CORAL GABLES RETIREMENT SYSTEM
Minutes of May 11, 2023
Public Safety Building
Community Meeting Room A
2151 Salzedo Street
8:00 a.m.

MEMBERS:	M 22	J 22	A 22	S 22	O 22	N 22	J 22	F 23	M 23	A 23	M 23	APPOINTED BY:
Vacant	-	-	-	-	-	-	-	-	-	-	-	Mayor Vince Lago
Alex Mantecon	P	E	E	P	P	P	P	P	P	E	P	Commissioner Jorge L. Fors, Jr.
James Gueits	P	P	P	P	P	P	P	P	P	P	P	Commissioner Michael Mena
Michael Gold	P	P	E	P	P	P	P	P	P	E	P	Commissioner Kirk Menendez
Beatriz Vazquez	P	P	P	P	P	E	E	E	E	P	A	Commissioner Rhonda Anderson
Joshua Nunez	P	P	P	P	P	P	E	P	P	P	E	Police Representative
Christopher Challenger	P	P	P	P	P	P	P	E	P	P	P	Member at Large
Sureya Serret	-	-	-	-	-	-	-	-	-	P	P	General Employees
Troy Easley	P	P	E	P	P	E	P	P	P	P	P	Fire Representative
Diana Gomez	P	P	P	P	P	P	P	P	P	P	P	Finance Director
Raquel Elejabarrieta	P	P	E	P	P	P	P	P	P	P	P	Labor Relations and Risk Management
Rene Alvarez	E	E	P	E	P	P	E	P	P	P	E	City Manager Appointee
Andy Mayobre	E	E	P	P	P	P	P	P	P	P	E	City Manager Appointee

STAFF:
Kimberly Groome, Administrative Manager
Edemir Estrada, Gabriel Roeder Smith
Peter Tramont, Gabriel Roeder Smith

P = Present
E = Excused
A = Absent

GUESTS:

1. Roll call.

Chairperson Mantecon calls the meeting to order at 8:08 a.m. Mr. Nunez and Mr. Mayobre were excused. Ms. Vazquez was absent. Mr. Alvarez participated through Zoom. Mr. Easley was absent at the start of the meeting.

2. Consent Agenda.

All items listed within this section entitled "Consent Agenda" are considered to be self-explanatory and are not expected to require additional review or discussion, unless a member of the Retirement Board or a citizen so requests, in which case, the item will be removed from the Consent Agenda and considered along with the regular order of business. Hearing no objections to the items listed under the "Consent Agenda", a vote on the adoption of the Consent Agenda will be taken.

2A. The Administrative Manager recommends approval of the Retirement Board meeting minutes for April 20, 2023.

2B. The Administrative Manager recommends approval of the following invoices:

1. Gabriel Roeder Smith invoice 477969 for administrative services from January 1, 2023 to March 31, 2023 in the amount of $26,831.75.
2. City of Coral Gables invoice 361053 for general liability insurance from January 2023 to March 2023 in the amount of $1,194.25.
3. City of Coral Gables invoice 362275 for general liability insurance from April 2023 to June 2023 in the amount of $1,194.25.
4. Gabriel Roeder Smith invoice 477982 for March 2023 actuarial services in the amount of $16,842.00.

2C. The Administrative Manager recommends approval of the following Retirement Benefit Certifications: DROP – David Lemon (Police), Winsome Gardner (General/Excluded), Mark Knight (General/Teamster); Retirement – Monica Cardoso (General/Teamster); Vested Rights – Hannibal Thompson (General/Teamster).

A motion to approve the Consent Agenda was made by Mr. Gueits and seconded by Ms. Gomez. Motion unanimously approved (7-0).

Mr. Easley arrives at this time.

3. Comments from Retirement Board Chairperson.

Chairperson Mantecon has no comments.

4. Items from the Board Attorney.

There were no items from the Board Attorney.

5. Presentation of Nhora Otalora and Nick Bellisario of HarbourVest Partners, LLC, secondary market opportunity (ETA 8:30am).

Mr. West informs that this is the second round of interviews for private equity. The first round was for fund the funds. The second round is for secondaries. They are going to hear from two managers selected as finalists and the mandate would be approximately $10 million. That brings the combined manager allocation, when fully funded, to roughly a 3% total assets.

