

**City of Cincinnati Retirement System
Board of Trustees Meeting Minutes
December 5, 2024 / 2:00 P.M.
City Hall – Council Chambers and remote**

Board Members

Bill Moller, Chair
Tom Gamel, Co-Chair
Kathy Rahtz
Mark Menkhaus Jr.
Monica Morton
Seth Walsh
Aliya Riddle
Sonya Morris
Tom West

Administration

Jon Salstrom

Law

Linda Smith

CALL TO ORDER

Chair Moller called the meeting to order at 2:01 p.m. and a roll call of attendance was taken. Trustees Moller, Gamel, Rahtz, Menkhaus, Morton, Walsh, Riddle, Morris, and West were present.

PUBLIC COMMENT

No public comment.

APPROVAL OF MINUTES

Trustee Gamel moved to approve the minutes of the Board meeting of November 7, 2024, with recommended changes by Chair Moller. The motion was seconded by Trustee Rahtz. The minutes were approved by unanimous roll call vote.

Executive Session

Chair Moller motioned to enter Executive Session pursuant to the Ohio Revised Code 121.22 subsection G and Municipal Code section 121-7 to discuss the Board's council matters that are subject to pending and imminent court action. The motion was seconded by Trustee Walsh. The motion was approved by unanimous roll call vote.

Report from Benefits and Performance Evaluation Committee

Performance Evaluation Committee

Trustee Rahtz explained the two motions made at the Performance Evaluation Committee meeting regarding the performance evaluation of the Executive Director for the coming year.

- The first motion was to approve four overarching goals for the 2024/2025 performance evaluation of the Executive Director, which were drawn from the strategic plan document. The four goals are:
 1. Provide the Board with solid leadership, support, coordination, education, and communication.
 2. Assist the Board in developing, updating, and documenting a sound investment policy and robust governance structure.
 3. Provide information, education, support, assistance, and excellent customer service to active and retired members of CRS.
 4. Coordinate activities and communication between the Board, City Administration, and Advisors/Consultants as necessary to accomplish the Board's objectives.

The purpose of these goals is to categorize the performance and strategic objectives for the Executive Director. Chair Moller noted that no second was needed to approve the motion, as it had already been approved by the Committee. The motion was approved by unanimous roll call vote.

- The Director provided a report to the Committee regarding the performance evaluation of the investment consultant. The Committee motioned to approve the evaluation of the investment consultant. Chair Moller noted that no second was needed to approve the motion, as it had already been approved by the Committee. The motion was approved by unanimous roll call vote.

Benefits Committee

Trustee Gamel explained that there were no motions made at the Benefits Committee meeting. The Committee discussed the Dental RFP update, focusing on the tiered plans. It was noted that a little over 10% of retirees opted for the new tiered plan at an additional cost. The healthcare survey was also discussed. The survey is set to be prepared for 2025, with plans to adjust the draft in order to increase retiree participation.

Informational – Staff Report

Marquette Investment Report

Chair Moller provided an update on investment performance:

- Year-to-date (YTD) performance is 8.3%.
- For the year, performance is 17.8%, which is about at the benchmark.
- Over the 1-year period, the performance is just slightly below the benchmark.

CRS Dashboards (Perform, Demographics, Benefits, Liquidity and Budget)

Director Salstrom explained that included in the packet, starting on page 8, are the CRS Dashboards reviewed at the last meeting. These dashboards provide the Trustees with a quick snapshot of what he believes is pertinent information.

- In the Marquette Report, the focus is on highlighting the 1, 3, and 5-year returns for the CRS fund, net of fees, comparing them to:
 - The assumed rate of return of 7.5%.
 - A passive benchmark, which is a 70/30 equity/fixed income benchmark.
 - The long-term policy index, which is based on the target asset allocation.

Director Salstrom noted that the long-term performance looks good, medium-term performance looks good, and the short-term performance is slightly behind on a couple of benchmarks, but still above the assumed rate of return, which is positive.

