

## **RETIREMENT COMMISSION MINUTES**

The Retirement Commission met on Wednesday, November 18, 2020. The following members were present: John Blair, Chris Cullinan, David Hughes, Jason Vandever, Scott Hendrix, Michele Vineyard, Al Elias, Markell Henderson. Absent: Joe Hatter, Heather Hill. Others present: Brian Wheeler, Sara Butler, Lisa Burch, Krisy Hammill, Letitia Shelton.

### **Call to Order**

Jason Vandever called the meeting to order at 8:32 AM.

### **Approval of Minutes**

The minutes from the October 2020 meeting were approved unanimously.

### **Sustainable Investing Discussion**

Jason Vandever presented two possible changes to the Commission Investment Policy Statement. After some discussion, a motion was made and seconded to adopt the first proposal with one small change. The motion was approved unanimously. After further discussion, a motion was made and seconded to exclude fossil fuel companies with proven and probable fuel reserves from the large cap investments in the fund portfolio. The motion was approved unanimously.

### **Disability Retirement Discussion**

Lisa Burch presented a comparison of the City's disability retirement process to seven other localities in Virginia and the Virginia Retirement System. The Commission discussed possible changes and agreed that input is needed from the Public Safety Representative and the City Council Representative. The Commission will discuss further at the next meeting.

### **Other Business**

The members decided to forego the December meeting. The next Commission meeting will be in January.

### **Adjournment**

The meeting adjourned at 9:36 AM.

**City of Charlottesville  
Retirement Commission  
ESG Update  
January 27, 2021**

1. Update on Large Cap Managers
  - a. Wells Capital- has agreed to and implemented Fossil Fuel Restrictions
  - b. Cornerstone- has agreed to and implemented Fossil Fuel Restrictions
  - c. SSGA- Completed transition from S&P Enhanced Index to the Fossil Fuel-Free Index on 1/11/21
2. Modification of Investment Policy Language
  - a. After the last meeting staff sent the ESG policy language to Dahab Associates. After a careful review, Dahab made a few requested changes. As a co-fiduciary, Dahab also has an interest in plan document language and is legally liable for the advice they offer. The following proposed changes still accomplish the goals of the commission in regards to sustainable investing while satisfying Dahab Associates in their role as Investment Advisor. The proposed changes have been reviewed by the City Attorney's Office.

**INTEGRATION OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS**

The Charlottesville Retirement Commission understands that the incorporation of Environmental, Social and Governance (ESG) factors into the investment process will may help maximize the plan's risk-adjusted returns through a more comprehensive investment analysis process. As a result of this understanding, the Commission shall:

- Incorporate ESG strategies, where appropriate, to enhance the financial benefit of the plan's beneficiaries, consistent with fiduciary duty.
- Evaluate appropriate ESG targets on a case-by-case basis for each asset class allocation and manager.
- Consider the extent to which investment partners incorporate ESG strategies in their investment research and process.
- Review manager ESG and sustainability initiatives on an ~~annual~~ a continual basis.

Current ESG Focus Areas:

- Climate Change and Fossil Fuel Companies – As long-term investors the Commission has come to understand that climate change poses could potentially pose a systemic financial risk to our plan's beneficiaries. ~~Additionally the Commission understands that these risks are not properly evaluated through traditional financial analysis.~~ Therefore, the Commission will work with its investment managers to better understand ~~the~~ those risks and, as warranted, reduce the plan's exposure to fossil fuel companies that contribute to climate change.

3. Earnest Partners
  - a. On December 4<sup>th</sup> staff had a call with one of the portfolio managers from Earnest Partners, the city's bond manager. The bond portfolio is approximately \$30 Million. We discussed the possibility of implementing a fossil-fuel restriction on the portfolio and if Earnest Partners would be open to such a restriction. They welcomed the idea and offered suggestions on changes to the investment policy language to help accomplish our goals. The commission needs to vote on whether to accept the attached policy changes.

