MINUTES

SPECIAL MEETING OF THE BOARD OF TRUSTEES OF THE OKLAHOMA MUNICIPAL RETIREMENT FUND AND THE INVESTMENT COMMITTEE OF OKLAHOMA MUNICIPAL RETIREMENT FUND

March 24, 2022

1. **Call To Order**

The Investment Committee of the Oklahoma Municipal Retirement Fund met at Oklahoma Municipal Retirement Fund Offices, Oklahoma City, Oklahoma on March 24, 2022, at 2:04 p.m. with Investment Chair Luckett presiding. On roll call the following members were present:

BOARD OF TRUSTEES PRESENT

Investment Committee: Jim Luckett, Jr., Retiree, City of Thomas
Robert Park, Retiree, City of Sallisaw *arrived at 2:05*
Ed Tinker, Retiree, City of Glenpool

Others: Donna Doolen, Finance Director, City of Ada
Joe Don Dunham, Finance Director, City of Lawton

OTHERS PRESENT:

OkMRF Staff: Jodi Cox, CEO & Executive Director
Chris Whatley, Plan Advisor & Portfolio Strategist
Katie Girardi, Retirement Plan Administrator
Rhnea Stewart, Fund Accountant

Others: Kevin Moore, ACG *(via phone)*
Ryan Siebers, ACG *(via phone)*
Kathleen McGrath, ACG *(via phone)*

NOTICE: The agenda for the March 24, 2022, meeting was posted in the Columbus Square, first floor by 2:00 p.m. on March 22, 2022, by Gloria Cudjoe.

Gloria Cudjoe

Signatures

Investment Committee Chair, Luckett, extended a welcome to all in attendance and called the meeting to order.

2. **Discussion, Education, and Review of the SMID Growth and Small Value Managers of the Defined Benefit Plan Portfolio**
Moore began with a brief background and structure of the existing SMID portfolio. The TimesSquare SMID Growth strategy and the River Road Small Value strategy have been part of the portfolio since 2009 and 2016, respectively. After the review, Moore introduced McGrath and she led the discussion. First, McGrath examined the market cap style boxes for each strategy and the characteristics of value managers versus growth managers. Over rolling 10-year time horizons, it was noted that value strategies outperformed growth strategies from 2000 – 2011 followed by growth strategies outperforming value strategies from 2012 – 2021. McGrath pointed out catalysts that might reverse the trend and bring value strategies back into favor. McGrath then began to examine individual manager characteristics.

The TimesSquare SMID Growth strategy was described as "Growth at a Reasonable Price." The manager attempts to find companies with strong and growing earnings with a stock price selling at a reasonable valuation. They were not described as a high-growth manager that would purchase stocks with low-quality earnings. Alternatively, the River Road Small Value strategy was described as a relative value manager that seeks out companies that have fallen out of favor. They were not described as being a deep-value manager. McGrath pointed out the OkMRF portfolio is purposely constructed with a growth and a value manager, which gives managers the ability to participate in diverse market conditions based on their strategy style. The TimesSquare SMID Growth strategy has experienced solid long-term absolute performance, however, relative performance has been in-line or just below benchmark returns. The River Road Small Value strategy has performed in line with the benchmark in the short-term, however long-term relative and absolute performance has been excellent.

Luckett asked if River Road had deployed cash during the market sell-off. McGrath responded they are currently holding approximately 3% in cash, down from more than 4% at the end of December. Luckett then asked why River Road is considered a relative value manager versus a deep value manager. Moore explained managers have the latitude to move on the spectrum. Based on market conditions, River Road utilizes its cash position as a tool, allowing them to move up and down the spectrum between deep value and relative value. River Road has been a strong performer due to substantially less volatility within the portfolio. During 1Q2021, River Road posted returns of 13.35% versus the Russell 2000 at 21.17%. They began deploying cash in 1Q2021 and posted excellent back-to-back quarterly returns for 4Q2021 and 1Q2022.

TimesSquare is performing well on all metrics except long-term performance which is in line with the Russell 2500 benchmark. In terms of volatility, the TimesSquare strategy is also much more comparable to the Russell 2500 benchmark. They will not have exposure to small sectors like real estate but will have tighter exposures to healthcare and technology, for example. They will typically hold one hundred names inside of the portfolio, resulting in smoother risks by having broader exposures. On occasion, TimesSquare will buy stocks trading at large valuation differentials, but growth has not been a favorable area during a rising interest rate environment.

After conducting an in-depth analysis of each manager, McGrath described OkMRF's options as continuing to hold the existing managers, adjusting the mandates of existing managers to better align with the Fund's goals, or holding interviews for possible replacement managers. ACG is comfortable with TimesSquare, but if so directed will look at other options. It was noted that portfolio analyst turnover had been an ongoing concern with TimesSquare, however, McGrath believes this issue has stabilized. Whatley pointed out long-term relative performance remains an issue. As an example, he stated the Fund could have invested in the Russell 2500 benchmark, experienced approximately the same level of return, and saved active management fees. McGrath conceded that when compared to other active managers, TimesSquare had not done as well. However, from a qualitative standpoint, they have accomplished the mandate and ACG remains confident with TimesSquare.

