MINUTES

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

February 23, 2023

1. **Call To Order**

The Investment Committee of the Oklahoma Municipal Retirement Fund met at Oklahoma Municipal Retirement Fund Offices, Oklahoma City, Oklahoma on February 23, 2023, at 2:02 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
Ed Tinker, Retiree, City of Glenpool

Others: Donna Doolen, Finance Director, City of Ada
Robert Johnston, City Manager, City of Clinton
Tamera Johnson, Retiree, City of Shawnee
Timothy Rooney, City Manager, City of Mustang *(arrived at 2:53 p.m.)*

OTHERS PRESENT:

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

Others: Kevin Moore, ACG
Joe Nugent, ACG

NOTICE: The agenda for the February 23, 2023, meeting was posted in Columbus Square, first floor by 2:00 p.m. on February 21, 2023, 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 and Education on the Private Equity Asset Class

Moore introduced the private equity discussion with a background of how the Fund's allocation to various alternative asset classes has grown over the years. Next, the timeline for distribution of long/short equity assets were reviewed, and Moore noted a slight adjustment to the timeline presented in September regarding the timing of additional allocations to real estate. Nugent stated real estate valuations were under pressure due to interest rate increases by the Federal Reserve subsequently causing markdowns in valuations. Markdowns in valuations will take time to work through the system and as a result delaying future allocations to real estate seems appropriate. Luckett asked if rents and occupancy rates in the office space sector had changed in the Strategic Property Fund or the Special Situations Property Fund. Nugent stated the Strategic Property Fund had maintained approximately the same level of occupancy rates due to the high-quality nature of the core real estate. The Special Situations Property Fund is more opportunistic and sector holdings will fluctuate across the spectrum. As a result, there will be some sector rotation as the manager reallocates dollars from the office space sector to the multi-family sector. Clarion Lion has been a strong performer since being added to the portfolio, however ACG expects some pressure on industrial valuations. ACG still has confidence that the approved allocation to real estate is appropriate.

Nugent next covered the "Implementation Playbook" used by ACG to develop private equity target allocations. The Implementation Playbook uses a building block approach to determine how assets should be allocated within private equity asset classes such as buyout, venture/growth and special situations. According to Nugent, history has shown that over time, private equity assets produce returns in excess of public markets. Private equity was described as being a return producing asset and not a diversifying asset. Private equity is expected to produce higher returns because the companies are typically smaller than what is generally available in the public markets. Private equity managers also have the ability to obtain board seats and affect the overall strategy of the company. There is also a much larger opportunity set in private companies than public companies as the universe of public sector companies continues to shrink. Currently, private equity managers only own approximately 5% of the investable universe of private companies in the marketplace with $10 million or more in sales. Buyout is the largest category of investments in the space. A private equity manager gathers a pool of capital and buys a company. Capital is obtained from investors making commitments to a manager, borrowing capital from a bank, or both. Venture/Growth investments focus on companies in the early lifecycle of the businesses. Some companies may not have even made a dollar in sales. Special situations are described as everything else. It could be distressed companies, specific sector companies, or debt issuances. ACG wants to help construct a portfolio across all strategies. Over the long-term, we would expect a balance across the three (3) categories with buyout being the largest. A secondary market is also available within private equity. In the secondary market, investors who need portfolio liquidity offer to sell their interests in private equity funds at a steep discount over the current market price. A well-constructed portfolio will include a secondary manager at some point.

Transparency to underlying investments has increased among managers and Warburg Pincus manages all of the businesses in which they invest. In its purest form, Warburg Pincus would hire a chief executive officer, have full board representation, and control the long-term strategy of the business. Therefore, manager selection becomes critically important in the private equity asset class. In the venture capital space, the spread between top and bottom quartile managers is

15.7%. Top managers no longer accept capital. They have established their records with ready access to investors. As a result, when a new fund opens, previous investors are eager to commit to future fund vintages. Managers do not need to go to outside investors. The goal is to develop a long-term strategic partnership with managers so that when new vintage funds are started, it will be a given that OkMRF would be included. It is important to have balance across asset classes and vintage years to make sure that when the good times happen, OkMRF will be participating in that asset class.

