

MINUTES

METROPOLITAN EMPLOYEE BENEFIT SYSTEM INVESTMENT COMMITTEE

April 13th, 2021 @ 3:00 p.m.

Investment Committee Meeting

WebEx/Virtual w/ public dial in option

The Investment Committee met on Thursday, April 13th, 2021 @ 3:00 p.m.

Those Investment Committee members present were:

Stephanie Bailey, Christine Bradley, Kevin Crumbo, and G. Thomas Curtis

Other attendees:

NEPC: Keith Stronkowsky

Staff: Michell Bosch, Treasurer, Fadi BouSamra, CIO, & Katelyn Richie, Finance Officer

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

- **Establish a quorum:** Mr. Crumbo established that a quorum was present, and the meeting was called to order.
- **Motion to approve Electronic Meeting:** Mr. Crumbo made a motion 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. Ms. Bailey seconded the motion. Mr. Crumbo conducted a roll-call vote to accept the motion. The motion passed unanimously.
- **Investment Committee Presentation:**
 - Beneficiary Statistics – Ms. Bosch discussed the three prong-approach to risk tolerance - ability to take risk, the need to take risk, and the tolerance for risk. She also discussed statistics regarding pensioners including active and inactive members, and actuarial liabilities. The plan can take measured risk based on the well-balanced demographics of the plan and funding ratio. Ms. Bosch also discussed the asset allocation and asset classes to consider to meet target returns. She explained characteristics of growth assets, defensive assets, and alternative assets, and asked the committee to communicate any concerns around these areas. Ms. Bradley asked for differentiation of capitalization vs. factor investing, and Ms. Bosch and Mr. Stronkowsky explained capitalization as market capitalization and factor investing as different factors including sales, quality, and other factors. Ms. Bailey asked if the committee will be asked to choose the approach we take, and Ms. Bosch explained ideally the committee as a governing body should explain to the management team which areas, as written in the investment polity, the committee wants to dive into, because the directive should be clearly defined.

- Asset Allocation – Ms. Bosch explained currently we are using the asset-only approach which is a risk tolerant approach and trades off absolute risk for absolute return; versus the asset/liability management approach, which is a risk averse approach and focuses on funding liabilities and considers the risk characteristics of the assets as well as that of the liabilities. She explained it is not currently written in the investment policy which asset allocation approach we are using. Ms. Bosch asked the committee if they have any opinion on which approach is used or a preference. The committee did not comment. Mr. Stronkowsky explained that in NEPC’s asset only approach they will come in every year and give a capital markets outlook and gauge the approach, and conduct an asset/liability study typically every 5 years. The asset liabilities study is completed to ensure stability. He also explained you can do a combination of both approaches. Mr. BouSamra expressed both approaches are not mutually exclusive of one another, and that a combination of approaches is what we have done in the past, but it is not articulated in the Investment Policy, and should be. Ms. Bradley asked when an asset of liability studies is conducted, are they net of fees. Mr. Stronkowsky did confirm it is done net of fees. Ms. Bosch explained that both approaches are necessary is an acceptable outcome. Ms. Bosch explained the asset allocation is the single most important part of an investment decision. Ms. Bosch showed a graph which depicts risk and nominal return for major asset classes over a 5-year horizon, and she presented the current policy ranges including targets and current percentages. She also explained the reason she wanted to share these, is because we are currently out of range in a few areas and would recommend the Committee broaden the ranges to meet our current allocations. Mr. Curtis asked if a lot of our Private Equity allocation is from appreciation and performance. Mr. Stronkowsky confirmed good performance has driven that asset class over target, and staff has been managing it down while assuming very little net growth in the plan. Ms. Bradley asked if we needed to change the range, or should we simply manage to that range better. Ms. Bosch explained the committee needs to decide which approach is their choice, to either change the ranges, or manage the ranges more closely. Mr. Curtis expressed he was in favor of a wider range to accommodate performance, and Ms. Bosch explained she would come back to the committee with some drafts to amend the ranges to accommodate our current allocations. Ms. Bosch discussed a tactical asset allocation approach including deliberately overweighting or underweighting asset classes relative to the target weights in an attempt to add value. She explained the committee needs to consider adding some constraints via a tactical asset allocation in the investment policy, with regards to risk management. Ms. Bosch explained currently we allow 5-10% deviation from stated policy targets, and it should be documented in the Investment Policy the allowances on an asset class basis. She explained risk and cost should be the main driver for a tactical asset allocation change. Mr. Curtis asked Ms. Bosch if in her experience, 5-10% is enough to react and make tactical decisions between meetings. Ms. Bosch explained the constraints need to be included in writing in the Investment Policy. Ms. Bosch went on to explain risk tolerance as a fiduciary and expressed the need to set up the portfolio as the committee wants to see it. She also showed a slide including some questions concerning fiduciary responsibility.
- Risk & Return Objectives and Constraints – Ms. Bosch explained, current objectives and constraints in the Investment Policy. She will be working on constraints and objectives

and putting together a draft to include in the Investment Policy. Ms. Bosch discussed the need to cover ESG (environmental, social, and corporate governance) in the investment policy. Ms. Bosch explained positive and negative screening for companies around ESG measures. Ms. Bradley expressed she would like a deeper conversation around ESG and how it relates to the fiduciary responsibility the Committee holds. Mr. Stronkowsky explained he is happy to have NEPC's partners who specialize in ESG included in on the conversation at a future meeting. Mr. BouSamra stated that most public plans focus on governance and sustainability measures, but explained it is tougher for governments to tackle these issues because of the fiduciary duty. He explained, the committee must have a clear case that the decision is fiscally responsible and accretive to earnings according to the Department of Labor guidelines. Ms. Darby brought up the Conflict of Interest document on the SharePoint Committee page, which explains further the fiduciary responsibility of the committee members and their loyalty to the beneficiary's and where conflicts lie based on personal beliefs, unless there are illegal actions happening. She urged each committee member to review the conflict of interest document further. Mr. Curtis explained it would be good to have an entire discussion around this topic.

