

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

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QUARTERLY BOARD MEETING MINUTES

October 27, 2022

PRESENT: Vanessa Heffron – Chair, John Carr, Melinda Manning, Sheila Simpson, Joey Hager, Kevin Gordon, Lee Thompson, Matt Hastedt, Teresa Smith (arrived at 8:02 a.m.), and Ryan Pope (arrived at 8:06 a.m.)

STAFF: Sandy Thiry, Ty Phelps, Tony Bass, Desiré Dixon, Sr. Assistant City Attorney Lisa Flowers

ABSENT: Renee Metzler

GUESTS: Mrs. Tammy Rigdon (arrived at 9:15 a.m.)

AGENDA

CALL TO ORDER by Vanessa Heffron at 8:00 a.m. The Annual Board Meeting took place in person.

Vanessa Heffron welcomed newly elected retiree trustee, Kevin Gordon and thanked Marvin Wilson for his service.

I. CONSENT CALENDAR

Melinda Manning motioned to approve the Consent Calendar which consisted of the July 28, 2022, Board Meeting Minutes, Schedule of Retirements, and the Expense Reports. John Carr seconded the motion. The motion carried unanimously.

II. BOARD OF GOVERNANCE

The Board reviewed the Governance Calendar and made edits to the dates on the Investment Policy Review by moving it to October and the fiduciary education moved to January. Discussion occurred regarding the timing of vendor reviews. The auditor review occurs about every 5 years as part of the City's RFP process. The actuarial firm was reviewed approximately five years ago during the funding review project by CBIZ Retirement Plan Services. The Investment Consultant has not had a formal RFQ in a few years.

Todd Green discussed the results of the Annual Actuarial Valuation. He provided a comprehensive summary of the funded status of the System as of July 1, 2022, including the impact of the newly adopted assumed rate of return of 7%, the market and actuarial asset returns, and the changes in the demographics.

Although the City continues to increase their funding by 2% of payroll each year, per the funding agreement, the funding level decreased from 76.9% to 73.3%. Contributing factors were market losses, additional liabilities, and the COLA increase, but the major cause was the change in the rate of return.

Matt Hastedt motioned to accept the Annual Actuarial Valuation Report and Lee Thompson seconded the motion. The motion carried unanimously.

III. REPORTS

Investment Committee Report – John Carr

John Carr expressed appreciation to Marvin Wilson for his years of service with the CFRS. He welcomed Kevin Gordon back to the CFRS Board of Trustees and looks forward to his contribution to the Committee and the Board.

John Carr reported investment updates from the Second Quarter. As the market volatility continued throughout the Second Quarter 2022, all asset classes experienced negative absolute returns except for Real Estate. The Total Fund returned -10.75% over the course of the Second Quarter, which outperformed the Custom Index Return of -11.13%, and ranked in the 77th percentile in the Callan Public Fund Sponsor Database. Since Inception, the Total Fund returned 8.59% and outperformed the Custom Index by 54 basis points on an annualized basis.

The Fund experienced negative investment returns of \$69.4 million in market value while benefit payments and operating expenses deducted an additional \$5.1 million. As of June 30, 2022, the Total Fund market value was \$572,803,092.

The Investment Committee reviewed the monthly asset allocation reports. All asset classes were in-compliance with the existing Investment Policy Statement.

The Committee reviewed the Non-U.S. Equity & Fixed Income Structure and the Investment Policy Statement. Callan provided the Committee with education and Callan's philosophical tenets as a context for the asset class structure review and their guiding principles for a manager structure study. John Carr provided the Board with an overview of the Committee's discussion and how they arrived at recommendations for the Board's consideration. It was noted that the Committee was in full agreement of the recommendations being presented to the Board.

MOTION: The Committee motioned to terminate Colchester Non-U.S. Fixed Income due to the new asset allocation targets approved by the Board on July 28, 2022. Melinda Manning seconded the motion. The motion carried unanimously.

MOTION: The Committee motioned moving to a non-U.S. equity manager structure that would include a target allocation of 25% to SSgA MSCI EAFE Index Fund; 21% to Morgan Stanley International Equity; 21% to an additional active international equity manager; 15% to T. Rowe Price International Small Cap; and 18% to Lazard Emerging Market Equity. Joey Hager seconded the motion. The motion carried unanimously.

MOTION: The Committee motioned moving to a U.S. fixed income manager structure that would include 20% to SSgA Bond Market Index Fund; 40% Barrow Hanley Core Plus Fixed Income; and 40% to an additional active core plus fixed income manager. Sheila Simpson seconded the motion. The motion carried unanimously.

John Carr presented a sample asset allocation report and the red-lined version changes to the Investment Policy Statement (IPS) which formalizes the changes to the target asset allocation, the manager structure changes above, updates to the watch list review process, as well as document formatting changes as presented in the IPS. Although the prior mix in Real Estate was split 60/40 between the two managers, the proposal provided a 50/50 split. Within time, the two strategies will rebalance naturally.

MOTION: The Committee motioned that the Board adopt the Investment Policy Statement (IPS) as presented. Matt Hastedt seconded the motion. The motion carried unanimously.

John Carr reported that the Committee performed the annual review of their Charter. The Committee noted that changes to the Resolutions page of the Charter will align with the Board's direction for consistency within policies, charters and regulations. Discussion occurred about the voting process at committee level and if both committees should be operated in the same manner. The Investment Committee motioned for the Board to adopt their Charter as submitted in the attachment. The motion did not pass. Since the outside legal counsel is reviewing policies, charters and regulations, this was tabled until the review is complete.

