



## *Investment Program*

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# ASSET ALLOCATION IMPLEMENTATION

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## Federated City Employees' Retirement System

# Introduction

At the June 21, 2018 meeting, the Board approved a new asset allocation policy and ranges, pending approval of the implementation plan first by the Investment Committee and then by the Board. This presentation is the implementation plan.

Pending approval at the August 28, 2018 Investment Committee and subsequent September 20, 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)					Pro Forma (1/1/19)			Diff	Policy Benchmark
	MV	% of Plan	Min	Target	Max	+/-	MV	% of Plan		
<b>Growth</b>	<b>1,107,186,611</b>	<b>49.6%</b>	<b>50%</b>	<b>58%</b>	<b>70%</b>	<b>186,757,907</b>	<b>1,293,944,518</b>	<b>58.0%</b>	<b>0.0%</b>	Weighted roll-up of underlying components
Public Equity	648,327,860	29.0%	20%	30%	40%	20,884,777	669,212,637	30.0%	0.0%	Weighted roll-up of underlying components
US Equity	223,131,159	10.0%		13%		68,000,000	291,069,745	13.0%	0.0%	MSCI US IMI
International Equity	293,500,945	13.1%		7%		(138,000,000)	155,460,156	7.0%	0.0%	MSCI World ex US IMI
Emerging Markets Equit	131,695,755	5.9%		10%		91,000,000	222,682,735	10.0%	0.0%	MSCI EM IMI
Private Markets	346,817,443	15.5%	20%	25%	30%	211,001,439	557,818,883	25.0%	0.0%	Actual return
Private Equity	70,107,691	3.1%	5%	15%	25%	-	70,107,691	3.1%	-11.9%	
Private Debt	70,152,598	3.1%	0%	4%	5%	-	70,152,598	3.1%	-0.9%	
Private Real Estate	44,857,291	2.0%	0%	3%	5%	-	44,857,291	2.0%	-1.0%	
Private Real Assets	27,496,344	1.2%	0%	3%	5%	(10,998,561)	16,497,784	0.7%	-2.3%	
NT Russell 3000	134,203,520	6.0%				222,000,000	356,203,520	16.0%	16.0%	
Emerging Markets Debt	71,815,512	3.2%	0%	3%	5%	(5,000,000)	66,815,512	3.0%	0.0%	50% JP Morgan EMBI GD, 50% JP Morgan GBI-EM GD
High Yield Debt	40,225,797	1.8%	0%	0%	5%	(40,128,310)	97,487	0.0%	0.0%	n/a
<b>Zero Beta</b>	<b>255,328,823</b>	<b>11.4%</b>	<b>10%</b>	<b>32%</b>	<b>35%</b>	<b>458,605,499</b>	<b>713,934,323</b>	<b>32.0%</b>	<b>0.0%</b>	Weighted roll-up of underlying components
Short-term IG Bonds	-	0.0%	5%	20%	25%	445,500,000	445,500,000	20.0%	0.0%	ICE BofAML 3-Month T-Bill Index
Immunized Cash Flows	-	0.0%	5%	5%	5%	111,000,000	111,000,000	5.0%	0.0%	Actual return
Absolute Return	255,295,250	11.4%	0%	7%	10%	(98,000,000)	157,295,250	7.0%	0.0%	3-Month LIBOR
Cash	33,574	0.0%	0%	0%	5%	105,499	139,073	0.0%	0.0%	n/a
<b>Other</b>	<b>869,584,878</b>	<b>39.0%</b>	<b>5%</b>	<b>10%</b>	<b>15%</b>	<b>(645,363,406)</b>	<b>224,221,473</b>	<b>10.0%</b>	<b>0.0%</b>	Weighted roll-up of underlying components
Core Real Estate	124,846,276	5.6%	0%	5%	8%	(14,000,000)	110,846,276	5.0%	0.0%	NCREIF ODCE Index (Equal-weighted)
Commodities	90,819,610	4.1%	0%	3%	8%	(23,000,000)	67,819,610	3.0%	0.0%	Bloomberg Commodities Index
TIPS	191,555,587	8.6%	0%	2%	8%	(146,000,000)	45,555,587	2.0%	0.0%	Bloomberg Barclays 0-5 Year TIPS
Core Bonds	462,363,406	20.7%		0%		(462,363,406)	-	0.0%	0.0%	n/a