- On page 9, the Benefits and Demographics Dashboard is provided. This dashboard offers a view of the total number of active members, total number of retirees, and the sum of DROP employees, which continues to decline. Director Salstrom highlighted that, when considering the overall health of the plan, the demographics look positive. The number of active employees continues to increase, which boosts contributions, while the number of retirees remains steady, which benefits the asset-to-liability ratio.
- On page 10, the dashboard provides a view of total benefits paid. Director Salstrom pointed out that, although it states the data is through September 30th, it has actually been updated through November. There is nothing out of line in the data; it aligns well with the budget expectations.
- On page 11, the Risk Dashboard is included for review. Director Salstrom highlighted the Risk Dashboard that was reviewed in the Performance Evaluation Committee. He noted that there were no significant changes from the last time it was presented. However, there are plans to adjust the market risk level moving forward, likely to reflect an increased expected risk as the year progresses and the next Administration begins. Director Salstrom anticipates tailwinds for the market at present, but he believes the first 100 days of the Administration may bring some market volatility, which will be reflected in future updates.
- The next two pages of the packet are new to the Trustees. These pages aim to provide an overview of how monthly benefits that must be paid are aligned with the portfolio's positioning. On the first page (page 12), the report looks at the overall asset allocation and categorizes investments into three buckets based on liquidity:
 - High-liquidity
 - Medium-liquidity
 - Low-liquidity

Private equity and private credit are included in the low-liquidity category. Private equity generally has a draw-down structure, and private credit is a bit more evergreen but still has limited liquidity. Investments in low-liquidity assets have less than one year of availability, and for private equity, it usually takes 12+ years to receive returns. The report includes a snapshot of the asset position vs. targets, showing where the portfolio is overweight and underweight.

Notable points:

- Overweight in private equity as the allocation is being reduced to 8%.
- Underweight in private debt, which is a new allocation that will take time to build.
- Overweight in U.S. equities, given recent market conditions and volatility in other asset classes.

On page 13, the liquidity breakdown is presented in more detail. Investments are defined in terms of their liquidity buckets:

- 57-58% of the portfolio has daily or weekly liquidity, meaning cash can be redeemed on a daily or weekly basis.
- 8% is in monthly vehicles, requiring a month's notice for redemption.

- Further breakdowns are made for quarterly, semi-annual, and illiquid investments, which are predominantly in private equity, with some in infrastructure and private credit.

Director Salstrom also provided an overview of the unfunded commitments across various asset classes, including private equity, private credit, real estate, and infrastructure, noting that these sum up to 7% of the portfolio's total commitments.

Director Salstrom explained that he has taken the total fund of unfunded commitments which is \$168 million, and made assumptions about the expected capital call ratios. Historically, about 80-85% of the money committed to private equity funds is drawn over the life of the fund. He provided various scenarios for the capital call ratios, assuming a 3-year investment period. For example, if 80% of the unfunded commitments (\$135 million) are called over three years, this results in about \$35 million per year, or approximately \$4.5 million per month. These scenarios are based on assumptions, and Director Salstrom is trying to anticipate the liquidity needs of the plan, planning for maximum drawdowns. Regarding monthly cash flow needs, Director Salstrom noted that, on average, the pension benefit payments amount to \$14 million per month.

- Compliance Dashboard Overview
 - Key Focus Areas:
 - Asset Allocation Review – ensures adherence to proper asset allocation strategies.
 - Risk Tolerance Bands – Monitoring risk tolerance and ensuring alignment with previously discussed bands.
 - Collaboration with Legal – Ensures that all decisions and strategies are in compliance with legal regulations.
 - Budget Monitoring – Overview of the budget performance (Actual vs. Planned) for the year.
 - Budget Overview:
 - Page 15:
 - Provides detailed comparison of the actual budget vs the expected budget through three quarters of the current fiscal year.
 - Shows the difference between the actual spend and budgeted projections.
 - 2024 Budget vs. Actual:
 - Highlights the budget for the upcoming year and compares it with historical actuals.
 - Key Insight: The actual costs historically run about 85% of the annual budget.
 - Peer Comparison:
 - The budget appears to be well-aligned compared to peers in terms of cost management and allocation efficiency.

115 Subcommittee Memo

Director Salstrom referenced the provided summary included in the packet. This provides a summary of key items pertinent to the 115 Trust, including outside counsel's opinion on the establishment of the CRS Board and the associated compliance risks. It includes an update on the CSA and the 115 agreement, outlining where the organization currently stands. This summary is for the Trustees to review and

consider in relation to their responsibilities. Director Salstrom anticipates that clarity will emerge after further discussions with outside counsel to refine their opinion and determine the next steps.

415B Update

Director Salstrom shared that the analysis on the historical 415B compliance concerns is still ongoing. Cheiron is approximately halfway through completing the analysis. The full report is expected to be ready in about a month.

