CITY OF PITTSBURGH

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IN RE: BOARD OF TRUSTEES OF THE CITY OF PITTSBURGH

COMPREHENSIVE MUNICIPAL PENSION TRUST

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BEFORE: RALPH SICURO, Chair
Ed Gainey, Member
Mark DePasquale, Member
Michael E. Lamb, Member
Richard Ruffalo, Member

MEETING: Thursday, September 7, 2023
1:00 p.m.

LOCATION: City-County Building
414 Grant Street
Pittsburgh, PA 15219

WITNESSES: None offered

Reporter: Deanna Heckel

Job No. 81314

A P P E A R A N C E S

FREDERICK N. FRANK, ESQUIRE
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ALSO PRESENT:
FELICITY WILLIAMS
MARK DEPASQUALE
JAMIE WESNER
JENNIFER GULA

I N D E X

E X H I B I T S

Number	Description	Page Offered	Page Admitted

NONE OFFERED

P R O C E E D I N G S

CHAIR:
All right, everybody.
We'll call this meeting the order.
We'll do the roll call. Mayor Gainey?
MAYOR GAINEY:
Here. We got anybody on the phone?
MR. LAMB:
Nobody's on the phone today.
CHAIR:
All right, Council President Theresa Kail-Smith? Controller Michael Lamb?
MR. LAMB:
Here.
CHAIR:
Deputy Chief of Staff Felicity Williams?
MR. DEPASQUALE:
She'll be down.
CHAIR:
Okay.
Ralph Sicuro, here. Mark DePasquale?
MR. DEPASQUALE:
Present.

CHAIR:
Rich Ruffalo?
MR. RUFFALO:
Here.
CHAIR:
And of course, our Executive Director Jen Gula?
MS. GULA:
Here.
CHAIR:
Thank you. Is anybody here for public comment? Seeing none, the next item up will be approval of the minutes. Can I get a motion to approve the minutes that have been submitted?
MR. RUFFALO:
I'll make a motion.
MR. DEPASQUALE:
Second.
CHAIR:
We have the motion made by Mr. Ruffalo. Seconded by Mr. DePasquale.
Any discussion on the minutes?
MR. RUFFALO:
I do. Going over them, I --- I know we discussed survey, diversity survey. And we didn't do

a review --- you were doing a review or Marquette was doing a review, but the subcommittee didn't do anything yet.

MR. WESNER:
Correct.

MR. RUFFALO:
I just wanted to check on that.

MR. WESNER:
Yes, we have the information that's been collected from your investment managers and consolidated, and we just need to, you know, set a time to ---

MR. RUFFALO:
Okay.

MR. WESNER:
--- discuss with the subcommittee.

MR. RUFFALO:
Okay, thanks.

CHAIR:
Any other discussion on the minutes?
Seeing none, do I have a motion --- I mean, do I have --- all in favor for approval?
AYES RESPOND

CHAIR:
Any opposed?

NO RESPONSE

CHAIR:

So approved. Next, bills and communication report from our Executive Director.

MS. GULA:

Good afternoon, everyone. Funding of the pension is now at $1.024 billion, with a B, dollars. It’s 69 percent funded as of June 30th, 2023. The return on the portfolio over the last 12 months ending 6/30/23 is 10.1 percent for the invested portfolio and 9.2 percent for the composite portfolio. Year to date, the portfolio is 8.8 percent in the invested portion and seven percent for the total fund. The parking asset valued through June 30th, 2023 is valued at $334.8 million. There’s a statement in your packet with the individual pension funding levels and overall liability as of June 30th, 2023.

Is there --- anybody have any questions?

MR. DEPASQUALE:

Where is that, Jennifer?

MS. GULA:

It should be in the packet.

CHAIR:

Are you referencing this document?
MS. GULA:
Here it is.
MR. DEPASQUALE:
Okay, thank you.
MS. GULA:
It’s right after the agenda.
MR. DEPASQUALE:
Right, all right.
MS. GULA:
Do you have it? Okay.
CHAIR:
It’s right after the exhibit on the second page. Second page.
MS. GULA:
Do you have it? The second page?
CHAIR:
Seeing no more questions for our Executive Director, next we have our investment consultants report. Jamie from Marquette, will you please give us an update?
MR. WESNER:
Thank you, Mr. President. Good afternoon, everyone. You know, inside the Black Books, we’ll walk through an update on the broad

market, and then we'll discuss more specifics about your investment portfolio performance of the portfolio as a whole, the underlying managers. And very much of the investment portfolio performance is driven by the market dynamics. So we'll --- we'll really focus quite a bit on the broad market discussion.

If you go behind Exhibit 1, just a brief reminder and plug for our symposium. So our client symposium is next Friday, September 15th. This year, we are having an in person and a virtual option. So if you need to get any continuing education credits or anything, you know, feel free to log in or I would obviously love to have you join us in Chicago. You know, we'll have a combination of speakers who are outside of Marquette, so you'll hear from some other industry professionals. But then our research team will do a series of flash talks, really hitting on some of the more topical parts of the market right now. So I can certainly get anyone signed up or get you an agenda with more information going forward.

Behind Exhibit 2 is the broad market discussion. And so this meeting we just have, you know, the tracker here. This is fresh performance.

So as of the end of August, and I apologize, this might be a little confusing today because for the market discussion, we're going to go through the end of August. For your portfolio performance discussion, we have July numbers, so we weren't able to get August numbers just because of the scheduling for the meeting with the holiday as well.

So if we just talk big picture, the market movements over the last few months since we last sat down together, but more notably over the last, you know, several quarters, have really been driven by, you know, the move in interest rates. So inflation has started to come down as a result of the Federal Reserve aggressively raising interest rates. So as a reminder, the Fed embarked on this rate raising cycle towards the beginning of 2022. We saw interest rates go from zero, and this is for the Fed funds rate, short term interest rates. Interest rates went from zero up to now target rate between five and a quarter and five and a half percent.

