

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

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QUARTERLY BOARD MEETING MINUTES

January 26, 2023

PRESENT: Vanessa Heffron – Chair, John Carr, Melinda Manning, Sheila Simpson, Joey Hager, Matt Hastedt, Renee Metzler, Teresa Smith, Ryan Pope, and Lee Thompson (arrived at 8:03 a.m.)

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

ABSENT: Kevin Gordon

GUESTS: Suzanne Dugan, Ryan Bergman, Jordan Paschal, Dan Gougherty Cherry Bekaert, Suzanne Dugan, Mindy Sanchez

AGENDA

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

I. CONSENT CALENDAR

Melinda Manning motioned to approve the Consent Calendar which consisted of the October 27, 2022 Board Meeting Minutes, August 18, 2022 Disability Hearing minutes, Schedule of Retirements, and the Expense Reports. Matt Hastedt seconded the motion. The motion carried unanimously.

II. BOARD OF GOVERNANCE

Annual Audit Results - Dan Gougherty explained the role of the external auditor. Actions taken by the auditor include planning and performing procedures, obtaining reasonable assurance, and confirming financial reports are free from material misstatement. General journal entries, Act/policy changes, and benefit calculations are reviewed. It's the auditor's responsibility to express an opinion on the financial statements. The auditor issued an Unmodified Opinion (clean opinion) which is the highest level used with auditing standards. He noted there were no material weaknesses identified or significant deficiencies to report. There was one uncorrected adjustment related to a net overstatement of investments due to the three-month lag in reporting cycle for Real Estate which was not available before the fiscal year end reporting date.

Dan Gougherty also expressed appreciation to the CFRS staff for their assistance with the audit.

MOTION: Joey Hager motioned to accept the Auditor's report. John Carr seconded the motion. The motion carried unanimously.

Legislative Updates - Ryan Bergman, City Budget Director and Jordan Paschal, City Budget Analyst
Ryan Bergman acknowledged the City contributions of a 2% increase each year, while the CFD members continue with their 12.65% contribution. In 2020, Ryan Bergman was tasked to work with City's legislative liaison, Dana Fenton, to write a legislative strategy that included the approved amendments consisting of increased funding and other various updates which were approved by City Council. However, the proposed Bill stalled in the legislative committee. Although the Bill did not move out of

committee, he reassured the Board that the City will continue to pay the 2% contribution increase as scheduled. He further explained that it is unreasonable at this time to present the same Bill to the General Assembly. Ryan Bergman tasked the Board to provide the City with some financial recommendations that would move the plan toward fully funded status without leaning only on contributions.

Fiduciary Education – Suzanne Dugan

Suzanne Dugan, an attorney with Cohen Milstein, provided the Board fiduciary training and education. Training included basic terminology, fiduciary standards and principles, duties, the applicable laws. Suzanne stressed the importance of governance best practices including documentation of Board actions, reliance on independent experts and legal reviews, the adoption of policies and procedures as well as following such policies and procedures, and meeting preparedness. She stressed that part of a Board member's fiduciary duty includes being prepared for meetings and reviewing Board materials prior to meetings.

III. REPORTS

Investment Committee Report – John Carr

John Carr reported investment updates from the Third Quarter. As the market volatility continued throughout the Third Quarter of 2022, 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.

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

The Committee reviewed a list of potential managers recommended for consideration by Callan's research team and narrowed the search to a short list. Interviews of the short-listed candidates were conducted. 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 and Sheila Simpson seconded the motion. The motion carried unanimously.

MOTION: The Committee recommends that the CFRS hire Neuberger Berman as an additional U.S. Fixed Income manager and Sheila Simpson seconded the motion. The motion carried unanimously.

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

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.

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.

The Committee met with the Domestic Equity mid-cap growth manager and the mid-cap value manager this past quarter. No areas of concern were noted.

Joey Hager motioned to approve the Investment Committee report and Renee Metzler seconded the motion. The motion carried unanimously.

Benefits Committee Report

Melinda Manning provided an overview of the Benefits Committee Meetings since the October 27, 2022, Board Meeting. The primary focus centered around the Committee's Work Plan, policy reviews, and charter updates.

The Committee continues to utilize the Work Plan to remain focused on the various projects and policy reviews. Staff reported the Act amendments as originally submitted to the General Assembly were resubmitted to the City in October 2022 to be re-considered for inclusion with the City's legislation package in early 2023.

