

# MINUTES

## METROPOLITAN EMPLOYEE BENEFIT SYSTEM INVESTMENT COMMITTEE

May 27, 2020 at 9:30 a.m.

Investment Committee Meeting

WebEx/Virtual

The Investment Committee met on Wednesday, May 27<sup>th</sup>, 2020 at 9:30 a.m.

Those Investment Committee members present were:

Christine Bradley, Kevin Crumbo, and G. Thomas Curtis

Other attendees:

NEPC: Dan Beaton & Keith Stronkowsky

Voya: John Cox

Staff: Fadi BouSamra, CIO, Tom Eddlemon, Treasurer, & Katelyn Richie, Finance Officer

Others Attending: Margaret Darby, Metro Legal & Josh Thomas, Metro Legal

- **Announcement:** Mr. Crumbo explained Dr. Stephanie Bailey has resigned from the Benefit Board and the Investment Committee due to her taking a position at the health department to assist with the COVID-19 crisis.
- **Establish a quorum:** Mr. Crumbo established that a quorum was present, and the meeting was called to order.
- **Approval of minutes from the February 26, 2020 meeting:** Mr. Crumbo conducted a roll-call vote for approval of the minutes from February 26, 2020. The vote to approve the minutes as written passed unanimously.
- **1<sup>st</sup> Quarter 2020 Pension Performance:** Mr. Stronkowsky reviewed the Metro Plan's performance. He discussed the total fund returned -5.38% for the quarter; outperforming the policy index by 8.2%. The total fund returned 3.5% for trailing 1-year; outperforming the policy index by 9.7%. Mr. Stronkowsky explained Metro ranked in the 2<sup>nd</sup> percentile relative to public fund peers for the quarter & was in the 1<sup>st</sup> percentile relative to public fund peers for the 1,3 and 5-year timeframes.

Mr. Stronkowsky & Mr. BouSamra explained the plan ranks 1<sup>st</sup> in risk adjusted returns compared to over 320 other public plans. Mr. Stronkowsky explained this means we are getting more return for less risk compared to the other public plans within the investor force universe.

- **Recommendations & Updates:** Mr. BouSamra and Mr. Stronkowsky reviewed the following recommendations and General Updates:

## General Updates:

- Cash in Metro MIP as of 3/31/2020 = \$1 million
  - In the quarter we submitted redemptions from PIMCO Global Opportunities fund, Waterfall and two evergreen real estate funds. The redemptions will be used to fund new opportunities present in the current market dislocation.
  - We had previously redeemed from Cyrus but halted that redemption halfway through since the assets in the fund represent a compelling buy instead of a sell. We will resume the full redemption at a later point.
  - We instructed Winston to submit redemptions to all the equity long short funds. We will use the funds to replenish liquid assets and some of the commitments we are asking for today. You may recall, we are planning to reevaluate the need for equity long short in our portfolio when we take up a new asset allocation and Miro One's performance in March led us to believe we can achieve better outcomes with some of the compelling fixed income opportunities in the market. While Parthenon Two performed better in March the longer-term performance is about the same as Miro One.
  - Our sole exposure to domestic large cap through PIMCO Managed Volatility did well protecting assets and outperformed the index by 14% through March 21<sup>st</sup>. We instructed the manager to go 100% long the benchmark on March 23<sup>rd</sup> and that worked well too. The fund has exceeded the performance of the S&P 500 by about 22%.
  - The risk reports as of March 31<sup>st</sup> show that risk has increased in the portfolio through the various stress tests we conduct. This is primarily due to our below benchmark weight to traditional fixed income, increased allocation to alternatives (denominator effect) and some modeling changes at MSCI.
  - We completed the contract with our new domestic private lender. We got the fee arrangement we wanted, and we will get a proportionate share of syndication economics when a portion of a loan is syndicated.
  - Anchorage decided to liquidate their short credit fund after two of the large investors in the fund decided to use the gains in the fund for liquidity. We were the third and smallest investor in the fund. The fund was liquidated, and we realized a 33% gain as of the end of April. You may recall, we held this fund as a hedge to our credit exposure in the private assets.
  - Staff and legal completed all the work for all but two of the investments we are bringing you today because they are due within days of your approval.
  - I can't really thank Katelyn and Josh enough for the work that they put in on the contracts and Katelyn has been putting in a lot of work keeping track of cash flows. I think we worked on eight contracts since the last meeting and addressed modifications with managers on at least a few more.
- **Motion to approve Electronic Meeting:** Mr. Crumbo & Mrs. Darby proposed a motion on finding that due to the COVID-19 pandemic it is necessary to hold this meeting by electronic means to protect the health and safety of members of the committee, consultants, staff, and members of the public. Mr. Crumbo conducted a roll-call vote to accept the motion. The motion passed unanimously.