The question now is whether that's the terminal rate or that's where the Fed is going to end. The market is not decided on that. I think the expectation now is that there would likely be one more additional rate increase. Whether that rate increase is at the September meeting or more likely at the November meeting is kind of what the market will wait to see. The Fed will digest continued data in terms of inflationary figures, unemployment figures, you know, just broad economic figures over the next several months to determine whether another rate increase is warranted.

If you think back to just, you know, a year ago or even less, you know, we were in a situation where the market was expecting these rate increases to push us into a recession. And the question was, are we going to have a deep recession or a mild recession? Well, now that conversation has shifted to where the question is, are we going to have a recession at all? And the markets are pricing in the likelihood now that we do not have a recession, that we'll have slowing economic growth, but not to the point where we go into a recession.

All of that can change because the federal rate --- the Federal Reserve's rate increases take a while to have an impact on the market. So we've gone from zero to five and a half in terms of rates, but it takes several months for those rate increases to have the effect. So borrowing costs are higher for companies, borrowing costs are higher for consumers, whether it’s auto loans, credit card loans or mortgages. So it takes a while for that, the impact to go through. On the positive side, the impact on inflationary figures it has already been felt and felt in a pretty significant fashion.

Last summer, we peaked with inflation kind of in the nine percent range, and we’ve come down now to inflationary figures kind of in that four percent range and dropping. As a reminder, the Federal Reserve’s target inflation rate is two percent. So that dual mandate they have is to have inflation or price stability at the two percent level, but also keep the economy at full employment. We’ve been very fortunate to have the unemployment rate remain near historic lows. You can debate whether, you know, those jobs are all high quality jobs and high paying jobs, but right now we still are kind of in a situation where there’s two jobs for every job seeker. So yeah, in terms of the unemployment rate, those numbers remain very, very low. So that gives the Federal Reserve the ability to maybe raise rates a little bit more or keep rates higher for longer. So all of those factors are going to continue to play out in the markets.

If you think back to last year, 2022,

we had a very negative year for equities. Equities were down, you know, near 20 percent. Fixed income was down 13 percent. All of these were a result of the rate increases and the expectation for more rate increases. Fast forward to 2023, we've had a huge rebound in equities. Nothing's changed on the --- on the rate side. Rates have continued to go up. Companies aren't making any more money. Earnings are stagnant or, you know, declining slightly in some cases, but stocks are just now at a higher valuation. So it's all what we call multiple expansion. People are willing to pay a higher price per dollar of company earnings in the current environment than they were at the beginning of the year.

While that's fine, we prefer to see prices and equities go up because we have increases in corporate earnings, not just people willing to pay more for dollar earnings. That means stocks are more expensive, and that creates risks going forward. So we always want to be cautiously optimistic, but the stocks are much more expensive now than they were to start the year.

But if you look at the returns on the page here, so the upper right hand table is fixed income. You can see the fixed income returns.

There's still a lot of negative figures in that --- in that box there. And for the most part, this is investment grade fixed income. So you see year to date, broad fixed income, which is the top row there, only up 1.4 percent. That's coming off of a year where --- where fixed income had the worst year in history, down 13 percent. So we haven't had this huge rebound in fixed income like we've had in equities.

And if you look at those three year numbers, those --- those are three year annualized returns. So still, we've had three year annualized returns for fixed Income with a negative 4.4 percent. That's pretty sobering to see those figures. The silver lining within fixed income right now is where two years ago fixed income yields were less than two percent, now a high quality fixed income portfolio is yielding five percent. So we're getting a meaningful return on --- on fixed income. And more importantly for a pension fund, that five percent it's not your assumed rate of return, it's not seven percent, but it gets you --- it helps get you there. So you can have more fixed income in the portfolio.

And I'll mention in a few moments that, you know, we are looking to, you know, do an updated asset allocation study for you at the next meeting. And with that, the idea is to make sure we have the right balance between stocks and bonds and other asset classes within your portfolio. You have the unique situation where you have the parking asset, which makes it very challenging to set your asset allocation, but we want to make sure that we're, you know, taking the parking asset into account as we recommend changes for your portfolio going forward. But really, the changes that we've seen in fixed income over the last, you know, year or two really are driving the need to have a more frequent discussion on asset allocation.

If you go to the left hand column with equity returns, you see here a lot of positive numbers. You almost look at the longer term numbers, the three year averages, and you say, did 2022 even happen? Because, you know, we had such a strong 2021, 2023 has been very strong. And so 2022's negative returns get averaged out and they actually look, you don't even notice them. August was a slightly negative month. You can see for the monthly returns, were down about a percent and a half to two percent.

But that year to date column just

highlights how big this rally has been this year. But that column also highlights the differences in returns even within US equities. And what I mean by that is, if you look at the year to date column, you’ll see the S&P 500 or the Russell 3000, which are more broad market benchmarks, up 18, 19 percent.

But the next two benchmarks, the NASDAQ, which is very technology heavy, and growth stock heavy, up 35 percent year to date. But the DOW Jones Industrial, which is more value oriented, it’s a more concentrated index of only 30 stocks, and they are typically higher quality stocks, only up 6.4 percent. If you look at the longer term averages, they’re --- they’re more consistent, but it just highlights how growth and value and kind of, you know, going --- those styles going in and out of favor can really impact performance.

