CORAL GABLES RETIREMENT SYSTEM
Minutes of March 9, 2023
Public Safety Building
Community Meeting Room B
2151 Salzedo Street
8:00 a.m.

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

STAFF:
Kimberly Groome, Administrative Manager
Manuel Garcia-Linares, Board Attorney
Pete Strong, Gabriel Roeder Smith via Zoom
Edemir Estrada, Gabriel Roeder Smith via Zoom
Peter Tramont, Gabriel Roeder Smith via Zoom

P = Present
E = Excused
A = Absent

GUESTS:
Eric Wilcomes, Taurus Private Markets
Kevin Campbell, Taurus Private Markets

1. Roll call.

Chairperson Mantecon calls the meeting to order at 8:05 a.m. Dr. Gomez, Ms. Beatriz Vazquez and Mr. Alvarez were excused. Mr. Gueits was not present at the start of the meeting. Chairperson Mantecon informs the Board that this will be Ms. Marangely Vazquez's last 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 following invoices:

1. City of Coral Gables invoice due to G/L October 1, 2022 through December 31, 2022 in the amount of $79,181.30.
2. Gabriel Roeder Smith invoice 476473 for January 2023 actuarial services in the amount of $4,368.29.

2B. The Administrative Manager recommends approval of the following Retirement Benefit Certifications: DROP – Antonio Aleman (Police), Reinaldo Azan (Police), Troy Easley (Firefighter), Paul Koppel (Police), Edwin Pagan III (Police), Brian Shaw (Firefighter), Derek Robles (Firefighter), Christopher Wise (Police and Claudia Zaccheo (General/Teamster); Vested Rights – Ramon Trias (General/Excluded).

A motion to approve the Consent Agenda was made by Mr. Gold and seconded by Mr. Nunez. Motion unanimously approved (9-0).

3. Comments from Retirement Board Chairperson.

There were no comments from the Chairperson.

4. Items from the Board Attorney.

Mr. Garcia-Linares states that his items will be discussed during the transition discussion and suggests moving on to the presentation by Taurus Private Markets.

Mr. Gueits arrived at the meeting at this time.

5. Presentation of Taurus Private Markets LLC, private equity manager (8:30am). *(Agenda Item 6).*

Mr. West states that at the last meeting they went through adding private equity to the Investment Policy Statement. They put together a two-phase process and they will focus on two spaces. The first is fund of funds and they will hear a presentation from the folks from Taurus. The second phase will be to interview a manager for secondaries. Anytime you are orchestrating a private equity program; money is coming in, capital is getting called and is being returned. It is an ongoing process. As they discussed at the last meeting, if they open the door to a process that will require continued review of new and additional managers to bring forward to the program. This issue today is for the fund of funds manager and they are recommending it receives consideration.

Kevin Campbell, Eric Wilcomes and Mark Eisner of Taurus Private Markets make their presentation to the Board. Mr. Campbell informs that he and Mr. Wilcomes are the two co-founders of Taurus Private Markets and Mr. Eisner is the Director of their Development Team. They are a private equity fund of funds based in Malvern, Pennsylvania, which is about 45 minutes outside of the City of Philadelphia. They are in the process of raising a private equity fund of funds target fund size of $150 million. They have had eight different investment consulting firms approved their fund and put in their clients, which has resulted in spreading $163 million to date. Their investors are a combination of public pension plans Taft-Hartley Plans and family plans. They have 14 different public pension plans in Florida, Georgia and Michigan. The target return of the fund is 17% to 20% net return. If they do their job correctly, they will double their investors' money on a net basis but also provide high teens to low twenty net return. He and Mr. Wilcomes have been working in private equity for over 20 years and have been working together and executing the same investment strategy and portfolio construction for 13 years. He think what makes them unique is that they are focused on the smaller end of the private equity world. They can be thought of as like a small cap equity manager version of private equity. They focus on that space because returns have been so strong.

Mr. Wilcomes reviews the private market team. He and Mr. Campbell have over twenty years of managing private equity. This will be his sixth private equity fund that he will be responsible for managing and it is Mr. Campbell's eleventh private equity fund. They have worked together since 2010 at their prior firm, Dupont Capital Management, where they were responsible for a $3.5 billion private equity portfolio. They managed public pension plans, other corporate pension plans, Taft-Hartley plans, Foundations, Family plans and a variety of other types of plans. He and Mr. Campbell were responsible for all aspects of managing the private equity fund.

Mr. Eisner states that he has been with the firm for two and a half years. Prior to that he was of the Chairperson for the Daytona Beach Police Officers' and Firefighters' Pension Fund for over 25 years. In 2014, they started a private equity program and hired Mr. Campbell and Mr. Wilcomes in their old firm. It was a very smart decision investing in private equity. Two and a half years ago, he had the opportunity to work with them.