Nhora Otalora and Raj Senapati begin their presentation. Nick Bellisario had a scheduling conflict. Ms. Otalora states that HarbourVest is a private equity fund of funds and is an integrating investment platform built over four decades seeking to provide clients with significant and diverse private market access. Their managers have been working in the private equity market for longer than 25 years. They have a very stable team. They have not lost any member on the secondaries team except for retirement. They are involved in over 1000 advisory board seats and have expertise in primary, secondary, direct co-investments, real estate assets and infrastructure and private credit. They work at providing solutions through bonds and executing sections of the secondary markets providing equity to companies.

Mr. Senapati informs that there is a hundred trillion where you can invest your capital. Ninety trillion of that is in the public markets and public stocks. Then there are private equity funds that are funds raised over 5 to 6 years and then send that money back to their investor. Private equity is an illiquid asset class. It is not like a public stock where you can hit the sell button on your Charles Schwab account and get cash out. It is a contractual arrangement where you sign up for a fund and it is a marriage for 12 years. The only divorce to get out of that marriage is selling through the secondary market. That is basically why the secondary market exists. The way for investors to get their money back when they reach their limit is for the underlying manager to sell the company or go to the secondary market. That is why they think that is a huge opportunity in the secondaries market. When public markets fall, private markets do not necessarily track that same fall. Public stocks are quoted every second of every day and private equity is quoted four times a year. A 10% allocation of private equity can become 15% tomorrow when public markets fall. You have a huge overallocation issue that you need to resolve. How do you resolve it? You sell assets in the secondary market. The other issue they are seeing in the market today is the actual fund manager that needs to send back cash to their limited partner investors. When the IPO markets are tighter, interest rates going up and corporate balance sheets are a little more constrained you do mergers and acquisitions that can provide the liquidity to private equity managers because the fund managers need to find alternatives to liquidity in the secondary market. Secondary investments generally occur when a primary portfolio is substantially funded and generates liquidity.

Mr. Senapati continues. Fewer secondary funds have lost capital for investors than global buyout and venture funds. Increased visibility and the ability to purchase at a discount to market value may provide downside protection. Despite lower risk, secondaries may potentially offer compelling absolute and relative returns. The HabourVest secondary investment strategy provides customized liquidity solutions of scale to general partners and sellers. They employ a highly selective approach with emphasis on market-leading complex deals and access high quality assets and sponsors by leveraging proprietary data and strategic relationships. They have over 35 years of secondary experience across over 500 transactions and have been market leaders and innovators in complex secondary transactions for over 20 years. They are privately held and independent and accountable only to their limited partners. Their team is very unique for a private equity firm. Every managing director on their team started as an associate or vice president and everybody on the team is still at the firm. Nobody has left and that is very unique in private equity. It is a great place to work. Since 1995, HarbourVest has committed $22.9 billion across 142 complex transactions. As the market has gotten more complex they have been able to maintain extreme levels of diversification. Dover X fund is the most recent secondary fund which finished investing that fund in November 2022 which is why they opened the Dover XI fund. The Dover X fund did exactly what they told investors it would do. At only three years in, they have sent back 40% of distributions. The target size for the Dover XI fund is $12 billion. The date of the first investment was September 2022. The deadline for the next closing of the fund is June 9, 2023. The expected capital calls for 2023 is 10% to 20%. The first distribution is expected shortly after the final close. They expect to have 3,000 underlying companies in this fund and the expected investment period is three to four years.

The investment period is up to five years. The term is 10 years with four one-year extensions at the option of the general partner. And the management fee is 75 basis points based on committed capital. They use leverage very modestly. Revenue comes later when gains are recognized.

6. Presentation of Lawrence Fang of Willowridge Partners, Inc., secondary market opportunity (ETA 9:00am).

Lawrence Fang and James O'Mara begin their presentation. Mr. Fang informs Willowridge was founded in 1995 with a consistent focus on the smaller end of the private equity secondary market. The average deal size is approximately $5 million. They completed 760 secondary transactions for 2,750 fund interests and 243 direct company interests. They transaction approximately 50 deals a year. Limited partners include corporate pensions, insurance companies, foundations, family offices and others. In seven out of eight funds they have earned double digit IRRs. Quarterly cash distributions generally begin within one year of fund inception. There is a 5% commitment in each fund. Their team averages almost 20 years of experience in secondary investing. They are in the process of funding their ninth fund. The investor base is fairly institutional. Once a fund is invested, they are generating almost 10% to 15% cash yield.