For your portfolio, you know, we try to keep things very simple. That’s why we utilize a lot of indexing, especially in US equities. Not only does it keep the cost down, but it doesn’t --- you’re not subject to the growth value swings in performance. You can see this number, maybe a little bit more pronounced in the blue squares there. You can see with the blue squares which shows the different parts of the US market. Large cap growth up 32 percent. But large cap value, the upper left hand square, only up 5.9 percent year to date. And then you can see the other parts of the market as well. But growth and large cap have really been the areas that have benefited investors this year. Again, somewhat of a reversal in last year when value stocks were in favor.

The center table on the left hand side of the page, this is international equities. Here you'll see the second row there, which is a broad international benchmark. While it's positive year to date, it's not as positive as the US markets. So international markets only up 8.8 percent year to date. One of the headwinds for international markets this year has been that emerging markets have been weaker, and emerging markets make up about 20 percent of broad international markets. But the other factor that's really hit international markets, and we don't think about this as much, is when you think about international markets, technology only makes up about, you know, 10, 12 percent of the international markets.

Here in the US, IT represents 25 percent to 30 percent of the market. So when IT is doing so well, US markets really benefit because so many of the large technology firms across the world are based here in the US. And impact the US stock market and not as much of the international stock market.

But you can still see the long term returns through your numbers, you know, for the most part positive. But I'll still point out emerging markets, which is the second row from the bottom there in the three year column. It's negative. You've had very good manager performance in this space, so you haven't realized that negative performance. But it's just important to note that emerging markets, while there's upside there, and historically they produce some great returns, a lot of volatility.

And then just wrapping up with, you know, some of the other parts of the market, hedge funds, real estate and private equity, other alternatives. Hedge funds is kind of just below the center of the page on the right hand column. You'll see those returns there. The important thing I'll note with hedge funds, you know, while they did a great job last year, this year they haven't performed as well because they've been very conservatively positioned. But one area that you've had exposure to is the bottom benchmark in that hedge fund table. And you'll notice that hedge fund benchmark which is called the CBOE PutWrite Index. Those returns are far superior to all the other returns in that table.

And this is where you have a manager called Parametric there. In that Parametric strategy, as a reminder, this is the closest thing we have to an indexed hedge fund. And what I mean by that is it's exceptionally low cost, about a quarter of the cost of traditional hedge funds. It's very transparent, which some hedge funds are not, and it's very liquid, which most hedge funds are not. So that's continued to perform very well for you, and we'll see that performance highlighted in just a moment.

And then the second to last point that I'll hit is the most challenging area, the bottom left, which is real estate. I was actually just on a call this morning with the largest real estate manager, open ended real estate manager in the country, which is part of JP Morgan. And the real estate market is very bifurcated right now. There are parts of the market, such as industrials and multifamily housing that are actually doing pretty well. And we all know that office is struggling.

Some markets, historically the best performing office markets are the ones that are typically getting hit the hardest. San Francisco, which was often seen as almost an untouchable in terms of how strong and --- and resilient their performance was, they're getting crushed. And it's a lot of issues with technology companies. They have some crime issues there as well. A lot of things that are preventing employers from requiring employees back in the office. But you know, other markets are doing better. But office is going to continue to face headwinds.

Industrial. So think of warehouses that support ecommerce or multifamily housing. Those areas are performing better, and have been much more consistent in terms of their return.

So we'll see some negative figures when we look at the manager performance in a moment. But I think one important thing to note here is within your portfolio, you made your initial investments in real estate post the great financial crisis. So you didn't have that downturn. So you were investing at lower valuations. And while the last three quarters have been challenging for real estate, in the next quarter or two are likely to also see negative returns or potentially see negative returns. Your long term performance has been very positive, and positive net of fees. So just want to kind of put that again, put the silver lining out there in terms of performance there.

And then finally there’s not data here for it, but just to comment on private markets. Private equity, private debt, those are all parts in the market that have continued to perform well. When we look at asset allocation, I’ll kind of preview. You will --- you should expect to see some higher allocations or potential recommendations in terms of private equity, private debt, because you have a very good liquidity profile here. You make great contributions to the fund. You’re not requiring to sell assets to meet benefit payments. You have the ability to invest in those higher returning asset classes. So just again, kind of a preview that that will be part of the discussion at the next meeting.

I know those were a lot of broad topics there. Any questions on the broad market or any other questions I can answer?

Well, behind Exhibit 3 we’ll see the

July Flash report. And as your Executive Director highlighted, you know, we are north of that billion dollar level, which is just a great kind of mental number to be higher than. So you can see we ended July at basically $1,032,000,000.

One thing you'll notice, and if you look at the --- the second and third columns from the right, you'll see portfolio percentages and policy percentage. This is, the policy percent is what we have currently in our asset allocation. And I mentioned earlier, and it's very challenging with our asset allocation because we can't rebalance based on the parking asset. So that just, the value changes and whatever percentage it is of the portfolio, it kind of is what it is. And when you had the extension of the cash flow payments a few years back, that added value to the portfolio --- to the asset. That further helped us, which is great.

But you can see that currently that parking asset represents 32.4 percent of your portfolio, and our target's 40. So when we do the updated asset allocation, we will bring that kind of more towards where it is now, just because we have to be reactive there, because we can't be proactive in terms of the parking asset. Where we can be

proactive is everywhere else.
MR. DEPASQUALE:
Jamie, so do we see a decrease in the parking asset in correspondence to real estate?
MR. WESNER:
No. So that's one of the --- the benefits of the parking asset is that the way the parking asset is valued is we do a discounted cash flow of all those future cash flows that have been promised by with, I believe it's the act of Council to dedicate those revenues to the pension plan. And you have a third party who basically does that calculation, but it's just a very simple calculation of just discounting those cash flows back.
So that asset, the parking asset basically returns on a consistent basis your assumed rate of return. So you basically get that seven, seven and a quarter percent every single year from the parking asset. So in a year like 2022, the parking asset is hugely beneficial to your overall performance because the markets were negative, that was strongly positive. In a year like 2023 thus far, it's actually been slightly dilutive to performance because while it's nice, consistent, you know, a seven and a quarter percent annualized return, your -

-- your invested portfolio is actually doing better.

