

**Minutes Of
Finance Committee Meeting
Of The Water Works Board
Of The City Of Birmingham
May 31, 2016**

A Finance Committee Meeting of The Water Works Board of the City of Birmingham was held on Tuesday, May 31, 2016, at 9:00 a.m., in the principal office of the Board, 3600 First Avenue North, Birmingham, Alabama, 35222, to discuss finance issues.

The following Committee members were present: Ronald A. Mims, Kevin B. McKie and George Munchus. Also present was Sherry Lewis, who does not serve on the Committee.

Inasmuch as all Committee members were present, a quorum was in attendance.

The meeting was also attended by: Mac Underwood, General Manager; Darryl R. Jones, Assistant General Manager of Operations and Technical Services; Michael Johnson, Assistant General Manager of Finance and Administration; Grace Amison, Executive Assistant to the Board of Directors; Tammy Wilson, Executive Assistant to T. M. "Sonny" Jones and Darryl R. Jones; George Anderson, Manager of Information Systems; Sam Ford and Paige Goldman, Fuston, Petway & French, LLP; Jerry Jones, ARCADIS; Chris Ruffin and Dorian Kendrick, The Lewis Group; Matthew Arrington, Terminus Municipal Advisors, LLC; Gwelda Swilley-Burke and Dana Brown, Callan Associates; Calvin Stamps, Bretwood Capital Partners; William Roach, Globalt Investments; John Robinson, Biagio Manieri and Nelson Bush, PFM Asset Management LLC; Carla Harris, Greg Burchell, David Searcy, Daymeon Fishback and Whitney McDade, Morgan Stanley.

Chairman Mims called the meeting to order at 9:03 a.m.

There was no discussion under old business.

Following, General Manager Mac Underwood stated item 2 was a request for the Committee to hear presentations regarding Pension and OPEB consulting services. Assistant General Manager Michael Johnson provided a handout (a copy of which is on file with the Committee meeting book) detailing the process and results. A Request For Qualifications (RFQ) for Bond, OPEB and Pension Master Trustee and Custody Services along with an RFQ for Underwriting Services was also issued. Fifteen firms responded for the Pension and OPEB Consulting Services, four of which were minority owned firms. Thirteen of the fifteen responding submitted complete and detailed responses. Upon Staff's final review four firms were present at the meeting to make their presentations; Morgan Stanley, Bretwood Capital Partners/GLOBALT Investments, PFM Asset Management LLC and Callan Associates, Inc. At the next scheduled Finance Committee meeting, June 7, 2016, four firms will make presentations based on Staff's

final review for Consulting Services for Birmingham Water Works Board (BWWB) Bond, OPEB and Pension Master Trustee and Custody Services according to AGM Michael Johnson. Director Munchus asked if Gray & Company pulled out. General Manager Mac Underwood responded that Staff felt they did not need to continue a relationship with them.

Next, Callan Associates, Inc. was introduced to the Committee to make their presentation. Gwelda Swilley-Burke and Dana Brown were present on behalf of Callan Associates, Inc., as set forth in agenda item 2.4. A handout was provided to the Committee members (a copy of which is on file with the Committee meeting book). Gwelda Swilley-Burke stated that both she and Dana Brown were Senior Vice-Presidents with over 20 years of experience each. Callan Associates, Inc. was established in 1973 and is 100% employee owned according to Ms. Swilley-Burke. There are a total of 81 current employees and their primary focus is Investment Consulting. Callan provides consulting services for 139 public fund clients who are responsible for investing approximately \$1.6 trillion in assets. Ms. Swilley-Burke and Mr. Brown have a history together of working on public funds. Past and current clients were mentioned. The Callan consulting team has a deep staff which includes oversight committees. Director Munchus asked if the committees would slow down the internal decision making process. Ms. Swilley-Burke responded not at all, typically Callan makes sure it has all the pertinent documentation then it goes to the specialists and actuaries. Everything in the study is answered so Callan can go to the client with a fully vetted piece. Callan builds off the strengths already embedded in a client's program and it is customized for the client. Callan holds a National conference each year that the BWWB would be invited to be a part of Ms. Swilley-Burke stated. A comprehensive fee of \$120,000.00 with a 4% annual escalation after the first year for both plans is Callan's fee for services. Dana Brown described their manager search process. Our manager searches are custom for our clients and we start with client specific profiles, Mr. Brown stated. Callan clients utilize minority, women and disabled-owned firms to manage \$21 billion. Director Munchus asked if this was a deliberate effort on behalf of Callan and he asked if veteran firms were included in the list. Gwelda Swilley-Burke responded yes to both questions. Director Lewis asked specifically about African-American minorities. Michael Johnson stated Callan provided minority data on their response form to the BWWB. Mr. Brown stated Callan does not use a template when creating investment policy statements, but rather begins with a clean sheet approach that takes into account the client's current financial position and obligations, as well as other considerations. Overall observations of the current BWWB Pension Plan and OPEB were discussed by Mr. Brown. A higher allocation to International Funds and a more conservative approach in Fixed Income would likely be recommended to the BWWB by Callan along with a few other observations according to Mr. Brown. In closing, Ms. Swilley-Burke stated Callan has expertise in public funds for 43 years and specializes in customizing its reporting. Callan would be honored to work with the BWWB Ms. Swilley-Burke stated. AGM Michael Johnson asked Callan to provide a recap of their diversity program for Director Lewis.

