COMMONWEALTH OF PENNSYLVANIA

RETIREMENT BOARD OF ALLEGHENY COUNTY

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PUBLIC MEETING

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BEFORE: ERICA ROCCHI BRUSSELARS, Chair
Corey O'Connor, Member
Frank Dicristofaro, Member
Sara Innamorato, Member
Sarah Roka, Member
Kimberly Joyce, Member

HEARING: Thursday, July 18, 2024
12:00 p.m.

LOCATION: Allegheny County Courthouse
4th Floor, Gold Room
436 Grant Street
Pittsburgh, PA 15219

WITNESSES: Chris Brokaw, Ed Boyer,

Reporter: Chelsea Curry

A P P E A R A N C E S

WALTER SZYMANSKI
Allegheny County Employees' Retirement System
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I N D E X

E X H I B I T S

Number	Description	Page Offered

NONE OFFERED

P R O C E E D I N G S

CHAIR:

Hello. Welcome to the Thursday, January 29 Pension Board. July 29, July 9. I'm going to stop talking. Welcome to the Pension Board meeting.

We're calling the meeting to order, and I'm going to acknowledge our newest member over there who's waiting to get sworn in. We'll do it right after the Pledge. So let's all see it after the Pledge.

(PLEDGE OF ALLEGIANCE RECITED)

CHAIR:

We've got Kimberly Joyce, our elected Retirement Board member.

Did we do the logistics of who's doing the swearing in?

MR. SZYMANSKI:

So Darlene Schrello from

our office will be inspiring.

CHAIR:

Oh, great.

MS. SCHRELLO:

Good afternoon. Repeat after me.

I Kimberly Joyce.

MS. JOYCE:

I Kimberly Joyce.

MS. SCHRELLO:

Do solemnly swear.

MS. JOYCE:

Do solemnly swear.

MS. SCHRELLO:

That I will support the Constitution of the United States.

MS. JOYCE:

That I will support the Constitution of the United States.

MS. SCHRELLO:

And of this Commonwealth.

MS. JOYCE:

And of this Commonwealth.

MS. SCHRELLO:

And the Article 17 of the Second Class County Code governing the Allegheny County Employees Retirement System.

MS. JOYCE:

And the Article 17 of the Second Class County Code governing the Allegheny County Employees Retirement System.

MS. SCHRELLO:

And that I will faithfully discharge the duties of a board member.

MS. JOYCE:

And that I will faithfully discharge the duties of a board member.

MS. SCHRELLO:

On this Retirement Board of Allegheny County to the best of my ability.

MS. JOYCE:

On this Retirement Board of Allegheny County to the best of my ability.

MS. SCHRELLO:
Congratulations.

MS. JOYCE:
Thank you.

MR. O'CONNOR:
Kim, I think your first motion should be To change the oath, so it's a little bit simpler than that.

CHAIR:
Yes. Congratulations on completing a very long oath.
Next, we'll have the role call.

MR. SZYMANSKI:
Corey O'Connor.

MR. O'CONNOR:
Here.

MR. SZYMANSKI:
Sara Innamorato.

MS. INNAMORATO:
Here.

MR. SZYMANSKI:
Frank DiCristofaro?

MR. DICRISTOFARO:

Here.

MR. SZYMANSKI:

Kimberly Joyce?

MS. JOYCE:

Hee.

MR. SZYMANSKI:

Jennifer Liptak. Sara Roka?

MS. ROKA:

Here.

MR. SZYMANSKI:

Erica Brusselars.

CHAIR:

Here. Do you have any public comment?

MR. SZYMANSKI:

No public comment.

CHAIR:

Next, we'll have. Oh, we held an informational session immediately prior to this meeting.

Next we have board approvals. Can I have a motion to approve the board meeting members from the June 20th, 2024 board meeting?

MR. DICRISTOFARO:

I make a motion.

MR. O'CONNOR:

Second.

CHAIR:

Hearing a motion and second, is there any discussion? Hearing none, all in favor?

AYES RESPOND

CHAIR:

Any opposed? Motion passes.

Next, can I have a motion to accept the financial statements, which include the pension fund assets, the statement of changes in net plan assets, and the retirement balance sheet as of May 2024?