During the August meeting, the Committee approved a \$5 million cash liquidation request to pay benefits and administrative expenses per the Board's approved budget. Based on the July's preliminary month-end asset allocation report, the Committee determined that \$2 million would be redeemed from the Small Cap Value manager and \$3 million from the Non-U.S. Fixed Income manager to meet the cash request.

Lee Thompson motioned to approve the Investment Committee report and Matt Hastedt seconded the motion. The motion carried unanimously.

Benefits Committee Report

Melinda Manning provided an overview of the Benefits Committee Meetings since the July 28, 2022, Board Meeting. Due to material availability and scheduling conflicts, the Benefits Committee only held one meeting during the quarter, October 13, 2022. The primary focus centered around the Committee's Work Plan, understanding updates to Federal Tax Withholding forms for the retirees and legislative updates.

The Act, Committee Charters, Disability Regulations, Election Regulations and Policies (Funding, Investment, Surveillance, Code of Ethics, Travel with suggested edits, and drafted Communications) were submitted to Suzanne Dugan, outside legal counsel, on 7/15/2022 for her review. Suzanne will be attending the Committee's November meeting to present her comments.

The Committee agreed that one manual containing all policies/charters instead of individual documents would be the best practice and Suzanne Dugan provided a sample governance manual for the Committee's review.

The Committee reviewed their Charter for consistency, clarity and any necessary updates. Lisa Flowers reviewed the suggested changes. The charter will be reviewed by Suzanne Dugan as part of the policies review project before being presented to the Board for adoption.

Ryan Pope discussed the topic of the Board's interest in reviewing early retirement options which was asked of him by a member of the CFD's Health and Safety Committee. There seems to be growing concerns of firefighters' impact on their health due to aging process and demands on their body. The Board determined that this topic is an administration conversation and should be directed to the City's Fire Chief as a starting point.

John Carr motioned to approve the Benefits Committee Report and Joey Hager seconded. The motion carried unanimously.

Administrator Report – Sandy Thiry

Sandy Thiry reminded the Board that the Q1FY23 estimated financial statements were included in their material and there were no areas of concern. The annual audit is well underway. Tony Bass is on target with the deliverables and expects to meet the December 31st deadline required by the Act.

The Board discussed upcoming conferences. Callan's annual conference will be held in April instead of January so the only conference for approval is the NAPPA Winter Seminar for attorneys that Lisa Flowers attends.

MOTION: Ryan Pope motioned for Lisa Flowers to attend the NAPPA Winter Seminar. Matt Hastedt seconded the motion. The motion carried unanimously.

Sandy Thiry explained the Retiree and Active Election notification and voting process which is conducted by Intelliscan each year. CFRS sends the Notice of Election to the retirees the first of July and the first of August via email or a paper notice to those who do not have an email on file. The Notice of Election explains the voting process, how to obtain a new ballot should they not receive it and it's posted to the retiree portal. In turn, the retirees receive a notice that an article has been published and available for review. The article (Notice) can be viewed at any time and multiple times. Sandy Thiry further explained that retirees have various email host servers such as Google, Spectrum/Roadrunner, Hotmail, with their own security settings and rules for spam/junk, malicious email, etc. that may block emails. A reminder which is not required by the regulations, to watch for the ballot is sent via email from the CFRS just before the ballots are distributed. There were some questions by Marvin Wilson about the process and results because a few retirees said they did not receive a ballot. Staff reviewed all the participants in question and found that all who had contacted Intelliscan for a replacement ballot were given one and had voted. For the active election, members will receive their ballots from Intelliscan in their City email. Both Notices of Elections to the Active Members were mailed by the CFRS to the Member's City email address.

Melinda Manning motioned to approve the Administrative Report and Sheila Simpson seconded the motion. The motion carried unanimously.

IV. PUBLIC COMMENTS

Tammy Rigdon spoke to the Board on behalf of her husband, Steve Richards, regarding his pension estimates. When Steve Richards applied for his pension benefit, he was provided an estimate from the CFRS Staff. Prior to receiving his first check, Sandy Thiry called to inform Steve Richards that the benefit estimate used during his application was overstated due to a calculation programming error within the CBIZ calculator that the CFRS was not aware of. He has expressed concerns regarding the amount that was quoted versus the final benefit amount he is receiving, which is much lower than he expected and he may not have retired had he had the correct calculation. Due to the timing of notification by Sandy Thiry, he had already terminated from the City. Tammy Rigdon stated that the final benefit amount doesn't work for his budget. Because of the error, Mr. Richards is asking the Board to honor the quoted amount.

Vanessa Heffron thanked Tammy Rigdon for her time. She further explained to the Board that as soon as the programming error was detected in the calculator, it was rectified and new processes were put in place going forward so that a programming change could not be put into production until proper authorization has been given to the vendor by the CFRS. Question arose if anyone else was in the same situation. Sandy Thiry had reviewed all applicants during this period and had found one other. That Member was also contacted and confirmed he understood the situation and accepted the final corrected estimate. Both Members have been receiving benefits using the correct programming of calculation of benefits.

Break 10 minutes

Melinda Manning motioned to move from Open Session to Closed Session at 9:46 a.m. pursuant to N.C.G.S. Section 143-318.11(a)(3) to consult with an attorney employed or retained by the public body in order to preserve the attorney-client privilege between the attorney and the public body. John Carr seconded the motion. The motion carried unanimously.

John Carr motioned to return to Open Session at 10:55 a.m. The Board discussed Mr. Richards benefit and directed the attorney to respond to his request.

ADJOURNMENT

Melinda Manning motioned to adjourn at 10:56 a.m. John Carr seconded the motion. The motion carried unanimously.

Next Regular meeting is scheduled for Thursday, January 26, 2023.

cc: Lisa Flowers, Assistant City Attorney