



**City of Cincinnati Retirement System
Investment Committee Meeting
Minutes**

May 5, 2022 / 12:00 P.M.

City Hall – Council Chambers and remotely

Present

Bill Moller
Tom Gamel
Mark Menkhaus, Jr.
Kathy Rahtz
Don Stiens
John Juech
Erica Winstead

Staff Present

Mike Barnhill
Keva Eleam
Renee Kabin
Bev Nussman

Call to Order

Chair Moller called the meeting to order at 12:30 p.m. and a roll call of attendance was taken. Trustees Moller, Menkhaus, Rahtz, Stiens, Cramerding, Winstead, and Juech, were present. Trustee Gamel was absent. Trustee Cramerding departed the meeting at approximately 1pm. Trustee Juech departed the meeting at approximately 1:45pm.

Unfinished Business

Small Cap Private Equity Buyout Search

Brett Christenson from Marquette Associates introduced representatives from Siguler Guff. Siguler Guff presented slides on its Small Buyout Opportunities Fund V (slides in the Committee's packet). Highlights from the presentation:

- Dedicated small buyouts team of 12-13 staff, with no senior staff turnover
- \$6B committed since 2006; invested in 798 companies; exited 458 companies
- Avg company growth = 17%/yr
- Avg Entry multiple = 6.2x; Avg Exit Multiple = 10.2x; Leverage = 2.6x
- Avg Holding Period = 4.8yrs
- Past Net IRRs: Fund 1=12.1%; Fund 2=13.4%; Fund 3=25.5%; Fund 4=34.4%
- Fund V fees = 0.6% flat fee (this is a discount for Marquette clients); 9.5% carried interest

Chair Moller asked how they find the companies they invest in. Siguler Guff is the largest PE firm in this market with hundreds of existing businesses. They leverage the subject matter expertise of their existing companies to learn about new opportunities. They look for established companies with niche markets, dominant market share, large cash flow that have existing competitive advantage.

Mr. Christenson next introduced representatives from BPEA. BPEA presented slides on its Fund VI (slides in the Committee's packet). Highlights from the presentation:

- BPEA specializes in small buyout and growth
- Team of 16 staff
- \$1.5B committed since 2002; invested in 240 companies; exited 90 companies
- Past Net IRRs: Fund SBG=20.3%; Fund 3=19.4%; Fund 4=25.8%; Fund 5=31.5%
- Industries: business services and software; healthcare; consumer/retail; industrial
- 60% of direct co-invest deals reduces costs to investors
- Target companies: niche with \$1mm-\$10mm EBITDA
- Avg Entry multiple=6.6x; Avg Exit multiple=11x
- Fund VI fees=0.76% mgmt. fee/10% carried interest (this is a discount for Marquette clients)

Chair Moller asked how they find the companies they invest in. BPEA proactively looks for companies using the contacts and experience they have.

Mr. Christenson summarized the presentations. The funds are very similar. Siguler Guff is larger and is raising a bigger fund than BPEA (\$1.6B v. \$300mm). Their co-invest exposure is also different (Siguler Guff 45% v. BPEA 60%); direct co-investments reduce fees. Regarding management fees, they are similar. Siguler Guff 0.6% v BPEA 0.71% (with Marquette discount); they also have similar carried interest fees (9.5% v. 10%).

Mr. Christenson reported that the private equity exposure in the Board's portfolio is currently right on target at 10%. In previous meetings, Mr. Christenson has recommended consideration of small market buyout once the broadly diversified investments were completed. Initially, he had recommend allocating \$40mm to small market buyout, but today is recommending only \$25mm with one of the managers that presented today. Mr. Christenson explained that the reason for his reduced recommendation is because of the current turmoil in the markets. Chair Moller asked about how fast the commitment would be called. Mr. Christenson suggested that \$8mm would be called in 2022 and another \$8mm in 2023.

Mr. Christenson further explained that existing private equity managers will continue to distribute money back to the fund.

Trustee Stiens asked Mr. Christenson if he had a recommendation between the two managers that presented today. Mr. Christenson said they are very similar and either would be a good choice. Trustee Menkhaus observed that Siguler Guff had better fees. Trustee Juech and Trustee Winstead agreed.

Trustee Moller clarified that the Board could come back later and make an allocation to BPEA. Mr. Christenson agreed.

Trustee Juech moved, and Trustee Menkhaus seconded, to allocate \$25mm to Siguler Guff to invest in their Small Buyout Opportunities V Fund. The Committee passed the motion with a unanimous roll call vote (6-0; Trustee Cramerding not present).

Investment Funding Update

Ms. Nusmann gave a brief summary of the funding status of recent Board investments. \$20mm Carlyle and \$20mm to Owl Rock: these remain in the contracting phase. Three withdrawals from

real estate managers: all requests have been submitted.

Approval of Minutes

Approval of the minutes of the Investment Committee meeting of February 3, 2022, was moved by Trustee Juech and seconded by Trustee Rahtz. The minutes were approved by unanimous roll call vote (6-0; Trustee Cramerding not present).

New Business

Market Environment and Investment Returns Report

Mr. Christenson drew the Committee's attention to the fixed income returns. The 3mo return of -5.2% is highly unusual. April was also negative, with Core Bonds down -9.5% YTD. Mr. Christenson reported that the Value allocations in the Domestic Equity portfolio are helping to reduce losses in Equities. Real Estate and Infrastructure remain positive, which is to be expected in an inflationary environment. Mr. Christenson reported that even with the overall negative YTD returns we are performing better than peers. All managers are performing according to expectations.

Mr. Christenson briefly summarized Marquette's Diversity, Equity and Inclusion policy and explained the firm's use of the "Rooney Rule" to include minority and women investment managers in searches for clients.

Chair Moller asked about the duration of the Board's fixed income portfolio. Mr. Christenson explained the concept of duration and said the portfolio's duration is 6.9 years.

Trustee Menkhaus made a motion, and Trustee Stiens seconded, to accept Marquette's 1Q2022 Report. The Committee passed the motion on a unanimous roll call vote (5-0; Trustees Juech and Cramerding not present).

Adjournment

Following a motion to adjourn by Trustee Winstead and seconded by Trustee Stiens, the Board approved the motion by unanimous roll call vote (5-0). The meeting adjourned at 1:49pm.

Meeting video link: <https://archive.org/details/crs-investment-comm-5-5-22>

Next Meeting: August 4, 2022 at 2:00 p.m.



Secretary