Following, at 9:35 a.m. a scheduled quarterly fire drill interrupted the meeting. The meeting reconvened at 9:40 a.m.

Next, Bretwood Capital Partners and GLOBALT Investments were introduced to the Committee to make their presentation and a handout was provided to the Committee members (a copy of which is on file with the Committee meeting book). Calvin Stamps and William “Bill” Roach were present on behalf of Bretwood Capital Partners and GLOBALT Investments, as set forth in agenda item 2.2. Calvin Stamps, Founder and Managing Partner stated Bretwood Capital Partners is 100% minority owned. Mr. Stamps discussed the outsourced chief investment officer role (OCIO) Bretwood Capital Partners and GLOBALT Investments would potentially play. The OCIO model can provide investors with a compelling combination of investment experience, cost effectiveness, nimble decision-making and the ability to take advantage of more sophisticated strategies while providing fiduciary relief. Mr. Stamps stated that the role and function of Bretwood/GLOBALT Investments would be similar to the passive approach being utilized in the BWWB’s OPEB plan. Outsourced investment providers are able to make faster decisions and move more quickly on implementation. An OCIO provider can provide the experience to implement multifaceted solutions to help enhance the potential of the asset owner’s portfolio according to Mr. Stamps. Outsourced investment solutions also enable institutional investors to optimally allocate scarce resources and it offers a wide range of options for delegating discretionary investment authority, which provides institutions with the ability to shift some of their fiduciary responsibilities. Because of the tactical use of Exchanged Traded Funds (ETF’s) and scale efficiencies, outsourcing can provide investors with cost savings in implementing portfolio strategies. The Bretwood/GLOBALT Investments approach would be more cost effective than the traditional consultant/money manager structure from the other firms the Committee will hear from today according to Mr. Stamps, saving the BWWB about \$250,000.00 a year. An overview of GLOBALT Investments was provided by Bill Roach, President of GLOBALT Investments. GLOBALT provides professional money management to both institutional and individual investors through equity, fixed income and ETF asset allocation strategies. GLOBALT Investments has been an SEC registered investment advisor since 1991 and is a separately identifiable division of Synovus Trust Company, N. A., a nationally chartered trust company. The GLOBALT Investments team qualifications were pointed out on pages 7 and 8 of the handout. A list of GLOBALT’s better known clients was mentioned by Mr. Roach. A diversified approach smoothes returns over time according to Mr. Roach. GLOBALT’s main objective is to deliver competitive risk-adjusted returns over a market cycle while reducing portfolio volatility and minimizing downside risk when possible. GLOBALT focuses on the asset allocation decision to reach a client’s financial goals, executes a disciplined long-term investment strategy that is repeatable, utilizes both strategic and tactical approaches to asset allocation, manages portfolios on a team basis and comprises portfolios of 100% ETF’s. Mr. Roach discussed the characteristics of ETF’s. GLOBALT’s investment objectives actively execute a disciplined long-term investment strategy and the disciplined process was explained along with model components. GLOBALT’s current model portfolio allocations as of April 2016 represent the minimum limit of the current allocation and the maximum limit for each model portfolio. The Growth Plan strategy seems to fit the BWWB best, according to Mr. Roach. Non-wrap composite returns percentages were discussed briefly for the period ended March 31, 2016 and calendar

year composite returns percentages for the year ended December 31, 2015 regarding GLOBALT's performance. In summary, Calvin Stamps stated The Bretwood Capital Partners/GLOBALT Investment difference is a continuous process that is value focused and performance driven. It is divided into three parts; Innovation, Direct Experience and Expert Knowledge. The strategy that a Bretwood/GLOBALT team can offer the BWWB can be trusted Mr. Stamps stated. Mr. Stamps took it a step further and appealed to the Committee saying he was an entrepreneur and product of Birmingham as well as a member of the African-American community. AGM Michael Johnson reiterated that a Bretwood/GLOBALT partnership strategy would mean that the BWWB would not have an active manager. Some discussion occurred concerning the pros and cons of not having an active manager. Director Lewis stated she had concerns with not having enough eyes involved in this type of strategy.

