

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

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

INVESTMENT COMMITTEE MINUTES

May 21, 2020

PRESENT: John Carr - Chair, Teresa Smith, Joey Hager, Marvin Wilson, and Kelly Flannery

GUEST: Elizabeth Hood, Todd Carabasi - Callan LLC

OTHERS: Staff - Sandy Thiry, Desiré Dixon, Tony Bass, and Legal Counsel- Lisa Flowers

AGENDA

CALL TO ORDER

John Carr called the meeting to order at 8:03 a.m. Due to the North Carolina's gathering restrictions surrounding COVID-19, the Investment Committee meeting took place via teleconference. John Carr took attendance via roll call and all members were in attendance. Lisa Flowers joined the meeting at 8:45 a.m.

I. CALLAN, LLC

- A. Quarterly Fund Performance** - Todd Carabasi provided the Committee with an economic market overview. The Total Fund returned -13.91% within the First Quarter 2020, underperforming the Index return of -13.50%, and ranked at the 74th percentile in the CAI Public Fund Sponsor Database. The 5-year return of 3.67% vs. the Custom Index return of 3.91% placed the Fund at the 58th percentile. Since inception, the Total Fund returned 8.48% and outperformed the Custom Index by 61 basis points on an annualized basis. It was a difficult first quarter due to unprecedented disruption as the response to the COVID-19 virus caused global economies to grind to a halt. All sectors experienced declines in the double digits, with financials and energy taking the biggest hits. The oil conflict between Russia and Saudi Arabia added to the disruption in the market. Growth was down -14% but outperformed Value, which was down by -27%. Global economies, including the US, responded to help counteract the economic impact by implementing stimulus packages to assist businesses and individuals, as well as cutting interest rates. There are too many factors to determine any specific outcome as the market is very volatile. As states begin to re-open, people are not immediately responding to "normal life".
- B. Investment Managers Review** – Elizabeth Hood discussed the asset allocation, specifically the cash on hand, and noted that keeping more in cash reserves during these unprecedented times is quite acceptable and reasonable. The Total Fund balance as of December 31, 2019 was \$579M and dropped to \$494M by March 31, 2020. There was a discrepancy between Callan's reported balance and USBank's reported balance provided in the CFRS asset allocation report. It was noted that the Committee uses the CFRS' month-end asset allocation reports to monitor compliance to the Investment Policy Statement, determine the sources of cash draws, and to rebalance the asset allocation. Given the importance of the month-end reports, CFRS staff will review the accuracy of the market values pulled from USBank and investigate the process Callan uses to obtain their quarter-end market values. Staff will report back to the Committee at the next meeting. All US equity managers, except AJO, held up fairly well compared to their respective benchmarks, given the pandemic impact on the

market. Real estate showed positive returns with JPMorgan Strategic Property Fund exceeding the benchmark, while the UBS Trumbull Property Fund fell short. The Total Fund returns over the long-term period remain strong. Elizabeth Hood reminded the Committee that being broadly diversified within the portfolio and staying disciplined will weather this storm like we have done through previous market crises.

- C. **Watch List Review** – Todd Carabasi reported back to the Committee from his March 6, 2020 visit to the office of AJO in Philadelphia, PA. AJO uses a quantitative approach in evaluating companies based on a four-pillar approach of value, management, momentum, and sentiment. Managing transactional costs is an integral part of their process. The three main drivers of underperformance have been value, volatility, and size. AJO’s higher exposure to cheaper companies with more attractive valuations has been out of favor, as more expensive companies with less attractive valuations have outperformed. Their preference for lower volatility companies and smaller market capitalization have been headwinds. AJO’s investment approach results in a consistently smaller cap bias relative to the benchmark and peers. The bias has been a tailwind in certain markets but can result in periods of underperformance as seen currently. AJO’s commitment to serve their clients have included fee reductions in 2011, 2016, and 2019 for a total of 52.5%. AJO will remain on watch status.

Morgan Stanley Emerging Market has been on watch. They began to show improvement in late 2019 but began to underperform again in 2020. Callan recommends they remain on watch status.

UBS Realty has been on watch due to making leadership changes and underperforming the benchmark. They identified their top tier properties and over the next few years, will be parsing off ‘non-strategic’ properties. Both changes are in efforts to improve performance. Callan recommends they remain on watch status.

II. VARIOUS MANAGER UPDATES / CALLAN CONTRACT

- A. Lisa Flowers reviewed with the Committee certain points of the investment consulting contract that needed their input, such as stating who are the designated client representatives and an interest rate for overdue invoice. She also clarified her understanding pertaining to the section “Policy Regarding Security Advice”. Lisa Flowers and Sandy Thiry will work with Callan on final legal edits, none of which change the Committee’s recommendation to continue services with Callan.

III. MEETING MINUTES

The Committee reviewed the minutes. Marvin Wilson motioned to approve the April 16, 2020 Investment Committee meeting minutes. Teresa Smith seconded the motion. The vote was taken by roll call and the motion carried unanimously.

NEW BUSINESS

No new business was presented before the Investment Committee.

Marvin Wilson motioned to adjourn the meeting at 10:50 a.m. Teresa Smith seconded the motion. The vote was taken by roll call and the motion carried unanimously.

The next Investment Committee meeting is scheduled for June 18, 2020 at 8:00 a.m.