

**MINUTES OF SEPTEMBER 14, 2023 CITY OF ALEXANDRIA
FIREFIGHTERS AND POLICE OFFICERS PENSION BOARD
JOINT DUE DILIGENCE MEETING**

PRESENT:

<u>Members</u>	<u>Others</u>
Jean Kelleher ¹ (Management)	Kelsea Bonkoski, Supplemental Board
Julian Gonsalves (Management)	Barry Bryant, Consultant
Katherine Key (Management)	Roland Cole, Investment Manager
Jesse Maines (Management - Alternate)	Kadira Coley, Staff
Shirl Mammarella, (Police)	Denise Cummings, Staff
Rick Muse (Fire)	Robert Gilmore Supplemental Board
Jason North (Police)	Catisha Jackson, Staff
Kendel Taylor (Management)	Ryan Klein, Police Officer
	Arthur Lynch, Staff
	James Mikell, Supplemental Board
	Henry Otto, Investment Manager
	Brian K Smith, CFA, Investment Manager
	Elizabeth Stevko, Investment Manager
	Dana Wedeles, Supplemental Board

¹Technical Corrections and Plan Document Review Committee

²Vendor & Service Provider

Absent:

Patrick Evans, (Fire)

Dylan Kempton, (Fire)

CALL TO ORDER

The meeting was called to order at 8:56 AM Thursday, September 14, 2023. The Board achieved quorum at 9:15 AM.

MEETING RECORD

Meeting minutes were approved.

Mr. North made a motion to:

Approve the August 10, 2023, minutes.

Ms. Key seconded the motion. The motion was approved (6-0-1). Ms. Kelleher abstained from the vote.

Mr. Muse arrived at 9:15 AM, which allowed the Board to have a quorum.

MANAGER PRESENTATION – Brandywine Global (Elizabeth Stevko and Henry F. Otto)

- Ms. Stevko introduced Brandywine Global as an investment management firm that runs fixed income and equity strategies. Their strategies started in 2007 and they run about \$1.8 billion in that strategy.
- Ms. Stevko introduced the Managing Director & Portfolio Manager, Mr. Henry F. Otto. Mr. Otto has been the portfolio manager of this style strategy since 2007.
- Per Ms. Stevko their fund has outperformed their benchmark on an annualized basis by 3.6% and since the City of Alexandria has been with them, in late 2016 they've outperformed every annualized basis by 2.6% for the city.
- Brandywine is a quantitative strategy/manager – value oriented and does not look for cheap stock and they don't look to the future.
- The portfolio has two different quantitative models, Board Value and Deep Value. They switch between these models every 2-7 years.
- Brandywine is interested in looking into AI and ways it can be utilized in their business, they feel it might be able to help them understand the data better and be more efficient.
- Ms. Kelleher wanted to know how long they stay in one or the other model?
 - Ms. Stevko stated the model tells them whether they should or should not switch. They are constantly reviewing both models to see if they can enhance them. These factors are ranked and there is then an overall score and the one with the highest score is used in their portfolio.
- Ms. Coley – When switching, do the weights on the factors indicate a different weight within the portfolio?
 - **Answer** – Exactly between the two models. Most of the factors are in both models. So, it's a matter of changing weights. There are one or two factors that are unique to each model. But by and large they're the same factors, just different weights depending upon which model we're in.
- Mr. Rereddy – Can Mr. Otto speak on the buying back of shares?
 - **Answer** – The company can buy back shares due to its quality factor. It says that a company has a lot of cash on hand to buy back shares.
- They didn't own Meta in their portfolio because it wasn't cheap enough.
- Mr. Rereddy – Can you speak a bit about financials and health care?
 - **Answer** - When the Silicon Valley bank collapsed, it was a big negative to the portfolio. It hurt them in terms of their bank holdings. The biggest contribution to the under performance in the financials was their insurance methods which they had a large overweight.
- The two biggest changes over the course of the year were the large reduction in information technology and increase in industrials.
- Mr. Gilmore - What do you expect to change in the near future to come back up?
 - **Answer** - There is nothing particular about this year as far as the models. Due to the loss in 2007, they are now looking at how to mitigate that kind of loss. They implemented some risk controls and a 6-month price momentum.
- Mr. Bryant – Why would you ever underperform? And why wouldn't you add perform by vast amounts?
 - **Answer** - It works over the long term in our back test and in the actual portfolio.
- Ms. Coley – Do they consider sustainability at all in their process?
 - **Answer** – They don't and it's something they struggle with in this strategy because it's qualitative. In other strategies they do take sustainability into account because there is a fundamental aspect and it's a quantitative approach. It looks at scores and eliminates the bottom 10% of those companies.
- Mr. Rereddy – Is there a sense of how the large cap strategy is doing compared to the dynamic portfolio is doing?
 - **Answer** - It has about a year and a half history, and the performance is very close.
- Ms. Kelleher – Question – Is there an interrelationship between the strategies? Does one help drive the decision of the other or are they truly independent?