Mr. Campbell reviews the portfolio construction. They have approximately 85% of invested capital in primary commitments. There are thousands of private equity firms that operate on a number of different investment strategies. They spend their time evaluating these investment opportunities. Eventually they will invest in a collection of these private equity firms that will go off and invest in the privately held companies. Over the course of a 3-year to 4-year period, they will invest with 15 to 17 private equity managers. When those 15 to 17 managers are finished making investments in privately held companies, the portfolio will have exposure to about 200 to 225 underlying companies. This is one piece of the portfolio their investors like, the exposure to a strong and diverse portfolio of private equity companies. They are only investing in North American based managers so they are not taking currency risk in the portfolio. The target portfolio construction is 80% of the funds will be leveraged buyout investment opportunities; 10% will be in private credit and 10% will be in venture capital. All of their investments will be focused on the smaller end of the market. The one common theme of all of these investment strategies is that these groups are providing capital to these privately held companies for the purpose of growth to help these companies grow. These are privately held companies and are typically companies that have been around for 30 to 50 years and are often times are family-owned businesses. These are companies that operate in a number of different sectors. When they invest in a leveraged buyout fund, they want to see historically that they have generated at least a 20% net return and at least a two times cash on cash return. That is 80% of their overall portfolio. Ten percent of their portfolio is venture capital. These are also privately owned companies and are less mature. They are not 30-

year to 50-year companies. They are 2 to 5 years old and are growing, emerging businesses in very large market opportunities. When they are looking at venture capital groups, they like for them to them to historically produce 25% net return. They also want to see that they have generated at least two and a half times cash on cash net return. They want to see them more than double their money.

Mr. West asks if they can elaborate on the characteristics of those investments. Mr. Campbell states that when they are looking to make these investments they want to avoid cyclical businesses and invest in businesses that have a reason to exist that have a real, strong, competitive advantage. They are also avoiding certain areas that over their careers have not been great areas for private equity. Areas like retail and restaurants. They have also avoided areas like energy. Over the years they have developed a list of things to avoid because they have seen bad outcomes there. They are true believers if they can find a business that has been around for over 30 years and continues to operate and excel in strong markets and challenged markets with a really strong portfolio. Fifteen percent of the capital is co-invested. The venture capital funds are under $750 million dollars. The leverage, buyout funds are under $1.25 billion dollars. Typically they are $300 million to $400 million leverage buyout funds. They are investing in companies that profit $5 to $10 million a year annually.

Mr. Wilcomes reviews their terms. They are raising a $150 million fund. They already surpassed the target. They have a standard private equity fund structure. Their structure is not any different than how a real estate fund is structured. They are believers in alignment of interest with their investors. They do that in a couple of different ways. They invest right alongside their investors. Their money goes in when the investors' money goes in and their money comes out when their investors' money comes out. They make money and the investor makes money. The other way is through equitable economics for their investors. They charge a management fee of 50 basis points. The market is typically 75 to 85 basis points. They charge 5% for carrying interest or profit sharing the market. That profit sharing can be as high as 15%. They all get to a return much faster when the fees are lower. There is an opportunity for a fee reduction. They have an arrangement with AndCo and that arrangement is that they do not charge AndCo clients management fees for the last three years of the fund term. That reduces the average annual management fee from 50 basis points to 43 basis points. AndCo negotiated this arrangement for all of their clients. Those are the types of things they try to do to align their interests with their investors. The first 4 years or 80 basis points is on committed capital and then it is on invested capital. You are only paying fees after they construct the portfolio on the money they have at work. That is another feature that they think is really fair to investors. The standard private equity fund structure calls capital over a 6-year to 7-year period. The investor makes a $1 million commitment to their fund, they would call 10% in year one, 20% in year two, 20% in year three. You would pay into your commitment over that 6 to 7 year period. That is based on their experience of managing these funds in the past. Somewhere in year 3 or 4, they start to send capital back. Money starts flowing back to investors in year 3 or 4. That has the effect of investors paying out of pocket percentage of their commitment between 60% to 75%. The typical out-of-pocket is between 60% to 75%.

