to project the actual experience trends. Mr. Burchell stated he could be mistaken, but he thinks the Segal Company is using some of the prior experience reviews as oppose to the current trend analysis. The comments that Board Member Lipscomb had mentioned should show in the Segal Company's numbers, and they can confirm it.

Board Member Webb stated he and the Board Members will communicate with Mr. Joyner, and ask him to get with them with an update.

Mr. Fishback discussed the 4th Quarter Performance. Mr. Fishback referenced the Wealth Management, and stated the S&P 500 continues to gain in the fourth quarter. Equities rallied at 12%, following a quarter on which they gained 8.5%. Equities continued to rally as investors cheer the much-anticipated \$900 billion-dollar stimulus package and the start of the vaccine distribution, as well as a robust economic data and easy money policy. Internationals developed in an emerging market; equities outperformed the US in the fourth quarter. The Bureau of Economic Analysis estimated the real Gross Domestic Product (GDP) is going to increase at rate of 33.4% in the third quarter, in comparison to the 31.4% decrease in the second quarter. Morgan Stanley forecasted the real GDP growth at 4.8% annualized in the fourth quarter; up from 3.5% in the third quarter.

Mr. Burchell stated the US economy had a phenomenal fourth quarter. The Total Fund was up 13.5% vs. the benchmark at 12.8%, which is remarkable. Referencing the Cash Flow History, Mr. Burchell stated \$27.352 million dollars; net withdrawals were \$4 million dollars; income was \$118,422.00; and a gain of \$3.1 million dollars. Despite having a phenomenal quarter, the Supplemental Pension System had more money taken out than what it actually earned. The US was recovering from an economic shutdown and a market recession draw down. A lot of the return is attributed to the recovery at 22.5% vs. 20%; almost \$600,000.00 in excess return above the comparison benchmark. Beginning July 1, 2020, the pension fund had \$25.350 million dollars; net withdrawals were \$4 million dollars; and a net gain of approximately \$5 million dollars. The one-year number, beginning December 31, 2019, the pension fund had a return of \$13.06 million dollars.

There was a lot of concern after the first quarter in 2020, and the Supplemental Pension Board Members are to be commended for sticking with their discipline, and allowing the pension fund to recover and allowing the managers to do what they do best. The pension fund has 43% in US equities; 31.2% in internationals; 16.6% in fixed income; 6% in alternatives; and 3% in cash.

Board Member Webb gave Morgan Stanley kudos for their great services. Mr. Burchell stated Morgan Stanley could not have done without the Supplemental Pension System Board Members' partnership.

Mr. Burchell stated the pension fund started at \$26 million dollars. The fund was cash positive from 2004 to 2007. The fund currently has a little less than \$27 million dollars; it would have been a negative \$17.8 million dollars if the fund did not have investment incomes.

Board Member Webb stated for clarification that is a \$43 million-dollar swing. Mr. Burchell stated that is correct.

Board Member Webb referenced the allocation segment in the handout, and asked Mr. Burchell about what he has learned or what Ms. Lisa Shalett of Morgan Stanley told the Board Members with regards to the portfolio balance for 2021 or change therein. Mr. Burchell asked Mr. Fishback to speak on the market outlook.

Mr. Fishback stated there has been high expectations for a strong economic growth in the second half of 2021; causing the US economy to propel to double-digit stock market gains within the last few months that has not been achieved. The gains were based on the COVID-19 vaccine expectations, but there have been some concerns about the pace of vaccine rollout. The clock is ticking on the need for COVID-19 progress. Morgan Stanley feels like there is enough progress on the vaccine rollout. The US Federal Reserve's policy continues to remain dovish. The upcoming market volatility is an opportunity to get selected stocks and quality franchises. During the pandemic, there were a loss of jobs that actually cut down cost of a lot of companies that had had an outstanding performance. The stimulus checks stimulated a big return, and there will be a bull market going forward.

Board Member Webb asked about the segment of equities that Morgan Stanley is keeping an eye on. Mr. Fishback stated financials, industrials, consumer discretionary, and energy stocks.

Board Member Webb asked what is consumer discretionary. Mr. Fishback stated the consumer has been resilient, i.e. 10% of the overall GDP. Those are value stocks. One of the prime vehicles that Morgan Stanley has the pension fund's portfolio is Cooke & Bieler. When looking in Cooke & Bieler's portfolio, it exemplifies how those consumer discretionary stocks continue to perform going forward. Morgan Stanley thinks those stocks are going to outperform going forward.

Board Member Webb stated for clarity there is not going to be a change necessarily in the allocation projection. The Board Members will have to pay close attention to the four particular segments of the equity market. Board Member Webb stated he recalls Ms. Lisa Shalett stating there is going to be a down trend somewhere in 2021. Mr. Fishback stated that is correct. There was a potential for correction per Mr. Mike Wilson, CEO of Morgan Stanley; however, he did not know that it was going to be that brief. Consumer discretionary stocks continue to perform, even during challenging times. People are going to continue to go Starbucks or McDonalds.

Mr. Burchell stated the Board Members are welcome to contact him if they need anything. The Board Members thanked Morgan Stanley.

Board Member Webb stated he will contact Mr. Joyner.

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**