Fiduciary Audit Recommendations Update

Director Salstrom emphasized the importance of keeping the summary of recommendations in the Board packets for the Trustees to easily track progress and highlight completed items. He will highlight changes as items are completed. Performance evaluation subcommittees oversight: Director Salstrom anticipates moving forward with a couple of items related to this as the budget discussions unfold, including aspects of benchmarking. No significant completions to report at the moment. The team will continue to focus on the governance manual, working on consolidating various governing documents into one unified document.

Futures Commissions Update

Chair Moller noted that a report on the Futures Commission from the City Administration was included in the packet for informational purposes, as he wasn't sure if the Board had received it previously. Director Salstrom pointed out that on page 31 of the report is relevant to the CRS system.

Chair Moller also mentioned that the Board received OPERS news from the Director, which included comments on potential mergers with other retirement systems. The OPERS Board has stated that they will not assume another system's unfunded liability, and this is provided as an informational item.

Old Business

Term Limits Ordinance

Chair Moller mentioned that the Law Department had been asked to provide a draft ordinance on term limits, reflecting motions passed at the previous meeting. However, a new draft has been made available, which the Board has not had a chance to review yet. Chair Moller suggested holding the item until the next meeting so the Board can review the latest draft. Trustees agreed to this suggestion.

City Solicitor, Emily Smart Woerner, explained that the new draft includes a change in how term limits are calculated. The previous draft used three 4-year terms, but this was complicated by the fact that the CSA Board reform order allows the Mayor to appoint members to indeterminate terms (ranging from two-four years). The new version calculates term limits based on the total number of years (12 total), to avoid conflicting with the existing provisions in the Administrative Code. The City Solicitor wanted to highlight this reasoning behind the change for the Board's consideration.

New Business

Board Chair and Vice Chair Elections

Trustee Gamel made a motion to nominate Bill Moller as Chair. Trustee Rahtz seconded the motion. The motion was approved by unanimous roll call vote. Chair Moller made a motion to nominate Tom Gamel to Vice Chair. Trustee West seconded the motion. The motion was approved by unanimous roll call vote.

Approve Investment Policy Changes

Chair Moller focused on page 51, which contains an asset allocation rebalancing chart. Previously, the minimum and maximum targets for asset allocations were set with a 5-percentage point range (e.g., Core Plus Bonds: 9% minimum and 14% maximum). However, the new chart does not follow this pattern in all categories. Chair Moller suggested sending this to the Investment Committee for discussion about adjusting the ranges for minimum and maximum allocations. This is important for determining when the portfolio is out of balance and needs rebalancing. Although Chair Moller initially thought the issue could be resolved quickly, he felt that further review by the Investment Committee was needed. The Trustees agreed to hold this item until the next Investment Committee meeting.

2025 CRS Budget Recommendations

Director Salstrom presented the full budget for the year, highlighting a 3% increase from last year, totaling \$3.95 million (up from \$3.8 million). He noted that historically, the budget comes in slightly under each year, mainly due to salary and wages (due to unfilled roles).

Key budget items:

- Salaries and wages: Up due to raises and an additional team member (an Administrative Specialist for redundancy and support).
- Office expenses: Down, particularly in travel costs.
- Data processing: Down significantly as fewer consulting hours are required from LRS/Pension Gold.
- Professional services: Up, primary due to increased legal fees and benchmarking work.
- Insurance: Up due to inflation.

Succession planning: Director Salstrom discussed challenges with personnel transitions, such as:

- The retirement of the head of IT and successful transition to new staff.
- Division Manager role succession, with Kyle Brown temporarily filling the position. The need to fill two vacant roles is anticipated.

Customer service and member education remain a top priority, with a focus on succession planning and ensuring smooth transitions.

CEM benchmarking: A new budget item for benchmarking analysis from CEM, which would assess investment performance and pension administration efficiency. This would serve as a bridge between the previous fiduciary audit and financial audit.

- Chair Moller requested an example of CEM's work before finalizing the contract.

Investment management fees: The fees increased due to the rise in the plan's total asset value, from \$2.2 billion to \$2.4 billion. The CEM benchmarking would provide insight into how CRS compares with peer fees.

Trustee Gamel motioned to approve the budget, seconded by Trustee Rahtz. The motion was approved by unanimous roll call vote.

Adjournment

Following a motion to adjourn by Trustee Gamel and seconded by Trustee Menkhaus. The Board approved the motion by unanimous roll call vote. The meeting was adjourned at 3:42 p.m.

Meeting video link: <https://archive.org/details/crs-board-12-5-24>

Next Meeting: Thursday, January 9, 2025, at 2:00 p.m. – City Hall Council Chambers and via Zoom

Jon Salstrom

Secretary