Source: State Street, ORS

# 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

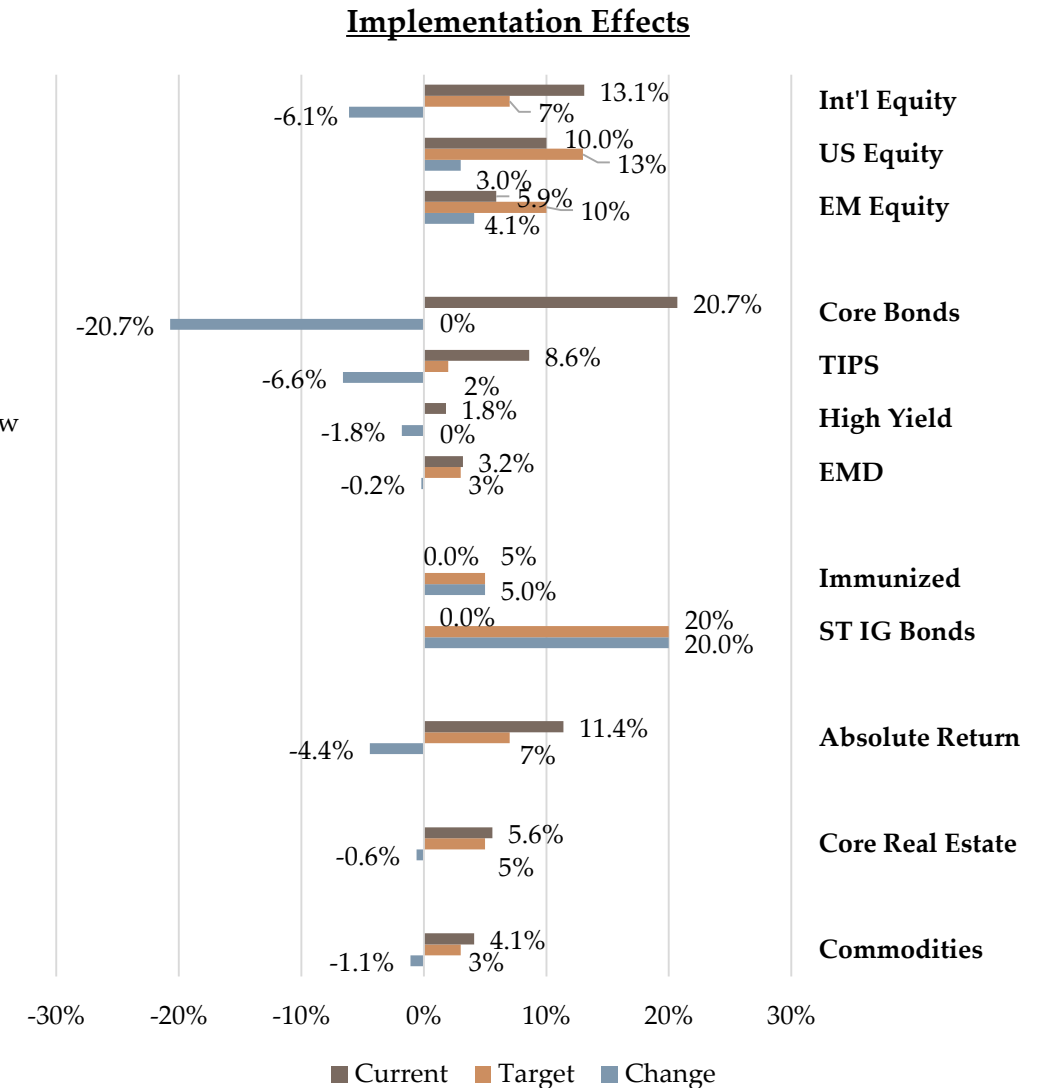
- All current strategies will be retained, and incrementally trimmed to reduce the AR allocation to the new policy weight.

## 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>
<b>Private Markets</b>	<b>172</b>	<b>173</b>	<b>163</b>
Buyout	85	81	71
Venture Capital	20	25	23
Private Debt	35	35	35
Private Real Estate	16	16	18
Private Real Assets	16	16	16