- Portfolio Statistics – Mr. BouSamra used the data available in risk reports from MSCI Barra One to summarize the regional exposure of the plan and the various asset classes. He showed graphs depicting Alternative Fixed Income by region which is mostly made up of North America and Europe. He explained there are a couple reasons for this including English law protects the rights of lenders, to limit currency exposure when hedging is expensive, and the manager base in which we draw from. Mr. Bousamra also explained Private Equity is allocated more in line with where we see opportunity and the concentration of venture funds in the U.S. He discussed Real Assets have a U.S. Concentration for some of the same reasons as Alternative Fixed Income. Mr. BouSamra expressed when you put all of this together, we are close to matching the MSCI ACWI, except our Asia exposure is relatively low.
- China Review – Mr. BouSamra explained China is a large market with a population of 1.4 billion people and around 6 trillion in retail sales, and their GDP is right behind the U.S. China has been growing rapidly since joining the WTO in 2001, so much so, their economy has tripled since 2006. Mr. Bousamra discussed the young free spenders, the equivalent of millennials in the West, they make up a large portion in the growth of retail spending including normal consumable items. Based on the growing prosperity and demographics there is room for considerable growth on consumption. He explained the young spenders are flexing their financial muscle. Baby boomers in the U.S. have had a profound effect on the domestic economy and arguably global economy with a peak population of just over 78 million. The U.S. Millennials are currently just over 70 million – In comparison the Young Free Spenders in China account for 350 million of China's population. Numerous new companies are being formed in China including restaurants, transportation, luxury brands and others catering to the spending habits or the new generation. In 1990 China was only 3% of global venture capital dollars, and today they are representing 21%, and based on the population and GDP, that statistic has more room for growth. Mr. Bousamra also discussed the many political aspects to U.S. & China's relations, and that the U.S. has taken a lot of action, starting with the Trump Administration

with relatively muted response from China. He went on to explain there are undeniable human rights issues in China that are just now being confronted in a synchronized way by the West as well as fair trade issues.

Mr. BouSamra shared an image of a job fair which depicts the sheer number of crowds and how much opportunity there is in the workforce. Mr. Bousamra explained some have theorized a decoupling on some fronts with China and cooperation on other fronts - That would be a good outcome from a U.S. based investor's perspective, because when risk spikes, virtually all assets are correlated. A diversified supply chain and limited dependence could potentially result in less systemic risks on some fronts.

He also explained China is very friendly to foreign capital, and there have been many reforms as of late. Mr. BouSamra highlighted the continued issuance of IPO's in china even during the global pandemic as an example of China prioritizing jobs and capital formation. Market valuations are some of the lowest in the world, if history is any guidance, the Young Free Spenders will change that by starting to invest in stocks using their mobile devices. Mr. BouSamra explained that, in general, the Metro plan has avoided sectors that are dependent on export and focused on the exploding domestic demand in China. Also, the plan is avoiding politically sensitive sectors like social media and other forms of communication that are generally, other forms of communication. Mr. BouSamra explained the top 5 unicorn companies within the U.S. average about \$26 billion in current valuation whereas in China, the top 5 unicorn companies average around \$71 billion, so the room for growth is substantial. Mr. BouSamra explained if a European investor was looking at the U.S. for investment opportunity in 1950, it would have been a mistake not to invest due to social problems at the time., because they would have missed out on that growth opportunity, and the same could ring true in China opportunities as well.

Mr. BouSamra also discussed Axiom Asia's performance in funds 1-6, and highlighted the Plan's investments in funds 3 & 4. Out of 37 mature private equity funds the Plan has made, 30% have achieved IRRs comparable to Axiom's returns of 18% or better. If the two Axiom funds are removed the average declines to 25%. Mr. BouSamra expressed his understanding of the social issues around China and the concerns some Committee members expressed. He emphasized the manager's ESG policy is very robust and assured the Committee of the diligent vetting of investments. The companies we invest in are backed by onshore and offshore capital and abide by business practices that far exceed the norm in China. He believes our capital plays a critical role in setting a good example and introduce new competing ideas. Foreign investment in China is part of the solution. He emphasized the Pension plan would always follow U.S. law in regards to all the investments in the portfolio and that we should let the U.S government handle the negotiating. Mr. Stronkowsky explained that during NEPC annual capital market outlook process they evaluate China's transition from export driven to consumption. Mr. Curtis asked Mr. BouSamra if the Axiom fund from the last Investment Committee Meeting is still open or is it closed. Mr. BouSamra, said he will check on it, but he has a much bigger concern around the Committee's concern around China and that he wants the committee to be clear on their fiduciary duty. He also explained the value of foreign investment in the emerging economies in genera. The committee expressed appreciation for the education around China and policy directives and found the presentations very helpful.

Approved _____ by Minutes Approved by Investment Committee during virtual meeting held on 05-20-2021
(Date)