



*Investment Program*

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08.28.2018 PF IC - Item# 2.b  
(replacement)

# ASSET ALLOCATION IMPLEMENTATION

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## Police & Fire Department Retirement Plan

# Introduction

On August 2, 2018, the Board approved a new asset allocation policy and requested staff do more work on ranges. This presentation is the implementation plan.

Pending approval at the August 28, 2018 Investment Committee and subsequent September 6, 2018 Board meeting, implementation would begin with a concurrent “go live” date October 1, 2018. While the majority of transitions would be fully complete by January 1, 2019, there would be a quarter of potentially high unintended tracking error. For performance evaluation purposes, staff would expect to be accountable for deviations from policy starting in 2019.

The core of this presentation summarizes the changes that need to occur at the asset class and sub-asset class level, as well as benchmark changes to more accurately reflect the intentions of the asset allocation. These are further broken down into public markets and private markets strategies.

The final slide combines all of the specific approvals from each asset class, and at the plan level, in order to present a recommendation that can be easily referenced in a motion.

# Summary implementation plan

	Current (7/31/18)		Target			+/-	1/1/19 Pro Forma			Policy Benchmark
	MV	% of Plan	Min	Policy	Max		MV	% of Plan	Diff	
<b>Growth</b>	<b>2,391,280,033</b>	<b>64.4%</b>	<b>50%</b>	<b>56%</b>	<b>70%</b>	<b>(312,147,013)</b>	<b>2,079,133,020</b>	<b>56.0%</b>	<b>0.0%</b>	Weighted roll-up of underlying components
Public Equity	1,301,360,814	35.1%	20%	31%	40%	(149,000,000)	1,152,360,814	31.0%	0.0%	Weighted roll-up of underlying components
US Equity	454,388,197	12.2%		13%		27,000,000	481,388,197.44	13.0%	0.0%	MSCI US IMI
International Equity	592,490,044	16.0%		8%		(294,000,000)	298,490,044.35	8.0%	0.0%	MSCI World ex US IMI
Emerging Markets Equit	254,482,573	6.9%		10%		118,000,000	372,482,572.55	10.0%	0.0%	MSCI EM IMI
Private Markets	751,194,698	20.2%	20%	22%	30%	64,551,455	815,746,153	22.0%	0.0%	Actual return
Private Equity	193,904,651	5.2%	5%	12%	15%	-	193,904,651	5.2%	-6.8%	
Private Debt	285,898,572	7.7%	0%	4%	5%	(90,553,060)	195,345,512	5.3%	1.3%	
Private Real Estate	84,245,577	2.3%	0%	3%	5%	-	84,245,577	2.3%	-0.7%	
Private Real Assets	80,893,435	2.2%	0%	3%	5%	(59,895,485)	20,997,950	0.6%	-2.4%	
NT Russell 3000	106,252,463	2.9%				215,000,000	321,252,463	8.7%	8.7%	
Emerging Markets Debt	168,967,619	4.6%	0%	3%	5%	(58,000,000)	110,967,619	3.0%	0.0%	50% JP Morgan EMBI GD, 50% JP Morgan GBI-EM GD
High Yield Debt	169,756,901	4.6%		0%		(169,698,468)	58,433	0.0%	0.0%	n/a
<b>Zero Beta</b>	<b>226,312,850</b>	<b>6.1%</b>	<b>10%</b>	<b>32%</b>	<b>35%</b>	<b>962,575,133</b>	<b>1,188,887,983</b>	<b>32.0%</b>	<b>0.0%</b>	Weighted roll-up of underlying components
Short-term IG Bonds	-	0.0%	5%	20%	25%	742,000,000	742,000,000	20.0%	0.0%	ICE BofAML 3-Month T-Bill Index
Immunized Cash Flows	-	0.0%	5%	5%	5%	186,000,000	186,000,000	5.0%	0.0%	Actual return
Absolute Return	216,507,709	5.8%	0%	7%	10%	45,000,000	261,507,709	7.0%	0.0%	3-Month LIBOR
Cash	9,805,140	0.3%	0%	0%	5%	(10,424,867)	(619,726)	0.0%	0.0%	n/a
<b>Other</b>	<b>1,094,547,530</b>	<b>29.5%</b>	<b>5%</b>	<b>12%</b>	<b>15%</b>	<b>(650,428,121)</b>	<b>444,119,409</b>	<b>12.0%</b>	<b>0.0%</b>	Weighted roll-up of underlying components
Core Real Estate	213,014,159	5.7%	0%	5%	8%	(28,000,000)	185,014,159	5.0%	0.0%	NCREIF ODCE Index (Equal-weighted)
Commodities	149,105,250	4.0%	0%	2%	8%	(75,000,000)	74,105,250	2.0%	0.0%	Bloomberg Commodities Index
Sovereign Bonds ex-U.S.	-	0.0%	0%	3%	5%	110,000,000	110,000,000	3.0%	0.0%	FTSE WGBI ex US
TIPS	-	0.0%	0%	2%	8%	75,000,000	75,000,000	2.0%	0.0%	Bloomberg Barclays 0-5 Year TIPS
Core Bonds	732,428,121	19.7%		0%		(732,428,121)	-	0.0%	0.0%	n/a

