



**City of Cincinnati Retirement System
Investment Committee Meeting
Minutes
August 3, 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 12:05p.m. and a roll call of attendance was taken. Trustees Moller, Gamel, Menkhaus, Rahtz, Morton, and West were present. Trustees Juech, Riddle, and Walsh were absent.

APPROVAL OF MINUTES

Approval of the minutes of the Investment Committee meeting of June 8, 2023, was moved by Trustee Gamel and seconded by Trustee Rahtz. The minutes were approved by unanimous roll call vote.

PUBLIC COMMENT

No public comment.

Old Business

Fixed Income Manager Search – Core Manager Candidate Presentations

Diamond Hill – Henry Song and Marques Highland presented.

- All employees are shareholders and 80% are Ohio residents.
- Stressed diversity efforts.
- Bottom-up security selection & valuation focuses on long-term results in evaluating

investment results.

- Security selection drives the portfolio construction. Investments limited to plus/minus 10% of benchmark to manage risk.
- Performance goal of 50 to 100 basis points spread over the benchmark. Protect the downside by a limit of 60 basis points to the benchmark. Take less interest rate and credit risk than peers. Do well when the markets experience a downturn.
- Typically invest 80% of assets in diversified mix of investment grade, fixed income securities and may invest a significant portion in mortgage-backed securities.
- 57% of portfolio is AAA. Less than 20% BBB or below.
- 7th in peer group quartile rankings since inception and 10th over the last five years.
- Questions:
 - Trustee Gamel asked when the company was founded and how many employees do they have. The response was incorporated in 2000 and 129 employees.
 - Trustee Gamel asked what type of securities they like, and they explained they prefer securities that can withstand the shock of a market move.
 - Trustee Gamel asked how the U.S. Government rating affects their investment and they said it is not impactful.
 - Chair Moller asked what percent of public pensions they have as clients, and they responded that one third of their clients are pensions.
 - Chair Moller asked about the turnover of their staff in the last five years. They responded that the turnover for the last 10 years has been 7% and since inception only 5% of the investment staff has changed. Most staff have been there more than a decade.
 - Chair Moller asked how fixed income is going to play in the next five years. The response was that this is a fantastic time because rates are high and there are large spreads. The market dynamic is that the market size will continue to grow.

Fort Washington Investment Advisors, Inc. – Daniel Carter and Martin Flesher presented.

- The business is 33 years old, has 151 employees, and is based in Cincinnati. It is a subsidiary of Western Southern.
- They are a fiduciary investor and align their interests with those of the client.
- Investment process that balances risk appetite, sector allocation, and security selection. Manage risk throughout the cycle and emphasize bottom-up approach.
- 35 investment professionals who have been with the company on an average of 12 years.
- Management of risk is central, and they have many layers of oversight including an independent Chief Risk Officer.
- Five multi-sector strategies outperforming peers since inception.
- Proprietary risk budgeting with a focus on capital preservation.
- Questions:
 - Trustee Gamel asked if they considered their company a fiduciary investor and they said they align their interest with those of the client.
 - Trustee Gamel asked about turnover for the last 5 years and the response was that a couple of investment team members have left in the past few years, but turnover is very low in the whole organization.
 - Trustee Gamel asked what the ratings were for their investment portfolio and

they response that it is shown on page 18 of their presentation. 52% of the portfolio is AAA.

- Brent Christenson from Marquette asked if they were active in the BBB arena and if so do they adjust quickly as the market changes. They replied that yes they do and that they can adjust quickly with these types of securities.
- Chair Moller asked what percentage of their clients are public pension systems and their response was 7.2% is in pensions which is 12% of overall assets.
- Chair Moller asked how they perceived fixed income as an investment in the future (5-10 years) and they replied it was a good time to invest. They explained that they can create a balanced portfolio to cushion the overall portfolio.

Garcia Hamilton – Ruby Munoz Dang and Jeffrey Detwiler presented.

- They are an MBE firm that was founded in 1988 and are 100% employee owned. They have 39 employees and are based in Houston, TX.
- Investment goal is to outperform the benchmark, net of fees, over a full market cycle using a high-quality strategy with less risk.
- Maintain liquidity to avoid missing market opportunities.
- Sector rotation has been their biggest drive over the past five years.
- Top-down approach. Normally operate in a duration range of plus/minus 10% of the benchmark. In extreme markets, operate in a duration range of plus/minus 25%.
- Stressed the firm's diversity and community initiatives.
- Questions:
 - Chair Moller asked what percentage of their clients are public pension systems and the response was 60%.
 - Chair Moller asked why they do not invest in BBB and will that ever change. They replied that it would not change because this portion of the client's portfolio is there to protect the entire portfolio.
 - Chair Moller asked what their firm's key drivers are and the response was preserving principal, duration, and yield curve management.
 - Chair Moller asked if the firm's market outlook was key to their investment strategy, and they responded yes.
 - Trustee Gamel asked for an example of a sector rotation. The response was the change exposure to corporate securities during the financial crisis until the market recovered. Another example given was during COVID there was a 50-60% change to corporate bonds until the market recovered.
 - Trustee Gamel asked if they are sticking to AAA throughout and the response was yes.