MR. O'CONNOR:

So moved.

MR. DICRISTOFARO:

Second.

CHAIR:

Hearing a motion and

second is there any discussion? Hearing none, all in favor?

AYES RESPOND

CHAIR:

Any opposed? Motion passes.

Last under board approvals, we have a motion to approve the July 20, 2024 invoices in the amount of $22,482.72 and submit for payment.

MR. O'CONNOR:

So moved.

MR. DICRISTOFARO:

Second.

CHAIR:

Hearing a motion and a second, is there any discussion? Hearing none, all in favor?

AYES RESPOND

CHAIR:

Any opposed? The motion passes.

Next, we have retirement applications. A motion to --- looking for a motion to approve the following 2024 applications, which includes 7 early retirement, 12 full retirement, 3 payment plans, and 1 recalculation.

MR. O'CONNOR:

So moved.

MR. DICRISTOFARO:

Second.

CHAIR:

Hearing a motion, a second. Is there any discussion? Hearing none, all in favor?

AYES RESPOND

CHAIR:

Any opposed? Motion passes.

Next, we have a new section called President's updates. The first item on it is committee bylaws. I'm going to be forming a committee on the bylaws to include Sara Roka, Amy Weiss and myself. And we'll plan to meet before the September meeting to be able to recommend any amendments so that we can get our new bylaws.

Next --- and I'm going to --- we're going to hold on filling the vice president position until after we have those bylaws in place. And then lastly, I want to congratulate Kim on her election to the board and also thank --- there were seven other retirees --- sorry, pension plan members who ran. And I just want to thank them for taking the time and energy to run and plan members for voting. We're excited to see the wide field that happened. So thank you to you all.

Next we have reports. First is Walt Szymanksi with the manager report.

MR. SZYMANSKI:

Thank you very much. If you turn to the manager's tab in your Board book, I'll highlight some areas on the dashboard.

Retiree payroll on the year is about 3.86 percent.

Contributions are actually increasing. They're up almost ten percent at this point this year compared for last year. Contributions refunded are up 22.66 percent. Total retirements on the year are up 37.5 percent.

If you turn to the next page, pension estimates are down right now. Capital calls are down 1.72 percent. I do have listed here the new section for the distributions. We've had roughly 38 distributions so far this year for $7.5 million, capital calls as of the last Board meeting were $1.1 million. And I have the operating budget as of June 2024 to date.

I do not have any updates and/or Board approvals, but are there any questions? I will accept. No questions? Thank you.

CHAIR:

No questions. Thank you.

Next for my agenda, we

have the Solicitor's report from Brian Gabriel.

ATTORNEY GABRIEL:

Thank you, Erica. The Solicitor's report is current as of July 12. I have no particular items to bring to the Board's attention outside of the report, but I'd be happy to answer any questions.

CHAIR:

We're light on questions today. We're saving them all up for Chris and Tim.

Thank you, Brian.

ATTORNEY GABRIEL:

Thank you.

CHAIR:

Next up we have our asset consultants, Tim Brokaw --- I keep messing it all up. I shouldn't try to read. Chris Brokaw, Tim Walters from Mariner, who have a portfolio update, but it also includes exciting asset liability information, so we're enthralled.

MR. BROKAW:

Thank you for the introduction. If you turn to page one in the report, page one is an update through June 30th for the market and what we see here, equity market, large cap equity, that's the S&P 500 that you can see in the top left, continues in the month. That's upward March 3.59 percent for the month and year to date, up 15.29 percent.

The other parts of the equity market, including mid cap and small cap, the next two lines there you see with negative returns. And I do just want to mention something. If you've been watching the news, there's a couple of reports that came out regarding inflation as well as unemployment. And so the market has a sense now that interest rate cuts are coming sooner than they expected. So I usually don't talk about something that recent.

But specifically, small

cap is up 10.6 percent in the month of July, month to date after a slightly negative month and bonds, which were up almost one percent in June, are up another 1.7 percent this month.

So whether or not those changes in the market driven by these expectations will stick, that's yet to be seen. But in past meetings, you've probably heard us mention Magnificent Seven, the big technology stocks that were driving the market recently. That is, over the last couple of weeks, those stocks have declined in small cap and other parts of the market have benefited from that change in rotation of investors.

