

**MINUTES OF EXECUTIVE COMMITTEE MEETING
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
December 5, 2017**

An Executive Committee meeting of the directors of The Water Works Board of the City of Birmingham was held on Tuesday, December 5, 2017 at 9:00 a.m., in the principal office of the Board, 3600 First Avenue North, Birmingham, Alabama.

The following Committee Members were present: Sherry Lewis, William Muhammad, Tommy Joe Alexander, Brenda Dickerson, Ronald Mims, George Munchus, William Burbage, Jr. and Brett King. Director Deborah Clark was not present.

Also attending were: Mac Underwood, General Manager; Michael Johnson, Sonny Jones and Darryl Jones, Assistant General Managers; Grace Amison, Executive Assistant to the Board of Directors; Anitra Hendrix, Executive Assistant to the General Manager; K. Mark Parnell, Parnell Thompson, LLC; Rick Jackson, George Anderson, Paul Lloyd, Michael Griffin and Terrell Jones, Board Employees; Dr. Jesse J. Lewis and Dorian Kendrick, Agency 54; Patrick Flannely and Brian Ruggs, ARCADIS, U.S., Inc.; Theo Johnson, Volkert, Inc.; Daymeon Fishback, David Searcy and Greg Burchell, Morgan Stanley; and Jacqueline Rantanen and Patrick Burchell, Hamilton Lane.

Inasmuch as seven of the committee members were present; Chairwoman Lewis declared a quorum in attendance. The meeting was called to order at 9:01 a.m.

The General Manager stated there were three (3) items on the agenda to be reviewed and discussed.

Following, the Committee moved to the first item on the agenda, Request Committee to hear a Presentation regarding the investment performance of the Pension Plan and Other Post Employment Benefit (OPEB) Trust for the Third Quarter - September 30, 2017. Assistant General Manager Michael Johnson stated Sheppard Harris & Associates conducted an audit of the Pension and OPEB Plans. He stated Morgan Stanley is the investment consultant for the plans. He then recognized Michael Griffin, Board employee. Mr. Griffin stated the quarter was very good and the portfolio is invested highly into equities; therefore, the Pension plan had a "fantastic" quarter. Director Munchus questioned whether there is a State law that says pension money can only be invested into equities. Mr. Griffin stated there is a state law that says public operating funds cannot be invested in equities. However, pension funds are not governed by this law and pension funds can be invested in fixed income and equities. The General Manager added that is a statewide law. Mr. Griffin then recognized Morgan Stanley to make their presentation. Daymeon Fishback, Morgan Stanley, stated the portfolio is up by \$22-23 million. He stated they will present recommendations for future investment opportunities regarding the market, discuss performance of the portfolio and introduce Hamilton Lane to present alternative investments for the Plans. Director Dickerson questioned whether an impeachment of President Trump will have an impact on the market. Mr. Fishback responded Morgan Stanley believes this bull market run is based on fundamentals, the earnings that have come from companies and the anticipation of tax reform. Director Munchus questioned the status of the relationship with Brentwood Capital Partners. Mr. Fishback stated he has not heard back from Calvin Stamps but he will reach out to him again.

