



INVESTMENT COMMITTEE REPORT

CHARLOTTE FIREFIGHTERS' RETIREMENT SYSTEM

APRIL 25, 2024

To: The Board of Trustees

FROM: John Carr, Chair Teresa Smith Matt Hastedt Joey Hager Mike Feeley

RE: INVESTMENT COMMITTEE REPORT

Summary of meetings since the January 25, 2024 Board Meeting:

February 15, 2024	Quarterly Performance Review– Callan (Investment Consultant); Quarterly Cash Draw; Investment Policy Statement Review
March 7, 2024	Special Meeting – Investment Consultant RFP Q&A
March 21, 2024	Working Session – U.S. Small Cap Manager Reviews
April 15, 2024	Special Meeting – Investment Consultant RFP Interviews
April 18, 2024	International Equity Manager Reviews; Investment Policy Statement Review; Investment Consultant RFP Follow-Up

INVESTMENT CONSULTANT REPORT:

FOURTH QUARTER 2023 INVESTMENT PERFORMANCE REVIEW

The Total Fund returned 8.56% over the course of the Fourth Quarter, outperforming the Custom Index return of 8.21%, and ranked at the 25th percentile in the Callan Public Fund Sponsor Database. While the 5-year return of 7.73% underperformed the Custom Index return of 8.11%, it exceeded the 7.00% actuarial assumed rate of return.

Since inception, the Total Fund returned 8.61% and outperformed the Custom Index by 52 basis points on an annualized basis, ranking in the 30th percentile. As of December 31, 2023, the Total Fund market value was \$622,614,207.

The Committee reviewed Callan's latest capital market projections. Callan developed projections for the risks, returns, and correlations of the capital markets each year which are the key inputs to their asset allocation studies. Based on the new 2024 capital market assumptions, CFRS' 10-year expected return is 7.44% based on the current policy target allocation. At this time, Callan recommended no changes to the asset allocation targets, or to the assumed rate of return.

Callan conducted a follow-up fee review of Boston Partners' active management fee. The current CFRS base fee of 25 basis points per year offers a significant discount of approximately 69% in annual savings compared to their standard asset-based fee of 80 basis points per year. In addition to the base fee, CFRS also pays Boston Partners a portion of their relative outperformance on a rolling 3-year basis, but the total fee is capped at 125 basis points. According to Callan's research, the current CFRS performance-based fee aligns with Boston Partners' outperformance objectives of 200 basis points. The CFRS total fee is a discount to their standard fee schedule when the rolling 3-year relative performance is less than 245 basis points of outperformance.



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The Committee evaluated the benefits of staying in the UBS Real Estate Loyalty Program. The 25% discount fee with the loyalty program is expected to be made permanent at some point. However, the discounted would be rebated on any withdrawal amounts. The Committee will continue to evaluate the program.

INVESTMENT POLICY STATEMENT (IPS)

Callan reviewed the IPS and provided follow-up to their suggested edits. The Committee reviewed options for updating the Manager's five-year objectives pertaining to excess returns over their respective performance indices. In addition, improved language was suggested relating to the credit rating agencies which govern the Domestic Fixed Income manager portfolios.

The Real Estate allocation dropped below the minimum allowable allocation limit due to market volatility, property write-downs, and receiving redemptions from JP Morgan. The Committee is closely monitoring the allocation each month and is evaluating the long-term role of private real estate, recent performance, and future expectations.

MOTION: The Committee motioned for the Board to approve the minor changes to the Investment Policy Statement.

CASH DRAW FOR OPERATING EXPENSES

The Committee motioned to draw \$3.5M from the SSGA Russell 1000 Index Fund.

WATCH LIST UPDATE

Barrow Hanley and MFS have been on watch status due to changes in key personnel per the Investment Policy Statement. Identifying no areas of ongoing concern resulting from these key personnel changes, the Committee motioned and approved removing both Barrow Hanley and MFS from watch status.

JP Morgan, who was placed on watch effective November 16, 2023 due to a change in key personnel per the Investment Policy Statement, continues to be closely monitored. At the same time and in consultation with Callan, the CFRS entered JP Morgan's redemption queue and has received \$999,000 to date, leaving a fund balance of approximately \$20 million. CFRS retains the right to withdraw from the redemption queue at any time.

ASSET ALLOCATION REVIEW

Each month, the Investment Committee reviewed the asset allocation reports. All asset classes were in-compliance with the existing Investment Policy Statement, except for Private Real Estate as noted above.

INVESTMENT CONSULTANT DUE-DILIGENCE PROCESS

The Committee reviewed the proposals that were submitted and discussed various aspects of each firm in order to narrow down the list of candidates for interviews. Interviews were subsequently held with four finalists. The full Investment Committee, joined by the Board Chair and a Benefits Committee Trustee,



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thoroughly vetted each of the finalists' qualifications, services, and respective fees along with the long-term needs of the CFRS. Following a well-documented process, the group determined the best candidate to recommend to the Board.

MOTION: The Committee motioned for the Board to hire Callan as CFRS' Investment Consultant.

U.S. SMALL CAP MANAGER REVIEWS

EAGLE ASSET MANAGEMENT

As of December 31, 2023, the 1-year, 3-year, 5-year, and Since Inception (9/24/2010) net of fee returns lagged the benchmark while the 10-year period exceeded the Russell 2000 Growth benchmark. In the quarter-to-date period (January 1 through March 20, 2024), fund performance improved with a gross of fees return of 8.2% versus the benchmark return of 5.2%. The gross of fees rolling one-year performance through March 20, 2024 was in-line with the benchmark at 22.1%.

WILLIAM BLAIR

One of their Industrials analysts departed to pursue other career endeavors in February 2024. The departing analyst's coverage represented less than 3% of the current portfolio holdings. The two other Industrials analysts will cover these duties until a replacement can be named.

The Fourth Quarter 2023 and the 1-year period, as of December 31, 2023, returns lagged the Russell 2000 Value benchmark. However, updated net of fees performance through February 29, 2024 showed that all time periods have exceeded the benchmark, with the only exception being the rolling 1-year period.

INTERNATIONAL EQUITY

T. ROWE PRICE INTERNATIONAL SMALL CAP

The strategy, which closed to new investors in 2018, re-opened in September 2023 due to the combination of net outflows and the increased size of the overall market. All reporting periods except for the 3-year period added value gross of fees as of March 31, 2024. T. Rowe announced that securities lending will be re-instated on all of their collective trust funds effective July 1, 2024. Any interest income generated from securities lending will be reflected in the net asset value of the fund.

MORGAN STANLEY INTERNATIONAL DEVELOPED COUNTRY EQUITY

The Committee was informed that an analyst left the International Equity team and two research analysts were hired in 2023. All reporting periods, except for Since Inception, have lagged the benchmark, net of fees, as of March 31, 2024. The Committee will further review the manager's performance once the relative peer group rankings are reported by Callan.

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.