So bottom line, in June you did have some positive performance in large cap market. The rest of the market relatively close to zero returns fixed income positive. And that really, in terms of the equity market, was a continuation from what happened in May. And the report, starting on page four, looking at your portfolio shows some of the positive performance in the market and in your portfolio as of May 31st.

So U.S. equity, your portfolio up 5.43 percent. A lot of that driven by the same stocks that I had mentioned earlier, large cap growth stocks driving the market higher.

Non-U.S. equity, you see your portfolio up over four percent. Good balanced performance from both growth and value managers as well as emerging markets.

Core fixed income for the month of May, up 1.56 percent. Your portfolio a bit more stable and less interest rate sensitive. So if you look at the year-to-date, it was down 0.59, the index down over 1 percent. The month-to-month changes, your portfolio does not move up and down as much as the market. That, in the month, caused it to lag the index slightly. But year-to-date, in line and better than the index, high yield, in line with the index, private real estate infrastructure, private equity, and the liquid policy portfolio as well. So really, it was the good performance again in the equity market driving the returns.

Any questions on performance?

So moving --- moving to the allocation, I would just note on page eight, you can see on page eight in the column labeled net flows, the second row of numbers, you can see in the month of May for Gaso and the CIM and small cap liquidations of those --- those portfolios flow through to cash, and cash at the end of the month of May at $17 million, due to primarily those two liquidations. The cash, as you know, you use approximately $6 million a month, net cash outflows, and so that's available to meet those benefit payments.

That is the extent of my prepared comments on the May report. If you have any questions, I'd be happy to answer. We'd be happy to answer.

CHAIR:

I'll ask a quick one. In looking at the FNB bank accounts, which I think are generally used for the retiree payroll, they're sort of lumped in with the relationship that the Treasurer's office has with FNB. So we were looking at how this works.

And so those accounts are interest free accounts. Is everything else that's held at BNY Mellon, is it all producing, or is any of that in cash? Like is every ---?

MR. BROKAW:

Yes, it's in an interest --- interest bearing portfolio that receives market rates.

CHAIR:

Okay.

MR. BROKAW:

Yes.

CHAIR:

Thank you.

MR. BROKAW:

Thank you.

CHAIR:

I'll ask one more follow up on that one. Has the plan looked at in the past ever removing the money that waits in the payroll account with no interest into something different, or is that sort of not been an option in the past?

I don't mean to catch anyone off guard with that.

MR. BROKAW:

Go ahead, Walt.

MR. SZYMANSKI:

Which account?

CHAIR:

The FNB accounts.

MR. SZYMANSKI:

So the FNB account that we use for payroll, we transfer the day prior to the payroll.

<u>CHAIR:</u>

Okay.

<u>MR. SZYMANSKI:</u>

So the money ---.

<u>CHAIR:</u>

It generally doesn't have a balance?

<u>MR. SZYMANSKI:</u>

No, it resides in BNY.

<u>CHAIR:</u>

Okay.

<u>MR. SZYMANSKI:</u>

We do a transfer Wednesday at 11:00 a.m. before payroll is paid out.

<u>CHAIR:</u>

Okay.

<u>MR. SZYMANSKI:</u>

And then it gets --- there's somewhat of a little balance there for refunds every month, but ---.

<u>CHAIR:</u>

But not much?

<u>MR. SZYMANKSI:</u>

Right. Not ---.

CHAIR:

Okay.

Maybe I just looked at it right around transfer time. Thank you for clarifying that.

MR. SZYMANSKI:

Sure.

CHAIR:

All right.

MR. BROKAW:

Moving on to the asset liability study, the best page to start on is page 23. And so from a top down perspective, we look at the assets every month. We come to the meeting and report on assets. You hear from your actuary several times a year regarding the funded status contributions, you set the contribution rate, but we don't usually look at the two together at the same time. And so that's --- that's what this analysis attempts to do, to look at the assets and the liabilities at the same time.

Look at the investment strategy and some potential other investment strategies, and see what the impact of those changes would be, long term, to the funded status of the plan. So that's the purpose of the study.

