

MINUTES

METROPOLITAN EMPLOYEE BENEFIT SYSTEM INVESTMENT COMMITTEE

February 23, 2022 @ 9:00 a.m.
Investment Committee Meeting

Howard Office Building
Sonny West Conference Room

The Investment Committee met on Wednesday, February 23, 2022 @ 9:00 a.m.

Those Investment Committee members present were:

Stephanie Bailey, Christine Bradley, Tom Curtis, and Kelly Flannery

Other attendees:

NEPC: Dan Beaton, Eric Harnish, & Keith Stronkowsky

Voya: John Cox

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

Others Attending: Josh Thomas and Lexie Ward, Metro Legal

- **Establish a quorum:** Ms. Bosch established that a quorum was present, and the meeting was called to order.
- **Approval of minutes from the November 30, 2021 meeting:** Ms. Bailey made a motion to accept the minutes as written. Mr. Curtis seconded the motion. The motion passed unanimously.
- **4th Quarter 2021 Pension Performance:** Mr. Stronkowsky discussed key market highlights including interest rates, geo-political issues, and inflation. He also explained Metro's assets totaled over \$4.5 Billion as of December 31st, 2021. The plan returned 3.82% net of fees for the quarter; 6.39% fiscal year to date outperforming the benchmark by 2.81%. Mr. Stronkowsky went over the sharpe ratio; the Plan is getting rewarded for the risk taken.

Mr. Stronkowsky reviewed the results of the private markets which include Fixed Income Alternatives, Private Equity Investments, and Real Estate & Real Assets. He compared commitments, paid in capital, capital to be funded, cumulative distributions, and the report concludes the total value is \$1.60 for every \$1 invested. The report lists the IRR of all private market investments at 11.67%.

- **Recommendations & Updates:** Mr. BouSamra reviewed the following General Updates:
 - **General Updates:**
 - Cash at Metro: \$329,230
 - The portfolio was rebalanced in November and December

- Quick overview of funding pension payments and capital calls
 - We use cash to meet cash needs for pension payments and capital calls
 - Any additional needs are funded from assets taking into consideration the Asset Allocation
 - All new subscriptions are approved by the IC
 - Staff only moves assets between liquid investments and investments that provide quarterly liquidity within previously approved limits
- **Private Equity Update Presentation:** Mr. Harnish gave a brief Private Equity update to the Committee. He explained NEPC has reviewed the existing PE program and made projections around the existing investments as they continue to wind down. NEPC updated projected plan commitments using the latest model available. He explained it is very important to continue to make new commitments because the commitments made today will represent a large portion of future exposure and plan returns. Furthermore, the plan has developed a strong pool of managers that need to be maintained in the plan.

Mr. Harnish presented the Committee with a Base Case scenario and two options for a Secondary Sale in order to bring the Private Equity portfolio exposure down faster, as requested by the Committee.

Staff and NEPC highlighted approximately \$220 million for a potential sale. Exactly what will be sold will be determined by market demand and pricing.

Mr. Curtis asked about the brokerage fees paid to list and sell the assets. Mr. BouSamra explained fees will likely be taken out on the buyers bid and will end up between ~0.5%-1.5%. Staff is in current negotiations with potential firms to list the assets. The biggest impact on the Plan will be the discount buyers are going to require.

Motion: Allow Treasury Staff to move forward with the Secondary Sale. Ms. Bradley made the motion and Ms. Flannery seconded the motion. The motion passed unanimously.

- **Private Equity Recommendations:**
 - **StepStone Opportunities VII:** Mr. Harnish explained the fund will source approximately 25 direct investments in venture capital companies sourced through the extensive Greenspring/StepStone network of venture partners. The Metro Pension has invested in four previous vintages of this fund.

Recommendation: Invest up to \$25 million in Stepstone Opportunities VII

Mr. Curtis made a motion to accept the recommendation as presented. Ms. Bailey seconded the motion. The motion passed unanimously.