Discussion on Presentations

Trustee Gamel indicated that he liked the presentation made by Garcia. Trustee Moller said Diamond Hill has higher returns and the lowest risk, the highest Sharpe ratio, a higher Alpha and the lowest costs. Director Alder asked Brett Christenson from Marquette Associates to explain the difference between a top-down and bottom-up strategy. Consultant Christenson explained that top-down investing looks at economic factors to make investment decisions

while bottom-up strategies focus on the quality of individual securities.

Consultant Christenson explained that 50-60% of Fort Washington Way's and over 60% of Garcia's approach is a top-down strategy. 50% of Diamond Hill's portfolio is based on a bottom-up approach. He stated that Garcia Hamilton portfolio is concentrated with high quality investments. Garcia maintains a very high rated concentrated portfolio. Fort Washington Way's portfolio corporate bonds that have a lower yield and that their 30% of BBB gets extra yield but has more risk in a bull environment. He stated that Diamond Hill focuses on securitization. Diamond Hill has a very different approach to the other two. They prefer mortgages and other asset backed securities.

Chair Moller asked if Diamond Hill invests in agency securities. Consultant Christianson replied that some are agency securities, but they find more value in securitized securities, such as mortgages or auto loans.

Consultant Christenson explained that Diamond Hill's expense ratio is the lowest at 18%. Fort Washington Way is at 19% and Garcia Hamilton is at 22%. He explained that the 5-year correlation table on page 17 of Marquette's report (shown below) shows how Diamond Hill is the most unique investor. Diamond Hill offers the most diversification to the existing portfolio.

5 Year Correlations Excess Return

	Diamond Hill Capital	Fort Washington	Garcia Hamilton	Loomis Sayles	Reams
Diamond Hill Capital	1.00				
Fort Washington	0.26	1.00			
Garcia Hamilton	0.23	0.47	1.00		
Loomis Sayles	0.32	0.80	0.48	1.00	
Reams	-0.25	0.39	0.43	0.28	1.00

Trustee Gamel asked why we look at the correlation and the response was diversification. All the firms will get to the return but get each a different way. Trustee Morton asked if there is a concern that Diamond Hill has very little pension experience. Consultant Christenson explained that while they are on the smaller side with little exposure to public pensions, he does not feel that it is relevant. However, some pension boards prefer more experience. Some staff at Diamond Hill came from JP Morgan where they gained a lot of experience.

Chair Moller motioned to hire Diamond Hill at \$130-150 million since they offer higher returns, lower risk, the lowest cost, and diversification as a Core Manager. Trustee West seconded the motion. The motion was approved by unanimous roll call vote.

New Business

Fort Washington Fund Extension

CRS received a request from Fort Washington Fund to extend the investment period for Fund 10 by one year. Fort Washington Fund feels there is value to put the dollars in the market. The Chair explained that these types of requests come in frequently and the chair and co-chair sometimes make these decisions in between investment meetings. However, since the timing of this decision coincided with the committee meeting he thought the committee should approve it. Chair Moller made a motion to extend the investment period for Fort Washington Fund and the motion was seconded by Trustee Gamel.

Quarterly Investment Report and Current Market Environment Report

Consultant Christenson talked about the annualized performance. The overall fund through June 30, 2023 was up 6.3% net of fees. This return does not include all the private equity investment and an infrastructure fund. Negative returns in real estate have occurred because it lags the rest of the portfolio. However, it has low risk and good returns over the long term. Office leasing is under pressure due to the higher interest rates and is contributing to the negative returns. The US equity portion of the portfolio is down from the Russell 3000 benchmark. This is due to the board's desire to focus on quality. Overall, the market is still very volatile. Consultant Christenson estimated an increase in returns of about 1.8% in July and stated that the returns are slightly above 8% as of today on the portfolio. He stated that the fund has \$2.3 billion in total assets as of today.

Consultant Christenson explained that returns are greater than where we have needed them to be for the past 3 years. Over the past three years, cash flow has been less than investment returns, which takes pressure off the portfolio. Rebalancing in the portfolio is occurring to meet the lowered target on private equity and the increased target for fixed income. Currently, the portfolio is underweighted in real estate so withdraw requests in that area will be reduced. A recent infrastructure draw is not shown on the report. However, since that draw the infrastructure is more aligned with the target. The targets should be mostly balanced by late fall.

Trustee Gamel asked how much we are funding Diamond Hill and the response was between \$90 -100 million.

For the market update, Consultant Christenson noted that the Russel 3000 is up at 16.2% YTD so is the NASDAQ 32.2%. AI is the "buzz" in the market. First half was dominated by growth, small cap was up in July and growth was down, and bond funds finished at 4-5%.

Trustee Gamel made a motion to accept the Quarterly Investment Report and current Market Environment Report and the motion was seconded by Trustee Morton. The motion was approved by unanimous roll call vote.

Following a motion to adjourn by Trustee Gamel and seconded by Trustee Rahtz. The Board approved the motion by unanimous roll call vote. The meeting adjourned at 2:08 PM.

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

Next Meeting: Thursday, November 2, 2023, at 12:00 P.M. City Hall Council Chambers and via Zoom

A handwritten signature in black ink, appearing to be the initials 'JSH' followed by a flourish.

Secretary