We looked at a number of different allocations. One is your current target allocation, and then three others that are slight changes to the allocation. Two of them move in terms of the modeling assets, less assets in private equity and more assets in either public equity or public fixed income. And the reason we chose those two options is private equity, as you know, they distribute money back to you. And if you don't make additional commitments to private equity, you're basically already on the path to having a smaller allocation of private equity.

And for example, in the

May report, the private equity allocation is 19.1 percent versus 20 percent. So you're already below the target. If you don't make any more commitments, you're heading towards the 15 percent that's in a few of these models.

Another one looks at the real estate allocation. Another one of the potential allocations looks at your real estate allocation, and given the increase in interest rates over the past several years, moves some of that allocation to bonds.

Finally, the summation of the analysis looks at the total cost projected out into future years and compares the total cost if you use the different investment strategies.

Page 24, some quick takeaways. Anyone have any questions before I move on? Great. So on page 24, the first three points are really general points when you look at modeling of asset allocation, asset liability modeling, equity tends to increase the variability of potential future outcomes. Bonds reduces the variability, and alternatives can often create a more efficient portfolio.

That is, many portfolios are primarily stocks and bonds. Adding a different kind of investment often increases the efficiency of the portfolio, reduces the volatility.

The next --- the next few points are really specific, more specific to your portfolio. The current asset allocation does meet the needs of the plan. So there isn't --- you know, looking at the conclusion of this analysis, there isn't a, oh, you should or have to make a change to the asset allocation. And the 7.75 still fits within the reasonable range when we look at the expected outcomes for the asset allocation.

Private equity, as I mentioned, is going to decrease over time. And really, when we compare all the investment strategies at the end of the period, most of the options have different but very similar results. In other words, your returns are going to be similar. The outcome, your funded status, the total cost over the next nine, ten years are going to be similar under all of the various investment scenarios.

All right.

Now digging into some of the details, if we go to page 27. Page 27 really just sets the stage. The data that you see on this page comes from your actuary, and thank you to your actuary sharing the information and very quickly, so we appreciate that.

So this really just sets the stage. I know that there have been some talk about questions about the current number of participants in the plan, active retirees, et cetera.

And so relative to that

1,123 number, if you look on page 27 at the table on the left at 12,127, more recently updated number would be 12,320, with more active members moving from 6,355 to 6,510. So retirees very, very similar number to the 1,12023 (sic).

So that wasn't the point of the analysis, but I wanted to mention it since the question came up as to have those numbers changed. Page 28.

CHAIR:

Can I just add something here?

MR. BROKAW:

Yeah.

CHAIR:

The --- just for folks watching at home, all of these numbers are based on that 7.75 percent interest return. So I know the controller has brought up recently the underfunded status of the plan. And that number that you use was based on like a financial accounting requirement, which is more of a lower spot interest rate. So I just wanted to make that clarification for people who are trying to align like, what is this number compared to what is that number? But thank you.

MR. BROKAW:

Yes, you're correct. 775.

Page 28, this again, there's a few pages here that lay out the facts of the analysis. The takeaway here, really, the table on the left has the expected returns and the expected volatility of the various asset classes that we're modeling.

And maybe, you know, a straightforward way to look at it is if you shift to the table and chart on the right, you can see the first section labeled equity. At the top, the dots in the middle, those are the expected returns, and these long bars are the potential range of returns.

So equity, when you invest in equity, you have an expected return, but it can be very good or very bad.

Bonds in the next one, you see a much tighter --- much tighter range. Bonds have a lower expected return, but at the same time they have a less expected volatility. They're not going to do as bad when they do bad or as good when they do good, as equities can.

Real estate and alternatives, the benefit there is often, they often go up when your stocks and bonds go down, or down when your stocks and bonds go up. That's, you know, simply diversification. But that's what this chart is showing. These assumptions are baked into the analysis of the assets and liabilities.

Page 30, straightforward. It shows your current target asset allocation. So this is what's written into the IPS.

This is when we do comparisons on a monthly and quarterly basis. These are the targets that we are comparing to. And the following page, page 31 shows a number of different potential mixes and the primary takeaway. The tables on the left, the visual is on the right.