Section III

*6. In order to avoid investments in fossil fuel companies, investments in the energy sector (as identified by Bloomberg or another third party research provider) are prohibited subject to exceptions with limited or no fossil fuel exposure proposed by the investment manager and approved by the Commission.*

Miscellaneous Guidelines:

*10. The manager will look to promote positive environmental change through their investment decisions.*

# CHARLOTTEVILLE RETIREMENT SYSTEM

## PRELIMINARY PERFORMANCE SUMMARY AS OF DECEMBER 2020

Portfolio	Previous Month Market Value	QTD	FYTD	Current Month Market Value	%	Target
Total Portfolio	\$190,498,596	11.2	17.5	\$197,416,536	100%	100%
Policy Index		11.0	16.8			
SSGA U.S. Large Cap	\$24,898,048	11.9	20.5	\$25,822,124	13.08%	12.50%
S&P 500		12.1	22.2			
Wells Capital	\$23,731,512	14.4	27.8	\$24,774,058	12.55%	10.00%
Russell 1000G		11.4	26.1			
Cornerstone	\$15,112,645	19.3	29.6	\$15,815,864	8.01%	7.50%
Russell 1000V		16.3	22.8			
Davenport	\$16,667,948	16.5	27.3	\$17,332,725	8.78%	7.50%
Russell Mid		19.9	28.9			
SSGA 400	\$8,944,699	24.4	30.3	\$9,528,814	4.83%	5.00%
S&P 400		24.4	30.3			
SSGA Russell 2000 Growth	\$5,914,296	29.6	38.8	\$6,466,557	3.28%	2.50%
Russell 2000G		29.6	38.8			
ACM	\$9,193,808	19.4	23.1	\$9,832,956	4.98%	5.00%
Russell 2000V		33.4	36.7			
SSGA EAFE	\$4,945,532	16.1	21.6	\$5,175,909	2.62%	3.00%
MSCI EAFE Net		16.0	21.7			
Artisan	\$6,493,581	9.2	17.7	\$6,782,184	3.44%	3.50%
MSCI EAFE Growth Net		13.1	22.6			
SSGA Int'l	\$4,987,969	15.2	20.5	\$5,256,198	2.66%	3.50%
MSCI EAFE Value Net		19.2	20.6			
Axiom	\$4,896,963	20.4	36.7	\$5,314,509	2.69%	2.50%
SSGA EMGM	\$3,610,242	19.6	31.0	\$3,874,340	1.96%	2.50%
MSCI EM Net		19.7	31.1			
PRISA*	\$8,632,247	0.0	0.5	\$8,632,247	4.37%	5.00%
PRISA IT*	\$8,280,597	0.0	0.4	\$8,280,597	4.19%	5.00%
NCREIF NFI-ODCE <sup>1</sup>		0.0	0.5			
Ceres*	\$3,704,057	0.0	1.7	\$3,704,057	1.88%	2.50%
UBS	\$3,812,669	1.2	2.5	\$3,847,384	1.95%	2.50%
NCREIF Farmland <sup>1</sup>		0.0	1.0			
Earnest Partners	\$36,629,396	1.3	2.8	\$36,933,625	18.71%	20.00%
Aggregate Index		0.7	1.3			
Cash	\$42,387	---	---	\$42,388	0.02%	0.00%

\*The market value seen was carried forward from the previous quarter. A return of 0.0% was assumed.  
<sup>1</sup>The NCREIF NFI-ODCE and NCREIF Farmland indexes are reported quarterly. A 0.0% return was assumed.

**CITY OF CHARLOTTESVILLE RETIREMENT FUND  
INVESTMENT GUIDELINES – ADDENDUM #5  
MANAGEMENT GUIDELINES FOR EARNEST PARTNERS  
FIXED INCOME GUIDELINES  
WITH REVISIONS ADOPTED – December, 2020**

The City of Charlottesville Retirement Commission maintains that an important determinant of future investment returns is the expression and periodic review of the fund's investment objectives. To that end, the Commission has adopted this statement of Management Guidelines. The investment manager is also bound by the goals and objectives of the Plan's investment guidelines.

In fulfilling their fiduciary responsibility, the Commission recognizes that the retirement system is an essential vehicle that provides income benefits to retired participants or their beneficiaries. The Commission also recognizes that the obligations of the fund are long-term and that investment guidelines should be made with a view toward performance and return over a number of years. The general investment objective then, is to obtain a reasonable total rate of return commensurate with the prudent investor rule and any other applicable statute or requirement.

These investment guidelines may be temporarily suspended should prevailing economic conditions warrant such changes. To suspend the guidelines, the investment manager must submit in writing the requested suspensions, reasons for the request, and the time period for which the suspensions will be in effect. The Commission will review the request and upon majority vote and written confirmation, the suspensions will be deemed in effect for the specific time period.

