Virginia Port Authority Board of Commissioners
Investment and Administrative Committee Meeting
March 25, 2013
<u>Open Session Minutes</u>
(Revised to include Note on Page 4)

<u>Committee Members Present</u>:
William H. Fralin, Jr., Chairman of the Board
Scott R. Bergeron, Chairman, Finance/Planning Committee
Rodney W. Oliver, Interim Executive Director

<u>Staff</u>:
Elizabeth Saxby, Director of Human Resources
Debra J. McNulty, Clerk to the Board

<u>Guests</u>:
Michael Schooley, Aon Consulting
Cory Myers, HewittEnnisKnupp, Inc. (HEK), an Aon Company
George (Hobie) Whitmore, Scott & Stringfellow LLC
Al Calvo, Great-West Retirement Services
Steven Wright, Great-West Financial
Evelyn Traub, Troutman Sanders LLP

Pursuant to call by Chairman Fralin, the Investment and Administrative Committee convened an open session on this date at 1:00 p.m., in the Authority's Boardroom, 600 World Trade Center, Norfolk. Mr. Oliver asked everyone to make introductions.

The Board reviewed the following reports:

1. Actuarial Valuation Reports for VPA Defined Benefit Pension Plan and Other Post-Employment Benefit (OPEB) Plan, as of June 30, 2012

Mr. Oliver provided an overview of the post-retirement medical plan and he advised that there would be another update for the Investment and Administrative Committee in September, which is a regularly-scheduled meeting time. (The Committee is scheduled to meet in the months of March, September, and November.)

Chairman Fralin asked why VPA was not a part of the Virginia Retirement System (VRS) and Mr. Oliver explained the history behind the 1997 legislation which made VPA a political subdivision and provided certain exemptions from the personnel and procurement acts. The legislation mandated that VPA develop and offer a VPA pension plan within a certain timeframe. Mr. Oliver advised that there are only a few active employees who had remained with VRS when the option to revert to VPA's plan was offered.

Mr. Schooley reviewed the plan on the summary page (1) of the Actuarial Report for GASB 45 for fiscal year end June 30, 2013. He reported that the accrued liabilities total increased from $321,282 in FY11 to $1.321M in FY12 because of the early retirements. Mr. Schooley explained how the new GASB rules coming out in FY16 would affect the end of year net OPEB (Other Post-

Employment Benefits) obligation. He advised that it could impact the bond rating and Mr. Oliver described "implicit subsidy" with regard to post-employment health-care liability.

Mr. Schooley provided a summary of the Actuarial Report Fiscal Year End June 30, 2013 (GASB 25 and 27) and he referred to the Summary of Results on page 1. He explained how the early retirements impacted the present value of future benefits and accrued liability. Mr. Oliver explained that VPA adjusts contributions based on Aon's report. He predicted that in ten years VPA will have the plan fully funded. Mr. Schooley reported that the discount rate is at 7.5% and Mr. Oliver explained that it was adjusted several years ago from 8%.

Mr. Fralin asked why VPA decided to establish a defined benefit rather than a defined contribution plan. He also questioned the funding of the plan and if there is any impact on the Commonwealth. Ms. Traub explained that the VPA is the plan sponsor and that the agency would be responsible, not the state. Mr. Schooley explained the funding levels that were included in the report on page 10. Mr. Oliver noted that the information corresponds with the early retirements that were offered in 2008 and 2011.

Mr. Schooley explained that the new rules on GASB will require VPA to show the unfunded amount which is currently showing as a $2+M asset (Net Pension Obligation-NPO) on page 1.

2. VPA Employer Funded Defined Benefit/Pension Plan Performance through December 2012

Mr. Whitmore provided an executive summary of the VPA Employer Funded Defined Benefit/Pension Plan as outlined on the fact sheet/performance information on page 2, as follows:

- Initial funding in early January 2002
- Portfolio value as of December 31, 2012: $8,173,617
- Q4 2012 total return (2nd fiscal quarter, 2013): +1.97%, versus -0.08% for the strategic index/benchmark and +1.35% for the tactical comparative index/benchmark
- Annualized return since inception: +6.19% versus +4.89% for the strategic index/benchmark and =4.80% for the tactical comparative index/benchmark

Mr. Whitmore described historical performance comparing fiscal year to calendar year (page 3). In answer to Chairman Fralin's question, Mr. Whitmore confirmed that the VPA plan has the right blend of asset allocations at this time. Mr. Oliver explained that VPA relies on the investment consultants to adjust the allocations accordingly.

