

MINUTES

METROPOLITAN EMPLOYEE BENEFIT SYSTEM INVESTMENT COMMITTEE

March 23, 2023 @ 9:00 a.m.
Investment Committee Meeting

Howard Office Building
Howard Office Building – Sonny West Conference Room

The Investment Committee met on Thursday, March 23, 2023 @ 9:00 a.m.

Those Investment Committee members present were:

Christine Bradley, Tom Curtis, Kelly Flannery, and Gilbert Gonzales

Other attendees:

Meketa: Aaron Lally, Tad Ferguson, and Shawn Bowen

Voya: John Cox

Staff: Michell Bosch, Treasurer, Fadi BouSamra, Finance Manager, and Katelyn Richie, Senior Treasury Analyst

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 December 7th, 2022 meeting:** Mr. Curtis made a motion to accept the minutes as written. Ms. Bradley seconded the motion. The motion passed unanimously.
- **Meketa Team Introductions:** Ms. Bosch introduced Meketa as the new Investment Consultant, and Aaron Lally as the lead consultant. The Meketa team includes Aaron Lally, Lead Consultant, Tad Ferguson, Private Markets Consultant, Shawn Bowen, Consultant, and Keith Beaudoin, Consultant (not present). They each gave some details of their background and experience with Meketa and other Public Pension Plans. Mr. Lally explained there will generally be 2-3 members of the Consultant Team present at each Investment Committee Meeting.
- **4th Quarter 2022 Pension Performance:** Ms. Bosch explained the performance report should look familiar, as the new report from Meketa was largely based on the old report from NEPC. Mr. Lally gave important market updates around the Federal Reserve, Inflation, and Unemployment. He explained the main purpose of the Federal Reserve is maximum employment and control inflation. Inflation has been driving the equity and bond markets and consequently the Fed has raised rates many times in an attempt to slow the economy and inflation. The tightening has led to stresses in the market resulting in a few bank failures including SVB. SVB bank failure was unique to that bank because their clientele consisted

of mainly tech startups. Mr. Lally explained, the bank crisis has tightened lending and credit conditions which will help the fed in its efforts to bring inflation under control.

The Plan increased in value ~\$66 million. Regarding the Asset Allocation, all asset classes are within the allowable except for Private Equity. Mr. Lally reviewed the Plan's quarterly performance, which was up 2.4%, which was behind the policy benchmark and peers but that is expected in a quarter when equity markets are strong and Private Equity valuation are catching up to the market decline of 2022.

Regarding peer rankings, he explained the Committee's job as Trustee's is to make sure to grow the plan enough to pay benefits with the least volatile path to get there; it is not to beat other cities or states. The plan was down 9% for the 1-year time frame and outperformed compared to the policy index, which was down 12.1%. All plan returns are listed as net of fees. Mr. Lally reviewed the 3-year attribution to further explain what led to the overall Plan returns.

Mr. Lally reviewed the current allocation by asset class. Ms. Flannery asked Mr. Lally if he believes we will be able to get Private Equity down to 12% by 2026. Mr. Lally explained, according to the pacing plan that will be presented later in the meeting the Plan will reach policy range by 2026, however that depends on the market over the next few years.

Mr. Lally reviewed the Private Markets section of the performance report. He explained there is a bit of a lag in the data. He reviewed the commitments by vintage year, the remaining value as a percentage of total assets and historical performance. He also reviewed a slide representing contributions and distributions from Q4 2020-Q3 2022.

Mr. Lally stated that we will discuss the pacing plan for all Private Market Investments later in the meeting. Additionally, the Committee will discuss the Risk Survey that was emailed to Committee Members to get a sense for the Committee's priorities and key risks to manage.

- **Recommendations & Updates:** Ms. Bosch gave a brief update regarding the actuary review RFP and contract that was awarded to Athena. The plan governance RFP is still in the grading stage and there will be an update soon.

Ms. Bosch asked the Committee if they had any questions regarding the emails that went out to them regarding Silicon Valley Bank. Ms. Flannery asked about the UBS/Credit Suisse issues and should the Committee be concerned. Ms. Bosch explained that the plan had \$2 million exposure to AT1s that will likely not be recouped. Mr. BouSamra said all of the other debts were assumed by the new entity. He stated suing a Sovereign is not always a good idea and the exposure is minimal. He explained PIMCO is looking at the matter and would need to be involved. (Since the meeting Metro Legal and staff had multiple discussions on this subject).