## **Recommendations:**

### **Alternative Fixed Income:**

- **PIMCO Corporate Opportunities III-** Mr. BouSamra discussed the fund utilizes PIMCO platform to source corporate distressed and special situations. He also mentioned the Metro Pension invested \$40 million in the predecessor fund.
  - **Recommendation** – Invest an additional \$20 Million for a total commitment of \$40 million. Mr. Curtis made a motion to approve the recommendation as written. Ms. Bradley seconded the motion. Mr. Crumbo conducted a roll-call vote, and the motion passed unanimously.
- **Anchorage Illiquid Opportunity VII-** Mr. BouSamra discussed the fund invests in distressed, special situation and structured credit. Metro invested in fund IV and V and VII. The Metro Pension invested \$15 million in this fund at the end of 2019. Mr. BouSamra explained that given the existing portfolio as a result of the fund investing in March and the opportunity going forward, we recommend increasing the commitment to \$40 million.
  - **Recommendation** – Invest an additional \$25 million in AIO VII for a total commitment of \$40 million. Mr. Curtis made a motion to approve the recommendation as written. Ms. Bradley seconded the motion. Mr. Crumbo conducted a roll-call vote, and the motion passed unanimously.
- **PIMCO Tac Ops** – Mr. BouSamra explained PIMCO Tac Ops fund is an evergreen structure offering quarterly liquidity after a lock up period, and this fund is a multi-sector opportunistic credit fund focused on public and private markets. He also mentioned the portfolio consists of structured products, mortgage securities, corporate debt and private loans, often deploying capital in the mid or senior part of the capital stack and utilizing leverage to enhance the return.
  - **Recommendation** – Authorize staff to commit up to \$100 million into Tac Ops. \$40 million will be committed and called on June 1<sup>st</sup>. Mr. Curtis made a motion to approve the recommendation as written. Ms. Bradley seconded the motion. Mr. Crumbo conducted a roll-call vote, and the motion passed unanimously.
- **O'Brian Staley Partners Fund III** – Mr. Stronkowsky explained OSP Value Fund III is focused on commercial and industrial private credits. He also discussed the credits are almost always performing. Metro invested in the previous two vintages.
  - **Recommendation** – Invest up to \$30 million in OSP III. Mr. Curtis made a motion to approve the recommendation as written. Ms. Bradley seconded the motion. Mr. Crumbo conducted a roll-call vote, and the motion passed unanimously.

## **Real Asset:**

- **Stonelake VI** – Mr. BouSamra explained this fund is focused on making equity real estate investments in Austin and Dallas however the fund could invest in Atlanta, Nashville, El Paso and Houston. He also mentioned the Metro Pension invested in fund IV.
- **Recommendation** – Invest up to \$20 million in Stonelake Fund VI. Mr. Curtis made a motion to approve the recommendation as written. Ms. Bradley seconded the motion. Mr. Crumbo conducted a roll-call vote, and the motion passed unanimously.

**Private Equity:**

- **Greenspring Global Partners X** – Mr. BouSamra discussed this fund of funds is focused on primary commitments to venture capital funds with up to 30% of the fund targeting direct opportunities from the Greenspring ecosystem of fund relationships. He also explained the Metro Pension is invested in funds V, VI, VIII and IX as well as a few secondary and co-investment (direct) funds.
- **Recommendation** – Invest up to \$40 million in GGP X. Mr. Curtis made a motion to approve the recommendation as written. Ms. Bradley seconded the motion. Mr. Crumbo conducted a roll-call vote, and the motion passed unanimously.
- **Axiom Asia Fund VI**: Mr. BouSamra explained this fund is focused on emerging market buyout and growth, and the Singapore based team partners up with leading local teams in emerging countries well acclimated to the local markets they operate in. He also mentioned the Metro Pension is invested in Axiom Asia IV and V as well as a co-investment fund.
- **Recommendation** – Invest up to \$40 million into Axiom Asia VI. Mr. Curtis made a motion to approve the recommendation as written. Ms. Bradley seconded the motion. Mr. Crumbo conducted a roll-call vote, and the motion passed unanimously.
- **1st Quarter 2020 MetroMax review:** Mr. Beaton reviewed the executive summary which highlights fund performance including the range of core fund returns from 2.2% to -32.1% for the quarter. He also explained NEPC is not recommending any action as it relates to the plan’s managers at this time due to performance or other concerns.
- **1st Quarter 2020 MetroMax Activity Review:** Mr. Cox reviewed the MetroMax 1<sup>st</sup> Quarter 2020 Activity Report. He explained as of 3/31/2020 the plan reached an all-time high of 7,651 participants and payroll contributions increased 7.78% from 03/31/2019. Mr. Cox explained the Metro Benefit Board enacted the CARES acts provisions for participants to self-certify that they have had some sort of adverse effects from COVID-19 allowing participants to withdraw funds with no penalty and no federal withholding.

Approved \_\_\_\_\_ by Minutes approved by Investment Committee on 08/27/2020  
 (Date)