

MINUTES

METROPOLITAN EMPLOYEE BENEFIT SYSTEM INVESTMENT COMMITTEE

Thursday, January 11, 2024 @ 9 a.m.
Investment Committee Meeting

Howard Office Building – Sony West Conference Room
700 President Ronald Regan Way, Nashville, TN 37210

The Investment Committee met on Thursday, January 11, 2024 @ 9:00 a.m.

Those Investment Committee members present were:

Christine Bradley, Kevin Crumbo, and G. Thomas Curtis

Other attendees:

The Hackett Group: Toni Hackett Antrum, Chris Tobe, and Alexander Antrum

Staff: Kevin Brown, Deputy Finance Director, Michell Bosch, Treasurer, Sharon Sepik, Assistant Treasurer, Fadi BouSamra, Finance Manager, Katelyn Richie, Senior Treasury Analyst, and Ariana Brooks, Treasury Analyst

Others Attending: Josh Thomas and Lexie Ward, Metro Legal

- **Establish a quorum:** Ms. Bosch established a quorum was present, and the meeting was called to order.
- **Public Comment Period:** Ms. Bosch noted no participants signed up for the public comment period.
- **Elect Officers:** Ms. Bosch explained the Investment Committee By-Laws were updated in 2023 to include the election of a Chairperson at the first meeting of each year. Ms. Bradley nominated Kevin Crumbo for committee chair. Mr. Curtis seconded the motion. Mr. Crumbo accepted the nomination. The motion passed unanimously.
- **Approval of Minutes from November 30, 2023 Meeting:** Mr. Crumbo made a motion to accept the minutes as written. Mr. Curtis seconded the motion. The motion passed unanimously.
- **Investment Policies, Procedures, and Practices Review by The Hackett Group, LLC:** Ms. Hackett presented the report. She explained that the project's objective was to review governance practices, investment activities, transparency, accountability, and decision-making processes. The Hackett Group evaluated the appropriateness, adequacy, and effectiveness of the Investment Policy Statement and procedures. They also explored the potential option of an Outsourced Chief Investment Officer (OCIO) as a solution for the Plan.

She explained that the Plan was observed and evaluated through a risk lens to identify the areas where risk exists. A peer-group comparison was used for the methodology of research. Eight municipal public pension funds similar to Metro's Plan were evaluated in regarding: Governance Practices and Structure, Asset Allocation, Investment Policy Statement, and Fees.

Ms. Hackett highlighted improved practices that Metro has done since the 2021 Internal Audit of the Plan. These include improvements to the Investment Policy Statement; commitment to private markets and a pacing schedule to align asset allocation with policy targets over time; performing an independent actuary experience study to confirm assumptions used for funded status; and undertaking this Policies, Procedures and Practices Review to determine further improvements.

Mr. Antrum presented the following observations and recommendations that were noted during this project.

Observations and Recommendations:

- 1. Observation:** The Metropolitan Employee Benefit System (MEBS) has no staff solely dedicated to compliance functions.
Recommendation: Consider creating a compliance framework to be implemented by an internal compliance team, led by a compliance officer reporting directly to the committee.
- 2. Observation:** MEBS does not currently have a standalone financial and performance audit of the Plan.
Recommendation: Consider performing an annual financial and performance audit separate from the Annual Comprehensive Financial Report (ACFR).
- 3. Observation:** Manager Selection and onboarding policies are not comprehensively documented.
Recommendation: Consider drafting a more detailed, descriptive manager search, selection, and on-boarding policies and procedures and add language on the subject to the IPS.
- 4. Observation:** Currently the process for monitoring managers is inadequate for addressing underperforming managers as outlined in the IPS.
Recommendation: Consider adopting a comprehensive manager monitoring policy, with a watch list.
- 5. Observation:** Performance measurement and reporting does not include the risk premiums outlined in the IPS.
Recommendation: Consider aligning performance benchmark reporting to the IPS.
- 6. Observation:** Certain investments categorized as traditional assets may have derivatives, leverage, and other liquidity issues not found in securities-based portfolios and could be seen as mis-classified for asset allocation purposes as determined by market research.

Recommendation: Consider reevaluating the classification of assets.

- 7. Observation:** MEBS allocates more to private market assets than their peers. These assets typically have fees higher than public markets strategies.
Recommendation: Consider adopting policies and procedures for monitoring fees and seeking discount fee arrangements.
- 8. Observation:** Exposures to any one fund, investment manager, or security may not be limited or monitored.
Recommendation: Consider revising IPS to place restriction of <5% for any one fund, manager, or security to reduce concentration risk.
- 9. Observation:** Conflicts of interest, ethics, and continuing education policies insufficient for investment committee members and staff involved in investment decisions for the fund.
Recommendation: Consider strengthening existing conflicts of interest, ethics, and continuing education policies for the fund as well as requiring annual attestation.
- 10. Observation:** Members of MEBS investment staff have served on 14 advisory boards in the last 10 years.
Recommendation: Consider revising policy to require disclosure, approval, and transparency with compliance testing in this area going forward.
- 11. Observation:** Currently there are no statutory rules that require current or future beneficiaries to be involved in the investment decision process.
Recommendation: Consider changing the Charter to include language requiring the addition of current or future plan beneficiaries in the investment decision process.
- 12. Observation:** Currently there is no mechanism for continuous review and improvement. MEBS has embarked on major changes requiring revisiting policies, procedures, and best practices.
Recommendation: Perform a policies, practices, and procedure review every 3-5 years.

OCIO vs Internal Staffing: The Hackett Group presented three options to the Committee that would improve upon current processes.

Option A – Engage an OCIO (Outsourced Chief Investment Officer), build an internal Compliance Team, and procure a compliance software system.

Option B – No OCIO, expand Investment Team structure, build an internal Compliance Team, and procure a compliance software. system.

Option C – Do not move forward with any options previously listed.

The Hackett Group recommends Option A. Mr. Antrum explained that an OCIO would afford existing internal staff an opportunity to implement and build a compliance framework for the investment managers/funds. A custodian bank was recommended as an OCIO option, rather than a consultant.

Mr. Crumbo made a motion to accept the report. Mr. Curtis seconded the motion. The motion passed unanimously.

- **Meeting dates for 2024:**

- March 20, 2024 9-10:30am (Regular Meeting – Review of Q4 2023)
- May 23, 2024 9-10:30am (Regular Meeting – Review of Q1 2024)
- August 21, 2024 11-1:00pm (Educational Session Lunch)
- September 26, 2024 9-10:30am (Regular Meeting – Review of Q2 2024)
- November 20, 2024 9-10:30am (Regular Meeting – Review of Q3 2024)

Approved 3/22/2024 | 7:08 AM PDT by Kevin Crumbo
(Date)