- **Spark Capital VII:** Mr. Harnish discussed the fund will invest in early stage and series A venture capital. Spark capital has more of a focus on the east coast to help diversify with the west coast managers already in the portfolio. He explained Spark has made very successful investments in technology and consumer focused companies such as Wayfair and Oculus; Spark invests mainly in US companies.

Recommendation: Invest up to \$5 million in Spark Capital VII

Ms. Bailey made a motion to accept the recommendation as presented. Ms. Flannery seconded the motion. The motion passed unanimously.

- **Spark Growth IV:** The fund will invest in the growth stage of approximately 25 companies. Mr. Harnish explained Spark saw an opportunity to continue to invest in some of their best performing companies in mid and late stage rounds, so they started a growth series of funds.

Recommendation: Invest up to \$10 million in Spark Growth IV

Ms. Bailey made a motion to accept the recommendation as presented. Ms. Flannery seconded the motion and the motion passed unanimously.

- **StepStone VC F-II, L.P:** Mr. Harnish explained this fund was created to invest in Founders Growth Fund II. The fund will invest in growth stage companies sourced through the Founders' early-stage fund.

Recommendation: Invest up to \$10 million in StepStone VC F-II plus up to \$250,000 in fees.

Ms. Bradley made a motion to accept the recommendation as presented. Ms. Bradley seconded the motion. The motion passed unanimously.

- **StepStone Growth Equity VII -L:** Mr. Bousamra explained the fund is created for the sole purpose of investing in Accel Leaders Fund IV. The fund will invest in the late to early stage investments sourced through Accel's early stage fund.

Recommendation: Invest up to \$10 million in StepStone GE VII-L plus up to \$250,000 in fees.

Ms. Bailey made a motion to approve the recommendation as presented. Ms. Bradley seconded the motion. The motion passed unanimously.

- **Investment Policy:** Mrs. Bosch explained there were two minor edits to the Investment Policy from the last version seen by the Committee at the last meeting. The item of note is the addition

of the exception to the asset allocation targets for the Private Equity Portfolio. After the presentation from NEPC and the decision to move forward with the small secondary sale option, an exception was added to the Investment Policy to allow for Private Equity to be outside of target range until 2026.

Motion: Ms. Bailey made a motion to accept staff’s recommendation to add an exception to the Investment Policy for the Private Equity Allocation to be outside of target range until 2026.

- **RFI Draft Review:** Ms. Bosch distributed 3 RFI’s: Experience Study, Pension Plan Review, and the OCIO services. After discussion of all 3 RFI’s, the Committee decided to hold off on submitting the OCIO services RFI to see what recommendations come from the Pension Plan Review RFI.

Mr. Curtis made a motion to move forward with sending the Experience Study RFI to purchasing to be put out for bid and proposals be brought back to the Committee for a review. Ms. Flannery seconded the motion, and the motion passed unanimously.

Ms. Bailey made a motion to move forward with sending the Pension Plan Review to purchasing to be put out for bid and proposals be brought back to the Committee for a review. Mr. Curtis seconded the motion, and the motion passed unanimously.

- **Distribute 4th Quarter 2021 457b Reports:** Ms. Bosch distributed both the Voya Activity report and NEPC Performance Report - 457 plan.
- **Replacement for Voya Small Cap Fund:** Mr. Beaton explained NEPC has done the requested search to replace the Voya Small Cap Fund based on the recommendation from the Committee at a previous meeting. He presented the 4 search candidates, explained the differences between the funds, and after discussion the Committee decided to move forward with replacing the Voya Small Cap Fund with Segall Bryant & Hammill, LLC’s - SBH Small Cap fund.

Mr. Curtis made a motion to replace the Voya Small Cap Fund with Segall Bryant & Hammill, LLC’s – SBH Small Cap Fund. Ms. Bradley seconded the motion. The motion passed unanimous.

Mr. BouSamra explained the recommendation approved by the Investment Committee to replace the Voya Small Cap Fund will be brought to a future Benefit Board Meeting for final approval.

- **Educational Opportunities:** Ms. Bosch presented a few upcoming educational opportunities hosted by NCPERS if any Committee member would like to attend.

Approved _____ by _____
(Date)