City of Cincinnati Retirement System
Investment Committee Meeting
Minutes
February 2, 2023/ 12:00 P.M.
City Hall – Council Chambers and remote

Committee Members Present
Bill Moller, Chair
Kathy Rahtz
Mark Menkhaus, Jr.
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, Menkhaus, Rahtz, Morton and West were present. Trustees Gamel, Juech. and Walsh were absent.

PUBLIC COMMENT
No public comment.

APPROVAL OF MINUTES
Approval of the minutes of the Investment Committee meeting of November 3, 2022, was moved by Trustee Rahtz and seconded by Trustee Morton. The minutes were approved by unanimous roll call vote.

Old Business
Status of Investment Consultant RFP
Mr. Barnhill reported that CRS is waiting for the City Manager's Office to approve the Diversity, Equity and Inclusion waivers in order to start drafting the Investment Consultant RFP.

New Business
Current Market Environment
Mr. Christenson of Marquette Assocs. summarized the current market environment for the committee. Domestic equity, international equity and the bond market were all down substantially in CY2022 (-19.2%, -16%, and -13%, respectively); there was nowhere to hide in CY2022, except in alternatives. The portfolio return for the year is -9.3%; this is a high percentile return in comparison to peers. Median return was -11.3% amongst pension systems with more than $1B in assets.

January 2023 is showing positive returns in equity and bond markets.

With fixed income returns so low over the past 10yrs, it has been difficult for the portfolio to reach its 7.5% investment return target. But the Federal Reserve is continuing to raise rates, and will probably raise again in May. Looking forward for the next decade, the fixed income portfolio is expected to return around 5%. So Marquette is recommending to add to the fixed income portfolio going forward.

4th Quarter Summary
Mr. Christenson reported on the 4th quarter (2022). Private credit remains underweight as the new managers come on. Mr. Christenson suggested that the funds in AQR risk parity be moved to another asset allocation. CRS is overweight in real estate and infrastructure; we are awaiting $54mm in fund redemptions from real estate managers. CRS recently funded Ullico, a new infrastructure manager ($50mm). Marquette recommends we withdraw an additional $25mm from infrastructure ($8mm JPMorgan; $17mm IFM), for cashflow and to rebalance the portfolio. Private equity is somewhat overweight, but we are anticipating some loss of value in the first quarters of 2023.

Asset allocation versus the peer group: CRS is heavy on equities versus peers, which adds volatility to the portfolio. Marquette is proposing today to reduce allocations to equities to increase fixed income. This will reduce risk in the portfolio.

CRS annual returns are top quartile versus peers. The alternative asset classes were the primary contributors to the relatively higher return versus peers. Loomis Sayle and Shenkman are strong managers that are adding value in the fixed income portfolio. Marquette is recommending additional managers to complement these managers and remain diversified. Risk Parity remains disappointing.

Trustee Moller observed that the CRS expense ratio is below median, primarily as a result of indexing. Director Barnhill observed that securities lending is not producing much income, and this item should be monitored in the future.

Trustee Menkhaus asked about the withdrawals process for real estate and infrastructure. Mr. Christenson explained that the process is governed by the investment manager, and sometimes these are restricted because the assets are illiquid. Mr. Christenson explained that many institutional investors sought withdrawals from their real estate portfolio for purposes of rebalancing, and that this contributed to limiting restrictions by managers. Mr. Christenson estimated we will get 15-20% of our withdrawal requests.

Asset Allocation Study
Mr. Christenson summarized the asset allocation study, which included a stress test. Marquette now projects 10yr return for fixed income to be 5.1% with low risk (2.1%). Other asset classes have lower projected return with higher risk (risk parity). Mr. Christenson presented a number of portfolio mixes for the Board to consider. He explained how projected volatility can impact returns. He proposed a portfolio that increases allocation to fixed income (22.5%), with less risk/volatility. The Marquette recommendation has the highest (most efficient) ratio of return to risk. This proposal also improves the liquidity profile of the portfolio which has been a substantial challenge over the past few years. Trustee Moller observed that reducing volatility makes sense.

Mr. Christenson reviewed cash projections for the next decade. He suggested that it will take a long time for CRS to get its cashflows within a more acceptable range. His hope is that cashflows will decrease from -7.5% to -7% over the next decade. Mr. Barnhill observed that 2022 may have been an inflection point for interest rates, moving from a long-term decline in interest rates, to perhaps a new era of increasing rates.

The declining interest rates environment contributed to pension systems having to take on higher risk to fund pension benefits. We may now be in an environment where it's easier to fund benefits with less risk.

Mr. Christenson reviewed the stress test analysis: 5 historical scenarios and 5 hypothetical scenarios were applied to the CRS portfolio. Mr. Christenson noted that continued rising interest rates would negatively impact the bond portfolio, but suggested we are close to the end of increases in rates from the federal reserve bank.

Mr. Christenson summarized the Marquette recommendations, including a recommendation to do manager searches for new fixed income core and core plus managers. Trustee Moller moved, and Trustee Rahtz seconded, a motion to accept the Marquette recommendations as outlined by Mr. Christenson. The Committee approved the motion by unanimous roll call vote.

Subsequent to the meeting, the Marquette recommendations were summarized as follows:

1. Increase the target weight of the Core Bond asset allocation from 6% to 8%.
2. Increase the target weight of the Core Plus asset allocation from 6% to 11.5%.
3. Decrease the target weight of the US Large Cap Value asset allocation from 3.5% to 2.5%.
4. Decrease the target weight of the US Small Cap Value asset allocation from 3.5% to 2.5%.
5. Decrease the target weight of the Non-US Equity asset allocation from 18% to 16%.
6. Eliminate the 2.5% Risk Parity asset allocation.
7. Vacate the Board's previous approval of increasing the allocation to Volatility Risk Premia from 2.5% to 5%.
8. Decrease the target weight of the Private Equity asset allocation from 10% to 8%.
9. Implement the elimination of the Risk Parity asset allocation immediately. 50% of the proceeds to remain in cash for system liquidity needs. 50% of the proceeds to be transferred upon receipt to Northern Trust Global Investments Core Bond portfolio.
10. Withdraw $8mm from JPMorgan infrastructure.
11. Withdraw an additional $17mm from IFM infrastructure.

Adjournment

Following a motion to adjourn by Trustee Rahtz and seconded by Trustee Menkhaus, the Committee approved the motion by unanimous roll call vote. The meeting adjourned at 1:27pm.

Meeting video link: https://archive.org/details/crs-investment-comm-2-2-23

Next Meeting: May 4, 2023 at 12:00 p.m.

Karen Alder

Secretary