

MEETING MINUTES
Defined Benefit Plans – Pensions, OPEB, LOSAP
November 15, 2019, 9:30am
Human Resources (Room 124C)

In attendance:

Marquette Associates (Investment Consultant)

Lauren Cellucci, CIMA, Vice President
Luis Sierra, Senior Client Analyst

Pension Committee Members present:

Charles Beckhardt, Technology Services
Robert Burk, Comptroller
Kimberly Frock, HR Director
Werner Mueller, Retirement Plans Manager

Pension Committee members unable to attend:

Tim Burke, County Attorney
Ted Zaleski, Director of Management & Budget

OPEB members present (10:45am):

Rob Burk, Comptroller
Werner Mueller, Retirement Plans Manager
Timothy A. League, Director of Fiscal Affairs of CCC
Chris Hartlove, CFO, Board of Education

Talking points:

- Real Estate U.S. Core positions were unanimously selected as follows:

County Pension: Morgan Stanley PRIME Property Fund, LLC
Law Officer's Pension: Rreef America II
OPEB: Morgan Stanley PRIME Property Fund, LLC
LOSAP: Cohen & Steers Realty Shares

- The Pension and OPEB Committees were impressed with Morgan Stanley's diversification of property types, i.e., holdings in self-storage, land, and development in addition to Office, Retail, Industrial, and Apartment. With most of those properties being over \$ 100M in size, this also should result in reduced volatility. MS also outperformed the other finalists in trailing returns (net of fees) over a 3-year, 5-year, and 10-year time period. MS had the highest upside capture and lowest downside capture amongst the finalists over the past 10 years.
- Since the Law Officer's Plan has a much smaller asset size, it wasn't possible to choose Morgan Stanley, unfortunately. Instead, the Committee chose Reef America, II. This was a much more difficult decision as performance and volatility history was similar between Reef and Principal, the other candidate. Principal would have provided more liquidity but that was not a factor in the Committee's decision, since liquidity is not a concern for this Plan. Reef's largest property size was in the \$ 100M+ category, which was comforting. Principal did not make the cut for the County Pension selection while Reef was, so that made the Committee more comfortable in selecting Reef.
- In LOSAP, the Cohen and Steers Realty Shares was the selection. The firm has a value tilt to it and risk-adjusted returns have been impressive over a 5 and 10-year period.
- These selections will replace the TRP Real Estate Fund across all Plans. The Fund has been an underperformer for quite some time. The rationale for transitioning from TRP Real Estate Fund (publicly traded real estate) to a Core position is that privately held real estate is less correlated to the market and results in much lower standard deviation (risk) over time without sacrificing significant return.
- For both Pension Plans and OPEB, the proceeds from the TRP Real Estate Fund will initially be moved into a Vanguard REIT index (i.e., a placeholder) before transferring into the selected Core investments.
- The US Economy continues to grow but at a reduced pace from previous quarters. Manufacturing activity has slowed with new export orders signaling a deeper contraction in the next few months. Given the uncertain outlook, it's expected that the Fed will resume cutting short-term interest rates in 2020. While Q3 2019 experienced market volatility, the percentage increases/decreases amongst most asset classes was relatively minor. Year-to-date performance was still up across all asset classes and significantly so in US and International Equities, High-Yield and Emerging Market Bonds, and US REIT's.
- As expected, all asset class weightings remain within their target range. In Q3 2019, the Total Fund Composite return was slightly below the Policy Benchmark (1.2% vs. 1.4%) as well as year-to-date (16.0% vs. 16.3%). Contributing to the slight underperformance were two funds – Harding Loevner International Equity, primarily due to its poor stock selection within the IT space and the TRP Real Estate Fund, which will shortly be removed from all portfolios.
- The Investment Policy Statement will be amended to reflect the Core Real Estate position and its benchmark (NFI-ODCE).

The next quarterly meeting will be held in February 2020. Date and time are still TBD.