Mr. O'Mara states that they have strong relationships with advisors. They look for repeat sellers and focus on restrictive general partners. They have a bottom-up company level analysis and they leverage an existing database of over 1,100 active funds. They have a collaborative and transparent investment committee process. Group discussions include all members of the team and they strongly emphasize downside protection. They are able to react quickly and provide sellers with positive experience. Because the funds they invest in are older, they receive cash sooner. Interest in secondaries is growing and people are really comfortable now with secondaries. Fifteen years ago, it was much more negative. They focus on fundamental value with bottom-up due diligence for each underlying asset and look for opportunities with strong downside protection while maintaining the opportunity for outperformance. They look for the best deals in any given year over a three-to-four-year period.

Mr. Fang speaks about the Willowridge investment strategy. Limited partners actively manage portfolios and sell older, smaller positions where price is not always the ultimate factor. They have the ability to underwrite and efficiently transact portfolios with many underlying funds. They purchase limited partner interests in fund of fund vehicles. Many fund of fund managers are restrictive and do not allow transfers to competitors so they have the ability to buy diversified pools of assets with high quality general partners at a discount. They purchase interests from larger portfolios where general partners are restrictive or main portfolio buyer cannot purchase certain funds. Smaller interests generally do not impact on the overall price and the seller would rather sell compete portfolios. That gives them the ability to execute quickly and provide an efficient solution to sellers. They pursue other small secondary limited partner transactions and will purchase direct minority interests where they can add value to their portfolio.

Mr. Fang states that Willowridge is a well-recognized established buyer at the smaller end of the secondary market. They have a proven 27-year history in secondary investing. They continue to focus on their core strategies with a consistent track record and early distributions to limited partners. The portfolio is created with diversely mature and attractive assets at a discount. The fund is sized to take advantage of what they believe to be a large market opportunity. They have a large general partner commitment funded in cash and sole focus on secondary investing.

Mr. O'Mara reviews the proposed terms for investing in the fund. The investment period is four years and the term is 10 years plus three one-year extensions at the discretion of the general partner. The target fund size is $800 million with a minimum commitment of 5%. The minimum investment is $3 million and that may be waived at the discretion of the general partner. The management fee is 1.35% of commitment during the investment period and is reduced 0.15% annually thereafter. The preferred return is 7%.

7. Presentation of Claudiu Besoaga of The Northern Trust Company with an update on Custody Services and Securities Lending (ETA 9:00am).

Claudiu Besoaga and Enayet Mawla from Northern Trust begin their presentation. Mr. Besoaga states that the Board has been a client of Northern Trust for many years and he thanks them for their business. He is happy to be at the meeting to update them on their business. Northern Trust is one of the more important custodians in the United States. They have institutional clients and wealth management clients and concentrate their efforts servicing these types of clients. They do active servicing and asset management for their clients and everything happens under one global platform. Currently they have about $14.2 trillion in assets under custody and administration. They have about $11 trillion under custody and $1.3 trillion under management. All this is happening in 27 locations around the globe. When they look at the public fund segment Covid brought a lot of change when it comes to the way they look at business. It was a very good time for Northern Trust. They gained a couple of clients at that time. They had some challenges managing the day-to-day activities and working remote. They started remove working about five years ago so they had no issue with working remotely. During this time, it was a good time to look at the activity that they were doing daily and how the processes went. After Covid when they got back to the office their management decided to give the opportunity to the separate departments to decide how many days they were going to be physically in the office. Currently, their team spends two days in the office and three days working remotely from home. Mr. West asks if they are reducing their real estate. Mr. Besoaga informs they are not. He explains that Chicago is their headquarters and they have two buildings in Chicago. They realize that this is a people's business so they have to maintain relationships and interactions with their clients. Some departments are required to be in the office daily. He was talking mainly about the relationship management and administration that work two days in the office.

Mr. Besoaga continues. Northern Trust was established in 1987 and currently they have 30% of the top US institutions in Northern Trust. Altogether they have 220 clients with $1.13 trillion assets under custody. This is a very important business for Northern Trust and they are here to serve their public fund clients. When looking at the team that serves this type of client, they have 26 client servicing professionals. The average relationship management experience is 18 years and the average tenure at Northern Trust is 13 years. They are a significantly important bank and are one of the ten most recognized banks in the world. They are not at the top level like JP Morgan or State Street but because of their assets and the client that they serve in the US the Feds are checking their capital ratios and are making sure they maintain the right stability when it comes to their assets. They have seen in the last couple of weeks a lot of shifting from regular deposits into money market accounts. He thinks there are a lot of clients who are trying to ensure that their money is safe and are trying to be more cautious when it comes to their investment.

