

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

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

MEMORANDUM

DATE: July 10, 2020

TO: Investment Committee Members
John Carr, Teresa Smith, Kelly Flannery, Marvin Wilson, Joey Hager

FROM: Sandy Thiry, Administrator

RE: Meeting Notice

A regular meeting of the Investment Committee of the Charlotte Firefighters' Retirement System is scheduled for **Thursday, July 16, 2020 at 8:00 A.M.** Due to the COVID19 restrictions in place, this meeting will be conducted remotely. You may access the meeting by dialing (267) 930-4000 with participant code 509617232.

AGENDA

1. Large Cap Equity Review
 - a) Winslow Capital Management, Megan Anderson, Managing Director
Stephanie Simon, Portfolio Manager
 - b) AJO, Ted Aronson, Co-CEO
Gina Moore, Co-CEO
2. Approval of Meeting Minutes – June 18, 2020
3. Liquidation Request for Operating Expenses
4. Investment Committee Charter Review
5. Various Manager Updates
6. New Business

The next regular meeting is scheduled for Thursday, August 20, 2020 at 8:00am.

If you would like copies of the agenda materials, please contact the CFRS office:
CFRS@charlottenc.gov

CC: Vanessa Heffron, Board Chair
CFRS Members and Retirees
Lisa Flowers, Senior Assistant City Attorney
Elizabeth Hood, Callan LLC
Todd Carabasi, Callan LLC

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INVESTMENT COMMITTEE MINUTES

June 18, 2020

PRESENT: John Carr - Chair, Teresa Smith, Joey Hager, Marvin Wilson, and Kelly Flannery (left at 10:00 a.m.)

GUESTS: Debbie Petruzzelli – Managing Director, Barrow Hanley
Arman Palian - Relationship Manager, State Street Global Advisors

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

ABSENT: Legal Counsel- Lisa Flowers

AGENDA

CALL TO ORDER

John Carr called the meeting to order at 8:01 a.m. Due to the North Carolina's 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. BARROW HANLEY MEWHINNEY & STRAUSS, LLC

- A. Portfolio Review** - Debbie Petruzzelli provided the Committee with company updates and outlook. She advised that the company and the team remain stable during the work from home transition during the pandemic. No timeframe has been set for return to work in office, but discussions continue regarding safely accommodating staff based on the distancing requirements. She reviewed the CFRS Investment Policy Statement and confirmed the firm's adherence with CFRS' portfolio.
- B.** Of the \$39.8B in Assets Under Management, \$11.2B are in the Fixed Income Strategy of which the CFRS has \$97.6M invested. As of May 31, 2020, the portfolio beat its benchmark by 75 basis points with a return of 1.22% gross of fees. Barrow Hanley has taken advantage of opportunities created by the effects of the pandemic by selling off and buying high quality companies that they could not afford pre-pandemic. Debbie Petruzzelli reviewed the contributors and detractors within the portfolio as well as the fund's positioning assuming three different possible economic recovery scenarios.

II. STATE STREET GLOBAL ADVISORS

- A. Portfolio Review** - Arman Palian provided the Committee with company updates and an account summary. There have been no changes in personnel. Business continuity has been tested throughout the years so firm was poised for successful transition to work from home during pandemic.
- B.** As of May 31, 2020, the portfolio consists of \$39.8M in Russell 1000 Index Fund, \$43.9M in MSCI EAFE Index Fund and \$31.4M in the Passive Bond Market Index for a combined total of \$115M. There was a total of \$5.5M in withdrawals from the Russell 1000 for operating expenses during the past year but it was traded at no cost to the portfolio. Arman Palian noted that the asset classes of the portfolio were in line with their benchmarks. He also explained the liquidity and trading analytics which

provide low to no cost fees. The CFRS portfolio earned \$20K over the past year through securities lending, which is used to offset the management fees.

IV. MEETING MINUTES

The Committee reviewed the May 21, 2020 meeting minutes. Joey Hager motioned to approve the May 21, 2020 Investment Committee meeting minutes. Teresa Smith seconded the motion. The vote was taken via roll call and the motion carried unanimously.

