



INVESTMENT COMMITTEE REPORT

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

JANUARY 26, 2023

To: The Board of Trustees

FROM: John Carr, Chair Kevin Gordon Joey Hager Matt Hastedt Teresa Smith

RE: INVESTMENT COMMITTEE REPORT

Summary of meetings since the October 27, 2022 Board Meeting:

November 17, 2022	Callan (Investment Consultant) – Quarterly Performance Review; Non-U.S. Equity & Fixed Income Manager Report; Annual Fee Review
December 19, 2022	Working Session
January 19, 2023	Domestic Mid Cap Equity Manager Reports (Boston Partners, MFS); Non-U.S. Equity & Fixed Income Manager Discussion

INVESTMENT CONSULTANT REPORT:

THIRD QUARTER 2022 INVESTMENT PERFORMANCE REVIEW

Market volatility continued throughout the quarter. All asset classes experienced negative absolute returns.

The Total Fund returned -5.68% over the course of the Third Quarter 2022, which slightly underperformed the Custom Index Return of -5.59% and ranked in the 94th percentile in the Callan Public Fund Sponsor Database. Since Inception, the Total Fund returned 8.34% and outperformed the Custom Index by 54 basis points on an annualized basis.

During the Third Quarter 2022, the Fund's market value declined by \$32.3 million due to the market selloff while operating expenses deducted an additional \$3.6 million. As a result, the ending Total Fund market value was \$536,869,140 as of September 30, 2022.

ANNUAL FEE REVIEW

Callan performed the annual investment manager fee analysis. No areas of concerns. Overall, investment managers are within the fee range for applicable asset classes.

NON-U.S. EQUITY AND FIXED INCOME MANAGER REPORT

Callan presented a report containing a list of potential managers recommended for consideration as additions within the System's International Equity and U.S. Fixed Income allocations. Callan's Global Manager Research group identified a long-list of candidate firms and then Callan's internal Search Committee narrowed the actual candidates down based on CFRS' Investment Policy Statement provisions. The report summarized each candidate's profile including investment style, staff, portfolio manager structure and experience, investment vehicle, fees, and historical performance and risk. The Investment Committee reviewed the profiles and narrowed down the list to three candidates per asset class to interview during the December working session.



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During the interviews, each candidate provided additional information regarding their firm, investment philosophy, and past performance results. The Committee further vetted risk vs. reward, fees, and overall best fit for the CFRS for the top two candidates in both asset classes.

MOTION: The Committee recommends that the CFRS hire Wellington Management Company as an additional International Equity manager.

MOTION: The Committee recommends that the CFRS hire Neuberger Berman as an additional U.S. Fixed Income manager.

ASSET ALLOCATION REVIEW

At each meeting, the Investment Committee reviewed the monthly asset allocation reports. All asset classes were in-compliance with the existing Investment Policy Statement.

CASH DRAW FOR OPERATING EXPENSES

At the November meeting, the Committee approved a \$5 million cash liquidation request to pay benefits and administrative expenses per the Board's approved budget. Given the timing of redemption and liquidation of Colchester International Fixed Income, it was determined that the quarterly cash draw come from their estimated \$16.6 million balance. In addition, the Committee motioned to transfer the remaining proceeds to the SSgA U.S. Aggregate Bond Index Fund until a final decision could be made regarding the Domestic Fixed Income manager structure.

WATCH LIST UPDATE

Eagle Asset Management, who was placed on watch effective August 11, 2022, due to a change in key personnel, continues to be closely monitored and remained on the Watch List.

U.S. DOMESTIC EQUITY

MFS

The Committee was provided with an organizational update and no changes were reported. The Fund's performance was discussed as well as the market environment for growth managers. The CFRS has only been invested in the MFS Mid Cap Growth Fund since November 14, 2019. For the 4Q22, 3-year, and Since Inception periods, the net of fee returns slightly lagged the benchmark. The performance for the 1-year period lagged the benchmark by 2.3%, net of fees, due to poor stock selection in Healthcare, Consumer Staples, and the underweight to the Energy sector.

BOSTON PARTNERS

The Committee was provided with an organizational update. A research analyst with 17 years of experience was promoted to Assistant Portfolio Manager on the Mid Cap Value team. Across all reported time periods, Boston Partners has consistently outperformed the benchmark, net of fees. A combination of sector weightings and stock selection have contributed to the success of the investment results over time.



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The Investment Committee will continue to monitor the performance of the System's investments, associated managers, and investment consultant. The Investment Committee will report any recommendations regarding managers, the investment consultant, or changes in asset allocation. All Board members are welcome to attend any Investment Committee meetings.