



**City of Cincinnati Retirement System  
Investment Committee Meeting  
Minutes  
November 3, 2022/ 12:00 P.M.  
City Hall – Council Chambers and remote**

**Committee Members Present**

Bill Moller, Chair  
Tom Gamel, Vice Chair  
Mark Menkhaus, Jr.  
Kathy Rahtz  
Monica Morton  
Tom West

**Administration**

Mike Barnhill  
Bev Nussman  
Keva Eleam

**CALL TO ORDER**

Chair Moller called the meeting to order at 12:02p.m. and a roll call of attendance was taken. Trustees Moller, Gamel, Menkhaus, Rahtz, Morton and West were present. Trustees Cramerding was absent. Trustee Juech joined the meeting late.

**APPROVAL OF MINUTES**

Approval of the minutes of the Investment Committee meeting of August 4, 2022, was moved by Trustee Gamel and seconded by Trustee Morton. The minutes were approved by unanimous roll call vote.

**PUBLIC COMMENT**

No public comment.

**New Business**

**Current Market Environment**

Mr. Brett Christenson of Marquette Associates presented on the current market environment. YTD returns by asset allocation reflect market volatility. Commodities and real estate are the only positive performers in 2022. All other asset classes are negative. Looking forward, US bonds and real estate are expected to perform well. Inflation (8.2% in September) appears to be slowing. The Fed is expected to continue to raise rates—up to 5%, higher than expected. Labor market remains strong, but is starting to slow. The Bloomberg Aggregate (the standard index for US fixed income) for the year is -14.6%; this is a 3 to 4 standard deviation event (very very unlikely). 10yr return on the Bloomberg Agg is .9%. Mr. Christenson observed that it is very difficult to manage a portfolio with the level of liquidity needs that it has when the fixed income asset class performs so poorly. But looking forward, Marquette projects a rebound in fixed income—at least 4-5% return annually for the next 10 years. Mr. Christenson suggests that an upcoming asset allocation study will result in a recommendation to shift assets to fixed income, which will reduce

volatility.

Trustee Moller observed that the CRS portfolio is underweight fixed income relative to peers. Mr. Christenson agreed that CRS is underweight by about 4.5% relative to peers. Mr. Christenson suggested that moving the portfolio to 25-30% fixed income over the next decade would add stability to the portfolio.

US Equity (Russell 3000) is down nearly -25% YTD. Mr. Christenson expects that volatility to continue until inflation peaks. Value stocks have performed much better (i.e., lost less) than growth stocks.

International equity (ACWI exUS) is down -26.5% YTD. China exposure is down -40%. But developed world exposure (Europe Australasia Far East--EAFE) in local dollars is down "only" -14.5%.

Real Estate (through June 30) is up. Industrial, Apartment and Infrastructure are positive.

Private Equity (through June 30) is up, but Mr. Christenson expects that when the lagged returns are finally reported, that Private Equity will post a negative return for the year. The dispersion of returns by vintage year vary widely, with the dispersion being widest in the most recent vintage years. The highest returns are in venture capital, which CRS does not have much exposure to.

Private Credit (through June 30) is up; CRS is still in initial stages of funding its newer managers (Owl Rock and Carlyle).

#### CRS 3<sup>rd</sup> Qtr 2022 Investment Report

Mr. Christenson drew the Committee's attention to the manager AQR (risk parity). Mr. Christenson stated that AQR's returns have been disappointing, and that the investment strategy is hard to explain. Recently the Board reduced this asset allocation from 5% to 2.5%. He further explained that the plan was to move that remaining 2.5% risk parity exposure to the Volatility Risk Premia Put-Write manager (Neuberger Berman). But now, Mr. Christenson believes it might be better to move this 2.5% to Core Bonds.

Trustee Moller reminded the Committee that he had previously asked for a review of Risk Parity at this meeting, but understands that it would be preferable to do an asset allocation study.

Mr. Christenson summarized the current asset allocation. The portfolio is overweight in both the Real Estate and Infrastructure asset classes. There are withdrawal requests pending from three of the Real Estate managers; but the Real Estate asset class will still be overweight after those withdrawals. Mr. Christenson recommended an additional \$8mm withdrawal be taken from Principal Enhanced, and an additional \$25mm from IFM. The proceeds would go to cash for liquidity or into Core Bonds. Trustee Gamel asked about the impact from these withdrawals. Mr. Christenson stated that the purpose would be to comply with the target asset allocation, which reduces risk.