Chairperson Mantecon asks how many funds they are currently managing. Mr. Campbell replies that every fund that they have managed has been the same strategy. This is the second fund they have launched. He and Mr. Wilcomes left Dupont in 2018 and started Taurus in 2018. They left because the publicly traded Dupont was merging with Dow and they were not sure what kind of impact that would have on Dupont Capital. This is the second fund they have launched under Taurus. This will be the fourth fund they managed together. Chairperson Mantecon asks for them to walk through the commitments and what the lock up period. Mr. Campbell responds that the structure is very similar to a private real estate fund and other private equity funds. They call capital over a 6-year time period and the lock-up period would be a 10-year period of the fund. If you cannot continue to fund that fund there is a secondary market they can go into to sell your position in the market. Chairperson Mantecon asks if the 20% target IRR is over a 10-year period or an IRR basis. Mr. Wilcomes explains that the money goes in and out. You are not putting all your money in day one. You invest the money and it comes back to them they repay you back the money as soon as they can. on. In years one, two and three, your dollars are out the door probably 30% to 40% capital commitment. It is not a typical ten year horizon. Any dollars they pay into the investment for moneys that were called for fees and expenses of the fund, you are entitled to an 8% return of that money before they are entitled to any type of carried interest. You are getting the same percent compounded as the rate of return on any dollars they send them before they would be entitled to any type of promote. They try and keep the fees and expenses low. They try and get all their money invested so they are generating returns. The investor gets an equity like return with that 8% before they are entitled promote. The 8% is on the management fee and the incentive fee comes out after they hit the hurdle rate. It is a 5% incentive fee. Mr. West states that they will discuss this asset during the Investment Issues agenda item.

6. Presentation of the draft 2021-2022 financial report by Verdeja DeArmas Truillo Alvarez. *(Agenda Item 5).*

Tab Verdeja and Michelle del Sol present the 2021-2022 financial report. They have been working on this engagement for 5 years. There are a lot of processes and they go through a number of different tests, confirmations and analyticals and they produce a set of financial statements. Unless there are any changes, the financial statements are ready to be issued. The financial statements as of September 30, 2022. The most important part is that you get a clean, unmodified opinion on the financial statements which mean that the numbers were fairly stated at year end. It is important that they did not find any weaknesses in internal controls that are significant. They did not have any significant issues with internal controls. The areas they typically test through their audit are contributions to the plan, benefit payments, and calculations for those eligible to be in the plan. They test investments and walk through internal controls. The plan membership is consistent year to year. There was a cash decrease from 2021 to 2022 but receivables increased. That is just the timing of where the cash may have decreased because an investment trade was made. There also could be an allocation between cash and other investors. The big change there is in investments because of the market decline. In 2021 the plan had a profit of $78 million and at the end of September 30th had a loss of $97 million. That is a swing of about $175 million due to market performance. Additions to the plan in City Contribution was up $1.1 million. The City continues to give over what is actuarially determined. Pension benefits paid were a slight increase of $2.6 million. That had to do with a larger volume of DROP distributions. This year was the first loss in a long time for the plan. In 2021 there was a great return in the market and the plan was funded at 82% and in 2022 regresses to the 2019 mark at 65.61%. Mr. West asks if that is based on mark to market. Mr. Verdeja answers that it is based on market value.

Ms. Del Sol talks about some of the observations they had towards automation. The plan is taking the direction of increasing the automation of the plan. She knows it has been very recent where they are lining up with GRS regarding the automation. The idea should be that GRS is going to have more automated processes. They will be able to rely more on their system and reduce the risk of human error. They are happy to see that those changes are lined up. The first effect they will see with the transition is in fiscal year 2022-2023. They have not found issues in prior years audit. This recommendation targets the risk that exists. GRS did take on two functions as of September 30th which were payroll processing and accounting reporting. They have continued to bring up the separation of duties of the administration. There was a brief period of time where the administrator had an assistant and that was good because it created a layer of separation of duties. Segregation of duties still needs to exist even though they are transferring the functions to GRS. They need to create that layer and have some type of processes. Their recommendation would be effective in July once the transition is complete, that some policy is put in place as to what is going to be done so they have oversight over what they are producing. She thinks segregation of duties needs to be on the forefront to compliment the automation.

A motion to approve the September 30, 2022 Financial Statements was made by Mr. Mayobre and seconded by Ms. Gomez. Motion unanimously approved (10-0).

7. Update on Third Party Administration Transition.

Mr. Garcia-Linares states that since they are getting close to the end of the lease he asks Ms. Groome if she needs any help getting everything done in the office. Ms. Groome informs that she does not need any help. She is in the process of getting all the files together and sending them to the City Clerk for scanning and then shredding. Mr. Garcia-Linares asks if they have space for Ms. Groome. Ms. Gomez answers affirmatively. That space may not be the space she stays in for the rest of her career. There are a lot of areas and a lot of movement is going on but there is currently space in the mezzanine in City Hall. Mr. Garcia-Linares asks if there will also be space for GRS when they meet with the members. Ms. Gomez answers affirmatively. Chairperson Mantecon asks how they are sure that every document is being scanned. Ms. Groome informs that she is filing paperwork into the retirees' files and those files go to the City Clerk for scanning. Ms. Elejabarrieta comments that when Human Resources had all their files scanned they had the same questions. The City Clerk's office does check to make sure there are no errors. They do check that all the files are scanned correctly. They have a method. They check every 10th or every 100th file that is scanned to make sure it is scanned completely. Ms. Groome states that the retiree files are the biggest part of the office space currently. That is why the scanning is taking a little longer than the other files. All the active files and active DROP files have been scanned and those scanned files can be accessed through Laserfiche software.