IV. ASSET ALLOCATION REPORT

Tony Bass presented his research regarding the differences between Callan's quarterly performance report and the monthly Asset Allocation report. Differences between the two reports occur due to the timing of when the information is available to each party. US Bank finalizes their accounting process within 3 days of the month end which the Asset Allocation account balances are derived from. The commingled funds may take longer than the 3-business day close period to report their activity for the month. By the time Callan prepares their report, they have access to all reports that USBank may not have had at the time of month end closing. Tony Bass provided a solution that will provide updates to the Asset Allocation as additional manager reports become available between the month end close and the Committee meetings so that the Committee has as much updated information as possible, noting that there could still be slight discrepancy due to timing of meeting and reports available to both parties.

V. INVESTMENT COMMITTEE CHARTER REVIEW

During the Board's May quarterly meeting, Vanessa Heffron requested for the Committees to review their respective Charters. The Investment Committee will review their roles and responsibilities and discuss any changes during the July Committee meeting. Any housekeeping issues can be resolved at that time.

VI. VARIOUS MANAGER UPDATES / WINSLOW

- A. Megan Anderson of Winslow Capital sent an email referring to the Investment Policy Statement which limits the equity managers to an 8% maximum in any one holding. They have requested permission to exceed the policy limit for Microsoft and Amazon. John Carr discussed with the Committee reasons for capping, the weighting of these tech giants, and the policy which states exceptions can be made with Board approval. Upon discussion, Joey Hager motioned to allow Winslow Capital to exceed the 8% of the market value for Microsoft and Amazon with monitoring through regular monthly updates from Winslow. Kelly Flannery seconded the motion. A vote was taken via roll call and the motion carried unanimously.

- B. Paul Garbe from MFS contacted Sandy Thiry regarding over-the-counter securities that are not currently permissible within the CFRS Policy Statement. John Carr explained that over-the-counter securities typically refers to stocks that do not meet the share price (i.e., penny stocks) and the number of shares outstanding requirements of any of the US stock exchanges. MFS utilizes these types of trades with their other clients and would like to extend the same to CFRS. The Committee discussed transparency of investing and the Board's adopted policy. They determined that over-the-counter investments do not meet the requirements or standards specified in the Investment Policy Statement nor do they want to recommend a change to the policy to provide for such type of investments.

VII. NEW BUSINESS

No new business was presented during the Investment Committee Meeting.

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

The next Investment Committee meeting is scheduled for July 16, 2020 at 8:00 a.m.