Trustee Moller observed that CRS has a large negative cashflow. Trustee Moller further observed that all asset classes are within the tolerance bands specified in the Investment Policy statement. Trustee Moller asked whether Board authorization is required for the withdrawals recommended by Mr. Christenson. Director Barnhill expressed his view that Board authorization for moves like those suggested by Mr. Christenson is not required when the asset allocations are all within the tolerance bands, which is the case here.

Mr. Christenson drew the Committee's attention to p. 7 of the quarterly investment report that shows that

CRS's asset allocation to US and Global Equity is well above median, and that its allocation to Fixed Income is well below median. [Secretary note: the peer universe for this comparison is only 15 funds]. Substantial negative cashflows over the past 5 years are depicted on p. 8. Contribution to return on p.10 shows equity exposure contributes the most to return. Annualized return is shown on p. 11, and calendar year returns on p. 13.

Mr. Christenson discussed managers in the Fixed Income portfolio. Loomis Sayles is an active manager; 1.5% out-performance over past 7yrs. Shenkman is basically a high yield manager; 1.1% out-performance over past 10yrs.

US Equity is all passive index funds. The value funds have outperformed the broad market index funds. The only active equity manager is DFA for Emerging Markets Small Cap. DFA has outperformed its benchmark over 7yrs (but not over shorter time periods). Real Estate managers have all done well.

Trustee Moller asked about performance versus peers. Mr. Christenson confirmed that CRS tends to perform better than peers, but also observed that the peer group is only 30 funds.

Mr. Christenson turned to p. 33 of the report, which is the "Characteristics" page for the NTGI Agg Bond Fund. This fund is designed to replicate the index (Bloomberg Barclays Aggregate). The Loomis fund has the same index, but it is designed to beat the index, and so it does not completely replicate the Barclays Agg.

Mr. Christenson reviewed the Characteristics pages for Real Estate showing the difference in sector weights by manager (pp. 51-54). Generally, the managers are overweight to Industrial, Office or Apartment, and underweight to Retail. These active management decisions result in better performance since the Retail sector has been challenged.

Trustee Menkhaus moved, and Trustee Gamel seconded, to accept the Marquette 3<sup>rd</sup> quarter 2022 report. The Committee approved the motion by unanimous roll call vote.

Trustee Gamel moved, and Trustee Rahtz seconded, to request Marquette Assocs. to perform an asset allocation study and present it at the next Investment Committee meeting. There is no additional cost to do the study. The Committee passed the motion by unanimous roll call vote.

Trustee Gamel moved, and Trustee Rahtz seconded, to adopt the Burgiss Global benchmark for the Private Equity portfolio (replacing the Cambridge benchmark). Cambridge proposed to charge more for its benchmarks and the Burgiss benchmark covers more private equity funds. There is no change in cost to CRS. The Committee approved the motion by unanimous roll call vote.

Trustee Gamel moved, and Trustee Menkhaus seconded, to approve the change to the CRS Investment Policy reflecting the adoption of the Burgiss Global benchmark. The Committee approved the motion by unanimous roll call vote.

#### Trustee Investment Education

Mr. Christenson presented the trustee education slides in the Board's meeting packet. Mr. Christenson offered additional educational resources for the Board.

Report on Asset Allocation Changes

Trustee Moller made reference to the report in the Committee packet, which is self-explanatory. Ms. Nussman stated that Mr. Christenson basically covered the various changes throughout his presentations.

Investment Consultant RFP

Director Barnhill explained the history of the procurement of the Investment Consultant contract. The current contract will have been in place 7 years on 12/31/2022. The CSA calls for a maximum term of 6 years for the Investment Consultant contract. City procurement has encouraged that an RFP be issued in 2023, and Marquette has agreed to fix its fee agreement through the completion of the RFP process.

**Adjournment**

Following a motion to adjourn by Trustee Gamel and seconded by Trustee West, the Board approved the motion by unanimous roll call vote. The meeting adjourned at 2:05 PM.

Meeting video link: <https://archive.org/details/crs-investment-comm-11-3-22>

Next Meeting: February 2, 2023 at 12:00 p.m.



Secretary