



**City of Cincinnati Retirement System  
Investment Committee Meeting  
Minutes  
June 8, 2023/ 12:00 P.M.  
City Hall – Council Chambers and remote**

**Committee Members Present**

Bill Moller, Chair  
Tom Gamel, Vice Chair  
Kathy Rahtz  
Mark Menkhaus, Jr.  
Monica Morton  
John Juech  
Tom West  
Seth Walsh  
Aliya Riddle

**Administration**

Karen Alder  
Bev Nussman  
Keva Eleam  
Mike Barnhill, Contractor

**CALL TO ORDER**

Chair Moller called the meeting to order at 12:01p.m. and a roll call of attendance was taken. Trustees Moller, Gamel, Menkhaus, Rahtz, Morton, West, Walsh, and Riddle were present. Trustee Juech was absent.

**APPROVAL OF MINUTES**

Approval of the minutes of the Investment Committee meeting of May 4, 2023, was moved by Chair Moller and seconded by Trustee Morton. The minutes were approved by unanimous roll call vote.

**PUBLIC COMMENT**

No public comment.

**Old Business**

***Fixed Income Manager Search – Core Plus Manager Candidate Presentations***

*RA Baird* – Jeff Simmons and Michael Possley presented.

- Baird is a privately held and employee-owned firm based in Milwaukee. The firm has \$120 billion of assets as of April 30, 2023. They have many long-term relationships with their clients. Baird Advisors are an experienced team with a competitive track

record in high-quality fixed income management. The founding partners have been together for over 35 years. Its employees do not receive commissions as it fosters team culture.

- Presenters emphasized competitive advantages which include an experienced team, consistency of returns vs. peers, strategically sized, emphasize all cash bonds, all U.S. dollars, no derivatives, no leverage, and attractive expense ratios.
- Their Core Plus beat the benchmark every term.
- Philosophy is to achieve the return of the benchmark and add incremental value through a bottom-up risk-controlled process.
- Risk controls include duration neutral to benchmark, U.S. Treasury and government agency securities, credit securities, mortgage-backed and asset-backed securities, cash bonds, and ongoing portfolio monitoring.
- Portfolio Characteristics as of April 30, 2023:
  - Portfolio Yield Advantage
    - +0.29% to Universal Index
    - +0.70% to Aggregate Index
  - 1,400 Securities in the Fund
  - \$24 billion as of the end of April 2023.
- Taxable Investment Vehicle:
  - Institutional Class
    - \$10,000 Minimum
    - 0.30% Expense Ratio
  - Investor Class
    - \$2,500 Minimum
    - 0.55% Expense Ratio which includes a 0.25% 12b-1 fee.
- Questions:
  - Chair Moller asked the presenters what their average quality is in which they responded, A-.
  - Chair Moller asked how many public pensions they have as clients. The presenters explained they have dozens ranging from Florida up to Baltimore and out to L.A. They did not provide an exact number.
  - Chair Moller asked how they perceive the fixed income doing in the future. They explained that fixed income is more attractive today than it has been in the last decade. Yields are much higher, which provides an opportunity to get back to a traditional place in the portfolio.
  - Chair Moller asked about the stability of the team and if there are any concerns regarding key members leaving in the next few years. They replied no, it is a team-based process and there are 32 members on the team all contributing to the product and performance. Baird is very transparent and there will be a long runway to anything like that happening.
  - Trustee Gamel asked if there are any penalties for liquidating, which they responded there are no fees or penalties.
  - Director Alder stated that they show that their below grade is at 3.4%, but they can go up to 20%. She asked if they have ever reached the 20% max or do they normally stay in the lower percentile. They responded that in 22 years, they have never been at 20%. The highwater mark is around 13% and on average,

and they have been in the 5%-8% range.

*LM Capital Group* – Luiz Maizel and Rachel Wilson presented.

