

MINUTES OF A REGULAR VIRTUAL MEETING OF THE
RETIREMENT INVESTMENT COMMITTEE
MARCH 3, 2021

The meeting was called to order at 7:35 A.M.

PRESENT: Richard Aginian, Citizen Member (Sarasota, FL)
Mark Gerber, Finance Director/Treasurer (Birmingham, MI)
Christopher Conti, Retirement Board Trustee (Naples, Florida)

ALSO PRESENT: Thelma Golden, Treasury Consultant; Frank Pisano, Library Board;
Matt Lasko, Megan Smith, Meredith Farber, Maureen Mendoza,
and David Gasper, UBS; John VanGorder, Retirement Board

Motion by Conti
Second by Aginian:

To approve the minutes of the regular virtual meeting held November 24, 2020.

ROLL CALL VOTE:

Aginian: Aye
Conti: Aye
Gerber: Aye

David Gasper announced that Forbes recently recognized two team members as best wealth advisors from their respective states: Matt Lasko from Connecticut and David Gasper from Michigan.

Matt Lasko reviewed the 4th Quarter, 2020 report that was distributed with the agenda. The full year for fixed income was strong, but the back half of the year performance lagged. J.P. Morgan did a study that anticipated returns for a 60-40 bond portfolio would be 4.2%, before taxes, inflation and fees. They think bonds will return 1-1/2% over the next 5-6 years. Stock selection, manager selection, and positioning of the portfolio are going to be the big drivers of positive performance.

There was a big large-cap growth tech rally in 2020. Large-cap value underperformed. In the 4th quarter, you saw a shift to value beginning. Small, mid, and international equities had a very strong 4th quarter. The 4th quarter was the driver for the year's positive returns.

UBS believes the market will be back to pre-Covid unemployment levels by January of next year. From a consumer stand point, there is much pent up savings. When you add stimulus and current income, there may be a great deal of spending once people become more comfortable. That could be a big boost to the GNP and to businesses.

There may be a deep, but short-lived, recession in 2021. They are keeping a keen eye on inflation and are not too concerned about interest rates at this time.

The retail investors have been big investors. There has been a large amount of options trading. The first half of 2021 should be positive, but the second half will be more volatile. The vaccine rollout is happening. COVID cases are dropping. Earnings and stimulus are big drivers. We could see a shift from a valuations driven market to an earnings driven market. In the second leg of re-opening, manager selections will be more important versus passive investing.

In a review of the fund's performance over a ten-year period, the fund has outperformed the targeted actuarial assumption rate in all time periods. At a previous Retirement Board meeting, City Manager Joe Valentine reported that auditor, Plante and Moran, did a benchmark with the State of Michigan and other retirement plans in Oakland County and found that both the Retirement and Retiree Health Care Funds were better funded than the State plan and other Oakland County plans. The funding level was also better than many plans across the country.

Richard Aginian stated that pension accounting is extremely complicated. There are many variables. He requested that UBS provide a simple one-page analysis of how pension accounting works. .

Megan Smith reviewed the Investment Solutions Portfolio Analysis that was provided under separate cover and projected on the screen. Based on the assumed rates of return for each asset class of index managers, the study shows why alternatives should be good for the portfolio. The study shows that the current portfolio would earn 5.3%. If the alternatives were removed, the return would be 4.49%. Richard Aginian asked Megan Smith to provide a study to illustrate how much risk it would take in order to earn 6.75%

Maureen Mendoza reviewed the performance of Graham and Whitebox. Graham was just under the index in the 4th quarter, but is recovering in 2021. Both managers are transparent and are positioned to do well in 2021. We track what they are trading to make sure they do not move outside their trading strategy.

We estimate that the SREIT and BREIT will both return over 5%. They both look for solid properties that will continue to pay their rent and continue to be occupied. They are on par with pre-pandemic levels.

David Gasper reported that Westwood has made a business decision to close their commingled funds by the end of this year and offer their strategies in only separate account and mutual fund vehicles. This will result in them lowering their fees from 65 bps to 50 bps. The city will be out of the market for one day in order to make the change. The fund will be managed the same.

Matt Lasko stated that they are very happy with the current managers and the position of the portfolio and have no recommended changes at this time.

Frank Pisano apologized for his aggressiveness toward Megan Smith and the Flagship team. He had not given them a fair chance since they started as consultants. His frustration got the best of him, and it will not happen again. Chris Conti thanked him for his apology and stated that we all represent the City of Birmingham and always want to be cordial and treat each other with respect.

Mark Gerber gave an update on the situation with Blackstone. Currently, BREITS have to be purchased through a financial advisor or broker type arrangement. With Starwood, we were able to work with Comerica to work this out. We typically do not run transactions through an advisor, but through our custodian. There are many complications that are involved. Everyone has to feel comfortable with proceeding. We will work with Blackstone and Comerica to see if an agreement can be reached.

In the event an agreement cannot be reached, Maureen Mendoza would be comfortable moving the allocated funds into the SREIT.

Motion by Conti:
Second by Gerber

To forward the following recommendation to the Birmingham Retirement Board and Retiree Health Care Fund Investment Committee in the event that the funds are not able to invest in the BREIT; to transfer the funds previously allocated to Blackstone Real Estate Income Trust (BREIT) into the Starwood Real Estate Income Trust (SREIT).

Aginian: Absent
Conti: Aye
Gerber: Aye

Frank Pisano questioned the use of Comerica as custodian. If they do not work with certain managers, does this inhibit the fund? David stated that overall Comerica has been pretty accommodative. This may be something to think about in the future. Mark Gerber stated that no one at Comerica is working at the office. It takes so much longer to get things done when everyone is working remotely.

Richard Aginian confirmed his request that UBS provide a one-page explanation of the funding process for retirement plans and a report that illustrates what we would have to do to earn 6.75%.

The meeting was adjourned at 9:05 A.M.

Retirement Investment Committee

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Respectfully submitted,

Thelma Golden
Treasury Consultant