The primary takeaway is in the first scenario, we reduced the private equity by five percent and increased public equity by five percent. In the second scenario, we move five percent from real estate to core bonds. And in the third mix, we moved five percent from private equity to the core bonds. So what really, what a few of these mixes do is just, again, reflect the reality if you don't make additional contributions into private equity to maintain that 20 percent target exposure, you're already on the path of lower private equity exposure.

So now we get to some of

the results, and page 33 has a lot of color on it. And the chart, the primary takeaway is when you look at this chart, there's less risk to the left and more return towards the top of the chart.

So you want to be as far left and as far up as possible. So if you look at the box that says current target and potential mixes highlighted above, the one that is furthest to the right with the black circle around it, is the target, current target allocation. So a little bit more risk, a little bit less in the funded ratio.

So when you look a little bit to the left of that --- and what would you call that color?

MR. WALTERS:

Darker gray.

MR. BROKAW:

Dark gray around the --- you know, let's call it the peace sign. That is really the mix one that has a little bit more equity, a little bit less private equity. Further to the left with less risk, but also less return with a gray border is the allocation that adds more to bonds and takes the funds from private equity.

MR. BROKAW:

What you can say here --- again, the goal is to be as far up and as far to the left as possible is it's potentially with mix one, that over this time period, you can potentially get a little less risk and a little more return out of the portfolio.

But the changes are a bit marginal. And that's really one of the main points we want to make. If you look at page 34, page 34 I would focus on the table on the right under where it says 2033 and that red bounded box with the funded ratio, expected funded ratio, nine years into the future, you can see that with any of the mixes and looking at the small table here, it starts with target mix one, mix two, mix three, that expected funded ratio, 33 point --- you know, anywhere from 0.1 to 0.5 is the expected funded ratio using any of the mixes.

So the takeaway is you're in a similar spot with any of these investment strategies. Any questions now? I think it might be a good time to stop and make sure we're on the same page.

CHAIR:

I'll ask one. How much of --- maybe I asked when we met last week on it. The thing I was surprised about on the efficient frontier is that it's largely, until you get to like, sort of above where we're at, mixes of bonds and alts, and realistically, like a pension plan, not really going to do 60 percent bonds, 40 percent alternatives and not any stocks. And so I'll just highlight that, which is why we're not looking at mixes that are like right along that line, because those would lead to like very non-traditional mixes that I think we're comfortable with.

MR. BROKAW:

Yeah, the line --- the difference between the line and the portfolio is under the line. The line is more of academic, that's just --- that's just looking at the math and doesn't have a whole lot of constraints on it. So that's the efficient frontier.

But the portfolios that you see a bit more below the line are more like portfolios that pension funds or other funds, public funds, health and welfare, other pots of money might want a portfolio that's, let's call it 20 percent bond --- I'm sorry, 80 percent bonds, 10 percent alts, 10 percent fixed income. Those are more realistic portfolios, the ones under the line. So yes, you can't really get onto the line. That's more of an academic perspective.

CHAIR:

And then looking at the peace sign, so the black circle one, which is our current one, and then the one that's a little up into the left.

MR. BROKAW:

Right.

CHAIR:

To me, there doesn't seem to be much downside to wanting to get more return for less risk. Is that like ---?

MR. BROKAW:

That's correct? Yeah, that's a good way to look at it.

CHAIR:

But then, to your point, no matter what we do, we're not going to earn our way out of the situation we're in with an unfunded, very underfunded plan. I thought that was your takeaway.

MR. BROKAW:

Well, it is, but it's --- yes, you end up in a similar situation with the various modeled --- modeled portfolios. And given the capital market assumptions now, to materially change that point from an investment standpoint, you would have to have an expected return moving towards 12 or 13 percent.

And with what's available in the current capital markets, that's not reasonable to expect that.

So the next couple pieces, this really just points out a few things that are in the analysis. It includes the contributions. So I'm on page 35. It includes the county and the employee contributions, and those are at 11 percent. And the only factor that's affecting the variability is inflation. So these contributions would be the same under any investment scenario in the current modeling. So that goes on to page 36.

Page 38 is another table that looks very similar to the efficient frontier with the funded status mapped out. On this one it's the total cost. And you see similar results with, again, the further to the left and the further towards the top. That's --- yeah.

