



BOARD OF ADMINISTRATION

1737 N. First Street, Suite
580 5th Floor Board Room,
San Jose, CA 95112

Meeting Minutes - Final Police and Fire Investment Committee

Tuesday, February 26, 2019

12:00 PM

1737 N. First Street, Suite 580 5th Floor
Board Room, San Jose, CA 95112

CALL TO ORDER AND ROLL CALL

The Police and Fire Investment Committee met on Tuesday, February 26, 2019 at the Retirement Services Board Room, 1737 N. First Street, Suite 580, San Jose California 95112. Chair Ghia Griarte of the Police and Fire Investment Committee called the meeting to order at 12:00 noon.

Present 4 - Andrew Gardanier, Vincent Sunzeri, Vikas Oswal, and Ghia Griarte

Retirement staff present: Roberto L. Pena, Prabhu Palani, Brian Starr, Jay Kwon, Dhinesh Ganapathiappan, Christina Wang, David Aung, Arun Nallasivan, Linda Alexander, Ron Kumar, Allain Mallari

Also present: Meketa Investment Group: Laura Wirick, Hannah Schriener, Frank Benham (via teleconference)

• ORDERS OF THE DAY

Chair Griarte requested waiver of Sunshine on the attachments of the agenda items.
A motion was made to approve the waiver of Sunshine.
Approved. (M.S.C. Gardanier/Sunzeri)
The Motion passed unanimously.

OPEN SESSION

1. Approval of Minutes of the January 22, 2019 Police and Fire Investment Committee Meeting.

A motion was made to approve the January 22, 2019 Minutes of the Police and Fire Investment Committee Meeting.

Approved. (M.S.C. Gardanier/Sunzeri)

The Motion passed unanimously.

2. Approval of Minutes of the January 22, 2019 Joint Investment Committee Meeting.

A motion was made to approve the January 22, 2019 Minutes of the Joint Investment Committee Meeting.

Approved. (M.S.C. Gardanier/Sunzeri)

The Motion passed unanimously.

3. Oral update from the CIO.

CIO Palani asked Investment Officer Jay Kwon and Investment Operations Supervisor Ron Kumar to provide updates on their respective topics.

Mr. Jay Kwon provided the trustees an update on the Absolute Return allocation. He stated that the IPS mandates that the asset classes are rebalanced if they reach +/-10% of the policy target. Absolute Return is currently close to top of the range and may trip rebalancing guidelines. The Absolute Return investments have restrictions on liquidity. Staff is currently looking into liquidity strategy for rebalancing purposes.

Trustee Oswal asked about the portfolio correlation and if equitizing with futures has been considered. Mr. Kwon responded that the portfolio correlation is around 0.3 to broad equity indices and operating in that neighborhood. CIO Palani stated that the plan has an overlay program over the total portfolio instead of just in Absolute Return asset class.

Mr. Kumar provided an update on the custodian RFP. He stated that the deadline for the responses was on February 11th and staff will provide a recommendation in the next few months.

4. Discussion and action regarding the revised Investment Policy Statement by Meketa Investment Group.

Ms. Laura Wirick and Ms. Hannah Schriener of Meketa Investment Group discussed various changes to the draft IPS. Ms. Schriener stated that Meketa worked with Cheiron on the liability side. She added that Meketa surveyed multiple IPS language as a guide and incorporated them in the Plan's IPS. Other edits to the IPS were grammatical and some legal language changes.

Trustee Griarte asked if the Plan needs a consultant to monitor the risk separate from the performance consultant. Does it make sense to pay someone else to monitor the risk? Can the general consultant do both performance and risk?

Trustee Sunzeri asked staff to provide a recommendation regarding the need for a risk consultant which the previous CIO recommended to have a risk consultant.

CIO Palani stated that if he had Barra internally, we wouldn't need a risk consultant. The risk consultant provides an independent lens to the portfolio and it is worth having a discussion.

Following a lengthy discussion between the trustees, staff, and Meketa, recommendation was made to present the edits to the Board at their March 7th meeting. Bring the draft IPS with the Boards input to the March Investment Committee.

5. Discussion of Capital Markets Assumptions by Meketa Investment Group.

Ms. Wirick introduced the item stating that Meketa updates the Capital Market Assumptions ("CMA") annually. Each year they combine both qualitative and quantitative to review the CMA. She reviewed various slides in the presentation and discussed the year-over-year comparisons.

CIO Palani states that the exercise started in December 2018 when the market sell-off occurred. Did the sell-off result in changes in strategic asset allocation. There were couple of findings:

1. The sell-off didn't dictate any meaningful changes; and
2. Asset Allocation is always relative between asset classes and correlation didn't change that much.

He added that CMA cannot be changed really fast. Question is: how do we take advantage of a sell-off? What mechanism can we put in place to take advantage of the sell-offs. Some of the things to consider are:

- a. How can we increase our beta, which is lower than our peers, without increasing our cost
- b. The discussion we should have is how do we move between growth and beta assets.

The trustees, staff and Meketa discussed the various structures and staff's authority to act, as well as different scenarios that would allow staff to act.

CIO Palani stated that during the last sell-off, it was too early to react since we were in a transition. The IPS provides authority to CIO to act. We would need a shorter forecast to make decisions.

Trustee Oswal requested clarification on the charts to which Ms. Wirick stated that she will provide the exact numbers.

Responding to Trustee Oswal's question if Meketa is expecting buyback on dividend yield, Mr. Frank Benham stated that buybacks do get factored into earnings growth.

This item was noted and filed.

6. Discussion regarding the future Pre-funding Discount Rate Methodology.

CIO Palani notified the Trustees that the City has elected not to pre-fund the employee contributions this year.

This item was noted and filed.

7. Discussion regarding the 2019 Investment Committee Goals and Objectives.

Trustee Sunzeri requested that this item should be on the future agenda as a communications item.

This item was noted and filed.

CLOSED SESSION

8. Conference with Investment Consultant pursuant to Govt. Code section 54956.81 to consider purchase or sale of particular pension fund investments (3 investments).

The Committee went into Closed Session at 2:00 p.m. and came out at 2:23 p.m. There was nothing to report out of Closed Session.

FUTURE AGENDA ITEMS

- **ADJOURNMENT**

The meeting was adjourned at 2:26 p.m.

APPROVED:

ROBERTO L. PEÑA, CEO
OFFICE OF RETIREMENT SERVICES