So there’s pros and cons to it, but over the long term, it adds stability to your portfolio. And from a performance standpoint, it’s been a very nice performer.

MR. DEPASQUALE:

Thank you.

MR. WESNER:

And you can see going down, we’re pretty close within our policy targets across the board. The only areas where we are a bit underweight to our targets are just in areas like fixed income. I mentioned with the asset allocation study, that’s an area we would likely allocate maybe some more capital just to further, you know, provide additional stability to the portfolio. Equities we’re, you know, we’re a little bit over weighted. And then international equities were basically, you know, spot on. We will also continue to make allocations to private equity because that’s something that continues to be a good performer.

And then finally cash at the very bottom. We don’t target an allocation to cash, but the positive thing right now is that cash is giving us, you know, nearly five percent. So it’s hard ---

we used to always complain about cash, you never wanted to keep anything in cash. Now it's okay to have a little bit in cash because it gives you that cushion, but you still get a five percent yield off of it. So just again, want to highlight all the positives that have come with this increased rate environment.

Performance on page five. So through the end of July, the performance of the fund composites, which is the top line there, it includes the parking asset, that is, you know, 8.6 percent. You can see that the invested portfolio, which is a few lines down but also in the dark color, you know, 11.2 percent. That 11.2 percent through July is one of the best portfolio performances across my client base. The big driver is because you have so little in fixed income, and a relatively small amount in real estate as well.

If you look at the fixed income composite, you've outperformed the benchmark there, most notably because you have shorter duration, so you have lower duration bonds. So kind of one, two year duration bonds which have been giving you higher rates of return.

US equities, we're slightly below our

policy benchmark, and that's mostly because you have a dedicated allocation to small cap strategies. So as a whole, your index fund, your S&P 500 index fund matching the benchmark Frontier, which is your SMID Cap growth manager, actually outperforming the benchmark by over eight percent year to date. So they've had a great run. They had some hiccups a couple of years ago, but this is why we have, you know, patience with managers and don't fire managers too quickly.

And then you can see Palisade, which is your newer woman owned small cap equity manager, a little below in the kind of start, but their long term performance is still very, very strong.

Emerging manager portfolio. Again, as a reminder, this is your local emerging manager portfolio. And Gridiron, which is a newer manager but is off to a good start with their first couple of months of outperformance. Twin Capital, very close to their benchmark, kind of an enhanced index strategy. And it's nice to see CIM, which had been underperforming and is still on alert. We're not going to take them off of alert status yet, but you can see year to date outperforming by about three percent. So all positives there on that front.

International equities over on page
six. Again, a little bit more good news here in terms
of outperformance. You can see the international
equities up 15 and a half percent, and all of the
strategies outperforming their main benchmarks. So
MFS, which is your broad strategy outperforming the
state street active emerging markets up 16 percent,
and ABS which is a hedged strategy in emerging
markets which is up nine percent. So all those
strategies, you know, performing very well not only
in the short term, but good long term performance in
--- in addition to that.

Federated, a little bit behind the
benchmark in terms of their year to date performance.
This is one where it’s more challenging in terms of
the technology stocks because they don’t hold as much
in terms of technology. And then with the great
performance in technology, that’s going to hold them
back. But just as a reminder that is an ESG
dedicated strategy with Federated on the global side.

Hedge funds. You know, you can see the
traditional hedge funds with ASB and Trust, kind of
up five percent. A little bit better than the
benchmarks. But you can see parametric how it’s

really, you know, soundly beaten the rest of the hedge fund strategies up almost 14 percent. So that's really been the best long term performer in terms of MetaFi's (phonetic) performance in the hedge fund bucket.

And then as I mentioned, real estate, obviously real estate is challenging right now. You can see that both the refund and bearings a little bit below the benchmark year to date. You know, down seven and a half and eight percent respectively. Bearings is one where we do have redemption requests in place to start to get some money back out of that strategy to generate liquidity. Their portfolio has been a little bit more, it --- it struggled a little bit more I would say, than what we've seen with Reef (phonetic). So that's one of the reasons why we've put in a redemption request there, but not put in any redemption requests with the --- with the Reef fund.

And then just again, for the --- for everyone's records on pages 11 and 12, the fees that are paid to all of your managers. And as we look at the overall fees paid here, you can see the, you know, overall costs are relatively low given your asset allocation and given your size. You pay about 34 basis points in aggregate, 35 basis points if you include Marquette's fee or the custodial fee. And gets you to still a very low cost.

There's a lot of public pension funds out there where the cost to manage a portfolio is 50, 60 basis points. So you're doing it at a significantly lower cost utilizing index funds, having you know, strong pricing schedules from your active managers. So you can take comfort that you've been very prudent in terms of allocating fee dollars to your active managers.

Any questions on that flash report?

MR. DEPASQUALE:

Why is that so much lower than the national average?

MR. WESNER:

Again, it's been utilizing a lot of index strategies, so you have a very large proportion of your investments in index funds. So that's the S&P 500, and then you have a little bit of indexing on the small cap US side and then also on the fixed income side with the Vanguard investments.

So, and our philosophy is always we don't want to be adverse in spending money on investment managers. We just want to be smart about spending money on investment managers where managers have shown a historical precedent of adding value. That's typically in international equities, that's typically in alternative asset classes, and where managers don't --- haven't historically added a lot of value, why pay them to try? So that's our philosophy.