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

CFRS Internal Accounts- Cash Flow Analysis

	Custodian	BofA	running balance Cust.	Actual Cust.	running balance BofA
7/3/2020 Major Operating Expenses		\$ (52,000)	\$ 3,096,666	\$	122,333
7/3/2020 trfr to BofA			\$ 3,096,666	\$	70,333
7/3/2020 Contributions	\$ 455,296		\$ 3,551,962	\$	70,333
7/10/2020 Contributions	\$ 498,769		\$ 4,050,731	\$	70,333
7/15/2020 Payroll -Ret	\$(1,626,000)		\$ 2,424,731	\$	70,333
7/15/2020 Qtrly IM/Bank Fees	\$ (380,000)		\$ 2,044,731	\$	70,333
7/17/2020 Contributions	\$ 405,000		\$ 2,449,731	\$	70,333
7/19/2020 Drawdown	\$ 4,000,000		\$ 6,449,731	\$	70,333
7/19/2020 JPMC Dividend			\$ 6,449,731	\$	70,333
7/19/2020 UBS Dividend			\$ 6,449,731	\$	70,333
7/24/2020 Transfer to BofA			\$ 6,449,731	\$	70,333
7/24/2020 Contributions	\$ 405,000		\$ 6,854,731	\$	70,333
7/31/2020 Contributions	\$ 405,000		\$ 7,259,731	\$	70,333
7/31/2020 Payroll -Ret	\$(1,626,000)		\$ 5,633,731	\$	70,333
8/7/2020 Major Operating Expenses		\$ (52,000)	\$ 5,633,731	\$	18,333
8/7/2020 Contributions	\$ 405,000		\$ 6,038,731	\$	18,333
8/7/2020 Remaining IM Fees			\$ 6,038,731	\$	18,333
8/14/2020 Contributions	\$ 405,000		\$ 6,443,731	\$	18,333
8/14/2020 Draw Down			\$ 6,443,731	\$	18,333
8/15/2020 Payroll -Ret	\$(1,626,000)		\$ 4,817,731	\$	18,333
8/15/2020			\$ 4,817,731	\$	18,333
8/15/2020 trfr to BofA	\$ (150,000)	\$ 150,000	\$ 4,667,731	\$	168,333
8/21/2020 Contributions	\$ 405,000		\$ 5,072,731	\$	168,333
8/28/2020 Contributions	\$ 405,000		\$ 5,477,731	\$	168,333
8/30/2020 Payroll -Ret	\$(1,626,000)		\$ 3,851,731	\$	168,333
9/4/2020 Major Operating Expenses		\$ (52,000)	\$ 3,851,731	\$	116,333
9/4/2020 Contributions	\$ 405,000		\$ 4,256,731	\$	116,333
9/4/2020 Draw down			\$ 4,256,731	\$	116,333
9/11/2020 Contributions	\$ 405,000		\$ 4,661,731	\$	116,333
9/15/2020 Payroll -Ret	\$(1,626,000)		\$ 3,035,731	\$	116,333
9/18/2020 Contributions	\$ 405,000		\$ 3,440,731	\$	116,333
9/18/2020 Draw Down			\$ 3,440,731	\$	116,333
9/25/2020 Contributions	\$ 405,000		\$ 3,845,731	\$	116,333
9/30/2020 Payroll -Ret	\$(1,626,000)		\$ 2,219,731	\$	116,333

**BOARD OF TRUSTEES
CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM
INVESTMENT COMMITTEE CHARTER**

~~Adopted April 2017~~ ~~APRIL 2017~~

~~{Revised July XX, 2020}~~

WHEREAS, the Charlotte Firefighters' Retirement System (System) was established pursuant to the provisions of Chapter 926 of the 1947 Session Laws, as amended, for the purpose of providing retirement, disability and survivor benefits for the uniformed employees of the Charlotte Fire Department; and

WHEREAS, the general administration, management and responsibility for the proper operation of the System are vested in the Board of Trustees (Board); and

WHEREAS, the Board is the designated trustee of the funds and assets of the System and is vested with the authority, responsibility and full power to hold, purchase, sell, assign, transfer, lend and dispose of any of the securities and investments in which the System shall have been invested, as well as the proceeds of said investments and any monies belonging to the System; and

WHEREAS, Board has the authority to adopt the rules and regulations for the administration of the System and for the transaction of its business, and to utilize the services of Investment Fiduciaries to manage the assets of the System; and

WHEREAS, the Board wishes to delegate certain duties and authority to the Investment Committee, a standing committee of the Board; now

THEREFORE, BE IT RESOLVED, that the Board hereby continues the Investment Committee and adopts the following Charter, which may be amended from time to time by formal action of the Board:

CHARTER
INVESTMENT COMMITTEE
BOARD OF TRUSTEES

PURPOSE

The purpose of this Charter is to outline the role, composition, duties, and authority of the Investment Committee, heretofore established as a standing committee of the Board of Trustees of the Charlotte Firefighters' Retirement System.

DEFINITIONS

The following terms as used in this Charter shall have the indicated meaning:

- a) "Act" means Chapter 926 of the 1947 Session Laws of North Carolina, as amended.
- b) "Board" means the Board of Trustees of the Charlotte Firefighters' Retirement System.
- c) "Committee" means the Investment Committee.
- d) "Fund" means collectively, the System's monies and investments.
- ~~e) "Funding Policy" means that certain [TBD] Policy Statement of Funding Goals, Objectives and Guidelines, as may be amended by the Board from time to time.~~
- ~~f)e) "Investment Policy" means that certain Policy Statement of Investment Goals, Objectives and Guidelines, as may be amended by the Board from time to time.~~
- ~~g)f) "System" means the Charlotte Firefighters' Retirement System.~~

ROLE

The Committee is charged to oversee the System's investment and funding programs [as relates to investments and related assumptions](#). Committee members, as ~~Trustees~~ and fiduciaries, shall: 1) discharge their duties solely in the interest of the Members, Retirees and Beneficiaries, and 2) act with the same care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims.

