City of Cincinnati Retirement System
Investment Committee Meeting
Minutes

August 4, 2022 / 12:00 P.M.
City Hall – Council Chambers and remotely

Present
Bill Moller
Tom Gamel
Mark Menkhaus, Jr.
Kathy Rahtz
Don Stiens
Jeff Cramerding

Staff Present
Mike Barnhill
Bev Nussman

Call to Order
Chair Moller called the meeting to order at 12:14 p.m. and a roll call of attendance was taken. Trustees Moller, Gamel. Menkhaus, Rahtz, and Stiens were present. Trustee Cramerding arrived at 12:19pm. Trustee Juech was absent.

Approval of Minutes
Approval of the minutes of the Investment Committee meeting of May 5, 2022, was moved by Trustee Gamel and seconded by Trustee Stiens. The minutes were approved by unanimous roll call vote.

New Business
Market Environment
Mr. Brett Christenson of Marquette Associates presented on the current market environment. Highlights:

- Inflation (June CPI) came in at 9.1%, the highest in over 40 years. The causes of this inflation are the COVID pandemic, impacts to supply chains, and government fiscal stimulus.
- Mortgage rates have sharply increased, which is slowing home purchases.
- Commodities (energy, metals, and agriculture) are coming down from recent highs.
- Federal Reserve expected to increase short term rates by 0.75% in July and again in September, and then another increase of 0.5% in December. In 2023, the market is expecting the Fed to begin reducing rates.
- Historically, the Fed has checked inflation by raising rates above the rate of inflation. This time, however, since much of the inflation is supply related, the Fed is not expected to raise rates above the rate of inflation which is currently 9+%. Supply constraints are expected to ease over the next several months, reducing the need for the Fed to increase rates above the rate of inflation.
- Investment drawdowns are worse during a recession. The economy is in a technical recession, but we also have strong employment, which is not typical for a recession.
- Returns typically bounce back following a recession, particularly when drawdowns are in the -20% range, which is where we are now. Stocks and bonds were up in July.

- The fixed income drop this year (-10%) is unprecedented (Bloomberg Barclays Aggregate). Primarily caused by rapid Fed rate increases.
- 2022 has seen the most equity volatility since 2009. No class of equities have been spared, but Value equities have performed relatively better.
- In Real Estate, net income growth is driving positive returns. The Industrial sector is expected to perform the strongest. The Retail and Office sectors are expected to be flat. The Apartment sector is expected to have positive returns.
- In the Office sector, it remains unclear how remote work will impact net income. This sector has recently turned positive and appears to be on a path to stabilization.
- CRS currently has 1% exposure to Private Credit, but will be expanding its exposure with the addition of Carlyle and Owl Rock. This asset class is expected to do well in a rising interest rate environment. Private credit has performed better than high yield and senior credit over the past 12 months.

Director Barnhill asked whether the story of 2022 is a market reversion to the mean with the withdrawal of government stimulus, and if the economy and investment markets will stabilize from here. Mr. Christenson replied that is the hope, but the outstanding question is whether the proposed Fed rate increases are sufficient to bring inflation under control. Volatility will likely continue, but the next CPI prints will direct what happens next. If they come in higher that will likely cause the Fed to decide to raise interest rates higher than currently expected. Mr. Christenson agreed that we should continue to keep CPI on our radar.

Trustee Moller observed that the unemployment rate has continued to remain quite low. Mr. Christenson said that there is emerging evidence of labor market slowdown with companies hinting at coming layoffs as a result of declining productivity. At this point, the future remains quite cloudy.