And then if there are any questions, behind exhibit four is the quarterly report. As you all know that this is the more robust report, but it's the more dated report. So I'm not going to go through this. This has details on all the underlying managers. You know, so for the real estate managers, it has information on the underlying properties, it has information on all the underlying stocks for the equity managers. But the one area that I will just focus on, because it's --- it's only in the quarterly report, is --- is rankings.

So if you look at, you know, start off on page nine. So the rankings here, and I always make the comment we don't pay benefit payments with relative performance. So it, last year you might have ranked high versus your peers in terms of relative performance, but it was still negative. But it is a benchmark that we use to assess how we are doing as a whole. And if you look at the total fund composite and the total invested composite, looking at long term returns. So for the total fund composite, your ten year return, eight percent, it puts you in the top 14 percent of the public pension fund peer group. And then the invested portfolio, which does not include the parking asset, 7.6 percent, and then the 27th percentile of the peer group. So just missing the top quartile in terms of net of fees performance.

But when you think about public pension plans, you know, you don't have as much, you know, private equity as a lot of plans do. So, you know, you had very strong performance without taking on a tremendous amount of risk. So just wanted to highlight that positive within the performance since it's only in the quarterly report.

And then the only other thing that I'll highlight with that on page 21, excuse me, is private equity. So as we look at private equity performance, and you've made healthy commitments to private equity recently, but the top of page 21, as you look at, you know, the performance levels, some of the larger investments that you've made more recently have been some of the better performances. And I --- I use that term recently somewhat loosely.

So if you go back to Crescent, the two strategies that you invested with them in 2013 and 2016, return eight and nine percent net of fees. Those were more fixed income like private asset investments, but you got eight and percent nine, so much better than traditional fixed income strategies, more akin to equity type performance. And then you'll see the Siguler Guff investment that you made in 2019 where you allocated $15 million. You know, that investment has had a net IRR, or internal rate of return, which is just a fancy way of saying it's just a private equity performance calculation. You know, 24, almost 25 percent net of fees.

So these asset classes, while you do give up some liquidity, performance, has historically been much better. So just wanted to highlight that. We will continue to come back to you with additional private equity recommendations. The most recent allocation that you made was early in 2022 with Siguler Guff. And then with the local manager here, Magarac, in 2022 as well. That was a $3 million investment. So just wanted to highlight those there.

CHAIR:

Can you remind us the commitments, how long they usually are?

MR. WESNER:
Yep. So it varies slightly by the type of private equity. So when we look at the, you know, Magarac, for example, that's more growth equity or almost venture capital like. Those are going to be longer time horizon funds, where it could be, you know, 12 to 14 years for the lifecycle for them to deploy capital, investment companies, and then get that capital returned back to the investors.
The Crescent strategies, you know, we've gotten a good amount of that capital back, and you can see for a 2013 fund, you've essentially gotten most of that capital back ten years out. And even with the 2016 fund, we've gotten, you know, over half the capital back already. But the other strategies, we would still anticipate it's going to be, you know, those are 8 to 12 year time horizons for those investments.
CHAIR:
Thank you.
MR. WESNER:
And if there aren't any questions, I'll kind of leave the rest of the reports. If you have questions after the fact, please let me know, but I'll kind of leave the rest of it for your --- your

bedtime reading.

CHAIR:

I do have one question, but before we do that, can we have just for the record that Deputy Chief of Staff Felicity Williams has joined us as well.

You talked about the updated asset allocation for our December meeting. We also are going to be due for our valuation report from the actuary. Do you feel there's a benefit of having a preview for yourself before we discuss our asset allocation? If there's any potential changes in our valuation to hit our marks that we're looking for?

MR. WESNER:

It doesn't have a huge impact, because the only changes in your actuarial valuation that impact us on the asset side would be, for example, if you changed your assumed rate of return and lowered your assumed rate of return. Let's say you did something really aggressive and lowered it down to six and a half percent. We know we're not going to do that, but if you did some --- even that big of a move wouldn't necessarily change our asset allocation.

We might be a little bit more

conservative since we don’t have to hit as high of a number, but with what we typically see, the moves taken post actuarial valuation are --- are so modest that it doesn’t really affect the asset allocation. So I love --- it’s always nice to have previewed information in advance, but just full honesty, it’s -- it’s not going to have a material impact on what we present to you or recommend.

CHAIR:
Thank you.

MR. LAMB:
I just have one question on that too. So if the idea now will be to reduce the percentage, the policy percentage on the parking asset, what would you do? Would you just bring it down to 33 or --- or close to where it is now or --- because it’s going to change over time.

MR. WESNER:
It’s going to keep moving.

MR. LAMB:
Right.

MR. WESNER:
That, and that’s the thing where it’s kind of like a continuing bogey. But I would --- I would originally in the first move bring it down to

33. But also, you know, we can have a portfolio that we model out just as a hypothetical with it going down to 30. And that goes with the assumption of the parking asset continues to go down in value as more of the monies are received and we go through time. But then it's also the hopeful kind of situation where the rest of the portfolio continues to grow.

MR. LAMB:

Right, right.

MR. WESNER:

So we would show you multiple. And then going forward, it's getting in the routine of continually updating that asset allocation because we don't know whether five years from now Council extends it again.

MR. LAMB:

Well, that's the ---.

MR. WESNER:

That's what we don't know.

MR. LAMB:

That's my question. Could we --- could we --- could we or should we have an investment policy that floats that number just to mirror the asset percentage?

MR. WESNER:

It’s --- it’s challenging because you would have to have as that number goes down, you’d have to say as the parking asset value --- target floats, the number that would float on the other part of the portfolio would likely be like a short term kind of thing.

MR. LAMB:

That would be a lot ---.

MR. WESNER:

But you do something like short term fixed income.

MR. LAMB:

Yeah.