Mr. Whitmore reviewed the Advisor Summary and he advised there were two areas of underperformance – NFJ (Small Co. Value) – and Brandes (Overseas Equity). Mr. Oliver advised that the Investment and Administrative Committee would take a look at their performance for consideration at the next meeting.

3. Review of 4th Quarter 2012 Defined Contribution Plan Performance Evaluation Report and Investment Fund/Manager Recommendations

For the benefit of Chairman Fralin, who was a new member of the Investment and Administrative Committee by way of the chairmanship, Ms. Traub explained the difference between the defined and deferred benefit plans. She also explained that the VPA Plan does not have automatic Cost of Living Adjustments (COLA) built into the defined benefit plan so, because of that, VPA instead offered a deferred compensation match. Mr. Oliver reported that VIT only offers a deferred compensation plan for new employees but that VPA did not change their plan.

Mr. Meyers referred to the Fund Evaluation versus Policy Review Guidelines (page 4) of the Annual Investment Review Executive Summary (Fourth Quarter 2012). Mr. Meyers made the following recommendations:

Goldman Sachs High Yield A –REPLACE - Due to the change in the fund's management team and continued underperformance, HEK recommended that the fund be terminated and replaced with a better suited high yield fixed income fund.

Davis NY Venture Y – The fund continues to struggle against the benchmark and HEK recommended placing it on the "Watch List".

American Funds Growth Fund of America A – Due to prolonged period of underperformance relative to its assigned benchmark, HEK recommended that the fund be placed on the "Watch List".

Vanguard Target Retirement Funds (lifecycle funds) – Only one-third of VPA employees are invested in these funds. This fund received a "C" rating (Comment: Consistency of style). Vanguard announced that it will modify its Target Retirement Funds, in second quarter 2013, by adding an international fixed income and moving its broad market TIPS exposure to a 0-5 year short-term TIPS index fund.

Mr. Meyers reviewed the trailing period performance (pages 10-12) and Asset Allocation by Manager for the 457 Plan and 401(a) Plan (pages 15-16).

Chairman Fralin asked if there were educational sessions conducted for employees. Mr. Calvo advised that the last session focused on the port police and the retirement incentives in early 2012. Mr. Oliver said it was not advisable for the consultants to provide individual investment advice. Mr. Calvo mentioned that the Great-West website has several retirement tools for employees and he agreed that Great-West can discuss the merits of asset allocation and diversity to the group. Mr. Oliver suggested scheduling an employee informational session.

Mr. Meyers reviewed Cost Analysis (page 18) and Product Profiles of the Vanguard Target Retirement Funds (page 19).

Mr. Meyers presented the High Yield Fixed Income Manager Search Report – Executive Summary (page 3) and explained the manager search process. Mr. Meyers presented the following proposed replacements for the Goldman Sachs High Yield A fund and reviewed the expense ratios, peer group analysis, risk and return analysis:

- Harbor High Yield Bond Inst
- JP Morgan High Yield Bond R5
- Mainstay High Yield Opportunities I

Mr. Meyers reported that HEK recommended JP Morgan as the replacement fund. Chairman Fralin, Mr. Bergeron, and Mr. Oliver all agreed. Mr. Bergeron said he was concerned with Harbor due to their previous "watch" status.

Action: Upon motion by Mr. Oliver, seconded by Mr. Bergeron, the Investment and Administrative Committee approved the recommendation to terminate Goldman Sachs High Yield A fund and replace it with JP Morgan High Yield Bond R5.