# Public Markets

## Public Equity (US Equity, International Equity, Emerging Markets Equity)

- Strategies with multi-regional exposures will be decomposed by region when calculating the weights of the sub-asset classes.
- Passive vehicles will be used to obtain policy beta exposures.
  - The passive vehicles will serve as the funding source for active searches going forward, especially in Emerging Markets.
- Other changes may include reduced usage of long/short strategies.

## Fixed Income (Cash, Short-term IG Bonds, Immunized Cash Flows, TIPS, Core Bonds, High Yield, EMD)

- Existing High Yield and Core Bond managers will be terminated.
- Passive vehicles will be used to obtain beta exposures in the Short Duration, TIPS, and Immunized Cash Flow allocations.
  - The passive vehicles will serve as the funding source for active searches going forward.
  - The bulk of the legacy strategies have daily liquidity, with the exception of High Yield.

## Absolute Return

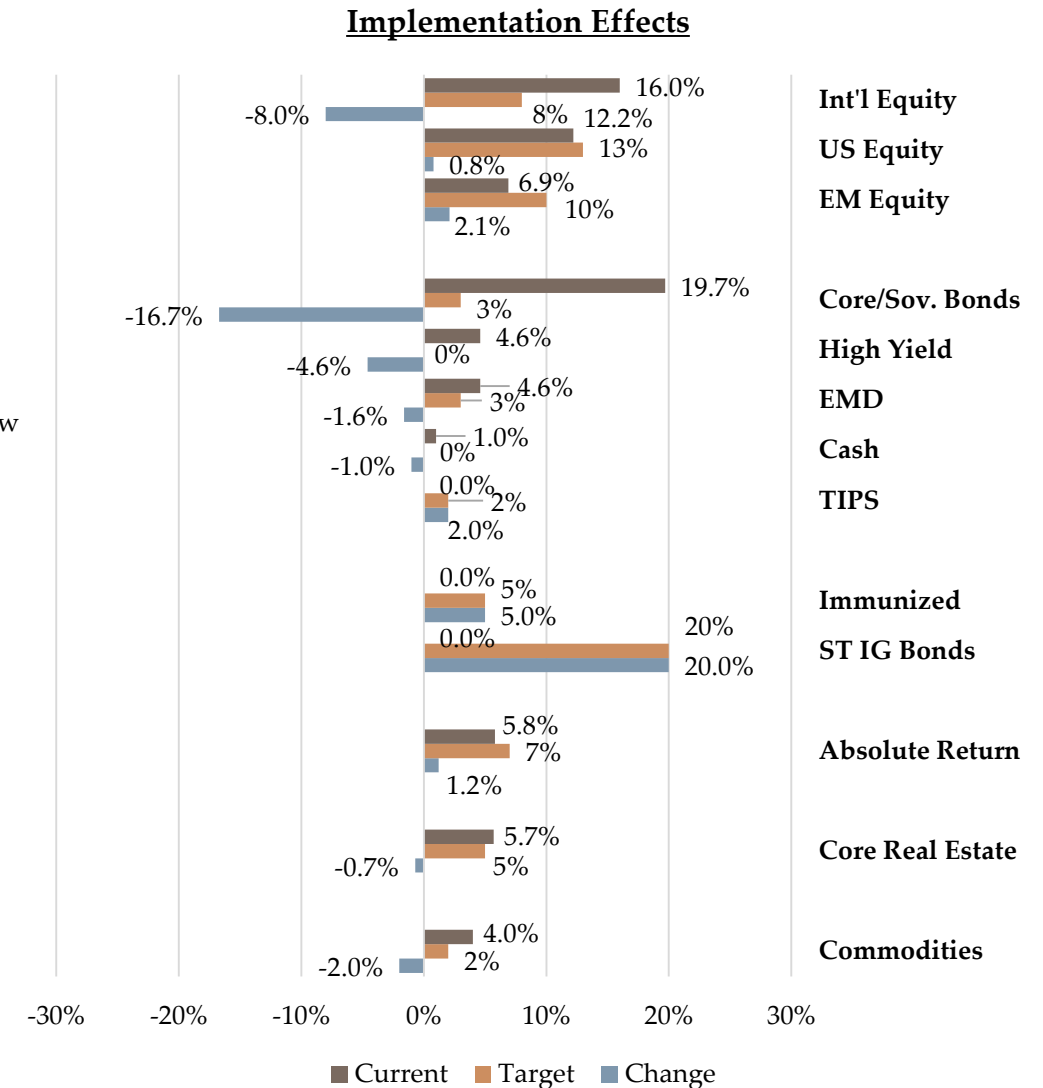
- All current strategies will be retained, and incrementally increased to bring the AR allocation to the new policy weight.