MR. WESNER:

So in theory that could work.

MR. LAMB:

Yeah, yeah. No, but I think it’s smart for us to look at that as a 33 percent and the other, 33 and 67. Because that’s actually where we are I think.

MR. WESNER:

Yeah.

MR. LAMB:

I think that’s fair. Yeah, I think that’s --- that’s probably right.

MR. WESNER:
And then the advantage to the fund is that you can take that seven percent additional target allocation and say, okay, maybe we're going to put three percent up in fixed income and four percent can go to private equity or private debt, areas that can add more value performance wise to your portfolio over time. And that's what the asset allocation exercise will do is I'll be able to come back to the Board and say, here's the possibilities. And there's not, with an asset allocation study there's not a definitive answer. There's possibilities.
MR. LAMB:
Right.
MR. WESNER:
And we can talk through those and what's consistent with the goals and objectives of the Board going forward.
MR. LAMB:
Yeah, and I --- I just think the thing that board has to remember and the executive director need to remember is that if we decide in the future to lower that rate of return, that's going to recalculate that parking asset again too. And that makes it seem more valuable than these now, right?

So --- so you’re going to have a problem there when you do it, just so we know that moving forward.

MR. WESNER:

Yeah. And that is something good for the newer trustees to know is that historically, when we have lowered the assumed rate of return before, it gives you, as you know, Trustee Lamb just highlighted, the value of the parking asset goes up. I don’t want to use it, it’s just an accounting function.

MR. LAMB:

Right, right.

MR. WESNER:

I’ll use that, a more appropriate term to use.

CHAIR:

You don’t get any more money out of it?

MR. WESNER:

Yes.

MR. LAMB:

Yeah.

MR. WESNER:

You’re getting the same amount of money. Just in present value.

MR. LAMB:

Present value changes.

MR. WESNER:

So it looks good in the moment. Your funding ratio would go up, but.

MS. GULA:

But it's not real.

MR. WESNER:

It's not creating any additional cash flows in the future. So that's just a very important point for everyone to --- to understand. And we've done that in the past. So that's, we've gone through that exercise in the past where you've lowered the rate. And then we get kind of these fun numbers to look at in terms of your performance, but you have to take them somewhat with a grain of salt.

CHAIR:

Yeah.

MR. WESNER:

And that's all I have, Mr. President.

CHAIR:

Thank you. Anybody have any further questions? Okay, next we have our solicitor's report. Frederick.

ATTORNEY FRANK:

Thank you. Good afternoon, everyone.

Our primary activity since our last Board meeting was the work --- work done with respect to the request for proposals for the investment manager for the S&P Index Fund, which we'll receive a report from our Trustee Ruffalo later in the meeting on the recommendation of the subcommittee with regard to selection of an S&P index fund manager.

With that regard, I prepared the request for proposal and saw that it was duly advertised on the Finance Department website. We then received certain questions about the RFP as the applicants were permitted to pose questions about the RFP before responding. We answered all the questions as a group, and then we posted those answers on the Finance Department website so all applicants can see the answers. I completed the answers with the assistance of Marquette.

I then reviewed the responses for compliance with the RFP. I assisted at the subcommittee meeting on selection of a manager.

At the May meeting, the Board approved a one year extension of the Financial Manager System Provider Agreement with Allegheny County. I advised the county controller the fund had exercised the extension through June 30, 2024.

I continue to monitor the reports we get from our various securities monitoring law firms about possible claims and class actions, and I communicate with our custodian PNC to see our claims are made as needed in the class action.

With respect to our own class actions.

On the Avaya case, there has been no ruling on the motion that the fund should be the lead Plaintiff, and we're waiting for the court to rule on that. On the Carlisle case, they have filed, as I reported, and we expected a motion to dismiss the case. We filed our opposition to that motion. The Defendant's reply was due August 23, and it was received, and the argument on the motion to dismiss is on September 13th. So I anticipate I'll have more of a report on that in December whether the court acts upon the motion to dismiss.

But I review the work done by Robbins Geller, and it's excellent in terms of the pleadings they're filing to move the case forward.

Any questions? Okay.

CHAIR:

Okay.

So thank you, Frederick. Next, we have our presentation of papers which will be the resolution authorizing payment for professional services rendered by Frank, Gale, Bails Marco, Pocrass PC in the amount of $4,660 for months of May 2023 through July 2023.

MR. LAMB:

Moved to approved

CHAIR:

We have a motion by Mr. Lamb.

MR. DEPASQUALE:

Second.

CHAIR:

Seconded by Mr. DePasquale. Any discussion on the motion? Seeing none, all those in favor, signify by saying aye.

AYES RESPOND

CHAIR:

Opposed?

NO RESPONSE

CHAIR:

Motion moves. Thank you. No continuing business. So new business will be the report from the subcommittee on the RFP for S&P index. Mr. Ruffalo.

MR. RUFFALO:

Thank you. Just a little history

first. At the May 4th Pension Trust meeting, a motion was made to issue a request for proposal for the S&P 500 index manager to manage our trust S&P index investments and to form a subcommittee to review the proposals. The subcommittee was formed. Felicity Williams, Mark DePasquale, and myself.

On August 8th, we met. Mr. DePasquale was not available. And if it wasn't that day, I wouldn't have been any other day available either. We met along with Jamie, Frederick. Director Gula and Adam assisted us also to review the proposals in the, for the prospective firms. The goal of the subcommittee was to select an S&P 500 index manager to manage our index investments in the amount of $175,000,000 which we updated, it's to up to $195, $195,000,000.

An additional primary consideration was the selection to be whether the applicant is minority owned or women owned controlled company. We were also following the guidelines of our environmental, social, and government strategy. We kept that all in mind. The RFP was issued on June 1st with a response date deadline of July 7th. And we received four responses, three which met the criteria. They were reviewed by Marquette. They vetted them out first.

