MINUTES

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

July 28, 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 July 28, 2022, at 1:00 p.m. with Investment Chair Luckett opening the meeting. 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
	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
	Mark Burns, Loomis Sayles
	John Trydahl, Loomis Sayles
	Rob Lanphier, William Blair
	Wally Fikri, William Blair

NOTICE: The agenda for the July 28, 2022, meeting was posted in the Columbus Square, first floor by 1:00 p.m. on July 26, 2022, by Gloria Cudjoe.

Gloria Cudjoe
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Signatures

Investment Committee Chair Luckett recognized a quorum of the Board of Trustees was present; therefore, Chairman Doolen presided. Chairman Doolen called the special meeting to order and extended a welcome to all in attendance.

2. ACG: Mandate and Replacement Search Overview

TimesSquare has struggled with numerous personnel changes over the years. At the beginning of 2022, the strategy assets under management declined by approximately 50% as a couple of exceptionally large investors redeemed. Then Tony Rosenthal, co-founder, and co-portfolio manager, announced his pending retirement from the firm in April. The loss of Mr. Rosenthal was the catalyst which changed Asset Consulting Group's investment thesis for the firm.

Moore reviewed the manager replacement search report developed by Asset Consulting Group (ACG) and outlined the process used to conduct the search. Candidate managers were presented and reviewed by ACG at the June Board meeting. William Blair Investment Management and Loomis Sayles & Company were selected for interviews. Both firms have a long track record and cover many different strategies. The William Blair SMID Growth strategy has $10 billion in assets while the Loomis Sayles SMID Growth strategy has $2 billion. Both managers are bottom-up fundamental stock pickers with statistical measures being extremely comparable. Holdings for both strategies typically fall in the range of 70-75 stocks. William Blair will typically hold more stocks in the higher end of the SMID market cap spectrum while Loomis Sayles will hold more in lower end of the spectrum. Fees are also very different between the two strategies. Loomis Sayles offered a 65 bps fee schedule plus operating expenses capped at 4 bps. However, William Blair's expenses are 85 bps plus operating expenses. By agreement, operating expenses are capped at 15 bps, however historically they been in the 3 – 4 bps range. Both strategies are CIT funds.

3. Presentation Regarding U.S. Small/Mid Cap Growth Equity Management Firms

Loomis, Sayles & Company
Trydahl introduced Burns, himself, and the firm. Burns joined the firm in 1999. Loomis, Sayles & Company was founded in 1926 and currently manages approximately $291 billion for institutional clients like OkMRF. They have managed dollars for Oklahoma clients since 1999.

John Burns and Mark Slavik came together in 2005 to build a risk-controlled process and philosophy focused on growth companies. They started the small cap growth strategy in 2005 which was closed when it reached capacity of $3 billion. Approximately 10 years ago, they started a SMID cap growth strategy with $3 billion in capacity. Portfolio managers are supported by five (5) dedicated senior research analysts, two (2) research associates and two (2) product management members. The team may leverage research from the Loomis Sayles fixed income operations to support their research efforts. At times, the Loomis Sayles bank loan department makes loans to businesses contained within the portfolio. Loan research is then used by the SMID growth team to better understand strategy holdings. Portfolio managers, Burns and Slavik, make all decisions on buys and sells within the strategy.

Burns described the key to their process as picking good stocks and letting them compound in a risk-controlled way. Low shareholder turnover is an indicator that issues are less volatile and provide greater long-term value. The team uses a discounted cash flow model for valuation whereas risk management uses a very disciplined stop-loss trading system to control risk. Idea generation is done traditionally through a screening to identify potential holdings considered to be top tier growth companies not fully understood by the market. Analysts and Portfolio Managers then conduct bottom-up fundamental research, attend conferences, and talk to management. Potential holdings must have a $5 million average daily trading volume to be considered for investment. Burns stated most holdings were U.S. stocks, but there may periodically be ADR holdings. The team uses "thermometers" to measure the relative strength of individual companies. High share turnover is an indicator that companies may have less competitive advantage when compared to competitors. A high "thermometer" score and low share turnover is an indicator of a great opportunity. The team uses discounted cash flow analysis to fully understand the dynamics of a potential holdings cost of capital. The analysis allows the team to value all company fundamentals and discount them back to a current stock price. It is also a measure of the level of risk and provides a benchmark for comparison between stocks and sectors. This methodology has helped the team identify great performers and avoid poorly positioned companies with low cash. Burns gave a couple of positive and negative examples from the past couple of years. Holdings are sold based on attainment of price targets, deteriorating rankings within the screening process, deteriorating fundamentals or stop/loss targets. Regardless, they will exit a holding when market cap reaches $25 billion

Burns briefly discussed their belief on inflation, in that inflation will come down in the near future and the economy should be fine. However, rising interest rates will cause lower stock price valuations.