## Core Real Estate

- Redeem from American Core Realty Fund to reach new target.

## Commodities

- Pinnacle Natural Resources redemption approved on May 17, 2018 for December 31, 2018 dealing date.
- Redeem from Credit Suisse Risk Parity fund to reach target.
- Invest proceeds from Pinnacle Natural Resources redemption into Credit Suisse Risk Parity fund beginning mid-January 2019.



# Private Markets

<b>Pacing plan (\$ mm):</b>	<b>'18-'19</b>	<b>'19-'20</b>	<b>'20-'21</b>
Private Markets	24	25	24
Buyout	99	95	89
Venture Capital	23	30	29
Private Debt	60	60	60
Private Real Estate	35	35	35
Private Real Assets	30	30	34

## **Breakdown:**

### *Traditional Style Investments*

Private Debt	60	60	60
Private Real Estate	35	35	35
Private Real Assets	30	30	34

### *NB PE Strat. Partnership*

Primary Funds	85	82	77
Secondaries & Co-investments	37	35	33

### *Strategic Investments*

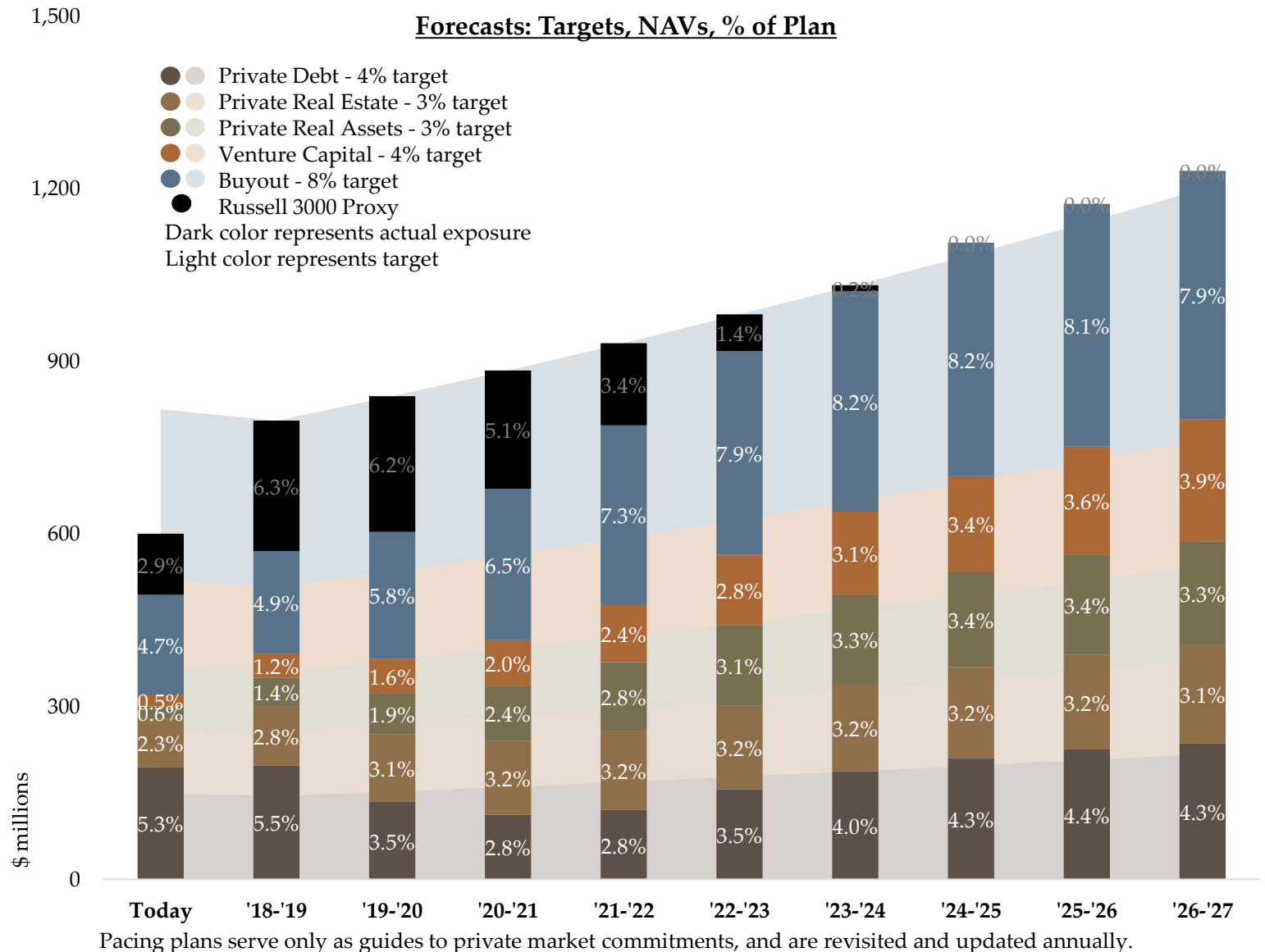
Venture Capital	-	8	8
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## **Proxy use:**

NT Russell 3000 index fund  
Implemented at the Private Markets level

## **Benchmark:**

For time-weighted, plan-level: actual return  
For long-term: money-wtd PME and vintage quartiles



# Summary

Staff recommends approval of:

1. The implementation plan; (slide 2)
2. The effective date of the new asset allocation as October 1, 2018; (slide 2)
3. The policy benchmark, and the underlying asset class benchmarks; (slide 3)
4. Managing Public Equity asset class weights according to underlying exposure of the managers; (slide 4)