Mr. Garcia-Linares reports that Mr. Strong had a third amendment to the contract put together and general language was added saying that any other duties that they have cover, they have put in language that they will review PenChecks or other third parties. Ms. Gomez has approved the agreement. At the last meeting they proposed an increase of $24,000.00 for the extra duties and now it has been reduced to $12,000.00. He has heard from Dr. Gomez, who is excused, and he had indicated he is not in favor of the increase and does not think that there should be additional charges for the services. He spoke with Dr. Gomez who indicated that since he was not able to attend this meeting, he wanted his position stated to the Board that the Board should not be charged anything extra. Chairperson Mantecon thinks at the last meeting they went through the list of the extra duties and some the Board thought were already included or maybe they were being overstated. Mr. Garcia-Linares points out that based upon that change they reduced the fees from

$24,000.00 to $12,000.00. Chairperson Mantecon states that he was definitely not in favor of $24,000.00 but he does not believe zero is fair either. Mr. Garcia-Linares suggests that a motion is made on this item so the Board can have discussion. Mr. Gueits informs he will make the motion for Board discussion.

A motion was made to approve the third amendment to the GRS contract was made by Mr. Gueits and seconded by Ms. Gomez.

<u>Discussion:</u>

Mr. Gueits states that they are proposing a thousand dollars more per month for this work. Is there $1,000.00 more work than what was originally contemplated? Mr. Strong explains that they were estimating around $30,000.00 for additional work but were willing to negotiate that down to $12,000.00 for additional charges. Mr. Garcia-Linares states that the original amount was $144,000.00. They have already approved a couple of meetings ago the additional amount for the bookkeeper based upon the additional services. The additional attendance of meetings was always an additional charge. There was always an agreement that if there were additional meetings that there would be an additional charge for those meetings they will attend. The tracking of service time and yearly correspondence to retired firefighters and police officers regarding their annual health insurance deductions is what is causing the increase of the $12,000.00. Mr. Strong agrees. The biggest source was the medical enrollment and the annual and monthly changes to the medical elections for deductions and the reporting all those to the various entities. That is the biggest item that is time consuming. The second most is sending out of letters to everyone who are eligible to purchase service. Usually people come to GRS to purchase service time when they want to and sending out letters informing everybody they are eligible to purchase service time is time consuming. They added up all the additional services and estimated it would cost a little over $30,000.00 of additional time which is why they initially proposed the extra $24,000.00 a year. He understands the Board's concern. There are several things that could be interpreted as customary administration items. They are willing to negotiate in good faith and reduce that to $12,000.00 from their initial proposal of $24,000.00.

Mr. Gold states that Exhibit A2a says GRS will attend up to three Investment Committee meetings annually and one emergency meeting as needed and prepare the agenda packages and meeting minutes. The fee schedule says after 10 meetings there is an additional charge of $2,500.00 per meeting for the Investment Committee and/or Special Emergency Board. Those do not agree. Item C3 on page of the agreement basically says that after 10 meetings, there is a charge of $ $2,500.00 per meeting but if you go to Exhibit A2, and you look up additional services, it says attendance up to 3 Investment Committees meetings. Mr. Strong responds that is considered one of the additional services. It is listed under the fee schedule as what they are charging for that additional service. Mr. Gold agrees with that statement but C3 does not make since. Mr. Garcia-Linares comments that it says for additional plan services, which is a A2, they are going to charge $12,000.00 annually plus $2,500.00 per additional meeting for the Investment Committee and special emergency Board meetings. Mr. Gold does not think it reads well. Mr. Garcia-Linares thinks it is clear. Mr. Gueits states that it may seem that the three meetings are included as part of the base service and not the additional service. He thinks it is a little unclear. Mr. Gold comments that section reads like it includes the three Investment Committee meetings. The contract before the addendum sounds like after 10 meetings, then they will be charged $2,500.00. It reads funny. Mr. Garcia-Linares understands. He will work with GRS on that wording of the addendum.