Trydahl briefly reviewed the negotiated management fees made with ACG and addressed Cox's inquiry of any issues in ADV disclosures, fines, settlements, or ongoing litigation. Trydahl stated no issues or lawsuits of consequence.

Doolen thanked them for presenting and declared a short recess.

<u>William Blair and Company</u>
Fikri introduced himself, Lanphier, and the firm. Fikri has been with the firm for 18 years and Lanphier, who co-founded the strategy, since 1987. The firm is based in Chicago and has been in business since 1935. The strategy was founded in 1998 and has grown to approximately $10 billion in assets. Their firm is differentiated by several factors; they are 100% employee owned, the experience and depth of the investment team, consistent quality growth philosophy and a repeatable process, providing strong risk-adjusted returns over 20 years and excellent service for public funds. Lanphier highlighted the consistency of returns over time with a lower level of risk. He believes the way they are structured as a partnership, with 2,000 employees and 244 partners, creates stability for the firm and allows them to attract and retain quality people. Lanphier stated most firms on Wall Street have a hierarchy where ideas bubble up to the top. William Blair has eighteen (18) analysts with nine (9) being partners at the firm, all of whom have the potential to make more money than portfolio managers. The longer-tenured personnel are in the portfolio manager or research analyst roles, as they become more valuable to the firm and their clients. As a result, analysts do not report to portfolio managers and portfolio managers do not report to analysts. Instead, they collaborate and conduct research as a team. If William Blair's management gets the firm and the team right, research analysts and portfolio managers will outperform over time. As an example, Lanphier pointed out that over a three (3) year rolling time horizon, the strategy has outperformed the S&P 500 89% of the time and the Russell 2500 Growth 85% of the time since the strategy's inception. During bear markets, the strategy has outperformed in every instance.

Portfolio managers are supported by both small-cap and mid-cap research teams generating ideas. Portfolio managers make buy and sell decisions by consensus. However, analysts are extremely important because they will rate stocks as either buy, sell, or hold. The process for rating potential investments is still the same as it was when the strategy was founded. It is the lens through which companies are examined. While strong management is important, they must have sustainable business models. The entire research process comes back to companies being able to sustain their growth, have solid financials and good management. William Blair uses return on invested capital as the best measure of a stock's quality. As a firm, William Blair is excited about the current market environment and opportunities for the future. Portfolio managers may initiate a position whose current market cap is $18 billion, and they may add to the position when the market cap is below $27 billion, however they typically do not come close to that level. Sector weights will be close to benchmark weights however industry weights will look quite different.

Lanphier described William Blair's history as being rooted SMID growth. They know and breathe SMID growth quality work. Their performance is all about being able to outperform over time but doing it with a lower level of risk. Giving a smoother ride to clients is a reason they have been successful.

Cox asked if the investment management fee and operating fee cap was negotiable. Fikri answered no to both fees. He stated the operating expense cap was set at a maximum of 15 bps and was contained within the legal documents when the strategy was initially created. However, as a firm, they are reviewing this cap maximum. Once strategy assets under management crossed $300 million, the operating cost came down below five (5) bps. Over the last several years, the operating expenses have been three (3) bps. They should stay within the 3-5 range for the foreseeable future.

Cox inquired regarding material ADV disclosures. Fikri stated there were no current issues but did provide an explanation related to a back-office clerical error that allowed 12-b-1 fees to be used for non-marketing related expenses. Once the issue was discovered, the firm made clients whole, and no clients were lost because of the error. He further indicated that William Blair Investment Management files a separate ADV than William Blair and he would be willing to address other OkMRF issues or concerns regarding the William Blair ADV, if desired.

4. <u>Discuss and Develop a Recommendation for Board Consideration and Possible Action for the Purpose of Hiring a SMID Cap Growth Manager for the Defined Benefit Portfolio and as a Component of the Aggressive Equity Option in the Defined Contribution Plan</u>

Motion by Luckett, seconded by Tinker to hire William Blair as the SMID cap growth manager in the Defined Benefit plan and the Aggressive Equity Option in the Defined Contribution Plan.

Luckett: Yes Park: Yes Tinker: Yes

5. <u>New Business</u>

None.

6. <u>Adjourn</u>
With no further discussion, meeting adjourned.

Jim Luckett, Jr., Investment Chair

Donna Doolen, Chair

Respectfully submitted by:

Chris Whatley