Oh, I'm sorry. Tim just pointed out I skipped 37. I like the picture so much, I skipped the one that wasn't as colorful. So on page 37, to lay out some definitions of total cost, the total cost is the unfunded liability. So that's what exists now, plus the projected contribution. So every year for the next nine years in this analysis, there are contributions that we saw earlier going into the plan.

And if there's a takeaway here, again, it's that the end result. And this is at the bottom under where it says 2033, the table, so nine years into the future, you see that middle row, negative 2.3. The total cost is very similar under any of the investment scenarios. And again, total cost is defined as the current unfunded liability, which is about 1.4, I believe, billion from the actuarial report.

And approximately contributions are approximately a hundred million over this, each year, over this nine year time period. So very similar results. So when you look at the nice picture on page 38 that I was so anxious to get to, again, very similar for your current target and potential, mixes with the mix.

One a bit more to the left, so a bit less risk, and a bit more towards the top, so a bit more expected return, and therefore a little bit less cost. So finally, the last --- the last table really looks at that probability of insolvency.

And I know this isn't news you heard from the actuary. It was the last meeting or a couple of meetings ago. This takes that data point and then puts it into a model that changes the asset allocation. And if you look at the longest term time period that we have here, 2049, and these are probabilistic expectations.

So, you know, think of it as 50/50. So given the assumptions we have in here, what are the odds that the portfolio --- or I'm sorry, the fund, would be insolvent over these various time periods. So the lower the number, the better. In an ideal world, everything would be zero. So you see that over the various periods, again, the different asset allocations are similar, and the last one, mix three, has the highest probability of insolvency. It has less volatility so in the short term, maybe it's a little better, but out to that 2049, it gets the worst results because it has the worst expected returns.

So in conclusion, the next steps --- so we see this as the start of a conversation, not providing an answer. As I said, we spend a lot of time talking about the assets and talking about the liabilities individually. So we wanted to lay out an analysis that combined the two.

It is a moving target. So each year you get new data from the actuary that can be incorporated into the analysis. When we receive the new information, more participants. That's something that's pointed out. A set separate point can change the analysis, and the expected return assumption that you use can also change the analysis.

It won't change the returns you receive, but it will change many of those data points regarding funded ratio out into the future. So again, we can do this as part of a regular study. Any questions.

CHAIR:

I don't know if I'm allowed to ask the executive a question, but I write --- part of the ---part of the reason. No? She says no. And I don't know if we made it very clear here, right, the reason having more employees at the county helps the funded status is because in addition to the amounts employees are contributing, which a little more than covers what they're earning in the plan, the county puts in 11 percent, and that is basically helping to fund the unfunded portion.

And so towards the beginning of the pandemic, we saw the numbers of full-time employees lower in the county. And I'm curious if you all have --- I know you're sort of getting going.

CHAIR:

If you have a guess at when you have estimates on, like, what future employment levels might look like?

MS. INNAMORATO:

At this time, we don't have a set timeline on what that looks like. We are in conversation around a number of central HR changes, including, you know, bringing folks on as employees, as well as a number of other investments in our talent that exists here at the county. So it's currently in the works. That's really all I can hear at this time.

CHAIR:

I don't have any other questions. Thank you.

MR. BROKAW:

Thank you.

CHAIR:

All right.

Next up, we have Ed Boyer from Asset Strategies. They run the portfolio that is our alternative investments.

MR. BOYER:

Thank you and good afternoon. So we have new --- we have about 18 pages here. Some of them will run through relatively quickly. And then towards the back, we have some of the more interesting information that you requested.

So page two, three and four are looking at the various partnerships in the various segments that you've invested in, whether it's buyout, growth, equity, venture, private debt, real estate secondaries and other. So the valuation we had as of March 31st was $180.7 million.

Then went to the capital calls and distributions estimate for 2024 on page six, and it rolls over to page seven. And when you look at the columns to the right before notes, you have the 2024 calls through the fourth quarter of '24 and distributions through the fourth quarter of '24.

You go down below to the last row, and you see calls would be about $5 million, distributions about $16 million. That's a net of about $11. I think that's a little high because they are estimates, and some of this is going to be subject to interest rates. And I think there's numerous investments that are in the queue to be sold and realized, but they haven't quite rung the bell that interest rates are going to go down.