Following, PFM Asset Management LLC (PFMAM) was introduced to the Committee to make their presentation. John Robinson, Biagio Manieri and Nelson Bush were present on behalf of PFMAM, as set forth in agenda item 2.3. A handout was provided to the Committee members (a copy of which is on file with the Committee meeting book). John Robinson, Senior Managing Consultant and Multi-Asset Class Strategist for PFMAM stated the company has approximately \$104.4 billion in total assets, including \$64.9 billion in discretionary assets under management and \$39.4 billion in assets under advisement as of March 31, 2016. Nelson Bush, Managing Partner and head of the South Region for PFMAM stated the company manages over 200 retirement accounts with \$15 billion in multi-asset class assets. PFMAM began servicing OPEB trusts in 2005 and they advise on \$2.7 billion in assets for a total of 57 OPEB trusts nationwide. Mr. Bush stated the firm was founded in 1975 and in 1980 the firm expanded to the investment side. PFMAM has 15 offices in the South and an office in Huntsville, AL. PFMAM's retirement funds list and OPEB client list were briefly mentioned. PFMAM's multi-class management objective is to create diversified portfolios that invest across multiple asset classes. Biagio Manieri, head of PFMAM's Investment Committee and Director of Research stated PFMAM has a dedicated investment committee to oversee the (Memory Access Control Mix) MACM strategies with \$15 billion in total assets and a strong track record. The investment approach at PFMAM consists of a strategic asset allocation and asset class structure with value added investment services such as investment in low-cost passive index funds, making slight opportunistic adjustments to exploit undervalued asset classes, limit risk and optimize manager allocation. Their approach is a thoughtful and disciplined process based on "buy low and sell high" – not a calendar approach. PFMAM has established a track record of overweighting, or underweighting asset classes for enhanced return while managing exposure. Customized portfolio options specific to the goals, objectives and risk tolerances of each entity are practiced by PFMAM. Risk tolerance is also identified for each client. Mr. Manieri stated PFMAM will compile a properly written Investment Policy Statement (IPS) to include asset allocation target ranges, prohibited investments, benchmarking, target rate of return, time horizon and an annual investment policy review to mitigate risks. Mr. Manieri spoke about manager selection, stating PFMAM monitors each recommended manager and they are constantly evaluating replacement managers should the need for a change arise. The manager selection is based on both quantitative

and qualitative measures. Mr. Robinson stated PFMAM gets to know its clients well and identifies what their expectations are. The investment policy process is important to PFMAM and we will ensure the BWWB has a comfort level and understands how we are going to mitigate risks Mr. Bush stated. Mr. Manieri added PFMAM places a very strong emphasis on quantitative and qualitative measures in relation to hiring a manager. In addition, PFMAM has a unique approach hiring over 20 minority and women owned firms since 2000. Mr. Bush talked further about the company's ongoing commitment to diversity stating approximately 25% of their managing directors and owners of the firm who oversee the direction and mission of PFMAM are women or minority individuals, adding it is a real commitment for PFMAM. Mr. Manieri stated PFMAM has 2 full-time traders. The BWWB will receive monthly statements, monthly market reviews, preliminary quarterly investment reports, quarterly investment reports, real time manager and portfolio alerts, daily holdings and transactions. Additionally there is an easy online network BWWB will have access to. There are 2 individuals who will have their eyes on the BWWB portfolio daily Mr. Manieri stated. Mr. Bush stated PFMAM cannot do a trade on a client's account that would cause the trade to push the account out of compliance. Various systems are in place and maintained by a compliance team. Mr. Robinson went through the actual implementation process with the responsibilities of each party. The BWWB would be able to look at this account online daily as well Mr. Robinson stated. The current BWWB pension and OPEB portfolio allocation structures were compared to PFMAM's new portfolio allocation structures. Mr. Bush discussed PFMAM's annual advisory fees. The first \$50 million would be 30 basis points (0.30%), the next \$50 million would be 20 basis points (0.20%) and assets in excess of \$100 million would be 15 basis points (0.15%). A minimum of \$20,000.00 applies to all accounts. Mr. Bush stated that PFMAM views the company as an extension of the BWWB. In closing, Mr. Robinson stated PFMAM will deliver investment manager experience, a highly trained and competent team, effective investment strategies and access to high quality training and education.

