

# CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

428 East Fourth Street • Suite 205 • Charlotte, North Carolina • 28202 • (704) 626-2728 • Fax (704) 626-7365

## INVESTMENT COMMITTEE MINUTES

February 20, 2020

**PRESENT:** John Carr - Chair, Teresa Smith, Joey Hager, Marvin Wilson and Kelly Flannery (left at 9:11 a.m.)

**GUEST:** Elizabeth Hood - Callan, LLC

**OTHERS:** Staff - Sandy Thiry, Desiré Dixon, and Tony Bass

## AGENDA

### CALL TO ORDER

John Carr called the meeting to order at 8:02 a.m.

### I. CALLAN, LLC

Elizabeth Hood presented the Fund's quarterly performance report and provided the Committee with an overview of Callan's Capital Market Projections.

- A. Quarterly Fund Performance – The Total Fund returned 5.50% in the 4<sup>th</sup> Quarter 2019 and underperformed the Custom Index return of 5.78% but ranked at the 34<sup>th</sup> percentile in Callan's Public Fund Sponsor Database. For the year-to-date period, the Total Fund returned 18.84% which underperformed the Custom Index return of 19.44%. Since Inception, the Total Fund returned 9.07% which outperformed the Custom Index by 64 basis points. Although all asset classes had positive returns during the quarter, real estate and US equity lagged. Ms. Hood also reviewed the Periodic Table of Investment Returns (2000 – 2019) and explained that in 2019 all asset classes had positive returns.
- B. Ms. Hood presented Callan's capital market projections and explained they are an important factor in understanding the potential range of investment outcomes over time. The market projections incorporate economic and financial environments and consists of projected returns, projected risks, and projected correlations across asset classes. Using the System's current target allocations, Callan's expected 10-year return for the Fund is 6.20% with a standard deviation of 12.02%.
- C. Callan periodically reviews CFRS' investment manager fees and leverages their client base to negotiate lower manager fees. Going forward, CFRS will realize reduced manager fees with State Street Global Advisors as a result of Callan's negotiation.
- D. Watch List Review:  
AJO was recently added to the watch list in November 2019 due to performance concerns. Todd Carabasi from Callan is planning an on-site visit with AJO to get a better understanding of their management approach. AJO staff changes will also be discussed during his visit.

The second manager on the watch list, Morgan Stanley Emerging Market, has shown investment performance improvement in the most recent quarter. Callan is scheduled to meet with Morgan Stanley in their Atlanta office next month and will review their

performance. Through discussion with Callan, the Committee determined to keep them on watch for another quarter and will continue to monitor them closely.

The Committee discussed the recent termination of the Head of UBS Real Estate in conjunction with their recent performance. Based upon Callan's heightened concerns, Joey Hager motioned to place USB Trumbull Property Fund on watch due to underperformance, recent investment staff changes, and the size of their client outflow queue. Teresa Smith seconded the motion. The motion was approved unanimously.

## **II. MEETING MINUTES**

The meeting minutes for January 16, 2020 were presented and approved with a noted correction in I(C) from "overweighed" to "over-weighted". Joey Hager motioned to approve the minutes with the noted correction. Marvin Wilson seconded the motion and motion carried unanimously.

## **III. CASH LIQUIDATION FOR OPERATION EXPENSES**

Sandy Thiry requested \$4.25M for the next quarter's withdrawal for operating expenses. The Committee discussed the funds and their variances to the targeted allocation. Clarifying discussion ensued regarding the rebalancing policy of managers that are above their target allocation and managers that are below their target allocation. A recommended distribution of \$2.25M from the SSgA Russell 1000 Index fund, \$1M from Robeco Mid Cap Value, and \$1M from Winslow Large Cap Growth were proposed.

Joey Hager motioned to approve the proposed withdrawal and Kelly Flannery seconded. Motion carried unanimously.

## **IV. EXPERIENCE STUDY REVIEW**

- A. In the draft Experience Study, Cavanaugh Macdonald had recommended the possibility of lowering the investment return assumption for the Retirement System. The Committee asked Ms. Hood for Callan's perspective on lowering the return assumption. She discussed how Callan determines their capital market assumptions based on their 10-year period projection and explained the market projection is a shorter time period than the 30-year amortization period of the Fund's liabilities. On a long-term basis the Fund has returned at least 7.5% return or more. The Committee discussed certain aspects of the proposed return assumptions and asked for clarity and analysis be added to the Experience Study such as the Rate of Return past experience chart, capital market assumption reference as an exhibit, and the confidence interval used in the study's projection assumptions.

## **V. VARIOUS MANAGER UPDATES**

- A. None were raised.

## **NEW BUSINESS**

No new business was presented.

Joey Hager motioned to adjourn the meeting at 10:10 a.m. Teresa Smith seconded. Motion carried unanimously.

The next meeting is scheduled for March 19, 2020 at 8:00 a.m.

cc: Vanessa Heffron, Board Chair  
Lisa Flowers, Assistant City Attorney