A manager's fund will also have lifecycles. The name of the fund, also known as the vintage, is set during the formation period. During the investment period, managers will call capital from investors and make investments. During the harvest period, managers are executing the exit strategies for various portfolio companies and returning capital to investors. The fund term is typically a twelve (12) year commitment with extension, if approved by the limited partners. The extension gives managers the ability to exit any remaining investments at a time that is beneficial to the fund. The cycle of dollars being invested and being returned from managers is particularly important. When dollars come back, the goal is to automatically recommit to future vintages with the fund manager. The vintage fund ACG is recommending is currently in the formation stage, and OkMRF will pay an 8% "penalty" on dollars invested to reflect the manager has already made some investments into the vintage fund. The goal in portfolio construction is to reduce the risks as much as possible by spreading out the target allocations and investments over time. ACG recommends a target weighting of 5% of the Defined Benefit portfolio with commitments, referred to as a pacing plan, being made over a five (5) year period. In the beginning, the pacing plan is reviewed once per year. After the asset class has grown and matured, it will be reviewed at least twice per year.

Warburg Pincus was founded 1966 from two (2) investment bankers who started to invest in their own businesses. They began raising capital from outside investors in 1971, experienced many different market cycles and have an excellent track record of buying and managing high-quality businesses. They have also exited portfolio businesses during rough market cycles. Considered a defensive growth strategy, Warburg Pincus is also a global growth strategy which brings great diversification. Warburg Pincus has the ability to access different parts of the market with different return streams. The portfolio is also a multi-sector strategy with no pre-determined allocations to any sector, geography, or transaction type. The leadership of the firm has been in place for a long time with the CEO holding that position for twenty (20) years and the President for ten (10) years. The portfolio will typically hold 75 to 100 different companies. Also, they invest $1 billion of their own money alongside investors, further aligning company motivations with investors. Their management fee is 1.4% of commitments during the investment period with periodic step-downs to a floor of 1.0% and 20% of the profits so long as the companies are valued at more than 1.25 times net invested capital. If they were not investing alongside investors, ACG would not be recommending them. Over the long term, performance has substantially outperformed the S&P 500 and ACWI benchmarks.

3. **Discuss and Develop a Recommendation for Board Consideration and Possible Action Regarding ACG Recommendation to Commit to a Manager in the Private Equity Asset Class and Proposed Implementation Timeline**

Motion by Tinker, seconded by Park to recommend to the OkMRF Board of Trustees to accept ACG's recommendation of Warburg Pincus as the initial Private Equity Investment Manager with the proposed timeline and to make a $20 million commitment into the Warburg Pincus Global Growth 14 Private Equity Fund as soon as administratively feasible.

Luckett: Yes Park: Yes Tinker: Yes

4. **Conduct Semi-Annual Investment Performance Review and Receive Quarterly Performance Report for December 31, 2022, as Presented by Asset Consulting Group**
Moore reviewed the fourth Quarter 2022 report starting with the report card page examining the risk and performance over the five (5) and ten (10) year time horizons. Even though the broad market experienced steep declines in 2022, the overall portfolio exceeded risk and performance metrics in seven out of the eight categories. When compared to peers with target allocations of 55-70% equity, the OkMRF portfolio is still hovering around the top quartile over the 3, 5 and 10 year periods.

   Moore pointed out the transition from Harding Loevner Emerging Markets to Axiom Emerging Markets and TimesSquare Small/Mid Growth to William Blair Small/Mid Growth were completed in both the Defined Benefit and Defined Contribution portfolios. Moore next turned to the Defined Contribution options and pointed out ACG is very pleased with results of the various managers. Moore noted strong performance versus peers for the International Investment Equity Option, the ESG U.S. Stock Fund Option, and the Total Yield Bond Option. ACG had no underlying concerns or recommendations at this time.

5. **New Business**
None.

6. **Adjourn**
With no further discussion, meeting adjourned at 3:43 p.m.

Jim Luckett, Jr., Investment Chair

Donna Doolen, Chair

Respectfully submitted by:

OKLAHOMA MUNICIPAL RETIREMENT FUND
OFFICIAL SEAL
OKLA.

Chris Whatley