## **Breakdown:**

### **Traditional Style Investments**

Private Debt	35	35	35
Private Real Estate	16	16	18
Private Real Assets	16	16	16

### **NB PE Strat. Partnership**

Primary Funds	73	70	62
Secondaries & Co-investments	31	30	26

### **Strategic Investments**

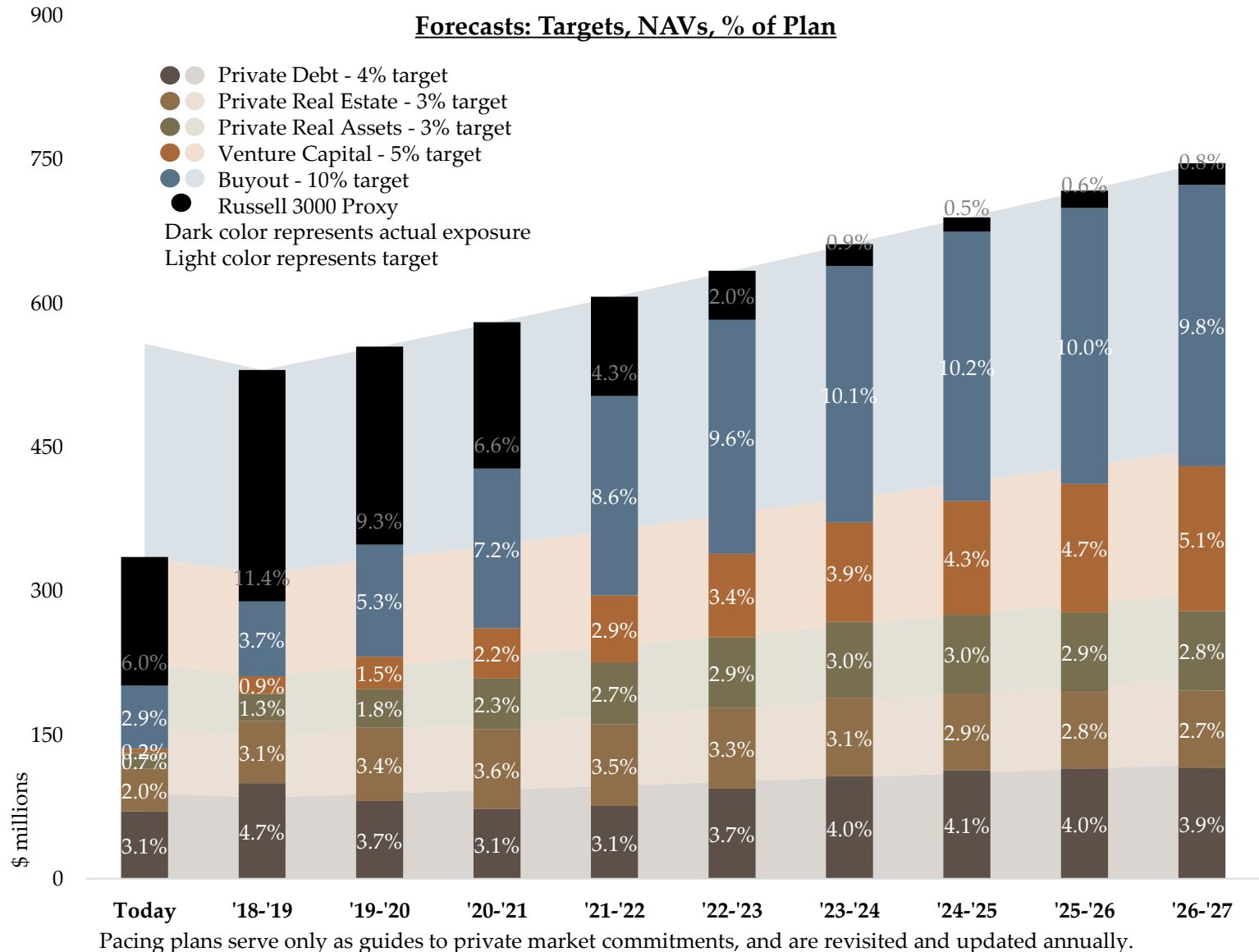
Venture Capital	-	6	6
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## **Proxy use:**

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
6. Increasing exposure by more than 50% to...; (slide 4)
  - a. Northern Trust Russell 1000 index fund
  - b. Northern Trust Russell 2000 Value index fund
7. Reducing exposure by more than 50% to...; (slide 4)
  - a. Northern Trust MSCI World ex-US index fund
  - b. Oberweis International Opportunities fund
  - c. Northern Trust 0-5Y TIPS separately managed account
8. Termination of...; (slide 4)
  - a. Northern Trust Intermediate Government 1-10Y bond index fund
  - b. BlackRock Global Aggregate ex-US collective trust fund
  - c. BlackRock US Debt collective trust fund
  - d. BlackRock Long Government collective trust fund
  - e. Voya Securitized Credit separately managed account
  - f. Rhumblin Brookfield Global Infrastructure index fund (slide 5)
9. Exemption for Northern Trust and BlackRock from Investment Policy Statement item 19, the limit of managing no more than 20% of plan assets
10. The pacing plan for each private market asset class; (slide 5)
11. The concept of an increase to the commitment size, investment period, and term of the Neuberger Berman Private Equity fund-of-one; (slide 5)
12. 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.