Mr. Garcia-Linares explains that the $12,000.00 additional fee is for the tracking of service time, correspondence to retired firefighters and police and retiree insurance deductions. Mr. Gueits asks if any of that information can be automated. Mr. Strong does not think they can automate those three things. They can partially automate the tracking of service time but then they have to prepare correspondence for each member. Ms. Elejabarrieta asks what has been removed from the letter at the last meeting to the items in A2. Mr. Garcia-Linares understands that the other items are being included as part of the regular fee. The only reason for this $12,000.00 increase are items the tracking of service time, correspondence to retired firefighters and police and retiree insurance deductions. Mr. Strong informs that they wanted to list everything they are doing. These items were not listed in the previous versions of the contract. Mr. Garcia-Linares agrees. A2 is all the extra items. Ms. Gomez and Ms. Groome went through all the duties Ms. Groome does as the administrator and they wanted to be very clear that every single Ms. Groome was doing was in the agreement. If those duties were not listed in the initial agreement, they are listed on the third addendum and they listed a catch-all clause.

Ms. Gomez asks about the CPI increase. The CPI increase is going to be in three weeks. Mr. Strong states that nothing will be increasing in three weeks. Ms. Gomez points out that it says that the CPI will increase April 1, 2023. Mr. Strong explains that the first CPI adjustment applies on the 3-year anniversary of the original contract, which is July 20th. The original contract was signed on July 20, 2020 and it stated that the first CPI increase would apply on the 3-year anniversary. The 3-year anniversary is July 20, 2023. Ms. Elejabarrieta asks if they are entering into a new contract in July or is there an automatic renewal. Mr. Strong thinks it automatically renews. The term is for three years and shall automatically be renewed or altered by either party. Mr. Garcia-Linares states that they are discussing an amendment to the initial contract. If the Board wants to lock in a price now, this would be the time to lock in that price. Mr. Gueits asks if there is a mechanism for them to provide notice if they do not want to renew the contract. Mr. Strong answers affirmatively. There is a mechanism. The agreement may be terminated by either party with 90 days written notice in the event of termination. Mr. Gueits asks about the mechanism for the CPI. If this amendment is a piggyback to the old agreement, the old agreement already has a CPI increase in it. How will the additional fees be adjusted for CPI and when does that happen? Mr. Strong states that they will not have 3-years of CPI for the new fees. The new fees that are being added with this amendment they are proposing be adjusted each July 20th which is the anniversary of the original contract but only from the date of execution through July twentieth.

Ms. Elejabarrieta asks if these additional duties will start on July 1st. Mr. Garcia-Linares replies that April 1st they are starting the additional duties. Mr. Strong explains that they are starting to mirror the duties April 1st. Ms. Elejabarrieta understands but beginning July 1st when they take over and the $12,000.00 is added they are capturing the CPI going forward. Mr. Garcia-Linares states they are looking for direction from the Board. The Board can say they want a new contract July 1st and this is the amount they want to pay for the new contract. Mr. Gueits thinks they may want to start fresh with a new contract. Mr. Strong states that they can remove the CPI. He does not think the CPI is going to be significant from April 1st to July 20th. They can remove any CPI adjustment for a partial year. These things that are being added, they can have no CPI applied to these items. Then the CPI would only be applied to the originally agreed upon fee which was put in place in July of 2020. Chairperson Mantecon comments that the fact they are including a CPI increase on $12,000.00 three weeks from now, those type of things leave a bad taste in in his mouth. Those are “gotcha” moments. Mr. Strong disagrees. They wanted to have everything be consistent and have a CPI applied to everything on one date rather than have different CPI dates. They are trying to line everything up with the original agreement. They said that the first CPI would be applied on the 3-year anniversary which ends up happening to be three months from now. They are not trying to do anything covert. They are trying to have one date where they apply CPI to everything. CPI is going to be minimal for a 3 or 4-month period so they can strip that out and just a flat fee. Mr. Garcia-Linares informs that they also have a CPI increase for the full-bookkeeping service they just included.

Mr. Gueits thinks it may make sense to consider whether a new, clean contract should be drawn up. Obviously, the starting point of negotiation for the economics is what they were paying before. Based upon the timing of the engagement for the additional services, they should not be subject to CPI increase at least in the first year. On the additional services they can debate what they want to do with the existing services. Mr. Garcia-Linares thinks the way to clean this up is to have a proposal from GRS to enter into a new 3-year agreement that would be effective July 1st and what would the flat fee be for that, including all the services up to now and the new services. He thinks that is the number the Board needs to figure out. Obviously, keep bookkeeping services separate and keep the extra meetings separate. Mr. Gueits states that what is in front of them now is the $144,000.00 plus the $12,000.00 plus the $15,000.00. Mr. Garcia-Linares states that the bookkeeping services can be included if the Board wants. The bookkeeping services were always a separate item. Mr. Gueits understands but at the end of the day they are looking at paying $171,000.00 all in. They can discuss the individual menu items. Do they want to pay $15,000.00 for bookkeeping? Do they want to pay $12,000.00 for the additional services? Overall, they are paying $171,000.00.