**I. STYLE DESIGNATION**

The Commission places great importance on risk reduction through asset and style diversification. The investment manager should realize that it will operate as part of a larger multi-manager allocation strategy. The investment manager is advised that it has been selected to perform investment services based in part on its particular investment style characteristics and the diversification benefits such style may produce in relationship to the style characteristics of other managers retained by the fund. The investment manager should therefore endeavor to maintain a consistent style, subject at times to its full discretion and continued fiduciary obligations.

The investment manager has been retained to pursue a balanced portfolio featuring a **Core Plus Fixed Income** style.

**II. INVESTMENT PERFORMANCE OBJECTIVES**

The Commission will review performance on a quarterly basis. Normally, performance will be evaluated over a three to five year time horizon. These periods are considered sufficient to accommodate the different market cycles commonly experienced with investments, but shorter-term results will be regularly reviewed and earlier action taken if in the best interest of the plan.

Investment performance objectives are not the sole reason for retention or termination of an investment manager.

Fixed Income Objectives:

- Over a three to five year time horizon, fixed income performance should be equal to or greater than the return of the Bloomberg Barclays Aggregate Index.

and/or

- Over a three to five year time horizon, fixed income performance should be greater than the 50<sup>th</sup> percentile of the agreed upon fixed income universe.

**III. INVESTMENT GUIDELINES**

At all times, the Board's investments are subject to the certain limitations set forth in Virginia Law or by local ordinance. Any investment not specifically addressed in these guidelines is not allowed.

Fixed Income Investments:

- I. Fixed income investments shall be permitted in obligations of the United States or obligations guaranteed as to principal and interest by the Government of the United States, corporate bonds, mortgage-backed securities, asset-backed securities and other similar forms

of indebtedness.

2. Subject to clause 3 below, fixed income investments shall have a minimum quality rating of Baa/BBB (Investment Grade) as rated by one or more recognized bond rating service at the time of purchase. Investments shall be permitted in "split" rated bonds.
3. Fixed income investments rated below Baa/BBB shall constitute not more than 10% of the total market value of all assets in the account.
4. Fixed income investments bought under Rule 144A under the Securities Act of 1933 ("Rule 144A") shall constitute not more than 10% of the total market value of all assets in the account. The Commission hereby confirms to the investment manager that the City of Charlottesville Retirement Fund is a "qualified institutional buyer" as defined in Rule 144A.
5. No more than two percent (2%) of the total market value of all assets in the account shall be invested in debt obligations of any one fixed income issuer except for securities issued and guaranteed by the United States Government, or its agencies, which may be held without limitations.
6. In order to avoid investments in fossil fuel companies, investments in the energy sector (as identified by Bloomberg or another third party research provider) are prohibited subject to exceptions with limited or no fossil fuel exposure proposed by the investment manager and approved by the Commission.
7. For the purposes of these guidelines, convertible bonds and convertible preferred stocks shall be considered fixed income investments

Cash and cash equivalent investments shall be made only in:

1. Money market funds, STIF funds
2. United States Treasury Bills
3. Securities rated A-1 or better by Moody or P-1 or better by Standard & Poors.
4. Time or savings accounts of a national bank, a state bank insured by the Bank Insurance Fund, or a savings, building, and loan association insured by the Savings Association Insurance Fund which is administered by the Federal Deposit Insurance Corporation.

Miscellaneous:

1. Use of swaps, primes, scores or other similar products are prohibited.
2. Use of margin buying is prohibited.
3. Use of derivative investments including: Forwards, futures options, warrants, hedging, or structured investments which display derivative like characteristics are prohibited. CMO's and mortgage-backed securities are not considered derivative investments for the purposes of these guidelines.
4. Short selling of securities is prohibited.
5. Unregistered or restricted stocks are prohibited.
6. Commodities are prohibited.
7. Commingled or mutual funds with the exception of bank STIF funds are prohibited.
8. Yankee Bonds are limited to 5% of the fixed income portfolio.
9. The portfolio shall comply at all times with applicable laws and regulations. For the purposes of these guidelines, if at any time this document is found to be in conflict with applicable laws or other applicable statutes, the law or statute shall prevail.
10. The manager will look to promote positive environmental change through their investment decisions.

#### IV. ASSET ALLOCATION

The investment manager shall adhere to the following target asset allocation at market value in investing the funds allocated to it by the fund.