5. Hiring new funds; (slide 4)
  - a. Northern Trust MSCI EM index fund
  - b. BlackRock 3M T-bills separately managed account
  - c. Northern Trust Short Term Government Bond index fund
  - d. Northern Trust 0-5Y TIPS separately managed account
  - e. Northern Trust World Government Bond ex-US index fund
6. Reducing exposure by more than 50% to...; (slide 4)
  - a. Northern Trust MSCI World ex-US index fund
  - b. Oberweis International Opportunities fund
  - c. Credit Suisse Risk Parity fund
  - d. BlueBay EM Select Bond fund
7. Termination of...; (slide 4)
  - a. BlackRock Global Aggregate ex-US collective trust fund
  - b. BlackRock US Debt collective trust fund
  - c. BlackRock Long Government collective trust fund
  - d. Colchester Global Bond Fund
  - e. Franklin Templeton Global MultiSector fund
  - f. Voya Securitized Credit separately managed account
  - g. Rhumblin Brookfield Global Infrastructure index fund (slide 5)
8. Exemption for Northern Trust and BlackRock from Investment Policy Statement item 22, the limit of managing no more than 20% of plan assets;
9. The pacing plan for each private market asset class; (slide 5)
10. The concept of an increase to the commitment size, investment period, and term of the Neuberger Berman Private Equity fund-of-one; (slide 5)
11. Using the Northern Trust Russell 3000 index fund as the singular proxy for all gaps in private markets exposure, implemented at the Private Markets level; (slide 5)

Certain approvals for alternative investments to be discussed in Closed Session.