Mr. Garcia-Linares points out that they also have to figure out the controls according to the auditor and the City is going to have to have controls over the plan. Ms. Gomez states that the Board has to have controls over the plan. The Board is a quasi-judicial Board of the City. Mr. Garcia-Linares comments that the Board is a board of volunteers. None of the volunteers here are going to supervise GRS's services. The City has a financial department and if the accountants say that there needs to be supervisory over GRS it has to be the City's Finance Department. Ms. Gomez explains that is the way it was and it was determined that it should not be and the Finance Department does not have authorization over this Board. Mr. Garcia-Linares states that for the five years they have been doing the audit, they have been raising as a red flag that at first it Ms. Groome with no supervision. Then it was Ms. Groome working with her assistant. Ms. Gomez points out that at one point the Finance Department was in charge of the pension office and then it was determined that was not the way and it was the Board's decision. Then the City separated itself from the advisory of the pension office. Mr. Garcia-Linares informs that this is from an accounting point of view. From an accounting point of view, they say there are no checks and balances. Ms. Gomez believes that GRS should have checks and balances in how they do their financials. They should have their own controls. Mr. Garcia-Linares asks what are the checks and balances at GRS. Mr. Strong responds that they have internal checks and balances. They have internal doers and checkers and reviewers on items that require a third level. They at least have a doer and a checker on everything. They can list what those internal controls are.

Mr. Gueits informs that the motion on the table was for approving the amendment and he is withdrawing his motion and states a new motion.

Mr. Garcia-Linares informs that he and Mr. Strong can work on the language of the agreement but at the end of the day it is up to the Board as to what they want the fee to be and what they want for the period of time of the contract. Chairperson Mantecon thinks from his perspective in front of them is an amendment to an agreement. The mechanism of it is they essentially restate the original agreement. Mr. Garcia-Linares explains that they are amending the original agreement and adding additional services. It goes back to the terms of the original agreement which comes to an end now and is renewed annually with a CPI increase. Chairperson Mantecon states that they essentially have a new agreement. They are changing the original agreement and amending it. They have a new agreement in place going forward. If they are looking to make a new agreement then what specifically are they looking for to change the original agreement that is not being addressed? They are not giving any guidance. They are just saying, print out the same agreement, add the same language to the agreement and make it one agreement which is amending an agreement. He thinks they need to give guidance. Do they want a new 3-year term? They need to have a discussion on what it is they are looking for in the restated agreement otherwise there is no clear guidance.

Ms. Elejabarrieta asks if they are alright with the $12,000.00 then they can move forward. Chairperson Mantecon informs that he is alright with the $12,000.00 but he wants to be very clear that that is it. Anything above and beyond this, he thinks they have had enough time to speak with everybody and understand what the scope is of what they do and everything they need to get accomplished. At this point anything extra is going to going to be minutia. Mr. Strong responds that they are fine and they have looked at everything that has been requested. They have already planned out what the transition is going to look like and they are planning to open a call center starting April 1st. Everything is on track and this is the final addition outside of CPI adjustments that are already agreed to in the original contract. This is the final adjustment. Chairperson Mantecon is alright with the $12,000.00 going forward. Regarding the CPI adjustment, if he received a price today he would expect it to be the same price for a year. Mr. Strong replies that they can withhold the CPI adjustment on the extra fees until a year from the restating, until July 2024. The CPI in July 2023 would only apply to the fees that were already known as of 2020. Mr. Garcia-Linares asks if they can make it easier and come up with one fee with no CPI for three years. It would be a 3-year agreement that locks in the $144,000.00, the $15,000.00 and the $12,000.00 into whatever number the Board agrees to and it locks everything in for 3 years. They will worry about CPI in three years from now and the Board can put a cap on the CPI three years from now. Mr. Strong states that they will need to calculate what CPI has been from July 2020 to now and make an adjustment for that. Then roll it all into one fee and have that fee be constant for three years and then come up with a way to adjust the fee three years from now based on whatever CPI is over the next three years. He is alright with some type of a CPI cap. When they put a cap in they want to allow for inflation to run above normal. Mr. Garcia-Linares comments that there is no CPI increase in his contract, in the AndCo Consultant contract or the auditor contract. They all have a fixed amount for a period of time. Mr. Strong informs that he would have to talk with his supervisor about that.