One manager, US Asset Management, was eliminated. Their --- their submitted response was for an active US equity strategy, not the requested S&P 500 index.

Marquette conducted an analysis of the responses with a focus on low management fees, tracking error compared to the benchmark, and again whether the firms were minority owned or women owned. Northern Trust was not a minority or women owned firm. They --- they were --- they were ruled out at that time. Marquette made a recommendation to the committee to interview RhumbLine and Xponance, if I’m pronouncing that properly. Both firms have a strong, long track record in managing index funds and both are diverse owned organizations.

Both firms conducted a presentation to us that day via video by their ownership and management teams. After reviewing them all, and there were several factors that --- that were considered. We selected Xponance based on their strength and growing index portfolio, their expertise, the direct contact with their business manager, their diverse ownership. Their location is in Philadelphia, but they have ties to Pittsburgh and North Carolina. They do business in Pennsylvania with PMRS, the Pennsylvania Municipal Retirement System. So they're familiar with our --- our guidelines.

I'm going to go through this first and go through a few other factors. But their fee was slightly higher at 2.25 basis points compared to RhumbLine's at --- at two. And there was a calculation done that this would equal out to approximately $8,000 annually based on the current amount of $195,000,000.

There were other --- as I said, there were other factors that were taken in consideration. They're both employee owned. They both had high percentage of the minority and women owned businesses for the diversity. Xponance, their --- their investment manager that did the presentation, and I forgot to, I think her first name was Somali. And I don't, I forgot to write the last name down. She did a very good presentation, which I think sold their company, at least sold it to me.

RhumbLine, I'm not --- not knocking them in anyway. Their marketing manager was the one who initially did the presentation, but their --- their principals also got on and they did a good job. But when Somali was doing the presentation, telling us she's going to be the one working with our fund, I --- I think she hit it home a little stronger.

Both --- both do business in Pennsylvania. RhumbLine had 40 clients spread across the state. And I said Xponance did also. Their big client here was PMRS, Xponance. Their custodian is PNC Bank, which is ours. RhumbLine was State Street, which we're familiar with. I don't know if I understood them properly, but I think the fee for that is a little higher.

Is that correct?

MR. WESNER:

The operating fee, correct.

MR. RUFFALO:

Yes. Okay.

There's that. One of the things I'd like to defer to you, Jamie, is when they were discussing the risk management tracking error, they do theirs three times a day. RhumbLine does theirs consistently on a daily basis. But if --- if you can add to that just a little bit, what is actually done with that?

MR. WESNER:

Sure. And just to even take a step back and just on --- on tracking error, what is tracking error? So a tracking error is, you know, you have tracking error for active managers. You have tracking error for passive managers or index fund managers. For active managers, it's not as much of a concern because you want them to be different than the benchmark. You're paying them to --- to take risks.

For a passive manager, we're paying them to track the benchmark. So we wanted that tracking error to be as --- as small as possible. Whether, really all three of the index fund providers, Northern Trust, RhumbLine, and Xponance, all have exceptionally low tracking error. And as Trustee Ruffalo was just highlighting, they all do a continual kind of analysis throughout the day to make sure they are keeping the portfolio as tight as possible to that benchmark. Because, you know, we don't want to see --- well, you don't mind seeing a higher return. If they're having a higher return, that means they're creating a possibility and having a tracking error that creates a possibility for a lower return. So all these managers have an expertise and a very methodical process in terms of keeping that tracking error as low as possible.

So we feel very comfortable with both

of the respondents. Marquette, just in general, we have billions of assets with these managers in the index space. We are the consultant for PMRS, so obviously we have the relationship with Xponance, but we've worked with RhumbLine for 20 plus years. The other thing with Xponance I will give them credit for is their CEO and president, both were on the presentation, but they both deferred to the expert, the woman who was running the portfolio for the presentation.

So it was just an overall, I think it's just a slightly superior presentation, but it's what we like to see is when both managers do an excellent job in terms of their RFP response and then their presentation. So we want the decision to be a little bit challenging, but I think we did have a clear winner in this case.

CHAIR:

Would --- I'm sorry. I'll wait until you're done.

MR. RUFFALO:

I, just to continue on. There were several factors that were included from the number of employees to the number of the, for their investment team. And as I said, both --- both presentations

were --- were done very well, and both were very professional. I couldn’t take anything away from either one. At the end, as I said that even though Mark wasn’t there, but I was in agreement with Felicity that I, my preference was towards Xponance. So I --- I like the presentation by selecting them, the financial responsibility of the pension trust initiatives and returns would not be compromised. I--- I think we have a good, I mean either one would be good here, but I --- I lead --- I was leaning towards Xponance and Felicity did. So two out of three of the committee, and again, Mark was tied up on other business. I don’t believe that would have made a change. I --- I don’t know.
So our --- our recommendation was to accept Xponance as the new S&P 500 index manager.
CHAIR:
Mr. Lamb, did you have a question?
MR. LAMB:
I just, I did. You mentioned during a presentation that they have some connection to Pittsburgh. Do they have an office here or what’s the --- what’s the connection?
MR. RUFFALO:
No, they’re --- one of their principals

is from the Youngstown area.

MR. LAMB:

Okay.

MR. RUFFALO:

He’s based out of Philly now, but his in laws or daughter-in-law’s family is all from Pittsburgh. So he’s here pretty regular. Not to say they’re opening an office here.

MR. LAMB:

No, okay. I just wanted to see. Okay, that’s fine.

MR. RUFFALO:

Yeah.

CHAIR:

Ms. Williams, do you have anything you’d like to add on that?