Mr. BouSamra reviewed the following General Updates:

General Updates:

- Cash at Metro as of 12/30/2022: \$5,472,536
- We have been reducing exposure to the low duration PIMCO Unconstrained Bond Fund over the last two quarters in favor of duration.
- Meetings with Axiom Asia seem to indicate that operationally private companies continue to do well and the China reopening is seen as very positive for the region. Axiom has limited exposure to China over the last few vintages of funds and is focused on shorter duration direct investments in China. The fund is about 30% China while China represents approximately 70% of Asia private equity.
- The StepStone annual meeting was very productive. Venture capital is facing significant challenges in raising money, valuations, and realizations. Operationally companies continue to execute on their growth.
- BarraOne risk report is indicating that Fixed income, cash, and the reduced level of public equities in the portfolio are helping mitigate some of the risk from the Private Equity portfolio, but it will take time for us to get back to target.

Mr. BouSamra opened the floor up for any questions before moving on. Mr. Curtis stated as of the beginning of this year, he is now working for Brown Advisory. He requested Meketa and Treasury staff to flag any funds that come through or anything to do with Brown advisory, so he can recuse himself from voting on any items that arise to avoid any conflict of interest.

Mr. Lally stated some of Meketa's clients have assets invested with Brown Advisory.

- **Alternatives Planning:** Mr. Ferguson presented the Private Market Pacing Study and the Private Market Commitment Pacing Study. The Commitment pacing study outlines future commitments and how they are necessary to continue the Private Equity Program, regardless of the overallocation. The purpose of the Private Market Commitment pacing study is to determine the level of commitments necessary to both continue each private markets program and how the commitments will affect each allocation over time. Mr. Ferguson reviewed the Private Equity Pacing Overview. He explained the blue bars are annual commitment amounts, and the green line is the projected allocation going forward. This model projects the allocation coming down to the target of 12% by 2028. Regarding commitments moving forward, the plan is to commit as little as possible to keep the program going, so 60-80 million accordingly for the first 2 years, 80 million for the next two years, and 100-120 million over the longer term, all subject to change as time passes. Mr. Ferguson explained it is important to deploy capital across vintage years and economic cycles; private markets are not ones you want to try to market time.
- **Asset Allocation Discussion – Survey & Risk Tolerance:** Ms. Bosch explained we will review the results of the survey sent out by Meketa and how it gives feedback on the Committee's risk tolerance. Ms. Flannery said she does not like having a policy at 12% for Private Equity when we are running near 20% and that even in 5 years from now, we are not

projected to be below 12%. Mr. BouSamra said we are not asking to make any changes to the asset allocation today, and that we would bring recommendations to the next meeting. He also said it is important to discuss where we are currently to make an informed decision on an asset allocation change. Mr. Lally explained, the point of doing the survey exercise is to see where you do differ in opinion and try to air those out so that when you put the asset allocation in place, everyone’s expectations are aligned.

Ms. Flannery said she is most concerned about the political risk associated with knowingly violating the policy for nearly a decade, and if the policy is 12% and it should be 14% and is asking for the advice of Meketa to make a suggestion. Mr. BouSamra explained staff and the consultant want to hear the Committee’s priorities. Ms. Bradley agreed she wants to hear what the policy should be, and we can have a discussion around the reasons why. Ms. Flannery asked Meketa and staff to bring back a specific recommendation to what the Private Equity allocation should be to the next meeting.

- **Class Action Litigation Discussion:** Ms. Bosch explained staff has had internal discussions about Securities litigation and considering retaining a securities litigation firm. Mr. Thomas explained there has been discussion with the Committee about securities litigation council in the past and explained part of the Committee’s fiduciary obligation to maximize the value of the portfolio which includes recovering funds lost due to fraud, etc. He explained these are often settled in class action lawsuits which we can participate in to recover our share. Metro Legal has been contacted by several firms to do this for us and Mr. Thomas explained this is cost neutral. He explained our custodian currently monitors and files claims on our behalf within the US, but not outside the US.

Mr. Curtis made a motion to accept the recommendation of Metro Legal to pursue securities litigation. Ms. Bradley seconded the motion. The motion passed unanimous.

- **Distribute 457(b) Reports:** Ms. Bosch distributed the 457 reports including the performance report and the Voya Activity Report.
- **Future Meeting dates for 2023:** Thursday, May 25th, 2023 – 9:00am-10:30am
Thursday, August 10, 2023 – 11:00am-1:00pm
(educational lunch – topic TBD)
Thursday, September 28th, 2023 – 9:00am-10:30am
Thursday, November 30th, 2023 – 9:00am-10:30am

Approved 5/25/2023 | 9:42 AM CDT by *Kelly Flannery*
(Date)