Mr. Garcia-Linares asks if GRS is going to do the additional services as of April 1st versus July 1st. If they are doing them together with Ms. Groome and Ms. Groome is still doing her job and GRS is just shadowing, when does the increase in GRS fees begin? Ms. Elejabarrieta states that the contract says it starts July 1st. Mr. Strong responds that if they are shadowing, they are doing the work as well so there is an overlap period where they are investing more time than they will once they are fully up to speed. They are learning the process over a three-month period. In his opinion the full administration starts April 1st even though they are doing it completely on their own July 1st. They are kind of mirroring and shadowing with Ms. Groome. That is his opinion, transition time is equivalent to doing the job. Ms. Gomez thinks that is fair. Mr. Garcia-Linares asks that information be put on the portal for the retirees and also mail out correspondence to the retirees regarding the transition beginning April 1st.

Mr. Garcia-Linares states that for the next meeting they will try and have a new version for the Board to review and Mr. Strong will speak with the folks at GRS and come back with what the figure would be and the Board will discuss it at the next meeting. Mr. Nunez adds that they need to come back with two proposals, one with the annual fee with CPI and one with a locked-in fee for 3 years with no CPI. Ms. Gomez suggests that they look at the 90-day cancellation clause. She thinks it needs to be at least a 6-month cancellation clause.

8. Investment Issues

Mr. West reports on the investments. He has no change recommendations for the asset allocation. The only allocation discussion he has is on the private equity asset class. They did a complete rebalancing right after last month's meeting. They sold $10 million of the S&P 500 index fund and took $2 million of the Fidelity Inflation Protection index fund and put that into cash. This was a focused effort to maintain liquidity for distributions during multiple times. At the end of February, the income return was $2.487 million. The appreciation component was $37.8 million which is roughly $40 million earned from investment year to date. For the month they were down 1.68% and for fiscal year to date up 9.44%. In 2021, they restructured the bond portfolio rather significantly. They went to an intermediate, less interest rate sensitive benchmark and mandate for their managers. It has worked out very well. They also included the Fidelity Inflation Protection (TIPS) index and most recently added the Serenitas Gamma II fund. He is happy to report, looking at the one month returns, the aggregate bond market was down 2% and their bond managers were down less. The Serenitas Gamma II fund was up 1.39% for the month. Everything is going on in fixed income and all the changes they have made have been saving them a lot of money. If you look at the one year return for the aggregate bond market, it is a negative 9.72%. The one-year return for Richmond was down 8% and Garcia Hamilton was down 6%. Because of the changes they made to the mandate and manager performance with the bond allocation, the fund has lost substantially less money than the off-the-shelf aggregate index program. All this maneuvering they did is working very well and providing very nice stability.

Mr. West informs that he put together a summary memorandum regarding the amendments to the Investment Policy Statement. The objectives he put together suggest they maintain the current total equity the same. They do not change that. He is proposing a 3% total assets target for private equity. That means they need to pull that from either internationally publicly traded or domestic equity. Thye have had a higher allocation target to international over time so he suggests bringing that down more in line with what other systems might be doing and pull that funding source from international equity. The other item suggests they establish targets for their liquid reserves. They are doing this as a matter of operations and he would like to formalize it in the policy because they are moving 3% percent of the portfolio into ill-liquid assets. He thinks it is appropriate for them to do the same and maintain a 2% target in their liquid assets. As far as the total plan roll up goes with a 3% target to ill-liquid private equity, if they consider the worst case area for their current investments which would be potential lock ups that they are currently experiencing in their real estate assets, then they add in one or two other small allocation to some of the alternative strategies there, worst case scenario, if they get a lock up on those investments, then that means 15% to less than 20% of planned total assets could potentially be locked up at any given time. This is a very low percentage but thinks it is an appropriate percentage given the high volume of cash that this system pays out. They want to be cognizant of maintaining liquidity as they have done over the years. That has been a focus here. They have been a little more conservative. They have kept the plan in publicly traded investments for a long time. Now with the volatility of the public market seems to increase over time, he thinks it is appropriate to try and move of that ball tilting off the margin to private investments but maintain the overall liquidity.

Chairperson Mantecon asks about the plan's assets that have a locked-up period. Mr. West responds that the principal portion of that is going to come from real estate. They have a 10% policy target in real estate. They are by design in open-ended real estate funds except for the recent additions which are private and they constitute only 3% of total plan assets. The other 10% is in core and four plus real estate with JP Morgan. Those are opened quarterly but all real estate managers have closed the door to redemptions given what is transpiring. Currently, they cannot pull money or liquidate money from their real estate funds and that is occurring industry wide now. Private real estate is 3% of total assets with pending capital calls. Looking at the terms of both hedge funds managers, there is no lock up provisions but they may have to wait a quarter or so to get a redemption.