MEMBERSHIP

The Committee shall consist of five ~~Trustees~~ appointed by the Chairperson of the Board ("Chairperson"), except that one of the five shall be the System's Treasurer, an ex officio member. The Committee shall elect a Committee Chairperson from among its members. At any time, a majority of the members of the Committee could petition the Board Chairperson for a vote to elect a Chairperson.

MEETINGS

The Committee shall generally meet once a month and may convene more or less often as circumstances require. Meetings shall conform with the "Open Meetings Law," Article 33C of Chapter 143 of the General Statutes, G.S. 143-318.9, et seq., as amended. Committee members may attend meetings of the Committee in-person or by means of a conference telephone or similar communications device allowing all persons participating in the meeting to hear each other at the same time, to the extent permitted by law. The Committee eChairperson (or the eChairperson's designee in the event of his or her absence) shall preside at all meetings of the Committee.

A majority of the Committee shall constitute a quorum for the transaction of business at any meeting thereof. If there are only three members present at a meeting and a motion for recommendation to the Board is split, the motion would be directed to the Board for the full Board's decision.

The Committee eChairperson in consultation with the System's Administrator shall set the agenda for each meeting of the Committee. Meeting agendas will be distributed in advance of the meeting. System Staff shall supply Committee members with information related to the items contained in the agenda prior to the meeting. -The System's Administrator shall attend and participate in Committee meetings at the pleasure of the Committee.

The Committee shall keep minutes of its proceedings and shall provide regular reports on its activities and recommendations to the Board.

DUTIES

The Committee shall have the following advisory and administrative duties:

1. Advisory Duties-

- a) Periodically review the Investment Policy, ~~the Funding Policy(TBD)~~ and this Charter, and recommend changes where appropriate.
- b) Periodically evaluate service providers (e.g., investment consultant, actuary, custodian) and recommend retention or replacement.
- c) Periodically review the actuarial assumptions, both economic and demographic, and recommend changes where appropriate.
- d) Recommend special studies (e.g., asset-liability study, actuarial experience study) as may be appropriate from time to time.

2. ~~Administrative Duties~~—Investment Program-

- a) Oversee the System’s investment program, ensuring compliance with the Investment Policy, including approval of Fund transactions and ability to grant temporary exceptions to the Investment Policy if market conditions warrant, in accordance with the Committee’s scope of authority.
- b) Conduct investment manager / fund searches as needed.
- c) Monitor performance of the individual investment managers / funds in accordance with the Investment Policy.
- d) Evaluate the performance of the Fund quarterly based on a comparison of actual return with the System’s absolute return objective and with other benchmarks stipulated by the Investment Policy.
- e) Review all investment-related fees incurred by or on behalf of the System for reasonableness.

3. ~~Administrative Duties~~—Funding Program

- a) Monitor the System’s funding program, ~~ensuring compliance with all elements of the Funding Policy(TBD)~~.
- b) Identify key risk areas and devise methods or metrics for monitoring associated experience development. “Risk” refers to events that may be reasonably anticipated to adversely affect the System's future financial condition.
- c) Recommend accommodative strategies as may be required to respond to an over- or under-funding condition or threats to the System’s financial soundness, be they actual or anticipated.

OVERSIGHT & REPORTING

The Board shall maintain direction and oversight of the Committee’s activities. The Board’s direction shall be accomplished primarily through establishment of the Investment Policy ~~and the Funding Policy(TBD)~~, as well as review of regular reports of the Committee’s activities at meetings of the Board. Any action(s) taken, not taken or deferred in accordance with this Charter or Board guidance shall be reported to the Board at the next meeting of the Board following such action(s).

~~Adopted Revised July 16, 2020~~Month-Day, Year