

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

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INVESTMENT COMMITTEE MINUTES

August 20, 2020

PRESENT: John Carr - Chair, Teresa Smith, Joey Hager (left at 9:30 a.m.), Marvin Wilson, and Kelly Flannery

GUEST: Elizabeth Hood and Todd Carabasi, Callan LLC

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

AGENDA

CALL TO ORDER

John Carr called the meeting to order at 8:01 a.m. Due to the North Carolina's gathering restrictions surrounding COVID-19, the Investment Committee meeting took place via teleconference. Attendance was taken via roll call and all Committee members were in attendance.

I. CALLAN, LLC

A. Quarterly Fund Performance - Todd Carabasi provided the Committee with an economic market overview. The second quarter investment results rebounded from the first quarter. U.S. stock markets posted double-digit returns in the second quarter, with some segments erasing the first quarter's sharp losses. Large cap growth stocks benefited from exposure to the Technology sector resulting in a 27.8% return which outperformed Value's 14.3% return. The spread is even larger on a year-to-date basis. The Total Fund returned 13.7% over the second quarter beating the benchmark by 94 basis points and ranked at the 17th percentile in the CAI Public Fund Sponsor Database. The 5-year return of 6.3% placed the Fund at the 35th percentile. Since inception, the Total Fund returned 8.9% and outperformed the Index by 64 basis points on an annualized basis.

B. Investment Manager Review - Strong returns were realized from all asset classes except Real Estate. Domestic Equity returned 23.5%. Large Cap returned 22.5% with AJO reporting a return of 15.9%, exceeding their benchmark by 158 basis points, having underperformed for several quarters. Mid Cap returned 22.7% with the newest manager, MFS reporting returns of 26.6% for the quarter trailing its benchmark by 367 basis points but the year-to-date return beat the benchmark by 199 basis points. Small Cap returned 27.6% with Eagle posting positive returns of 34.4%, beating the benchmark by 384 basis points for the quarter and 992 basis points year-to-date.

Domestic Fixed Income returned 3.8% for the quarter. International Equity returned 19.7% for the quarter, led predominantly by T. Rowe Price which exceeded their benchmark by 827 basis points. International Fixed Income returned 4.5% for the quarter. Both Real Estate managers underperformed their benchmarks which brought the Total Real Estate quarterly return to -2.3%, trailing the benchmark by 79 basis points.

C. Watch List Review – Todd Carabasi reminded the Committee that AJO has been on watch since the 3rd quarter 2019. They are reducing their staff by 16 members by the

end of the year going from 61 employees to 45, four of whom have ownership in the company. None of the expected changes should directly affect the investment team. The total AUM at the beginning of the 2020 was \$18.7B and dropped to \$12.1B by the end of June 2020 based on a combination of client outflow and market depreciation. After discussion, the Committee determined that AJO will stay on the watch list and will continue to be monitored.

Morgan Stanley Emerging Market has been on watch due to performance since the 2nd quarter 2018. They have shown improvement by outperforming in 3 out of the last 5 quarters. The Committee determined that they will remain on watch status with continued monitoring.

UBS Realty was placed on watch in the 1st quarter 2020 based on organizational changes. They are making changes to the management of the real estate portfolio in an effort to improve performance. The Committee also kept them on the watch list in order to monitor for any performance improvements as well as asset outflows.

- D. Investment Manager Fee Review** – Based on the 2019 Callan Investment Management Fee Survey, all managers are within expected ranges with most below the range of fees of their peers. The State Street Global Advisor index management fees were negative in the Fixed Income Index fund due to offsetting securities lending income during the last two quarters. The Total Fund’s investment management fees were 44 basis points excluding the cost of trust and custody and the investment consulting fees.

II. VARIOUS MANAGER UPDATES

- A. BARROW HANLEY** - Elizabeth Hood reported that Barrow Hanley has agreed to be sold, by their US-parent company BrightSphere, to one of their existing clients, a publicly-traded Australian wealth management firm, Perpetual Limited. Presently, Barrow Hanley is 24.9% employee-owned with 75.1% owned by BrightSphere. Through their US-based subsidiary, Perpetual US Holding Company, Perpetual will acquire BrightSphere’s equity interest in Barrow Hanley with the acquisition expected to be completed in the 4th quarter 2020. The Barrow Hanley contract will remain intact upon signed acceptance of the Client Consent Form for their change of control. Callan has initially reviewed the acquisition announcement and expects business continuity. Callan does not anticipate any issues and will continue to research the ownership change given the newness of the announcement. The Committee requested a legal review of the Consent of Sale paperwork by the Assistance City Attorney prior to signing by the Administrator. Given the manager’s change in ownership and per the Investment Policy Statement, Marvin Wilson motioned to add Barrow Hanley to the watch list and Kelly Flannery 2nd the motion. The vote was taken by roll call and the motion carried unanimously with all Committee members in attendance.
- B. STATE STREET** – Stephen Yeats has been named Head of Fixed Income Index Strategies, effective September 30, 2020 replacing Venky Venkataramani who will be retiring after 30 years. Stephen is currently the Head of Fixed Income, Cash and Currency for EMEA and serves as State Street Global Advisors’ Head of Investments in the UK. No operational changes are expected.
- C. WINSLOW CAPITAL** – The current weight positions for Amazon and Microsoft were reviewed. As of 8/13/2020 Amazon’s portfolio weight was 9.45% versus the

benchmark of 8.29%. Microsoft's portfolio weight was 8.67% versus the benchmark of 9.67%. The Committee will continue to monitor these weightings.

- D. **ASSET ALLOCATION** – The July 31, 2020 month-end report was reviewed. All asset classes were in-compliance with the stated target ranges in the Investment Policy Statement.

III. MEETING MINUTES

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

NEW BUSINESS

No new business was presented during the Investment Committee Meeting.

Marvin Wilson motioned to adjourn the meeting at 9:56 a.m. Kelly Flannery seconded the motion. The vote was taken by roll call and the motion carried unanimously.

The next meeting is scheduled for September 17, 2020 at 8:00 a.m.

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