

**MINUTES OF EXECUTIVE COMMITTEE MEETING
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
March 6, 2018**

An Executive Committee meeting of the directors of The Water Works Board of the City of Birmingham was held on Tuesday, March 6, 2018 at 9:00 a.m., in the principal office of the Board, 3600 First Avenue North, Birmingham, Alabama.

The following Committee Members were present: Tommy Joe Alexander, Deborah Clark, Brenda Dickerson, Ronald Mims, William Burbage, Jr., Sherry Lewis, William Muhammad, George Munchus. Director Brett King 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, Sonji Campbell, and Terrell Jones, Board Employees; Dr. Jesse J. Lewis and Dorian Kendrick, Agency 54; Patrick Flannelly and Brian Ruggs, ARCADIS, U.S., Inc.; Daymeon Fishback, David Searcy and Greg Burchell, Morgan Stanley; and Jacqueline Retanan and Patrick Burchell, Hamilton Lane; Peiffer Brandt, Townsend Collins, and Melissa Elliott; and Olivia Martin, State of Alabama Attorney General's Office.

Inasmuch as five of the committee members were present; Chairman Alexander declared a quorum in attendance. The meeting was called to order at 9:02 a.m.

The General Manager stated there were four (4) items on the agenda to be reviewed and discussed.

Following, the Committee moved to the first item on the agenda, Morgan Stanley regarding investment performance of the Pension Plan and Other Post Employment Benefit (OPEB) Trust for Year Ended December 31, 2017. Michael Griffin, Board employee, gave an overview of the plans for 2017. Directors Lewis, Munchus and Muhammad arrived at the meeting at 9:04 a.m. Mr. Griffin stated the markets were very good. He then recognized Morgan Stanley to make their presentation. Mr. Greg Burchell, Morgan Stanley, gave an overview of the portfolios for 2017 and indicated there was a lot of change in the markets; however, it was a phenomenal year. He indicated there were tax incentives and earnings due to the Senate passing a bill. He stated the projection for 2018 will not be as good as 2017. Mr. Greg Burchell stated \$14 million was made for the Pension fund and indicated the ending market was \$148 million. Chairman Alexander questioned what was the value of the plan one year ago and Mr. Greg Burchell responded it was \$127 million. Mr. Greg Burchell stated the OPEB plan made \$4.1 million in 2017. He indicated one of the international money managers is on watch. He then recommended moving money to private bonds and recommended private market specialists, Hamilton Lane. Director Dickerson questioned whether money would be moved from the U.S. market. Mr. Greg Burchell responded 2/3 of the money would be in U.S. markets and 1/3 in international markets. Mr. Griffin stated equities are volatile and the money should be moved in a more stable market. Director Lewis questioned why the percentage from international markets is less. Mr. Griffin responded the U.S. market is 2 years behind the world, therefore, he would not recommend moving too much from

international. Chairman Alexander questioned what the tariffs on steel would affect. Mr. Greg Burchell responded they wouldn't have as much impact. Director Lewis questioned how many companies did Morgan Stanley vet besides Hamilton Lane. Mr. Greg Burchell responded one other company was vetted, Grosner. Director Munchus questioned whether Hamilton Lane is familiar with the Board's HUB program and Mr. Greg Burchell responded yes. Director Munchus stated he would need Hamilton Lane's supplier diversity contact person. Director Munchus then questioned the status of Morgan Stanley's contact with Brentwood Capital Partners. Director Lewis left the meeting at 9:18 a.m. Mr. Daymeon Fishback stated he spoke with Calvin Stamps of Brentwood Capital Partners and he indicated Brentwood has not registered with the Securities Exchange Commission (SEC). Director Lewis returned to the meeting at 9:19 a.m.

Next, Mr. Greg Burchell stated Morgan Stanley's due diligence process is comprehensive and they have high standards that they hold money managers to. Director Munchus questioned whether Morgan Stanley ever challenge the SEC's regulations. Mr. Greg Burchell responded no because Morgan Stanley must abide by them. Director Munchus stated the board needs to look at where it is going wrong with supplier diversity. Director Munchus questioned how does Morgan Stanley vet its money managers. Mr. Greg Burchell gave an overview of the vetting process and indicated Morgan Stanley has analysts that examine money managers all the time.

