

**Board Meeting  
Minutes  
Telephone Conference 1-408-418-9388 ID 1329152010  
Friday May 14, 2021**

PRESENT: John Rodgers, Chairperson; Greg Satterfield, Union Representative; Paula Perez, AAME.; Sgt. Chris Peck, FOP Representative; Mikhael Sukhenko, Citizen Representative. Also, on the call were Tim Peifer, Finance; Daisy Harley, Human Resources; Gavin Cohen, Executive Secretary to the Board; Ryen Sherman, Christian Sevier and Maureen “O’ Brien from Segal Marco Advisors.

ABSENT: Beryl Feinberg, Councilmember  
Rob DiSpirito, City Manager

The meeting commenced at 10:00AM.

**I. Approval of Minutes from February 19, 2021**

Greg Satterfield made a motion to approve the minutes as presented. The motion was seconded by Sgt. Chris Peck. The motion passed unanimously 5-0.

**II. Investment Performance Review quarter end March 30, 2021**

Mr. Sevier discussed the market environment through March, noting a positive start to the year for equity markets and remarkably strong one-year returns resulting from last year’s drawdown that occurred immediately prior to the measurement period. Conversely, bond markets are off to a rocky start this year as yields across the intermediate and longer-term maturity spectrum have risen by approximately 100 basis points over the last two quarters. COVID vaccinations, accelerating economic growth and rising inflation expectations/inflation readings have all contributed to the upward move in yields.

Mr. Sherman then reviewed asset allocation and performance for the Pension Fund, noting that the Fund returned +3.9% for the first quarter and +37.0% over the last year, versus +3.5% and +30.1% respectively for the Policy Index. The equity investments have driven the strong overall returns over these periods. The relative underperformance of the State Street Small Cap Equity fund was addressed and it was noted that although it has been a challenging environment for actively managed small cap funds strategies to outperform benchmarks, the fund has performed in the top quartile relative to peer funds over the last 3, 5 & 7 years. After further discussion on the matter, Segal Marco offered to provide additional review materials on the topic of active management versus passive management in the small cap equity space and continue the discussion at the next meeting. Mr. Sherman also noted that previous decisions to move money out of core bonds and into the BlackRock unconstrained bond fund and Invesco multi asset class fund have improved returns this year, along with the decision to replace the TIPS allocation with the Principal Diversified Real Asset fund.

Mr. Sevier reviewed the values, cash flows and investment fund performance of the Thrift/457(b) Plans and highlighted some of the specific themes discussed during the market overview, including the rotation in performance from large cap growth to large cap value and changes in the interest rate on performance of fixed income investments. The American Funds Target Date series continues to offer very strong performance over trailing periods.

Mr. Sherman reviewed the Retiree Benefit Trust, which lagged the Policy Index in the first quarter after outperforming by a wide margin in 2020. The Trust returned -1.0% for the quarter and +33.5% over the last year, versus +1.5% and +30.0% respectively for the Policy index.

#### **IV. ESG Investing**

Ms. O'Brien of Segal Marco Advisors joined the meeting to continue the discussion around Environmental, Social and Governance (ESG) Investing. Mr. Cohen recapped the directive from the Mayor and Council to research the viability of including ESG principles into the Investment Policy Statement without compromising the Board's fiduciary obligations. Ms. O'Brien expressed Segal Marco's view that incorporating ESG is intended to be additive and not intended to replace the current investment decision-making process or to sacrifice returns.

Mr. Cohen provided the Board with three options for moving forward: 1) Update the Investment Policy Statement to incorporate ESG (sample language was provided in the materials); 2) Adopt a separate Board Policy Statement for ESG; 3) Decline to incorporate ESG in any manner and communicate this to the Mayor and Council.

Mr. Rodgers polled each of the Board members to get their thoughts on how they wished to proceed. After further discussion, the Board requested to review an updated Investment Policy Statement incorporating ESG language at its next meeting in September which Staff and Segal Marco will coordinate on.

Mr. Rodgers requested that staff communicate the Board's progress on the subject to the Mayor and Council.

The call ended at 11:38 am.

**THE NEXT REGULAR MEETING IS FRIDAY SEPTEMBER 3**