Next, Morgan Stanley was introduced to the Committee to make their presentation. Carla Harris, Greg Burchell, David Searcy, Daymeon Fishback and Whitney McDade were present on behalf of Morgan Stanley, as set forth in agenda item 2.1. A handout was provided to the Committee members (a copy of which is on file with the Committee meeting book). David Searcy, Senior Vice President thanked the Committee for the opportunity to come and make a presentation. Carla Harris, Vice Chairman of Wealth Management and Senior Client Advisor for Morgan Stanley spoke on the firm's expertise and their history of being a strong fiduciary partner. No matter the economic environment we are in Morgan Stanley will be able to deliver for the BWWB, Ms. Harris stated. There is a strength Morgan Stanley possesses that makes us Best in Class. There are 4 reasons to partner with Morgan Stanley Ms. Harris stated. Morgan Stanley's global footprint, transparency, commitment around diversity and proprietary tools and resources that no other firm on the street can offer are reasons to place the trust of BWWB in Morgan Stanley's hands. Greg Burchell, Corporate Retirement Director and Government Entity Specialist Financial Advisor gave an overview of BWWB's Pension Portfolio and OPEB Trust and outlined its needs being; an additional layer of fiduciary insight, review of investment policy statements, spending

policies and capital market assumptions, recommendations on strategic and tactical asset allocation decisions, access to a wider array of rigorously reviewed and vetted investment managers at competitive prices, more timely execution of investment manager changes within the portfolio and information on institutional banking and lending capabilities. Mr. Burchell talked about some of its institutional clients. There are layers of market intelligence within Morgan Stanley starting with a Global Investment Committee, a Strategy, Research & Manager Analysis, Morgan Stanley & Company analysts and intellectual capital from third-party investment managers. We have 7 leading thinkers, 45 strategists, 300 research analysts and 1,300 managers available to Morgan Stanley Mr. Burchell stated. Morgan Stanley's investment philosophy is that action should be taken through discipline, not emotion. In today's highly complex investment world, fulfilling fiduciary responsibility has become more difficult given the growth in complexity of the financial markets coupled with increased regulatory, compliance and due diligence requirements according to Mr. Burchell. Morgan Stanley's investment policy is designed for success not failure and the areas of concern are the potential of reallocating assets away from opportunity, limiting short-term opportunity and the inability to adhere to policy. Asset allocation is the most important determinant of risk exposure and investment outcomes. Morgan Stanley partners with industry leaders from conservative to aggressive. In the manager selection process Morgan Stanley will leverage multiple professional teams to determine the asset managers and investment products appropriate for BWWB's portfolio. There are 1,300 plus select investment managers to choose from and Morgan Stanley's patented ranking process that seeks to identify strong managers. Morgan Stanley blends active and passive strategies for their client's benefit. A hypothetical portfolio performance for the BWWB was talked about. Morgan Stanley's commitment to the BWWB ensures local service delivery, objective and unbiased investment advice, customized portfolios, an open architecture approach, and fully accountable and responsible conflict free processes. A timeline was proposed and pricing structure was discussed with a choice of either a blended advisory service fee or a fixed dollar advisory fee according to Mr. Burchell. With great confidence Mr. Burchell stated that there is no other firm that has the resources backing its processes than what Morgan Stanley offers. Morgan Stanley wants to make sure the BWWB is set up for success. The managers available to Morgan Stanley were discussed by Mr. Burchell stating they have a patented selection process and the team consists of the most valuable managers available in the market today. Morgan Stanley's goals are based on objectives that are transparent with the BWWB, Mr. Burchell stated. Director Lewis stated she wanted to make sure this partnership would be personalized. Mr. Burchell responded that both he and Mr. Searcy would assuredly be available at all times and most importantly they are local. David Searcy echoed Mr. Burchell adding that there are 110 employees in Birmingham and 2 working closely and directly with the BWWB. In closing, Ms. Harris thanked the Committee and said Morgan Stanley would be honored and would count it a privilege to serve the BWWB. Ms. Harris assured the Committee it would not be a decision they would regret.

Following, General Manager Underwood added that he, AGM Michael Johnson and Matthew Arrington would take a look at the information that was presented today and make recommendations.

As there was no further business to be brought before the Committee, a motion was duly made and seconded, and the meeting was adjourned at 11:32 a.m.

_____/s/_____
Ronald A. Mims
Chairman/President

_____/s/_____
Kevin B. McKie, Esq.
First Vice-Chairman/First Vice President

_____/s/_____
George Munchus, Ph.D.
Secretary-Treasurer

_____/s/_____
Mac Underwood
General Manager