McGrath stated River Road should be retained due to strong long-term performance, their proven ability to deploy capital during market downturns, and a volatility profile that is less than the comparable benchmark.

ACG did not recommend the termination of either manager. Based on the information presented, Tinker stated he would prefer to retain both, for now, due to the longstanding relationship, with expectations that ACG continue to monitor closely. The committee agreed. ACG will continue to monitor the portfolios for any qualitative changes and notify the board as necessary.

3. **Discuss and Develop a Recommendation for Board Action, if Deemed Necessary, Regarding ACG Recommendation to Conduct a Search to Replace the SMID Growth Manager within the Define Benefit Plan Portfolio and Propose Implementation Timeline**

There was a brief discussion on the possibility of holding manager interviews during the annual Trustee Retreat as an educational option. Additional discussions dealt with the option of Northern Trust being engaged as a transition manager in the event of manager termination. However, it was determined this would not be an effective use of time since the manager was not going to be terminated and did not follow the established process and precedence established for hiring a replacement manager within an established strategy. ACG did not recommend the termination of the manager.

Motion by Tinker, seconded by Park, to recommend to the Board of Trustees to retain the existing SMID growth manager.

Luckett: Yes　　Park: Yes　　Tinker: Yes

4. **Discuss and Develop a Recommendation for Board Consideration and Possible Action, if Deemed Necessary, Regarding ACG Recommendation to Conduct a Search to Replace the Small Value Manager with the Defined Benefit Plan Portfolio and Propose Implementation Timeline**

ACG did not recommend the termination of the manager.

Motion by Tinker, seconded by Park, to recommend to the Board of Trustees to retain the existing small value manager.

Luckett: Yes　　Park: Yes　　Tinker: Yes

5. **Discussion, Education and Update on Long/Short Portfolio**

Siebers discussed the overall portfolio structure within the long/short portfolio. He reviewed what a long/short portfolio is and how it works, using the example of a long-only manager versus a long/short manager. In the long-only portfolio, managers make money when the stock appreciates in value. The long/short portfolio makes money when some stocks appreciate, and some depreciate. A long-only manager tries to diversify portfolios across industries, whereas the long/short manager purchases stocks with negative correlations when paired with other stocks. A short position has a max gain capped at "0" which represents the lowest price a stock can attain. A long position has no cap since the stock price, in theory, can rise perpetually. The long/short portfolio is designed to reduce volatility within the total portfolio. At the same time, equity long/short is the truest expression of active managers because they are active on both sides of the trade.

In 2021, the "meme stock rally" occurred where crowd trading in low-quality names such as GameStop and AMC caused stock prices to rapidly appreciate. Long/short managers would typically have shorted these positions and short covering during the low-quality rally hurt portfolio returns. Long/short managers typically gravitate toward smaller issues because they can come up with a differentiated opinion.

Next, Siebers examined portfolio parameters and construction. The roll-up portfolio targets a 60 to 70% net exposure profile and currently has no low net exposure managers. However, managers can move up and down the exposure spectrum, but such movements are carefully monitored. The current net exposure for long/short portfolio is 63%. Country, market cap, and sector allocations across managers show how the portfolio is diversified. When compared to the HFRI Fund of Funds benchmark, the portfolio has outperformed over the last ten (10) years. Furthermore, the volatility metric has been met and has provided excellent downside protection. However, over the last twelve (12) months, markets have risen rapidly, and the portfolio has underperformed which is expected in this type of market environment.

6. **Discuss and Develop a Recommendation for Board Consideration and Possible Action Regarding ACG Recommendation to Rebalance Assets Between Managers within the Long/Short Portfolio of the Defined Benefit Plan Portfolio and Propose Implementation Timeline**

Moore stated the purpose of the rebalance was to harvest gains from managers who had experienced strong portfolio growth and redeploy the capital to areas thereby obtaining more of a balanced portfolio.

Motion made by Luckett, seconded by Tinker to approve ACG's recommendation to rebalance the Equity Long/Short portfolio as follows; Deploy $800k of long/short cash to be split and invest $400k to Redmile and $400k to SQN as of May 1st. Partial redemption of $1.5M from Engaged and $1.5M from Southpoint as of June 30th. Invest proceeds of $1.5M to Suvretta, $750k to Redmile, and $750k to SQN as soon as administratively feasible depending on redemption timing.

7. **Conduct Semi-Annual Investment Performance Review and Receive Quarterly Performance Report for December 31, 2021, as Presented by Asset Consulting Group**

Moore focused on the risk and return metrics for the portfolio and the Defined Benefit portfolio was exceeding all listed metrics over the last 5-year and 10-year time horizons. Furthermore, the Fund's portfolio ranked in the top 20% of Public Defined Benefit Funds on a gross of fees basis on a 3-year, 5-year, and 10-year basis.

8. **New Business**

None.

9. Adjourn

With no further discussion, meeting adjourned at 4:14 p.m.

Jim Luckett, Jr., Investment Chair

Donna Doolen, Chair

Respectfully submitted by:

OKLAHOMA MUNICIPAL RETIREMENT FUND OFFICIAL SEAL OKLA.

Chris Whatley