

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

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INVESTMENT COMMITTEE MINUTES

November 19, 2020

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

STAFF: Sandy Thiry, Desiré Dixon, Tony Bass

GUEST: Todd Carabasi and Elizabeth Hood – Callan

OFFICIAL CALL TO ORDER by John Carr at 8:00 a.m. who also gave an overview of the agenda. Attendance was taken via roll call and all Committee members were present.

I. CALLAN -

- A. Quarterly Fund Performance - Todd Carabasi provided a summary of the third quarter performance. The Total Fund returned 5.36% in the third quarter, underperforming the Custom Index return of 5.51% and ranked in the 31st percentile of the CAI Public Fund Sponsor Database. The 5-year return of 8.45% versus the Custom Index return of 8.69% placed the Fund in the 32nd percentile. Since inception, the Total Fund returned 8.95% and outperformed the Custom Index by 62 basis points on an annualized basis.
- B. Market expectations are for no rate hikes until at least 2023. GDP growth hit a record high; however, year-over-year GDP was 3.5% lower. Economic improvements include a declining unemployment rate, and increases in home sales, leisure, and hospitality sectors. Outside the US, tremendous uncertainty remains. China is the only country expected to have positive growth. Emerging market forecasts have become cloudy. US stock indices continued to rebound from the first quarter plunge. The Russell 1000 was up more than 50% from its lowest point in March. The S&P 500 Index was up 8.9% for the quarter. Consumer Discretionary (+15%) was the best performing sector while Energy (-20%) was the worst. Strong stock performance has been concentrated to the top five stocks (Facebook, Microsoft, Amazon, Alphabet, and Apple) in the S&P 500 which account for 23% of the Index's market cap weight and 33% of the performance. US Treasury yields held steady over the course of the third quarter. The 10-year U.S. Treasury yield closed the quarter at 0.69% up 3 basis points from June 30, 2020 but off from the year-end level of 1.92%. Its yield hit an all-time low of 0.52% in August. The Total Fund market value as of September 30, 2020 was \$581.4M representing a net increase of \$25.3M since June 30, 2020.
- C. Investment Manager Reviews – Overall, growth stocks performed well while value stocks trailed. Domestic Equity returned 8.18% for the quarter. Winslow Capital Management, Boston Partners, and Investment Counselors of Maryland all slightly lagged their benchmarks. MFS and Eagle outperformed their benchmarks by 272 basis points and 234 basis points, respectively. Domestic Fixed Income returned 1.17% for the quarter with both Barrow Hanley and SSgA Bond Market beating the benchmark. International Equity returned 7.27% for the quarter with all investment funds beating their respective benchmarks. Within International Fixed Income, Colchester returned 4.47% slightly beating its benchmark. Real Estate was down for the quarter at -0.12% which was mainly driven by the write-down of certain properties in both manager's portfolios.

- D. Manager Recommendations – Due to market conditions, the holdings for Amazon and Microsoft within Winslow Capital’s portfolio has exceeded the Investment Policy threshold. Callan suggested updating the language in the Investment Policy to read: *“Equity holdings in any one company (including common stock and convertible securities) should not exceed the greater of 8% or the benchmark weight +1% based on the market value of the manager’s portfolio.”* The Committee discussed that additional edits may need to be done as a result of the upcoming asset studies and will incorporate all changes to the Investment Policy at one time.
- E. Due to AJO’s closing, their assets were transferred to the Russell 1000 Index fund until a permanent solution can be determined. The Committee agreed with Callan’s recommendation to perform a Domestic Equity Structure Study.
- F. 2021 Work Plan – Elizabeth Hood reviewed Callan’s deliverables and timeline for the upcoming year. The first quarter will include the US equity structure study and the review of their capital market assumptions in addition to a possible due-diligence review of emerging market equity managers. The second quarter will include a fee review and the third quarter will include the Asset Liability Study. The annual conference was moved to June 21-23, 2021 but is subject to change. The fourth quarter will be used to finalize and follow-up on any investment changes which may result from the previous quarterly projects.
- G. Watch List
- 1) Morgan Stanley International announced the retirement of Dirk Hoffman-Becking, portfolio manager with research focus on Financials (Banks) and Consumer Discretionary (Leisure). Current internal team members will assume Dirk’s investment coverage. Richard Perrott will focus on Banks and Nathan Wong will focus on Consumer Discretionary. Due to the transition of current internal team members assuming responsibilities, no red flags have been raised and a smooth transition is expected. Callan will continue to monitor.
 - 2) Morgan Stanley Emerging Market Equity has been on watch since August 2018 due to performance and staff changes. Recently, May Yu, co-lead portfolio manager for the Asia Region, who has oversight for China (42% of the portfolio) announced she will retire. Amay Hattangadi, co-lead portfolio manager for the Asia Region will now be the sole portfolio manager on an interim basis with consideration from both internal and external candidates to replace May Yu for the long-term. Due to their underperformance and continuous personnel changes, Callan recommended the Committee consider replacing Morgan Stanley Emerging Market Equity. The Committee agreed to allow Callan to conduct a due diligence review of other possible emerging market equity managers. This project is included in Callan’s annual retainer consulting fee, so there will be no additional charges to the System.
 - 3) AJO announced the firm would be closing as of 12/31/2020, and is no longer on watch due to their termination.
 - 4) UBS was added to the watch list in the first quarter of 2020 and will continue to be monitored.
 - 5) Barrow Hanley was added to the watch list in the second quarter of 2020 due to a change in company ownership. The sale to Perpetual Limited was completed with no expected changes to the CFRS portfolio. Total asset under management have held steady overall. Investment Counselors of Maryland is currently owned by the same former parent company, BrightSphere Investment Group, that just sold Barrow Hanley. The Committee asked Callan to also monitor that situation as well. Barrow Hanley will remain on the watchlist.

- 6) UBS Loyalty Fee Discount Program - The Committee discussed the fee discount program with Callan. In the event of manager termination and/or any future asset redemptions, CFRS would be charged the difference between the original contracted fee and the new discounted fee. Therefore, no additional fees would be accessed other than what would have normally been paid under the original fee schedule. The Committee opted to accept UBS's 4-year incentive fee program in order to maximize the discount to the System. Staff and Legal Counsel will review the agreement and return all necessary forms to UBS by the required deadline.

II. MEETING MINUTES

The meeting minutes for October 15, 2020 were reviewed. Teresa Smith motioned to approve the minutes and Joey Hager seconded the motion. Roll call vote was taken with all present members and the motion carried unanimously.

III. VARIOUS MANAGER UPDATES

The AJO assets were transferred into the SSgA Russell 1000 Index Fund at the end of October. Final transfer of residual interest will occur once the interest is posted to the account.

IV. NEW BUSINESS

Financial Report Mock Draft – Tony Bass provided the Committee a mock draft of a revised Financial Report based on the auditor's suggestion in lieu of the CAFR. The new format will be simplified with a focus on providing the required information. The Committee expressed appreciation for the concise version.

Joey Hager motioned to adjourn the meeting at 10:02 a.m. Teresa Smith seconded the motion. Roll call vote was taken with all present members and the motion carried unanimously.

The next meeting is scheduled for January 21, 2021 at 8:00 a.m.

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