Following, the Committee moved to the second item on the agenda, Request Committee to hear a presentation from Hamilton Lane regarding a proposal to serve as investment manager for the alternative investment allocation of the Pension Plan and OPEB Trust. Mr. Pat Burchell stated Hamilton Lane previously presented to the Committee information regarding private markets fitting into the Board's portfolio. He indicated he met with Calvin Stamps of Brentwood Capital Partners. Director Munchus stated he is interested in a joint venture partnership with Brentwood Capital Partners because he would like to see more diversity. Mr. Pat Burchell stated at this time Brentwood Capital Partners doesn't quite fit into the strategy. He indicated Hamilton Lane was founded by an African American and a woman; he also indicated the top executives at their firm is diverse. Director Munchus indicated he would like to see pictures. Subsequently, Ms. Jacqueline Retanan gave an overview of the private markets. She stated there is a 10-year return for all of the major asset classes with the U.S. equity and Private Credit having a return at 7.6 percent. She indicated private markets hold up well even when the market is bad. Mr. Pat Burchell then gave an overview of private credit performance. Director Lewis questioned how many water systems are considering going into this market. Mr. Pat Burchell responded Hamilton Lane has not spoken to any. Director Munchus questioned whether Hamilton Lane has worked with other water system pension plans and how did they decide on BWWB. Mr. Pat Burchell stated he was not sure of other water system clients of Morgan Stanley; however, Hamilton Lane is currently working on a plan with the City of Birmingham. Assistant General Manager Michael Johnson stated up to 25 percent of the plan can be placed in alternatives according to the Board's investment policy, which ensures the portfolio is diversified. Director Munchus questioned why the Board hadn't explored doing this type of investment earlier. Mr. Michael Johnson stated the plan was doing well with equities. Director Munchus questioned whether this is a good deal for rate payers and Mr. Michael Johnson responded yes. The General Manager stated the more money that is earned by the Pension Plan results in less expenses for the Board. Director Munchus stated he feels this item should be tabled until Brentwood Capital Partners can participate. Mr. Pat Burchell indicated this fund probably won't be around by the time Brentwood Capital Partners has been fully vetted. He indicated the proper due diligence has been performed regarding this investment.

The General Manager stated the plan has earned \$14 million and those earnings should not be lost. Chairman Alexander stated he is not in favor of tabling this item. The General Manager stated the Committee would need to approve sending this item to the full board for approval. Director Lewis questioned what are Hamilton Lane's fees. Mr. Pat Burchell stated there is a 1 percent management fee. Director Lewis stated this item should move to the full board and full portfolio be presented. The General Manager stated management would recommend bringing a full agreement before the board for approval. Ms. Retanan stated Hamilton Lane has a portfolio to present to the Board. She stated initial investments can begin in April or May. Director Lewis then made a motion to present this item to the full board and Director Dickerson seconded the motion. The motion passed by a vote of 6, with Directors Alexander, Clark, Dickerson, Lewis, Muhammad and Burbage voting for the motion and Directors Munchus, and Mims abstaining from voting.

Following, the Committee moved to the third item on the agenda, Request Committee to hear a presentation from Raftelis Financial Consultants, Inc. regarding the Cost of Service Study to be completed during FY2018 as approved in the FY2018 Budget. Peiffer Brandt, Raftelis Financial Consultants, gave an overview of the objectives and approach for the study. He stated Raftelis will use the American Water Works Association's (AWWA) M1 manual as a guide. He stated BWWB conducts a Cost of Service Study every 5 years. Director Munchus questioned whether Raftelis is doing any work with Jefferson County and Mr. Brandt responded no. The General Manager added Jefferson County has their own rate consultant. Director Muhammad questioned whether the study would look at the \$3.8 million Jefferson County is losing. Mr. Brandt says the study examines new revenue sources and expenses. Chairman Alexander left the meeting at 10:21 a.m. Mr. Brandt stated the Board must figure out a way to recover \$180 million and then gave an overview of the projected recovery. Chairman Alexander returned to the meeting at 10:23 a.m. Townsend Collins, Raftelis Financial Consultants, gave an overview of the objectives regarding the study and cost allocation. He indicated the goal is to achieve equity and costs are allocated based on facility function. He then gave an example of how some changes in rate structure would impact revenue. Director Mims left the meeting at 10:41 a.m. Director Muhammad questioned the cost to produce 1 ccf of water. Mr. Brandt responded it is not that expensive. Subsequently, Ms. Melissa Elliott, Raftelis Financial Consultants, gave an overview of effective public outreach strategies. She stated every utility faces the issue of pleasing its customers and indicated it is best to be proactive in public outreach. She then suggested the Board hold community open houses during the course this rate study.

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 11:59 a.m.

_____/s/
Mac Underwood
General Manager

_____/s/
Tommy Joe Alexander
Chairman/President

_____/s/
Deborah Clark
First Vice Chairwoman/First Vice President

/s/

Dr. Brenda Dickerson
Second Vice Chairwoman/Second Vice
President

/s/

William Burbage, Jr.
Secretary/Treasurer

/s/

Ronald A. Mims
Assistant Secretary/Assistant Treasurer

/s/

Sherry W. Lewis
Director

/s/

Dr. George Munchus
Director

/s/

William Muhammad
Director