- LM Capital is a 99% employee-owned minority firm based in San Diego. It is a top-down firm that has \$4.7 billion in assets as of March 31, 2023, exclusively in fixed income securities.
- All portfolios are managed utilizing the same proprietary investment philosophy and process.
- LM's investment process includes the application of a matrix which is composed of six economic factors. Bonds are evaluated based on duration, complexity, call features, quality, YTM, and other factors. The matrix assists in determining the most attractive fixed-income markets. A "what if" scenario planning stage examines the market reaction that may occur due to unexpected future events.
- They focus on liquidity and high-quality issuers.
- Risk Management Framework includes:
  - Avoid extreme outliers
  - Higher quality bias
  - Income liquidity guidelines
  - Exclude issuers with event and political risk
  - Scenario planning
  - No leverage or use of derivatives
- Strategy Guidelines:
  - Number of Issuers: 80-100
  - Strategy Benchmark: Bloomberg Barclays U.S. Aggregate Index
  - Duration: +/- 20% of Comparable Index
  - Plus Sectors: 30% Maximum
  - Credit Risk: 5% Maximum per allocation per issuer and minimum rating of B-
  - Single Security: 3% Maximum
  - Turnover: 25% - 35% under normal market conditions
  - No Derivatives
  - Fees: SMA-25bps (all fees negotiable)
- Questions:
  - Director Alder asked the presenters to explain the one-, five-, and ten-year returns. The response was:
    - 1-year: 4.08%, Net 4.23%
    - 5-year: 1.69%, Net 4.54%
    - 10-year: 1.98%, Net 1.82%
  - Chair Moller asked what percentage of clients are public pension systems. LM responded that 65% of their clients are public.
  - Chair Moller asked what the rating of the Core Plus Portfolio was and they responded, Aa3.
  - Chair Moller asked how they perceived the future (5-10 years) and they replied that they predicted that the fixed income market will be good for 2-3 years and we will not see a traditional curve again until the beginning of 2027. They do not think inflation will get back to 2%, but instead stay at 3%.
  - Chair Moller asked about succession planning/turnover and how many key staff

and if any will be leaving in the next 5 years or so. They responded that 5-7 members will be 50+ years of service.

- Trustee Gamel asked what the reference to “no derivatives” means. They explained When you use leverage, you are increasing your risk by using more money than you have. We only invest with the money we have. We avoid structured products because liquidity is important to us.
- Trustee Gamel asked them to explain how they do risk assessment measures. They replied that they try to maximize cash flow in the return of the portfolio but minimize the risk of principle of the product they are buying. They look for issuers with consistent behavior.
- Trustee Gamel asked about liquidity and how quickly CRS can get cash. The response was immediate (within one day) with no penalty.

*Reams Asset Management* – Mark Egan and Adrian Schultes presented.

- Reams Asset Management is an independent, employee-owned boutique firm based in Indianapolis, IN. The firm focuses on the management of core plus income portfolios for institutional clients and has \$23.5 billion of assets as of April 30, 2023. Reams is an affiliate of Raymond James Investment Management, a subsidiary of Raymond James Financial, since November 2017
- The firm is 100% focused on fixed income securities and is opportunistic in nature. The firm’s size is just right to allow them to move in and out of the market as needed.
- Investments include government, mortgage backed, asset backed, corporate and non-U.S. debt.
- Investment Philosophy:
  - Risk is not defined as price validity or tracking error
  - Predicting the future consistently and accurately is difficult.
  - Bond portfolios should seek to maximize total returns
  - Prices can deviate significantly from fair value in the short term
  - React opportunistically to market dislocations
  - Focus on downside risk and avoiding permanent impairment
  - Tactically manage exposure to bond market risk factors
  - Maintain valuation discipline at all times
- Risk Management
  - Avoid backward-looking risk measures
  - Analyze scenarios around long-term central tendencies
  - Manage risk primarily on a bottom-up, bond-by-bond basis
  - Utilize custom active risk and return attribution system
- Performance & Attribution
  - Fixed Income at 1, 5, 10-year returns
    - 1-year: -2.69%, Net -2.98%
    - 5-year: 0.71%, Net 3.09%
    - 10-year: 2.76%, Net 2.46%
  - Consistent long-term excess returns
  - Attractive upside/downside market capture