And when they do actually lower rates, I think we'll see a flurry of activity, and partly not only because rates have come down, but because managers have a selfish interest in getting rid of some of these investments, because these investments are winding down and they need to close down the funds or they'll seek an extension. Any questions?

All right. Expenses are on the next couple of pages, nine and ten. There are primarily two categories. Management fees paid, which are sort of in the center, carried interest or incentive fees. Go to the bottom row and you can add up those two numbers. 2.55 plus six and a half, $650,000. That gives you about 3.2 million of overall expenses.

Some of that you don't see because --- well --- or you don't write a check for because it's offset with distributions at the same time, but it's running through the portfolio and the returns we show are net.

All right.

It was requested us to provide the net distributions through the first half of 2024. We have --- on page 12, we have the distributions of about seven and a half million. Pardon me, total distributions, net distributions were $5.7 million.

So I think that's helping to alleviate some of the strain. But to what Chris said earlier, we are at a point where we're definitely below target. I realize that the new target may or may not be the same. But there's some --- you know, at this point in time, it's --- there are some definite investments we could make that would be accretive to the portfolio that we have a higher confidence level at. And I'll point that in a moment.

All right.

Pacing schedule.

CHAIR:

Can I ask a question on page 14? Oh, you're about to cover it. Never mind.

MR. BOYER:

Go ahead, ask the question.

CHAIR:

Oh, the spike up in 2013, was there a change in asset allocation then with the commitment?

MR. BOYER:

So yes, the commitment

spiked because of the change in asset allocation, and they were doing that about every two or three years, jumping at two or three percent sequentially over the last 15 years.

And that is the only period in time where the contributions exceeded commitments. But for the most part, the teal colored line and the dark blue line. You see, the teal colored line is below the dark blue line. So that's the normal state of things.

Page 15, you have a couple of data points on these bars. The dark blue reflects the distributions, and these are forecasted and estimates, and they're not likely to occur. You have the --- in the teal color below the horizontal --- the zero line, they're the calls that have been made.

And we'll see a positive net cash flow going forward, as I think we pointed out with other data that we just presented. So that's represented by the gold line running through the top part of the bar charts. But that'll be declining because our overall investments in private equity will be decreasing if we reign --- if things remain stagnant.

As far as page 16 goes, yes. What you're looking at here are a range of distributions by quarter. And then we believe --- and then, so that's the tenth percentile with the top, the teal blue line. Pardon me, and the blue is a tenth percentile.

So we believe that through the interpretation of what data we have here, that on a quarterly basis, you're likely to see $2.6 million net coming back into the portfolio, which would support what we just talked about being a little over $5 million of net distributions, you know, for the first half. Then on page 17, no surprise, the small segment at the top of that curve, there's a teal color that represents uncalled capital. And there's --- there are three, four, five managers that have some money to be called yet, but most of the money has been called from this roster of partnerships.

And the blue represents the NAV, the net asset value, of the alternative investments.

Erica, you look puzzled.

CHAIR:

I'm realizing that if we have expected future cash flows, then there's some inherent investment return inside of them.

MR. BOYER:

Right. Uh-huh.

CHAIR:

And how --- is that something that asset strategy is coming up with, or is it based on what managers are indicating?

MR. BOYER:

As far as the future

returns?

<u>CHAIR:</u>

Yeah.

<u>MR. BOYER:</u>

I don't think that we're --- well, we don't do that. I mean, we would not extrapolate and develop that data.

<u>CHAIR:</u>

Sure. If I discounted all these cash flows, I would get a dollar amount.

<u>MR. BOYER:</u>

Right.

<u>CHAIR:</u>

And then I'd compare it to what we have.

<u>MR. BOYER:</u>

Okay.

<u>CHAIR:</u>

What we think the market value is. And it would presumably line up. So maybe that's ---.

<u>MR. BOYER:</u>

There's a better way.

MR. BROKAW:

In the --- in the projection, is there an, you know, assumed rate of return in the portfolio and the projection?

MR. BOYER:

Right.

MR. BROKAW:

Or is it assumed to be zero into the future? Are you looking at, you know ---?