Mr. Besoaga informs that he is the day-to-day contact when it comes to service. He can be contacted anytime. He does have a direct backup when he is out of the office and he has direct access to the management team. They want to make sure that they can provide the most accurate data for the Retirement System. When it comes to servicing their clients, they focus on strategic partnering and day-to-day service delivery. They try to surround their clients with top leadership and technology. For example, a couple of years ago they started a webinar for their clients where they talk about issues in the economy, risk management and topics that are in the news. It also gives the opportunity for their clients to interact with each other. As the custodian they are doing all the basic custody services. They are working directly with your investment managers, settling all the trades they receive from the managers, making sure they get the cash out for payments, proxy voting and at the end of the month they provide the accounting reports to their clients. From April 2022 to March 2023, the Coral Gables fund had $446.8 million in assets under custody, 13 custody accounts, 2,068 security sales, 3,127 security purchases, $6,722,996 income collected, 10 funds, 20 class actions filed, $16,831 class action proceeds and 8,976 cash transactions.

Mr. Besoaga states that cyber security is a hot topic these days. Northern Trust makes sure that the assets and data are safe. A lot of people working from home face challenges that they have not had before. As the custodian it is important that they make sure they receive instructions from their clients. They do call backs to make sure that they are receiving instruction from the client. They take this very seriously and they have training for each individual at Northern Trust. They are doing everything possible to make sure the client's information is safe from cyber security threats. They make sure that nobody has access unless they are supposed to have access to the client's data online.

Mr. Mawla reviews the securities lending program. Coral Gables lends out their public securities that they hold in the third-party managed account, Northern Trust is the lending agent to the borrowing communities such as Bank of America or Merrill Lynch. The way the transaction works with securities lending, depending on your risk appetite, they take the securities and lend it out to the borrowers with Northern Trust being the middleman. There is a fee against the collateral and before they send the security them or at the time they receive the security. For this program, when they take the cash before sending the securities to them, the cash is reinvested into another cash related vehicle that is a highly rated fixed income portfolio. For as long as the security is out on loan, based on the market value of the securities loaned out they have it set at 102% for loan making currency. If there was a collateral shortfall, they would reach out to the borrower and have them pledge more collateral and vice versa. Back in 2008, when Lehman went under, fortunately none of their clients suffered any losses in collateral because they had sufficient collateral with Northern Trust. Depending on the program, some of it was a bit more complex than others. As a part of the lending transaction, they also take care of any dividends or coupons that they would be entitled to you by virtue of holding those securities that are collected.

Mr. Mawla explains the risks of the securities lending program. There are four categories of risk. They primarily deal with any securities lending transaction: borrower risk, cash collateral reinvestment, trade settlement and interest rate. Borrower risk is dealing with a risk of a borrower who has borrowed securities from you goes under administration overnight. There are a few things that they do in order to do that. First, every borrower they do business with initially to get approval with Northern Trust goes through an extensive process that is a combination of looking through their part of the financial statements. They would go through their audited financial statements, credit ratings and any items that may have been in the news. On an ongoing basis as well, the bank credit community and the capital market committee would be reviewing that information to make sure financially where they stand depending on where they were from an information standpoint and if they are comfortable doing business with them. They were monitoring Credit Suisse actively for well over a year and starting last November they got to a stage based on market information and intelligence where they saw that there could be concerns in regard to Credit Suisse. They gradually started putting limits on how much they would loan out to the entire program to Credit Suisse. As it got closer to the event several weeks beforehand, they stopped lending to them and any securities lending that was loaned to Credit Suisse they started recalling those securities. They were very good about returning their securities and none of their clients suffered any losses. Mr. West comments that when the issue with Credit Suisse happened, he contacted Mr. Besoaga who was very responsive so that he was able to communicate if they had any exposures or not in that program. Mr. Mawla continues. With the collateral management process, they provide enhanced indemnification from the securities lending program for their public fund clients. They provide indemnity against borrower risk so if any security could not be retrieved, Northern Trust would make them whole in that issue. It also provides indemnity against any operational risk. That means their exposure is with the Northern Trust Corporation and not with the borrower. That is the key risk factor they are the most concerned about.

