

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

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

INVESTMENT COMMITTEE MINUTES

August 26, 2021

PRESENT: John Carr, Joey Hager, Teresa Smith, Marvin Wilson

STAFF: Sandy Thiry, Desiré Dixon, Tony Bass

GUEST: Todd Carabasi – Callan

OFFICIAL CALL TO ORDER by John Carr at 8:00 a.m. and attendance was taken via roll call.

I. MEETING MINUTES

Marvin Wilson motioned to approve the minutes for the July 15, 2021 meeting and Joey Hager seconded the motion. The motion carried via roll call vote.

II. ASSET ALLOCATION REVIEW

The July 31, 2021 Asset Allocation Report was reviewed. The Domestic Stock allocation was slightly out of variance by +0.41%. The Domestic Fixed Income allocation was in-line by a narrow margin (0.43%) as well as Real Estate (0.24%). International Equities and International Fixed Income were comfortably within the allowable policy ranges.

Callan provided insight as to what other pension plans are doing to rebalance their portfolios, which ranged from partial to full rebalancing and natural rebalancing based on cash contributions and/or distributions.

As requested, Staff provided an update on the steps necessary to re-invest the real estate dividend income in lieu of taking the quarterly income distributions in cash. Each real estate manager would require a simple letter of direction and CFRS could change it back to re-investment at any time by another letter of direction. Real estate dividend income has, on average, generated approximately \$300,000 in cash per quarter.

Teresa Smith motioned to re-invest dividend income from both real estate managers. Joey Hager seconded the motion. The motion carried via roll call vote.

III. CASH DRAW FOR OPERATING EXPENSES

The Committee discussed the necessary cash draw to pay operating expenses and benefit payments. The Committee decided to allow the quarterly cash draw to serve as a mechanism to bring the Domestic Stock allocation back into compliance with the allowable policy ranges referenced above.

Joey Hager motioned to draw \$4M from the SSgA Russell 1000 Index fund which was over-allocated relative to its policy target as of the July 31 report. Teresa Smith seconded the motion and the motion carried via roll call vote.

IV. CALLAN, LLC

A) Quarterly Fund Performance

Todd Carabasi provided the Committee with the Fund's quarterly performance results for the Second Quarter 2021. The Total Fund returned 5.30% over the course of the quarter outperforming the Custom Index return of 5.28%, and ranked in the 32nd percentile of the CAI Public Fund Sponsor database. The 5-year return of 11.00% versus the Custom Index return of 10.90% placed the Fund in the 43rd percentile. Since Inception of the Callan report, the Total Fund returned 9.32% and outperformed the Custom Index by 63 basis points on an annualized basis. As of June 30, 2021, the Total Fund market value was \$677.2M and reflected a net increase of \$121.1M since June 30, 2020.

The S&P 500 Index continued to perform extremely well, hitting 34 record highs in the first half of the year with second quarter earnings projected to grow more than 60% (year over year).

Colchester International Fixed Income has hired a new Head of Distribution, Edward Sasinowski, to replace Janhvi Kumar. He will be based in New York. Morgan Stanley International Equity has hired 2 Senior Managers.

There were no changes or recommendations to the CFRS Watch List. UBS Real Estate was added to the watch list in the First Quarter 2020 due to performance issues. ICoM was added to watch list in the First Quarter 2021 due to the sale of the company. Callan will continue to monitor the ownership transition. Staff was asked to reach out to ICoM for monthly updates on their Small Cap Value product inflows and/or outflows.

B) Investment Policy Review

Todd Carabasi discussed the red-lined changes to the Investment Policy Statement. Changes included: general housekeeping edits such as grammar and formatting; language recommendations for domestic equity holding weights; adding specific language regarding the exclusion of SPACs (Special Purpose Acquisition Companies); an update to the US Equity structure; removal of the reference to Large Cap Value and Growth in Appendix B; and changing the Bloomberg Barclays Aggregate Bond Index to the Bloomberg Aggregate Bond Index throughout the document.

A discussion arose pertaining to the Total Fund outperformance goals in light of the recent reduction in active domestic equity management. No additional changes were deemed necessary at this time; however, Callan will monitor and recommend modifications if needed in the future.

Marvin Wilson motioned to approve the edits as discussed to the Investment Policy Statement. Teresa Smith seconded the motion. The motion carried via roll call vote.

C) Investment Manager Fee Review

Callan presented the Annual Fee Review report to the Committee. The analysis consisted of confirming that the CFRS is invested in the lowest cost share class for the commingled funds and the best fee schedule for the separately-managed accounts. Individual fee comparisons relative to industry peer groups were also provided in the report. All investment management fees were competitive and reasonable for the services provided.

After a discussion on the potential difficulty of benchmarking the bank custody and the investment consulting fees, the Committee decided not to add any additional investment expenses to the Annual Fee Review report.

Based on the June 30, 2021 market value, the Total Fund Effective Annual Fee (excluding custody and consulting costs) was approximately 34 basis points, which was equivalent to \$2.3M in dollar terms.

V. NEW BUSINESS

- A) **Funding Policy Review** – The Investment Committee was provided a draft of the CFRS Funding Policy from the Benefits Committee in order to provide feedback prior to the October Board meeting. Suggestions were made to modify the language regarding the adoption process; defining acronyms; clarifying statutory terms; and certain formatting edits.

Marvin Wilson motioned to adjourn at 10:34 a.m. and Teresa Smith seconded the motion. The motion carried via roll call vote.

The next meeting is scheduled for September 16, 2021 at 8:00 a.m.

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