MS. WILLIAMS:

I think Rich encompassed it very well. To your --- to expound upon what you were saying about the local ties. Again, as we prioritize not only our commitment to equity and diversity, we also want to prioritize our commitment locally. And to seeing that local presence, those local ties and connections.

And so looking at RhumbLine versus

Xponance, again, Xponance is out of Philly, so within the state. Certainly, whereas RhumbLine is out of Boston. So again, although they both do business in the area, we do have more local ties with Xponance, not only as you highlighted in your --- in your presentation about their ownership, as we have been talking recently about not just diverse ownership, but also diverse workforce and who they themselves do business with. There was a slight edge around Xponance in terms of who they do business with in terms of diversity and around some of their --- their workforce elements there as well. So it was both very competitive, but a slight edge there.

The local presence that we talked about, of course, their skill, capacity and expertise, top notch. We talked about their error tracking that led us to this ultimate conclusion.

CHAIR:

Thank you.

MS. WILLIAMS:

Thank you.

CHAIR:

Seeing no further questions, we just need a motion to accept the subcommittee’s report and recommendation for Xponance firm as our S&P.

MR. DEPASQUALE:
I'd like to make a motion.
ATTORNEY FREDERICK:
I want to comment. Just under the RFP, the term of this is supposed to be at will, and we can terminate on 30 days' notice. That's what they were told. So I would assume that's the contract you want me to prepare?
CHAIR:
Unless anybody wants to make a recommendation to change that? Seeing none, okay. We have a motion to accept the recommendation from the subcommittee by Mr. DePasquale.
Do we have a second?
MR. LAMB:
Second.
CHAIR:
Second by Mr. Lamb. Do we have any further discussion? Seeing none, all those in favor, signify by saying aye.
AYES RESPOND
CHAIR:
Opposed?
NO RESPONSE
CHAIR:

Motion moves. And I want to thank the subcommittee for your hard work to put this together. Appreciate the effort, as always.

That brings us to the end of our meeting. If we have --- has any other Board members have any other thing they'd like to add to the meeting?

MR. RUFFALO:

Just Jamie, do you have an idea when the diversity, we'll review those diversity surveys? Do you have a date in mind?

MR. WESNER:

I think maybe the best thing to do is send ---.

MS. WILLIAMS:

I did send an email about this.

MR. WESNER:

Yes. No, and --- and Trustee Williams, before you joined us, Trustee Ruffalo raised the issue when we were reviewing the minutes, and I let him know that we had collected the results from all of your managers. And just to again provide the clarity to everyone else, this was in terms of looking at the employee diversity statistics for all of your existing managers.

MS. WILLIAMS:
Yep.
MR. WESNER:
So we have a more robust conversation where we're hiring new managers, but the question is, what are our existing managers doing? And you have a wide variety of existing managers, you know, some that are, you know, two or three people, some that are, you know, broad, multinational corporations. So we can look at those statistics and determine, analyze them, but to determine what course of action would the Board like to take.
MS. WILLIAMS:
With respect to any existing managers?
MR. WESNER:
Yes.
MS. WILLIAMS:
Correct, yes.
MR. WESNER:
So I think maybe the best course of action would be to utilize the existing subcommittee.
MR. RUFFALO:
We --- we, I think we're all three were already selected for that.
MS. WILLIAMS:

Yeah.
MR. WESNER:
Yeah.
MS. WILLIAMS:
And we do want to make this, as we talked about, and I'm sorry, I was running a few minutes behind from the previous meeting. Wanting to making --- making this an annual process that we do so that we go through this. The folks submit, we review, we analyze, and then we make any recommendations or decisions and go from there.
MR. WESNER:
Okay.
And you can memorialize those, sorry to interrupt you, Mr. Chairman. We can memorialize those in your investment policy statement. That's something that I've seen with other clients. We do it with the City of Chicago public funds. Whether it's having formal goals for our diversity amongst managers or having, you know, additional goals. So an example would be if you have a firm that's not, maybe it's very small, they're not diverse, but it's utilizing women minority owned brokerage firms. So it's just, there's a lot of ways that we can ---
MS. WILLIAMS:

Yeah.

MR. WESNER:

--- increase the diversity impact within your portfolio. And we can talk about those as a subcommittee, and then maybe come back to the Board with a recommendation on how to memorialize those in the policy.

MS. WILLIAMS:

Absolutely. Sounds great.

CHAIR:

All right.

Thank you. Just to clarify, because I hear the question of asking when. When you are ready with that report to provide the subcommittee, you all will then coordinate a day and time to meet. And if it's available, the next Board meeting. If not, it'll be the following one.

MR. WESNER:

And --- and we have to, the data is collected. So I, maybe that will best. I'll send around an email to the subcommittee. We can try to schedule something and have maybe a virtual conversation to.

MS. WILLIAMS:

In preparation for our last meeting of

the year.

MR. WESNER:

Yes.

CHAIR:

That good?

MS. WILLIAMS:

Sounds great.

CHAIR:

Okay.

MS. WILLIAMS:

Thank you.

CHAIR:

All right.

Seeing nothing else, do I have a motion to adjourn?

MR. LAMB:

So moved.

MR. RUFFALO:

Second.

CHAIR:

All right.

Motion made by Mr. Lamb. Second by Mr. Ruffalo. All those in favor?

AYES RESPOND

CHAIR:

Thank you all.

* * * * * * * *

HEARING CONCLUDED AT 1:58 P.M.

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CERTIFICATE

I hereby certify, as the stenographic reporter, that the foregoing proceedings were taken stenographically by me, and thereafter reduced to typewriting by me or under my direction; and that this transcript is a true and accurate record to the best of my ability.

Dated the 15 day of September, 2023

Deanna Heckel

Deanna Heckel

Court Reporter

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