Director Munchus encouraged Morgan Stanley to continue to try to reach out to Brentwood Capital Partners. Mr. Greg Burchell, Morgan Stanley, stated the U. S. market has gone through repair, recovery and expansion. He stated the federal reserve stopped buying bonds in 2015 and raised interest rates in 2016. He then presented the Committee with a handout wherein a copy is on file in Diligent. He gave an overview of the S&P 500 annual returns. Director Munchus questioned whether the earnings will continue. Mr. Burchell stated there will be earnings but not at the pace or rate it has been. Director Alexander questioned whether the tax plan is driven by earnings. Mr. Burchell responded yes. He stated the U. S. stocks are increasing internationally. Director Munchus questioned how is Morgan Stanley treating Brexit. Mr. Burchell stated they don't feel it is very meaningful because a lot of the deals Great Britain has with Europe will remain in place. He reported inflation is not dead, the asset allocation is 27 percent in fixed income, and the ending value for the Pension plan is \$141 million. He indicated the Pension plan has made \$23 million more since Morgan Stanley became the investment manager for the plans. He then gave a overview of the money managers. He stated the OPEB plan is up 13 percent and has an ending value of \$30.5 million. Mr. Burchell then stated Morgan Stanley recommends the board take some of the profits it made and redeploy them into lower, correlating asset classes. He indicated investing 10 percent of the equity funds through Hamilton Lane Private Equity markets would provide added returns. The board would have to commit the moneys for 5 to 7 years, which means this fund would be illiquid during this time period. He stated this would include increasing the portfolio's diversification and increase premium returns. Mr. Griffin stated the illiquidity premium means once the money is invested, it is there for 5-7 years and it can't be pulled out. He indicated pulling the money out early will result in several costs. Director Muhammad questioned Mr. Griffin whether that was a dissenting view. Mr. Griffin responded no and stated he wanted the board to understand how the money would be invested. Director Muhammad stated he needed a dissenting view. Mr. Griffin stated the negative is if the money had to be pulled out right away, there would be costs associated with it. He indicated if the money is left in 5-7 years, there would be a premium earned over what other bonds would yield. Mr. Burchell stated the 7-year outlook is currently a 6.8 percent return with a forecast of 4.3 percent, and he indicated the 20-year forecast is better. He then stated Morgan Stanley recommends Hamilton Lane as a private credit manager after extensive due diligence. Director Alexander questioned who is the insurer on the Pension plan. The General Manager stated the plan is not insured. Mr. Burchell stated an insurance company could bid on the plan and could buy the liability off the books and indicated insuring the plan would be very costly. He stated diversification assists with avoiding that type of liability. He stated the recommended allocation is 55 percent equities, 22 percent fixed income, and 20 percent alternatives. He indicated they would like to invest 10 percent of the 20 percent in alternatives. Director Munchus questioned which type of assets would this involve. Mr. Burchell responded opportunistic assets.

Next, Mr. Burchell introduced Patrick Burchell and Jacqueline Rantanen with Hamilton Lane to make a presentation. Mr. Patrick Burchell stated private credit allows a portfolio to diversify into private loans issued to private companies. Director Munchus which sectors does this cover. Mr. Patrick Burchell responded it covers all sectors and not just one sector or area. He then gave an overview of Hamilton Lane. He indicated Hamilton Lane has been a private market specialist for 26 years, they are not involved with public markets or hedge funds. He stated they are a global company with 15 offices, they are publicly traded, and they manage \$404 billion in assets and \$45-\$50 billion in discretionary assets. Director Alexander questioned who is Hamilton Lane. Ms. Rantanen responded it is an institutional firm name and not individual names. Director

Munchus questioned where is Hamilton Lane located and Ms. Rantanen responded it is located just outside of Philadelphia, PA. Director Lewis stated she would like to see the diversity of Hamilton Lane. Ms. Rantanen stated Hamilton Lane has built a diverse workforce with the firm consisting of 49 percent women and/or minorities. Director Dickerson questioned how many black people work for Hamilton Lane. Ms. Rantanen responded she did not have that number at hand; however, she would find that information and forward it. Director Munchus questioned whether Hamilton Lane works with small black firms. Ms. Rantanen responded Hamilton Lane has a history of working with state pension funds that makes sure the dollars are going into underserved areas. She indicated they can provide statistics. Director Munchus questioned whether Hamilton Lane employs blacks and Mr. Pat Burchell responded yes. Subsequently, Mr. Pat Burchell gave an overview of Hamilton Lane's clients. He stated there are 335 employees of Hamilton Lane with 114 of them being investment professionals. He indicated each investment professional is dedicated to a specific investment based on their skillset. Ms. Rantanen then gave an overview of the strategy for private market investment. She stated a portfolio can experience a much higher return with a private market investment than fixed income, but not as much high risk. Director Munchus requested Ms. Rantanen provide an example of an infrastructure investment. Ms. Rantanen stated in this particular bond there will not be an investment in infrastructure. She indicated the investment will be in private credit which results in lower risks with more modest returns; a shorter duration of 3-5 years versus 5-7 years on the equity side. She indicated regular cash payments are part of credit investing.