8. Investment Issues *(Agenda Item 9).*

Mr. West informs he has two action items. The fund is in great shape and are up almost 12%. They need to raise cash for operations. He is proposing they raise cash to get them through the September distribution. He suggests they take profit from equities given the uncertainty of the environment and they have the opportunity to take small profits from fixed income from a fiscal year to date perspective. His recommendation is to sell $5 million of the S&P 500 index fund and direct Garcia Hamilton, their high-grade bond manager, to liquidate $7 million. There is $5.6 million in the cash account and that would bring the cash balance to $17.6 million dollars which should be sufficient to get them through September.

A motion was made by Mr. Gold and seconded by Ms. Gomez to approve the recommendation of the investment consultant. Motion unanimously approved (8-0).

Mr. West states that the second item is to decide on the private equity managers. He thinks it would be beneficial to slightly over subscribe to their 3% target. He would put that at an overall target of roughly $14 million or $15 million dollars. They have already retained one private equity manager at $5 million so that leaves another $10 million to allocate. They can allocate to one of the two managers today or they can allocate to both. Working carefully with his private equity team, they wanted to come up with managers that were different enough in approach so they could allocate and get additional diversification by going to the two different managers. They are trying to diversify risk as much as possible. Mr. Gold asks if Mr. West's perspective is to invest in both the managers. Mr. West thinks that might be beneficial. The one thing they should highlight is the fee structure. Both are very different. The HarbourVest fee structure is a very favorable structure compared to Willowridge is a little bit on the higher end. Mr. Mantecon points out that Willowridge is overcommitted capital. Mr. West agrees. There are differences in the fee. Mr. Mantecon asks what Mr. West is proposing for each manager. Mr. West responds that they are looking at approximately $10 million or $12 million allocation remaining. That would be $6 million for each manager. Mr. Gold informs that he is partial to one manager over the other. Mr. Gold states that Willowridge is doing smaller deals and he does not like the 50% allocation to venture capital for what they are trying to accomplish. The fee structure is not onerous but it is not nearly as reasonable as HarbourVest. If they were going to use both managers he would rather go 2/3 and not 50/50. Mr. Easley asks if AndCo is putting other pension funds monies toward this so they can negotiate a better fee or is it something for them right now and they will bring it to other pension funds. Mr. West replies that it is a collective effort. They are migrating clients to private assets. This would be included in that but the particular managers that were selected for Coral Gables were very carefully screened for characteristics of what they are trying to accomplish here. He agrees if they went with a single manager it would be HarbourVest. Their net return seems somewhat similar he thinks because Willowridge does smaller deals with bigger discounts. Mr. Easley asks if Mr. West has other pension fund clients that are putting money toward this. Mr. West answers affirmatively. Mr. Easley asks if the fee is in consideration to the collective group saying if they hire HarbourVest with a certain dollar amount would they change their fee. Mr. West responds that they would not lower their fee. They were not able to negotiate that option but they were able to negotiate lower the minimum investment sizes so other AndCo clients could participate.

A motion was made by Mr. Easley and seconded by Ms. Gomez to invest $10 million with HarbourVest. Motion unanimously approved (8-0).

9. Update on Third Party Administration Transition. *(Agenda Item 8).*

Edemir Estrada updates the Board on the transition. They continue to process payroll every month and participants are calling them. Last month she received a flash drive from Ms. Groome with pension files on it and they are going over those files. They will be meeting with Ms. Groome at her office after the meeting. They try and plan a visit every week with Ms. Groome. She has no issues to report. There are a total of 696 active and inactive members who have registered in the portal. There are 226 active members registered and 470 inactive members registered. Mr. Mantecon asks how many are still pending registration on the portal. Ms. Estrada responds that there are around 885 who have not registered on the portal.

Ms. Groome points out that retiree Martin Barros requested in the chat that I inform the Board for the record that the Mayor and Commissioners have not appointed new Board members yet and that the Board members will continue on the Board until they are either reappointed or not reappointed. Mr. Gueits asks when the next Commission meeting is. Ms. Groome responds that it is May 23rd.

10. Old Business.
There was no old business.

11. New Business.
There was no new business.

12. Public Comment.
There was no public comment.

13. Adjournment.

The meeting was adjourned at 10:24 a.m.

APPROVED

ALEX MANTECON
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
ADMINISTRATIVE MANAGER