

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

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INVESTMENT COMMITTEE MINUTES

October 15, 2020

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

OTHERS: Staff Sandy Thiry, Desiré Dixon, Tony Bass

GUEST: Kate Hurley & Brad Lucas – JP Morgan Strategic Property Fund, Ron Lanier – UBS Trumbull Property Fund, Elizabeth Hood – Callan

OFFICIAL CALL TO ORDER by John Carr at 8:00 a.m.

I. INVESTMENT MANAGER REVIEW

JP Morgan Chase - Kate Hurley and Brad Lucas

- A. Kate Hurley, Executive Director, Client Advisor, and Brad Lucas, Vice President, Investment Specialist, were both introduced and provided the Committee with the firm's updates. There have been no changes to the team and although they have been working remotely since March, employees have started to transition back into the New York office with specific measures of caution. Kate informed the Committee that JP Morgan managed \$65B in US real estate assets under management as of March 31, 2020. CFRS had \$20.9M invested in the Strategic Property Fund as of September 30, 2020.
- B. Prior to Covid-19, the investment team was positioning the Fund in anticipation of a recession and has been able to manage through this period of uncertainty. The Strategic Property Fund has \$2.9M in the redemption queue. JPMorgan anticipates being able to meet all their outstanding redemption requests within 2-3 quarters. Similar to other core real estate funds, JPMorgan experienced a negative year-to-date return through September 30, 2020 as a result of declining property appraisals relative to positive rental income.
- C. Brad Lucas discussed the Strategic Property Fund, a core real estate fund, which supports JP Morgan's approach to investing in existing properties that drive durable income in the main sectors of Office, Residential, Industrial and Retail. Since April 2016 inception date, the fund returned a total of 5.6% with 4% derived from income and 1.6% from capital appreciation. Although the Fund slightly underperformed to the benchmark, over a full market cycle it has outperformed. Brad explained the appraisal process which includes every asset appraised on a quarterly basis and a full appraisal on an annual basis by external vendors. He also explained the sector re-positioning within the Fund which included reducing Retail and increasing Industrial and Residential.

UBS Trumbull Property Fund - Ron Lanier

- A. Ron Lanier, Managing Director, provided updates regarding the leadership changes which occurred in the beginning of 2020. Restructuring of the Trumbull Property Fund will span over the next 3-4 years, which includes liquidation of the "non-strategic" properties, primarily in the Retail and Office sectors. It is anticipated that this will leave their "core" properties in a better position to improve the Fund's overall

performance. The Fund currently has a significant redemption queue of approximately \$8.6B. Efforts were made to pay down the redemption pool starting in the first quarter, but those plans were temporarily halted due to the economic slowdown in the commercial real estate market. It is expected to take at least four years to reduce the redemption pool, pending market conditions. The redemption queue is slightly down due to some investors moving from the redemption pool to the loyalty discount program in order to take advantage of the fee reduction offer.

- B. The Committee was provided a recap of the contributions, rebalancing and distributions of funds since CFRS' 2012 inception date. The original capital investment was \$24M with income distributions totaling \$5.7M since 2016. The CFRS market value as of September 30, 2020 was \$27.8M, returning -2.13%, gross of fees, for the one-year period. Since inception the Fund returned 6.53%, gross of fees. As of June 30, 2020, the Turnbull Property Fund had total gross assets under management of \$18.5B and has earned a gross return of 8.51% since its 1978 inception date.
- C. Ron reminded the Committee of the loyalty incentive fee program offered to current clients which includes a 25% fee discount for a four-year commitment to stay invested in the Fund. Enrolling in the loyalty program will end December 31, 2020. The Committee will review the fee discount program with Callan at next month's meeting.

II. MEETING MINUTES

- A. The meeting minutes for August 20, 2020 and September 17, 2020 were presented. Marvin Wilson motioned to approve the minutes and Teresa Smith seconded the motion. Roll call taken with all present members and the motion carried unanimously.

III. CASH DRAW FOR OPERATING EXPENSES

- A. Sandy Thiry requested a partial liquidation of \$4.5M to cover operating expenses over the next quarter. Upon review of the Asset Allocation report, the Committee determined that Winslow Capital would be the most appropriate source of funds since they exceeded their targeted allocation by \$8M. Marvin Wilson motioned to withdraw the \$4.5M distribution from Winslow and Teresa Smith seconded the motion. Roll call taken with all present members and the motion carried unanimously.

IV. VARIOUS MANAGER UPDATES

- A. Winslow Capital – The current weight positions for Amazon and Microsoft were reviewed. As of 10/07/2020 Amazon's weight in their portfolio was 9.16% versus the benchmark of 8.09%. Microsoft's weight was 8.36% versus the benchmark of 9.38%. The Committee will discuss a longer-term solution to this issue with Callan in November.
- B. Morgan Stanley – They have announced a definitive agreement to acquire Eaton Vance, a leading provider of advanced investment strategies and wealth management solutions. No impact to the international or emerging market equity portfolios are expected.
- C. AJO advised the CFRS on October 14, 2020 that they will be closing the firm on December 31, 2020. Due to the timing of the closing, the Committee discussed moving the funds managed by AJO to the existing Russell 1000 Index Fund until a long-term decision can be made. The exit strategy for liquidations and fees associated with transitioning from AJO were also discussed. The Committee authorized Sandy Thiry to prepare for the transition of funds in anticipation of the Board's approval at the October Board meeting.

MOTION – Marvin Wilson motioned to terminate the contract with AJO due to the firm’s closure announcement and fully liquidate the assets by October 30, 2020 with a subsequent transfer of the proceeds into the existing SSgA Russell 1000 Index Fund. Teresa Smith seconded the motion. Roll call was taken with all present members and the motion carried unanimously.

V. NEW BUSINESS

No new business was presented.

Joey Hager motioned to adjourn the meeting at 10:42 a.m. Marvin Wilson seconded the motion. Roll call was taken with all present members and carried unanimously.

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

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