Subsequently, Ms. Rantanen gave an overview of graphs of the market and indicated there is a \$1 trillion market. She stated middle market companies have to pay a little more to borrow money and do not take out as much as large market companies. She stated traditional lenders to private companies have gone away mainly due to regulation; therefore, there is a huge opportunity for companies needing capital. She then gave an overview of the investment opportunities available to the Board's portfolio. She stated in 2017 there was \$4 billion worth of opportunities, to date they have only invested in 4 percent of those opportunities. She indicated Hamilton Lane's philosophy is see a lot and invest in very little because they like to be highly selective. Ms. Rantanen stated the key objectives for the portfolio is a 12-14 percent return for investors, investing in the debt of middle market performing companies, and taking advantage of opportunistic strategies. She indicated the terms of the portfolio are investor friendly, with it being invested in 2 years and the entire life of the fund is 7 years. However, during the investment period, the cash yield will be paid back with the fees being only on investment capital. Director Munchus questioned whether Hamilton Lane does their own internal business evaluations of these particular firms. Ms. Rantanen responded yes, and stated they have a team that focus only on private credit. Director Munchus questioned whether banks got out of this space primarily due to regulatory issues and questioned whether Hamilton Lane is subject to those kinds of regulations because they are not a bank. Ms. Rantanen responded Director Munchus was correct regarding banks being involved and indicated Hamilton Lane does not have the same regulations. She then gave an overview of case studies. Mr. Patrick Burchell then gave an overview of terms and structure. He stated the target fund is \$100 million and the minimum commitment size is \$500,000; the investment period is 2 years with a 7-year partnership; and 1 percent of aggregate commitments. Mr. Griffin requested Mr. Patrick Burchell to explain what tail-end secondary and opportunistic equity means to the portfolio. Mr. Patrick Burchell responded these are fixed income "like" investments; however, there are additional returns to the fund. He stated opportunistic funds are a private equity investment with clear visibility into a near term exit. The General Manager stated

the 2-year investment period is when the building of the portfolio for this term will occur. Director Alexander questioned what the interest rate of return is. Mr. Patrick Burchell responded 8 to 10 percent with the potential of increasing due to interest rates. The General Manager stated currently there is 72 percent in equities and the board has to decide whether they want to move 10 percent of that to private equity alternatives. Director Munchus left the meeting at 10:36 a.m.

Next, Chairman Lewis requested the directors email their questions regarding Hamilton Lane to management and they will follow up with the board. Director Muhammad stated he would prefer another meeting be held to discuss this item further. Chairman Lewis stated if there are not enough questions received from the directors, there is no need to call a meeting. She stated a decision will be made if necessary to schedule a meeting. Director King suggested putting this item on the agenda in January 2018 to ensure an opportunity is not missed. The General Manager stated staff wants to ensure the Pension plan is sound and solid and it does not lose money generated during 2017. Director Dickerson stated as soon as she receives the information on Hamilton Lane's employees, it will be helpful in making her decision.

As there was no further business before the Committee, a motion to adjourn the meeting was duly made and seconded, and the meeting adjourned at 10:43 a.m.

_____/s/
Mac Underwood
General Manager

_____/s/
Sherry W. Lewis
Chairwoman/President

_____/s/
Tommy Joe Alexander
First Vice Chairman/First Vice President

_____/s/
Brett King, Esq.
Secretary/Treasurer

_____/s/
William Burbage, Jr.
Assistant Secretary/Treasurer

_____/s/
Dr. Brenda Dickerson
Director

_____/s/
Dr. George Munchus
Director

/s/

William Muhammad
Director

/s/

Ronald A. Mims
Director