- Outperformance in rising rate environment
- Questions:
  - Consultant Christenson asked what their fee is on Core Plus and they responded, the fund fee is at 40 basis points and that would be the highest fee.
  - Trustee Gamel asked what the total investment in Core Plus is. They responded that it is \$7 billion in assets currently.
  - Trustee Gamel asked what the return goal was, and the response was that it is market dependent, but in general, they have demonstrated the ability to achieve a very low volatility environment. They hope to achieve 1-1.25 above the market.
  - Trustee Gamel asked about the type of investments and the replied that they have the ability to go 15% below investment grade, which is often limited to single B or above. The average is going to be in the Bb area. High yield is currently at 5%.
  - Chair Moller asked what percentage of their clients are public pension systems. They responded that 50% are public, which can be found on the client list, on page 6.
  - Chair Moller requested more detail on their higher average turnover. They explained that it is more of a style. At Reams they believe as investors' relative values change, the portfolio should change as well. The cost is small and is reflected in the performance figures.
  - Chair Moller asked how they perceive fixed income doing in the future and they stated that they are hopeful we will see interest rates more positive and normalizations.
  - Trustee Gamel asked how they manage exposure to bond market risk factors. Their response was that they find the high-yield market attractive, so they look at what the maximum allocation is for high-yield given the guidelines and adjust.

*Overview – Brett Christenson, Marquette Associates*

- Consultant Christenson referred the Board to the 5-year correlations with other asset classes shown on the following table.

	S&P 500	Russell 2000	MSCI EAFE	Barclays Aggregate	Bloomberg High Yield	CS Leveraged Loans	HFRI Fund of Funds	HFRI Equity Hedge
<b>Baird</b>	0.53	0.42	0.54	0.96	0.68	0.41	0.46	0.50
<b>LM Capital Group</b>	0.62	0.51	0.65	0.92	0.77	0.51	0.54	0.59
<b>Loomis Sayles</b>	0.55	0.42	0.58	0.96	0.68	0.39	0.46	0.51
<b>Reams</b>	0.48	0.34	0.47	0.95	0.55	0.22	0.30	0.38

- He explained that Reams is a unique firm. They offer diversification in style to CRS' current portfolio. They take the biggest swings at finding value. They have higher volatility but when capital markets are up, they capture bigger returns.
- LM Capital has very high-quality investments and has the least amount of downside.
- Baird is conservative.
- LM Capital has the lowest standard deviation and Reams has the highest.
- Reams has more favorable returns than other managers since the risk they take allows them to capture the increase on the upside. Reams' fees are also relatively low compared to the others.
- Reams is an active manager which allows them to buy bonds at a percent on the dollar unlike the other managers. They also compliment Loomis, the other current manager.
- Trustee Menkhaus stated that he favored Reams since they are different than the current manager and have favorable returns. Trustee Moller agreed.
- Trustee Riddle asked if we have any feedback on the service that the three managers provide. Consultant Christenson responded that he has received no negative feedback on any of the three managers.

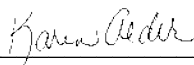
Chair Moller motions to hire Reams as Core Plus Manager, Trustee Gamel seconds. The motion was approved by unanimous roll call vote. Chair Moller suggested the next selection to be at the CRS Board meeting in August, due to the combination of Performance Committee and Governance Committee meetings in July.

### **Adjournment**

Following a motion to adjourn by Trustee Chair Moller and seconded by Trustee Walsh, the Board approved the motion by unanimous roll call vote. The meeting adjourned at 1:58 PM.

Meeting video link: <https://archive.org/details/crs-investment-comm-6-8-23>

Next Meeting: Thursday, August 3, 2023, at 12:00 P.M. City Hall Council Chambers and via Zoom

  
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Secretary