2nd Quarter 2022 Investment Returns Report

Mr. Christenson stepped through the CRS 2nd Quarter Investment Returns report. Highlights:

- p.3 lists all managers and their status in terms of compliance with the terms of their investment mandate and the CRS Investment Policy Statement. All managers state they are in compliance.
- p. 4 lists the current market value of each asset class and manager, along with actual and target asset class weights. Total market value = $2.25B. Underweight asset classes: Fixed Income, US and Non-US Equity, Risk Parity and Volatility Risk Premia. Overweight asset classes: Real Estate, Infrastructure and Private Equity. Withdrawals are pending for Real Estate that will bring the portfolio back to target in October. Distributions are expected from the Infrastructure asset class.
- A capital call with a short term-around time is expected at some point in the next few months from Ullico. If so, Mr. Christenson is recommending a quick meeting to approve a $15mm withdrawal from IFM to fund this. Trustee Moller reviewed the Board's rule on rebalancing and expressed a preference to schedule a meeting to approve this in advance. Trustee Gamel asked about lead time for capital calls. Mr. Christenson replied that we usually get two weeks or less to fund capital calls. Bigger capital calls do challenge the liquidity of the CRS portfolio.
- Trustee Moller asked for a review of Risk Parity at the next meeting.
- In Private Equity we received about $3.5mm in distributions. Volatility is less in Private Equity because of quarterly valuations and conservative appraisals.
- p. 8 illustrates the increasing negative cash flow that the portfolio is experiencing (-6.5% to

-7% per year).

- Trustee Moller asked for an explanation of the Global Tactical element of the chart on p. 7. Mr. Christenson replied this is the Risk Parity asset class.
- p. 10 reflects the contribution of each investment to the fund's total return. Equities have the biggest impact, accounting for about half of the -8.1% 3mo return.
- When compared against peers, CRS is in the 19th percentile (1st quartile) of return performance. The relative higher return is a consequence of the Value style tilt in the Domestic Equity asset class, as well as the greater than median exposure to Alternative asset classes (Real Estate, Infrastructure, Private Equity).
- Risk Parity is down 13% YTD. Designed to be 1/3 global equities, 1/3 global fixed income, 1/3 commodities. Both the equities and fixed income are down (unusual), but commodities are up. Seven year return is half of the benchmark.
- Volatility Risk Premia. This asset class sells puts on the S&P500. In a down market, the negative return of the S&P 500 is offset by the amount of the premiums earned. This asset class is performing as expected. It is also outperforming Risk Parity and is easier to understand than Risk Parity.
- Real Estate and Infrastructure are performing well.
- p. 14, Fixed Income. NTGI Aggregate Bond is tracking its index. Loomis Sayles Core-Plus has some high yield in its portfolio; lagging the Barclays Agg index YTD as a result, but outperforming its peer group. Loomis is also outperforming its benchmark on a 5yr basis. Shenkman is a mixed bond manager (high yield, convertible, leverage loans and opportunistic)—it's down as well, but beating the high yield index, and performing better than peers on a relative basis. Shenkman is beating Loomis, and not down as much as high yield.
- Value style tilt is helping to limit losses in the Domestic Equity asset class.
- p. 25. Private Equity internal rates of return are compared to public market equivalent returns (PME). Strong returns for fund vintages 2014 and later; better than public markets. Overall, the total IRR compared to PME is not ideal as a result of older vintage funds' performance. Looking forward, the JP Morgan and Siguler Guff funds will hopefully lift the Private Equity portfolio IRR.
- Trustee Moller requested review of p.12. This page shows CRS return performance (red dot) vis a vis its peers. Each box shows the range of peer group returns by quartile. The top quartile returns are represented by the white area at the top of each box. CRS returns are 1st quartile for the Quarter, YTD, 1yr and 3yr returns. The goal is to stay in the top 2 quartiles (above median). Mr. Christenson noted that the peer universe on this page is relatively small (16 funds), but is thought to be representative.
- Trustee Moller asked about the chart on p. 27, and what it reflects regarding relative risk. This chart shows the CRS portfolio is somewhat more risky than peer portfolios.

Trustee Menkhaus made a motion, and Trustee Rahtz seconded, to accept Marquette's 2Q2022 Investment Report. The Committee passed the motion on a unanimous roll call vote.

Adjournment

Trustee Moller adjourned the meeting at 1:24pm.

Meeting video link: https://archive.org/details/crs-investment-comm-8-4-22

Next Meeting: November 3, 2022, at 2:00 p.m.

Michael Barnhill

Secretary