

MINUTES
**SPECIAL MEETING OF THE BOARD OF TRUSTEES OF THE OKLAHOMA
MUNICIPAL RETIREMENT FUND AND THE INVESTMENT COMMITTEE OF
OKLAHOMA MUNICIPAL RETIREMENT FUND**
August 25, 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 August 25, 2022, at 1:11 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

OTHERS PRESENT:

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

Others: Haley Rives, ACG
 Kevin Moore, ACG

NOTICE: The agenda for the August 25, 2022, meeting was posted in the Columbus Square, first floor by 1:00 p.m. on August 23, 2022, by Gloria Cudjoe.



Signature(s)

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

2. Discussion and Review of the Asset Allocation Analysis within the Defined Benefit Portfolio as Presented by Asset Consulting Group

Moore reviewed the methodology of how the proposed asset allocation mixes were constructed and the differences between the current asset allocation mix and the proposed mixes. Mix 1 reduced the long/short portfolio allocation from 10% to 5% and increased the fixed income allocation from 20% to 25%. With Mix 1, expected risk and return metrics would decrease compared to the existing asset allocation. Mix 2 reduced the long/short portfolio allocation from 10% to 5% and added a private equity allocation of 5%. Mix 3 liquidated the entire long/short portfolio and increased the existing real estate allocation from 10% to 15% and added a private equity allocation of 5%. Mix 2 and Mix 3 would increase the expected risk and return metrics. Any asset allocation changes would require staging of capital. As existing assets were liquidated, proceeds would be invested in other areas of the portfolio until called into a new alternative asset class. Furthermore, the addition of any private equity allocation would take an extended period of time to bring portfolio values up to target weights.

3. Discussion and Education of Private Equity Asset Class as Presented by Asset Consulting Group

Rives reviewed the private equity asset class. Private equity has multiple investment opportunities including venture capital at the seed stage to the growth stage, buyout funds focused on small, medium, and large-cap companies and private credit ranging from origination to special situations. Private equity is available in a fund-of-funds or as a direct portfolio and the asset class is considered to be a return enhancer. A private equity manager is the general partner and the investor (the Fund) becomes a limited partner. The general partner creates a fund series called “vintage” and raises capital from investors. General partners may focus their investments on opportunities ranging from early-stage venture companies, pre-revenue companies or companies with a product that needs capital to grow all the way up to buyout potential.

Private equity investments would be diversified by company stage, sector, industry, etc. As limited partners, the Fund would not have control over how the manager invests the money. However, ACG will not invest with general partners who are not transparent. Furthermore, the dispersion of returns between top-tier managers versus bottom-tier managers is substantial. Therefore, managers must exhibit a repeatability and consistency of returns from past fund vintages to be considered for ACG client investment. This is why the private equity business is based on relationships. Managers want to raise dollars for new vintages from current investors.

If an allocation for private equity is approved, ACG would bring managers to the board for review and approval. There is a preference from Committee members to search for private equity firms investing in Oklahoma but with the goal of enhancing investment returns. ACG stated there is a higher likelihood for a private equity manager to find investment opportunities in Oklahoma versus an investment manager who only invests in publicly traded companies.

If approved, the ACG private markets team would run a cash flow analysis to project how much would be committed over the next several years. ACG helps identify high quality managers in the market and provides recommendations on building an allocation to private equity within the portfolio, however the minimum dollar investment completely depends on the manager. ACG

would help create a “ladder” for new commitments. Over time, the goal is to fund new commitments from capital returned from previously closed fund vintages.

Management fees are paid on committed capital, not invested capital, and incentive fees are paid on carried interest. Carried interest is the capital gain made by a manager in excess of a “hurdle rate.” A common hurdle is 8% and managers may earn incentive fees on any returns above this hurdle. Clawback provisions protect the Fund against unforeseen circumstances. This gives the Fund the ability to “clawback” a portion of the profits from the manager in the event the total return falls below an established hurdle rate. Returns are measured on an internal rate of return basis, not a time weighted rate of return. Therefore, managers focus on multiple targets over the life of the fund series. The expectation of returns over the life of the fund series should be a 2x multiple.

4. Discussion, Education and Review of the Long/Short Portfolio of the Defined Benefit Portfolio as Presented by Asset Consulting Group

Rives reviewed the background of the long/short portfolio allocation as well as current positioning within the portfolio and a manager liquidity analysis. This was followed by a discussion of gross and net exposures and sector concentrations. Portfolio performance compared to MSCI ACWI and HFRI FOF was very disappointing over the last 18 months.

Park expressed his disappointment with the total long/short portfolio allocation, indicating that he felt the portfolio had never performed according to expectations. Luckett stated that was true for some managers; however, some of the managers had been able to meet performance objectives. Tinker felt there were better opportunities to invest these dollars in a more risk/return efficient method.

5. Discuss and Develop a Recommendation for Presentation to the Oklahoma Municipal Retirement Fund Board of Trustees to Adjust and Update the Defined Benefit Portfolio Asset Allocation

Rives stated ACG fully understands the frustration with the long/short portfolio and recommends Mix 2 as a middle ground; however, stating that all three (3) mixes were appropriate. Mix 2 would result in some long/short managers being liquidated while retaining the more opportunistic long/short managers and establishing a new asset class of private equity. Deliberation ensued.

Motion by Tinker, seconded by Park, to recommend to the Board to liquidate the long/short portfolio and reinvest the proceeds into the Mix 3 allocation as proposed by ACG.

Luckett: No Park: Yes Tinker: Yes

6. Conduct Semi-Annual Investment Performance Review and Receive Quarterly Performance Report for June 30, 2022, as Presented by Asset Consulting Group

Moore reviewed the Defined Benefit portfolio risk and return performance metrics. The portfolio is exceeding seven (7) of the eight (8) metrics presented and ranks generally in the 25th percentile when compared to other DB plans around the nation.

7. New Business

None.

8. Adjourn

With no further discussion, meeting adjourned at 3:26 p.m.



Jim Lockett, Jr., Investment Chair



Donna Doolen, Chair

Respectfully submitted by:



Chris Whitley

The seal is circular with the text 'OKLAHOMA MUNICIPAL RETIREMENT FUND' around the perimeter and 'OKLA.' at the bottom. A star is in the center. The word 'OFFICIAL' is written across the seal.