The Committee continued to monitor various legislative bills that if passed, may have impacted CFRS Members. Among the most notable provisions in submitted bills included the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO). Neither of these provisions made it through the Senate. The Secure Act 2.0 was passed at the end of 2022 and focuses primarily on defined contribution plans. Communication regarding the status of the recent legislative decisions was sent to active members via email and retirees through the retiree portal.

Staff has been working on security modules for the retirees and will utilize the CFRS' hired IT provider as a subject matter expert and resource. CFRS' legal counsel, Lisa Flowers, will review the material before staff moves on to the next phase of publishing.

(Vanessa Heffron turned over the chairperson role to John Carr at 10:28 a.m. as she left the room.)

Committee Charters and various policies including the Investment, Surveillance, Code of Ethics, and newly drafted Communications Policies were updated and reviewed by internal and outside legal counsel Suzanne Dugan. Suggested edits including technical, compliance, and formatting changes were presented to the Board for approval. The Committee motioned to recommend the adoption of the updated Charters, Investment Policy Statement (IPS), Code of Ethics, and Surveillance policy as presented to the Board. Discussion ensued and clarity was provided regarding the IPS edits presented. The edits were on the version provided to outside legal counsel at the start of the project in May 2022 however, the IPS had been updated by the Board at the October 2022 Board meeting.

Joey Hager motioned to approve the suggested edits to the Investment Policy Statement, Committee Charters, Code of Ethics and Surveillance Policy. Renee Metzler seconded the motion and the motion carried unanimously.

The Committee had also presented a motion for the adoption of a new Communications Policy but due to time constraints and the lack of its review by some trustees prior to the Board meeting, the Motion was rescinded.

(Vanessa Heffron returned to her role as Chairperson at 11:01 a.m.)

The Administrator informed the Committee of an additional holiday granted to City employees beginning in 2023 which will require an update to the benefits calculator. Staff is working with CBIZ on the update. Cavanaugh McDonald has been notified of this change and their calculated cost to the plan was provided which was enclosed in the Board material in the Benefits Committee report.

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

Administrator Report – Sandy Thiry

Sandy Thiry reminded the Board that the 2QFY23 estimated financial statements were included in their material and although two budget items were over budget, the budget in total was not. There were no areas of concern. Final FY22 Annual Financial Report was completed by December 31, 2022 which was sent to each trustee by Tony Bass and enclosed in the Board's meeting material. The report will be posted to the website and distributed to members.

As previously mentioned in the Benefits Committee report, Sandy Thiry reminded the Board that CBIZ has instructions to update the benefits calculator to include the additional holiday accrual allowed by the Act in determining the Final Average Salary. The anticipated completion date is March 21, 2023; however, it will not go into production without CFRS' written consent which would be after thorough testing.

The Board discussed and approved upcoming conferences. Callan Annual Conference will be held in Scottsdale, Arizona on April 2-4, 2023. NCPERS Trustee Educational Seminar will be in New Orleans, Louisiana on May 20-21, 2023 and the NCPERS Annual Conference from May 21-24, 2023. The GFOA will be in Portland, Oregon on May 21-24, 2023.

MOTION: Joey Hager motioned for John Carr, Joey Hager, Lee Thompson and Desiré Dixon, and either Ty Phelps or Sandy Thiry to attend Callan's Annual Conference; Sheila Simpson to attend NCPERS; and Betty Mattos, Matt Hastedt and Tony Bass to attend the GFOA. John Carr seconded the motion. The motion carried unanimously.

Sandy Thiry also discussed office operations, Charlotte National Building access, and public record requests.

Melinda Manning motioned to approve the Administrator's Report and Renee Metzler seconded the motion. The motion carried unanimously.

Melinda Manning motioned to move from Open Session to Closed Session at 11:14 a.m. pursuant to N.C.G.S. Section 143-318.11(a)(6) to consider the performance of members of the System's staff. Sheila Simpson seconded the motion. The motion carried unanimously.

The Board return to Open Session at 12:10 p.m. Board announced they approved staff merit raises.

ADJOURNMENT

Melinda Manning motioned to adjourn at 12:10 p.m. Ryan Pope seconded the motion. The motion carried unanimously.

Next Regular meeting is scheduled for Thursday, April 27, 2023.