

MINUTES

METROPOLITAN EMPLOYEE BENEFIT SYSTEM INVESTMENT COMMITTEE

February 26, 2013 @ 8:00 a.m.
Howard Office Building, 700 2nd Avenue South, 1st Floor

The Investment Committee met on Tuesday, February 26, 2013 at 8:00 a.m.

Those Investment Committee members present were:

Chairman: Richard Riebeling

Members: Ann Butterworth, Christine Bradley and G. Thomas Curtis

Other attendees:

Summit Strategies Group: Eric Ralph

Office of the Treasurer: Lannie Holland, Treasurer; Fadi BouSamra, CIO; Tom Eddlemon, Deputy Treasurer and Katherine Martin

Assistant Metropolitan Attorneys attending: Margaret Darby and Catherine Dundon

ING Representatives: Jamie Wewetzer and John Cox

Other attendees: Erick Huth

- **Establish a quorum:** Mr. Riebeling established that a quorum was present and the meeting was called to order.
- **Approval of minutes from the November 27, 2012 meeting:** Ms Butterworth made a motion to approve the November 27 minutes. Mr. Curtis seconded the motion. The motion passed unanimously.
- **MetroMax 457 Plan update:** Ms Wewetzer presented the 4th quarter plan update for the MetroMax 457 Plan. Mr. BouSamra asked if the investment report prepared by Summit Strategies could be available on the ING website. Ms Wewetzer noted she will work with Summit to get the information set up on Metro Government's sponsor site with the ING website. Mr. BouSamra notified the Committee that he is working with Summit on a review of all the investment options and expenses. Summit is aiming to have the study prepared for the May meeting.
- **Review Metro pension 4th quarter 2012 performance:** Mr. Ralph reviewed Summit Strategies' economic summary and the Metro Plan's performance report. The total fund returned 3.05% for the quarter, outperforming the Policy Index of 1.71%. The Plan ranked in the 2nd percentile among peers for the quarter. Mr. Ralph highlighted the Fund's top quartile performance ranking and bottom quartile risk ranking as measured by the 3-year standard deviation. Mr. Ralph reviewed the Policy Index composition and explained that the Policy

Index was a passive way of investing the asset allocation and provided a good benchmark for comparison purposes.

- **Recommendations:** Mr. Ralph and Staff presented a new Asset Allocation, revisions to the Investment Policy and four investment recommendations for consideration.

Asset Allocation: Mr. Ralph reviewed the Asset Allocation presentation highlighting comparisons to the current allocation and the impact on plan liabilities under various return assumptions. Summit and Staff are recommending a new Asset Allocation that will increase expected returns without materially increasing risk. The recommended allocation increases the exposure to Real Assets by 2.5% and Alternative Fixed Income by 5%. The result would decrease equity exposure by 2.5% and reduce traditional Fixed Income by 5%. The recommendation would also carve out a 10% allocation to Global equities within the equity allocation with emphasis on dividend paying companies with growth potential. After a detailed discussion about the proposed allocation, Ms Butterworth made a motion to accept Staff's written recommendation of the following asset allocation: Domestic Equity 14.5%; International Equity 13%; Global Equity 10%; Equity L/S 10%; Private Equity 10%; Real Asset 12.5%; Alternative Fixed Income 15% and Fixed Income 15%. Ms Bradley seconded the motion. The Committee voted unanimously in favor.

Investment Policy revisions: Mr. BouSamra explained that the redline revisions to the Investment Policy are mostly to accommodate the approved asset allocation above. Mr. Holland expressed concern that the asset class ranges on page 3 were broad and not consistent across the asset classes. Mr. Ralph pointed out to the Committee that the trend was for the ranges to be broad allowing more flexibility as asset prices change. Mr. BouSamra explained that liquid assets tend to have broader allowable ranges relative to illiquid assets. After some discussion the Committee broadened the allowable range for International Equities to between 10% and 40%. Also, Mr. Riebeling added a note clarifying that Global Equity is classified under the domestic and international equity allocations and Distressed Debt is considered within the Alternative Fixed Income allocation.

Ms Bradley made the motion to adopt the new Investment Policy with the above changes. Mr. Curtis seconded the motion. The Committee voted unanimously in favor.

True North Real Estate Fund III: Mr. Ralph reviewed the two page presentation detailing the True North Real Estate Fund III. Metro invested \$30 million in Fund II. This fund invests in over-leveraged commercial real estate in the secondary market. Staff would like to manage the commitment amount based on Fund II realizations during Fund III's capital raise. Mr. Curtis made a motion to accept Staff's written recommendation to commit \$15-30 million to the True North Real Estate Fund III. Ms Bradley seconded the motion. The Committee voted unanimously in favor.

Greenspring Opportunities Fund II: Mr. Ralph reviewed the two page presentation detailing the Greenspring Opportunities Fund II. Summit and Staff are recommending increasing the previous commitment to \$20 million from \$10million. Mr. BouSamra commented that the fund is bigger than when we made the initial commitment and we have

considerable visibility at the investments in the fund. Mr. Curtis made a motion to accept the Staff's written recommendation to commit an additional \$10 million to the Greenspring Opportunities Fund II. Ms Bradley seconded the motion. The Committee voted unanimously in favor.

ING Mortgage Investment Fund: Mr. Ralph reviewed the two page presentation detailing the ING Mortgage Investment Fund. The fund invests primarily in interest only and principal only derivatives linked to U.S. Agency mortgages. The fund seeks to derive return from prepayment analysis. Ms Butterworth made a motion to accept Staff's written recommendation to commit \$15-20 million to the ING Mortgage Investment Fund. Ms Bradley seconded the motion. The Committee voted unanimously in favor.

Cyrus Capital Management: Mr. Ralph reviewed the two page presentation detailing the Cyrus Opportunities Fund II, LTD. Cyrus focuses on distressed and special situations in credit. Cyrus does use derivatives for some exposures and hedging purposes. Mr. Curtis made a motion to accept the Staff's written recommendation to commit \$15-20 million the Cyrus Opportunities Fun II, LTD. Ms Bradley seconded the motion. Ms Butterworth abstained from voting.

- **General Updates:** Mr. BouSamra handed out a general update list and highlighted the following two items:

Staff is continuing to work on the possibility of setting up separate accounts in the Alternative Fixed Income allocation manly to minimize fees and deploy larger sums of money without a long lock-up.

Mr. BouSamra distributed current and proposed procurement regulations specific to the procedures followed when retaining money managers. The current language allows us to use a search process that is in line with industry standards when seeking new investment managers. However, the language implies that after the investment manager's 5-year contract expires a new search would be conducted to replace the manager. He distributed the proposed new language and recommended that the Committee send to the Purchasing Department for adoption by the Procurement Standards Board. The new language he developed with input from Legal and the Procurement Office simply clarifies that Staff and the Committee can take into consideration factors like the cost of making a change, whether or not the style was out of favor and the role the mandate may play in the overall allocation among other valid considerations. Mr. Riebeling and the Committee expressed concern over the appropriateness of the 5-year contract limit since the managers are reviewed for

performance quarterly and asked Legal to explore a better solution. Ms Butterworth made a motion to recommend the proposed changes to the Procurement Standards Board as an interim step to a more suitable solution. Mr. Curtis seconded the motion. The Committee voted unanimously in favor.

The meeting was adjourned at 10:05 a.m. The next meeting is on May 29, 2013 at 8:00 am.

Approved 5/29/13 by 
(Date) Richard Riebeling, Chairman