Fixed Income      100.0%

The actual allocation can, however, vary at any time within ranges specified below, as a result of gains and losses in the portfolio or as a result of deliberate action of the manager based upon its view of prospective market conditions:

	<u>Maximum</u>	<u>Minimum</u>
Fixed Income	100.0%	90.0%
Cash	10.0%	0.0%

## V. COMMUNICATIONS

The investment manager is expected to report at least quarterly to the Commission and provide a written report detailing the fund's performance, adherence to guidelines, forecast of the market and economy, portfolio analysis and current assets of the fund. Additionally, the investment manager will on a quarterly basis provide a written report affirming compliance with the securities restrictions of section III above.

The investment manager will provide immediate written and telephone notice to the Commission and the Consultant of any significant event, specifically but not limited to the resignation, termination or incapacity of any senior personnel.

Since proxy votes may be considered an asset of the Plan, the investment manager shall have the fiduciary duty to vote the proxies attendant to the Plan's ownership of equity securities. The investment manager shall exercise such proxies solely in the interest of the participants and beneficiaries of the Plan, and for the exclusive purpose of providing benefits to participants and beneficiaries. The investment manager shall make available upon request to the Commission and its Consultant documentation relating to the handling and voting of proxies. The investment manager shall forward written reports of its voting activities to the Commission and its Consultant at least annually.

## VI. MANAGER TERMINATION

The Commission wishes to adopt standards by which ongoing retention of an investment manager should be determined. With this in mind, the following guidelines have been adopted:

If, at any time, any one of the following is breached, the investment manager will be notified of the Commission's serious concern for the funds continued safety and performance and manager termination could occur.

1. Consistent performance below the fiftieth (50%) percentile in the specified universe.
2. Consistent under-performance of the stated target index.
3. Loss by the manager of any senior personnel.
4. Any change in basic investment philosophy by the manager.
5. Any significant change of ownership of the firm.
6. Failure to observe any guidelines as stated in this document.

These shall in no way limit or diminish the Commissions' right to terminate the manager at any time for any reason or for no reason.

## VII. DIRECTED COMMISSIONS

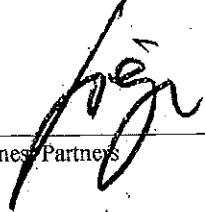
The investment manager shall use their best efforts to ensure that portfolio transactions are placed on 'best execution' basis as defined in ERISA Technical Release 96-1 which is made part of this agreement by reference. The Commission requires that the investment manager competitively bid securities as appropriate and selects the most advantageous bid. Additionally, the Commission reserves the right to utilize certain recapture brokers for the benefit of the fund.

The manager is required, on a quarterly basis, to report all brokerage transactions and reasons for using brokers to the Commission and the Consultant.

## VIII. REVIEW AND AMENDMENTS

It is intended that the investment manager and Commission review this document periodically. If at any time the manager feels that the specific objectives defined herein cannot be met or that the guidelines constrict performance, the Commission should be notified so in writing. By the initial and continuing acceptance of these investment guidelines, the investment manager concurs with the provisions of this document.

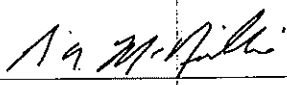
IX. ACCEPTANCE OF GUIDELINES

  
\_\_\_\_\_  
for: Earnest Partners

1/7/21  
Date

\_\_\_\_\_  
for: City of Charlottesville Retirement Fund

\_\_\_\_\_  
Date

  
\_\_\_\_\_  
for: Dahab Associates, Inc.

1/8/21  
Date



Retirement Commission  
January 27, 2021

Issues to discuss regarding Disability Retirement:

- Should the City require an independent medical exam for injured public safety officers who are applying for disability retirement? This is allowed by city code already.
- If so, should HR determine the doctor or should we hire outside contractor to find the doctor and set up the appointment?
- Should recipients of disability retirement be re-examined periodically at doctor's recommendation at City's expense? This is allowed by city code and current recipients have been told this is a possibility.
- Right now, recipients of disability retirement are required to submit copies of their W-2s every year. Most municipalities require the complete tax return and the city code allows us to. Should we also require the complete tax returns so we see the 1099s?
- Should the City have an appeals process in case a person is denied disability retirement by the Retirement Commission? If so, city code will need to be amended.