Chairperson Mantecon asks about the change in the Policy in regard to liquidity. Mr. West informs that he is just formalizing the current policy in the Policy Statement. To summarize, his draft change proposals for the policy would be maintain total equity as it is but total equity is now defined as all of their publicly traded equity plus their new addition to private equity. Publicly traded equity would be reduced from 60% to 57% and they will add private equity with a soft barrier of 3%. Then he is proposing they we reduce their our other asset allocation from 10% to 8% and take 2% and add a total liquid reserves cache allocation. That is where he gets the 2%. The changes are really on the margin. He thinks it is important that they have a stated target for cash in the Policy. It does not necessarily force the system to maintain liquidity. It provides for more accurate performance calculation.

A motion to approve the proposed Investment Policy Statement changes was made by Mr. Gold and seconded by Mr. Easley. Motion unanimously approved (10-0).

Mr. West discusses the private equity fund of funds search. They are suggesting that we go into two primary area areas of private equity. They have a lot of diversification in their private equity ground structure. Going into a fund of funds approach they will get massive diversification. As presented this morning, they will have over 200 diversified company investments and they are spread out across different years and maturities. That is a really important element of having a productive private equity program. Within that structure, he is suggesting that the focus here beyond secondaries is an approach and also on fund of funds. Phase one would be to establish the fund of funds program with Taurus to take that mandate. The other biases he thought were appropriate for this program is they want the investment to be primarily U.S. based. They have international exposure with dedicated managers and they are experiencing currency risk with those managers. He thought with the private equity program, they want to minimize across the border investments and keep it focused in the U.S. He thinks it is important to have a biased system to stability through tenure, not only of the management team, but a tenure of the companies they are potentially investing in.

Mr. West thinks it is fair now to see how they came about inviting the Taurus group to make the first presentation. In their opinion, Taurus is an excellent candidate to start off the fund-of-funds. In phase 2, he will bring another search book and they can review the secondaries manager. They will be looking for some similar characteristics so when they combine both styles, they need to remember the negative J-Curve. Anytime they make a private investment, usually the first 3 years they may have negative returns but they cannot really do that with this plan. They need to make a return assumption every year to the best of their ability. Chairperson Mantecon asks how they value the investment of the private equity fund. Are they producing mark to market or are they revaluing quarterly? Mr. West responds that they are going through a more valuation process. There is a third-party valuation and an in-house valuation. In the case of equity, they are following a lot of similar metrics that a publicly traded equity is subjected to. However, it is different because it is more of a longer-term investment. Assets are valued quarterly by an independent third party on some rotation base similar to real estate and they are also valued by the investment teams through their valuation metrics. Over the course of the year, you would be getting a delayed valuation and statements are also delayed. He will be reporting one quarter in arrears as they do with the real estate. The total dollar amount for private equity would be roughly $13 million. They are dividing that in half between secondaries and half between fund-of-funds. His recommendation is to retain Taurus as the fund-of-funds private equity manager with an allocation of $5 million. At the next meeting they will review secondaries and he will have a whole different manager set for interviews.

A motion was made by Mr. Gold and seconded by Ms. Gomez to approve a $5 million allocation to Taurus Private Markets. Motion unanimously approved (10-0).

9. Old Business.

There was no old business.

10. New Business.

There was no new business.

11. Public Comment.

Harry Pickering, a retiree, asks about the call center. He read it is going to open up April 1st. He believes Mr. Garcia-Linares mentioned putting a notification on the pension portal and to do a mail out. Back on February 3, 2023, Ms. Estrada from GRS said that only 443 retirees are registered in the pension portal and they have 1,594 members in the plan. So, either. The communications are not getting out there. A letter was sent last year but they need to get more retirees registered onto the portal. What is the sense in having a call center open in 22 days when nobody knows about it? Mr. Garcia-Linares responds that is why notices are going out by mail to all retirees that the call center and the transition start April 1st. Mr. Pickering asks that as of July 1st retirees are not to call Ms. Groome, they call the call center. Mr. Garcia-Linares informs that as of April 1st they are going to start the call center. Mr. Pickering comments that the audit report said the funding went down from 82% in 2021 to 65.6% in 2022 and Mr. West said that was the market basis and not the actuarial basis. The last he heard the rate was in the 70s. Do they know what it is now? Mr. Garcia-Linares responds that they have not received the actuarial report yet. haven't gotten the actuarial report yet. Mr. Pickering asks when they send out the correspondence to the retirees, can they include as much information as possible like a step-by-step of what the retirees have to do and include information again on how to register for the portal. The participation level is very low.

12. Adjournment.

The meeting was adjourned at 10:18 a.m.

APPROVED

ALEX MANTECON
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
ADMINISTRATIVE MANAGER