- **Answer** – They are independent as they run them day to day. They are contributing to each other in the research. They look at the research in two different ways. They use a lot of the same factors, but they are not identical.

MANAGER PRESENTATION – Polen (Brian Smith and Roland Cole)

- Brian Smith gave a brief overview of the company.
- Three topics they will be discussing are their underperformance, brief review of their philosophy process, and current portfolio positioning and what lies ahead.
- Their view on their underperformance was due to:
 - Inflation was picking up from 2021 into 2022 and as a result the Federal Reserve had to increase interest rates. Many of the companies that they invest in are growth companies and with interest rates rising it affects their valuations.
 - Their stylistic preferences didn't go in their favor in 2022 because again they invest in growth companies, high quality businesses that usually do very well.
 - Companies that they do not own in the portfolio were doing well. The top companies Apple, Nvidia and Tesla are responsible for a significant percentage of the return in the benchmark this year.
 - Self-inflicted damage - They rode companies all the way to the bottom and their timing on the sell was poor.
- Ms. Key stated one of the companies is Alphabet, which is going into a legal battle with the federal government. With this stock being one of our 20 to 25 it makes her nervous about the volatility of this stock in the next couple of months. What has changed so that we don't have a similar thing like with Meta?
 - **Answer** – Regulation has always been a risk for big tech companies like Google, Meta, Amazon, and Microsoft historically. What we've learn while it can be short term noise it's basically insignificant on the grand scheme of things. The competitiveness of these large companies is incredibly hard to unravel. The regulators generally don't have the best understanding of how these businesses work and tend not to be able to keep pace.
- Mr. Klein – What is your philosophy on sector disruptors? Can you talk about the potential outlook that you're seeing in software services now that we're going into a potential downward trend of federal funding outlook?
 - **Answer** - They like best in breed software companies that are monopolies. All these software companies are mission software. It will be hard to turn off these companies because we need them for our jobs. Many of these companies were covid beneficiaries and they realized they needed to digitize quickly.
- Mr. Klein– What are they doing within the portfolio in terms of adding or trimming to the software now that we are pass that rough area?
 - **Answer** - Since the valuation of many of their software companies are going up and they learned their lesson from last year. They are being careful about letting companies run too far.
- Ms. Kelleher – What are their investments outside of the US because of the concentration and the portfolio?
 - **Answer** – No because this is a US strategy, but they do have the ability to invest outside of the US. However, their strategy is one direct for the US.
- Mr. Klein – Is it more of a global growth piece of that as well, trying to get market share China and overseas where they've got their own car companies that they are trying to bolster and bring over to Europe themselves?

- **Answer** - Yes, and Tesla had to lower their prices and China is ruthless in their price competition. The Chinese has no regard for profitability because they want to stay dominant in the industry. They can do this because their government will subsidize them.
- Mr. Bryant – Question – Since Toyota is the leading company in being able to bring solid State batteries to the market, does that make Tesla an overvalued company?
 - **Answer** -They don't know but Tesla still dominates the market.
- Ms. Coley –What is your approach to sustainability and how does it affect your portfolio?
 - **Answer** – They've created a framework and have put every company through it. They have an environmental, social and governance framework.

FINANCIAL & QUARTERLY REPORT REVIEW

- Economic Overview
 - GDP was revised down from 2.4 to 2.1.
 - Inflation was running at 3.0 at the end of the quarter but that has changed.
 - Unemployment 3.6
 - Unemployment fed front rate 5%
 - Pension fund return was 1.2% ranked in the 92nd percentile.
 - Medium returns for public plans of all sizes was 3.2% and our return was 1.2%.
 - Our managers lost 100 basis points and underperformed.
 - Safety assets did better and outperformed the equity managers.

ADMINISTRATORS REPORTS

Regular Investment and Cash Flow Reports

Other Items

- An updated education listing wasn't provided since most of the training has ended for the year.

COMMITTEE REPORTS

Technical Corrections and Plan Document Review Committee

No report was given.

Vendor & Service Provider Review Committee

No report was given.

OLD BUSINESS:

NEW BUSINESS:

None.

NEXT MEETINGS

- a. Thur. October 12th at 8:45 AM – Interim Meeting
- b. Thur. November 9th at 8:45 – Interim Meeting
- c. Thur. December 14th at 8:45 AM – Joint Due Diligence Meeting

ADJOURNMENT

The meeting adjourned at 11:31 AM.

HANDOUTS

Distributed to Board members in the Board Packet:

Agenda
Minutes of Prior Meeting
Monthly Investment & Rebalancing Report
Police Officer Special Election Results

Distributed to Board members at the meeting:

Dahab Performance Review June 2023
Brandywine Global Presentation
Polen Capital Presentation – Focus Growth