(NOTE: It was determined by Great-West Retirement that the replacement fund will be JP Morgan High Yield R6 instead of the R5, as approved during this meeting. The R6 class has a lower expense ratio (lower cost to the employee) which Great-West was able to accommodate. This will be effective August 1, 2013)

4. **Overview of VPA 457(b) and 401(a) Deferred Contribution Plans through December 2012**

Mr. Calvo reviewed the Executive Summary of the VPA Deferred Compensation Plan and reported that total plan assets as of December 31, 2012, were up to $6.5M (457(b) = $5M and 401(a) = $1.5M) compared to December 2011, when plan assets were at $5.96M.

Mr. Calvo reported that there was a decrease in the number of contributions in 2012 that were affected by the early retirements of the port police in 2011, however, distributions were up sharply. He also reviewed total participants in each plan and average account balance.

Mr. Calvo reviewed accomplishments and milestones in 2012:

- Rolled in approximately $129,000 into 401a from Early Retirement Incentive-February 2012
- Introduced an enhanced participant website in April 2012
- Added the Retirement Income Control Panel (RICP) to the participant website in November 2012. This tool allows employees to rebalance their investments for retirement planning.

Mr. Calvo confirmed that a majority of the Vanguard Target Retirement funds are trending as expected with a majority of the funds in the 50+ age group. He advised that it would be a concern if the 20-29 year-old age group had a larger percentage of the portfolio.

Chairman Fralin was informed by Mr. Calvo that new employees are automatically enrolled in the Deferred Compensation Plan and must opt-out if they do not want to participate.

Mr. Calvo referred to Tab 4 in the report "Fund Performance Review" and he confirmed what Mr. Meyers reported, that the Davis NY Venture fund would be kept on the "watch" list.

At this time, Mr. Calvo introduced Mr. Steven Wright, Client Relationship Director with Great-West Financial. Mr. Wright referred to the Great-West corporate newsletter that was distributed announcing Great-West companies new brand name of Great-West Financial, highlights from 2012, and retirement planning enhancements.

Mr. Wright announced the Mobile Optimized Web that will be rolled out in 2013, that will provide "At A Glance" investment/retirement information on participants' mobile phones.

5. **Consideration of Cost of Living Allowance (COLA) Increases for:**
   a. Temporary fixed supplement for law enforcement officers
   b. Law enforcement officers enhanced basic benefit
   c. Law enforcement officers early retirement benefit (VRS only)
   d. Accrued basic benefit for all retirees

Mr. Oliver reviewed the attached briefing paper that outlines the Cost of Living Adjustment for VPA retirees. He reported that since the last VPA COLA increase in 2008, VRS has offered COLA increases to their basic benefit totaling 7.97% over the five-year period. The VPA Plan does not include an annual COLA adjustment.

Chairman Fralin suggested that the Committee look at COLAs annually. Mr. Bergeron mentioned that VPA is providing matching funds to employees' deferred compensation plan.

Chairman Fralin asked Mr. Oliver to explain the VPA retirement plans/options. Mr. Oliver explained that if VPA were to increase COLAs for both Option I and II for all retirees in order to make them whole, as compared to VRS, the total cost would be $66,000 per year.

Mr. Oliver recommended that the Investment and Administrative Committee approve a 7.97% COLA adjustment and the law enforcement supplement from $959 per month to $1,094 per month effective July 1, 2013, in order to "catch up" with the increases in the VRS Plan.

<u>Action:</u> Upon motion by Mr. Fralin, seconded by Mr. Bergeron, the Investment and Administrative Committee approved the recommendation to increase the retirement for sworn officers receiving the Option 1-Temporary Fixed Supplement from $959 to $1,094 per month and a Cost of Living Adjustment (COLA) increase of 7.97% for all other retirees.

Mr. Traub mentioned that the increases will apply to individuals who have been retired for one full year not for people who had retired recently.

There was no Committee action on an Immediate Retirement Incentive Window Plan for eligible VPA employees. Mr. Oliver reported that the VPA offered early retirements in 2008 to all personnel and in 2011 for sworn personnel. He advised that restructuring may include an early retirement option and that the documents provided today were for information purposes only.

There were no public comments and the meeting adjourned at 2:45 p.m.

Respectfully submitted,

Debra J. McNulty
Clerk to the Board