MR. BOYER:

The projections?

MR. BROKAW:

Yeah.

MR. BOYER:

The projections are not zero.

MR. BROKAW:

Great.

CHAIR:

Are the cash flows coming from an asset strategy estimate or are they like a compilation of manager estimates? Maybe that's a ---.

MR. BOYER:

It's somewhat formulaic, ---

CHAIR:

Okay.

MR. BOYER:

--- based upon the managers and the longevity. Further, the commitment life, or when we initiated the investments is what it comes from.

CHAIR:

Okay.

MR. BOYER:

And page 18 might help to represent what were just talking about in that you have the teal line, which represents the cause of, roughly, $3.6 million annually over the next three years, and you can see how that declines relatively significantly and that the distributions on a yearly basis were projected to be $10 to $12 million.

We don't believe it. That's from the formula and the model, but we think that'll be a little bit less until we see a little bit more constructive economic scenario and the level of transactions actually picking up because interest rates are lower, investment bankers are greedy and they want to get these deals done.

In summary, cash flows will improve.

MR. BOYER:

Might be a good idea to take a look at one or two new investments in the future, particularly with a firm that's in here called Accolade. It's woman-owned firmed out of D.C. It's been one of your top performers.

Let's see. Go back to page two. At the bottom of page two is Accolades, two partnerships that we put in. You go over to the far right and you can see the net IRR is above 20. And they have a woman's empowerment fund that I think it's the number three fund for them. And they develop a particular expertise and resources to fulfill that strategy as well as just doing a growth equity.

So they're in the pipeline. We had just had a conference call with them and they would be in our immediate queue if you gave me the green light.

CHAIR:

Are there, like a few others also in the immediate queue? If were to ---?

MR. BOYER:

Well, if you asked me to expand to less, yes, for sure. We would --- let's see here. I think on the growth equity or buyout side, there'd be constitution as well. Maybe we need to get a little more information on Feral. And then on the venture side --- we just did a recent one with JMI, but JMI is coming out with a new --- their software expertise, and they're the leading software expert in the country in this space. And despite the J curve, they might be going through their, let's see, they're 23 percent. They're going to be able to generate positive funds, positive returns with a high degree of probability. And then, if you recall, Green Springs sold out to State Street, I mean, Stepstone, and there might be some newer funds in Stepstone that we would allocate to, but we're always doing research to find new funds.

There's a couple of funds that are not in here that, you know, we --- some funds out in Utah, that would be Cross Creek and Sorenson. And then in Baltimore there's a firm called Harmonic. These are three firms that we've already invested in, but we haven't had --- we haven't made an investment in well over two or two and a half years.

CHAIR:

What's the typical timeframe of them paying back out on a new investment?

MR. BOYER:

So to give you a more complete answer, the investment period is typically five years, depending on the environment, they may call it in three. The life of the fund is oftentimes 10 or 12 years, with the possibility of some extensions, sometimes one year at a time, sometimes a maximum two.

With each fund --- or historically, we go back each fund and we could say, if we commit it --- let's just pick a raw number. $10 million. And we haven't really done $10 million commitments with any of these managers that we recommended. We would estimate that you will start cash flowing on growth equity or buyouts sooner than venture, and that you would --- we could anticipate getting more money back in buyout and growth equity in the five to seven year timeframe.

Whereas to get the same amount coming back from venture, it might take eight or nine.

CHAIR:

Thank you.

MR. BOYER:

You're welcome.

Any other questions from the other Board members?

CHAIR:

I think that's it.

MR. BOYER:

All right. Thank you.

CHAIR:

That was the last item. Is there any new business?

MR. SZYMANSKI:

There is not.

CHAIR:

There's not? Our next meeting --- we don't have an August meeting, so delete it from your calendars, folks. Our next meeting will be September 19th. And we're adjourned.

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MEETING CONCLUDED AT 12:54 P.M.

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CERTIFICATE

I hereby certify, as the stenographic reporter, that the foregoing proceedings were taken stenographically by me, and thereafter reduced to typewriting by me or under my direction; and that this transcript is a true and accurate record to the best of my ability.

Dated the 7th day of August, 2024

Chelsea Curry,
Court Reporter