

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

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INVESTMENT COMMITTEE MINUTES

March 19, 2020

PRESENT: John Carr - Chair, Teresa Smith, Joey Hager, Marvin Wilson and Kelly Flannery
(left at 9:00 a.m.)

OTHERS: Staff - Sandy Thiry, and Tony Bass

AGENDA

CALL TO ORDER

John Carr called the meeting to order at 8:01 a.m. Due to public health concerns surrounding COVID-19 and as a means to best implement the recommended social distancing policy, the Investment Committee met via teleconference.

I. MEETING MINUTES

Marvin Wilson motioned to approve the minutes as written. Kelly Flannery seconded the motion. The motion carried unanimously.

II. SMALL CAP GROWTH- EAGLE ASSET MANAGEMENT

Eric Mintz, CFA, Co-Portfolio Manager
Ryan Nail, Portfolio Specialist

- A. Firm Update - Due to COVID-19, employees are working from home. However, three traders are in the office performing as usual. All lines of communication within the organization are open and fully functioning.
- B. Performance - The Committee received the 4Q19 results. Although small caps rebounded during the 4th quarter, the portfolio returns of 9.28% (gross of fees) trailed the benchmark returns of 11.39%. The portfolio's 2019 returns were 24.98% (gross of fees) while the benchmark was 28.48%. Considerable discussion ensued with given the current market selloff as a result of the COVID-19 pandemic situation. Eric discussed stability and liquidity of the portfolio. He explained the portfolio is reacting as expected in preserving as much capital in a downturn. On the year-to-date basis, the benchmark was -37% and the portfolio was -31%. The portfolio carries little debt and there are no concerns over any of the company's solvency. Clearly there is enormous panic in the market. The team is scouring for opportunities based on the investment process. The problems facing the market are daunting, but response from policymakers are proactive giving positive signals to the market.

III. INVESTMENT COUNSELORS OF MARYLAND

Greg Czarnecki, Sr. VP, Client Services & Marketing
Matt Fleming, CFA, Principal

- A. Firm Update- As a result of the COVID-19, employees are working from home with full continuity. From 2005-2015 the fund was closed to new investors. In 2016 it was opened again with new inflows since totaling \$175M. Purely institutional investors are in the fund. Thus far, year-to-date in 2020, client inflows are at \$35M with another \$20M expected.

- B. Performance- The Committee received the 4Q19 results. Although the fund trailed the benchmark for the quarter, the fund beat the benchmark in the 1, 3, 5 and 10 years as well as since inception date. Considerable discussion ensued given the extreme market selloff resulting from the spread of the pandemic situation. Year-to-date through March 18, 2020 the portfolio returned -43% and the benchmark was -44%. Greg spoke to company solvency issues within the portfolio. The firm has focused on high-quality companies evidenced by free cash flow and margins. Due diligence reviews of company debt levels are placed on the front end of stock purchases. The team is actively reviewing stress testing using 2008/2009 market crisis affects and worse case scenarios. The team has overall confidence with the portfolio but is keeping cash closer to the maximum 5% when usually around 2-3%. Currently it is just over 4%.

IV. EXPERIENCE STUDY REVIEW

- A. At the last meeting, the Committee discussed certain aspects of the proposed return assumptions and asked for clarity and analysis be added to the Experience Study. Cavanaugh Macdonald provided additional analysis as requested including the impact to the unfunded liability with different rate of return assumptions. Sandy Thiry provided an update that the Benefits Committee discussions are focusing on Demographic, Mortality Tables, and Payroll Growth. Discussion ensued regarding the rate of return assumption. The Committee reviewed NCPERS and NASRAs most recent survey results for public plans indicating the average rate of return was 7.24% and 7.33%, respectively. The Committee also discussed that the rate of return can be reviewed again at any time in the future.

Marvin Wilson motioned to recommend the Board lower the assumed rate of return from 7.5% to 7.25%. Teresa Smith seconded the motion. The motion carried unanimously.

V. CALLAN, LLC CONTRACT

- A. Callan, LLC is the CFRS' current Investment Consultant whose contract expires June 30, 2020. The Committee discussed the original hire date of the firm, lack of concerns raised regarding their performance, and the scope of services in the three-year contract. Sandy Thiry also commented that Callan's ability to negotiate lower fees for their clients was recently realized by the CFRS. Marvin Wilson questioned how their pricing ranks among their peers. Without doing an RFP, there is not data to present, however, Callan is on the higher end of the fee scale and provides the CFRS with quality products. The Committee discussed desire to retain Callan for the next 3 years and confirmed acceptance of the fees presented in the contract.

Marvin Wilson motioned to allow Staff to move forward with the contract with review by legal counsel so that the final contract can be approved by the Committee at the next meeting. Joey Hager seconded the motion. The motion carried unanimously.

VI. VARIOUS MANAGER UPDATES

- A. Multiple Investment Managers have been sending firm updates and notices regarding market performance due to the COVID-19 pandemic situation. These updates are forwarded by Sandy Thiry to the Committee members.
- B. UBS Realty - Follow up by UBS Realty regarding a published article by The Wall Street Journal was provided to the Committee. This information did not contain

anything new or different since the last meeting and was intended as an FYI for the Committee.

- C. AJO released information of additional staff changes due to the changes announced earlier this year. Subsequent staff changes were expected by AJO. Callan will review with firm during their visit with AJO.

NEW BUSINESS

Due to the unknown future impact created by COVID-19, the Investment Committee discussed alternative ways of conducting business if a quorum of the Committee was incapacitated by the disease. Marvin Wilson and Joey Hager suggested creating a chain of command similar to the Firefighter protocols. According to the Act, the Treasurer is custodian of assets and the ranking Board officers consists of the Chair, Vice Chair, Treasurer, and then Secretary. In the event that the Administrator is incapacitated to serve her role, the Secretary would assume the Administrator duties.

In the event that the majority of the Committee were incapacitated to fulfill their fiduciary duties as a result of COVID-19, Joey Hager motioned to adopt a hierarchy of decision-making starting with the Board Treasurer, Chair, Vice Chair, then Secretary to authorize, based on established policies, the asset classes and funds to be liquidated for operational cash needs. To further establish the hierarchy of Staff to initiate such requests starting with the Administrator, Board Secretary, Financial Analyst, Benefits Analyst, then Administrative Analyst. Marvin Wilson seconded the motion. The motion carried unanimously.

Marvin Wilson motioned to adjourn the meeting at 11:43 a.m. Joey Hager seconded the motion. Motion carried unanimously.

The next meeting is scheduled for April 16, 2020 at 8:00 a.m. via teleconference unless the Committee decides otherwise.

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