



**City of Cincinnati Retirement System
Investment Committee Meeting
Minutes
February 6, 2024 / 12:00 P.M.
City Hall – Council Chambers and remote**

Committee Members Present

Bill Moller, Chair
Tom Gamel, Vice Chair
Kathy Rahtz
Mark Menkhaus, Jr.
Monica Morton
Seth Walsh
Aliya Riddle

Administration

Jon Salstrom

Marquette

Brett Christenson

Law

Kevin Frank

CALL TO ORDER

Chair Moller called the meeting to order at 12:02 p.m. and a roll call of attendance was taken. Committee members Moller, Gamel, Rahtz, Menkhaus, Morton, Riddle and Morris were present. Committee member Wash was absent.

PUBLIC COMMENT

No public comment.

APPROVAL OF MINUTES

Approval of the minutes of the Investment Committee meeting of November 7, 2024, was moved by Committee member Gamel and seconded by Committee member Rahtz. The minutes were approved by unanimous roll call vote.

Old Business

Update Investment Manager Contracts

One current implementation issue is the strategic shift to increase allocations to fixed income and private debt, which requires a reduction in private equity exposure. Siguler Guff Business Buyout Fund closed successfully with an effective date of January 31. JP Morgan Co-Investment and Timber Bay expected to close on March 31. These transactions are progressing as expected, and the team will continue to manage the transition in line with portfolio objectives.

New Business

JPM Infrastructure Team Presentation

Investment Strategy Overview – Core Private Infrastructure:

Why and What we're investing in – Core Private Infrastructure (“DIY”)

Nick Moller presented an overview of the strategy behind investing in Core Private Infrastructure, referred to as “DIY” – standing for Diversification, Inflation protection, and Yield.

The goal is to generate an uncorrelated, income-focused return stream with inflation protection. Primary investments include regulated utilities (heat, water, gas, electricity), which are considered natural monopolies and essential services. These assets typically offer yield-based returns through operating income and are often tied to inflation-linked contracts.

It excludes higher-risk strategies such as growth or development infrastructure projects that are more correlated with private equity or real estate. The emphasis is on core, contracted, and regulated investments to ensure stability and predictable outcomes.

The Fund (IIF) was established in 2007 and is an open-ended, private, perpetual fund structure. The current portfolio has \$41 billion invested across 18 private companies and approximately 1,000 assets, all with controlling positions. 96% of the portfolio is contracted or regulated. Global scope, primarily focused on the U.S. and developed Europe, with currency exposure hedged to the U.S. dollar.

Highly diversified across geographies and assets, which helps insulate the portfolio from macroeconomic volatility. The fund has maintained stability through various market cycles, delivering low-volatility, income-oriented returns.

It has nearly 1,400 global investors across a broad range of profiles. Its liquidity profile is supported by investor diversity. While there have been redemptions over the past 2-3 years, all have been met in full and on time.

The investment strategy prioritizes stability and predictability, avoiding higher-risk components that may increase return variability. The fund's long-term performance has demonstrated its resilience and value in providing steady income with lower correlation to traditional asset classes. Investor and asset diversification are central to both risk management and liquidity sustainability.

Preston Scherer presented and talked about the portfolio. He outlined the investment portfolio, which is focused on three primary sectors:

1. Regulated Utilities
 - Includes electricity, water, natural gas, and heating utilities across Europe and North America.
 - These are growth platforms operating under regulatory constructs allowing for

inflation protection.

- Regulated rates enable the pass-through of higher operating and capital costs to customers.
- Serves as a key inflation hedge.

2. Contracted Power

- Businesses with long-term (10-15 + year) contracts with investment-grade counterparties.
- Examples include solar power with “take-or-pay” contracts.
- Revenue certainty is high due to fixed, long-term agreements.

3. GDP – and Transport-Sensitive Businesses

- Includes bulk liquid storage, rail leasing, midstream energy storage/transport.
- Contracts are shorter-term (3-7 years) and subject to economic cycles.
- Also includes transport assets like airports in Canada and Australia, which are more GDP-sensitive and not growth platforms.
- Exposure to airports is being de-emphasized for better portfolio diversification.

The leverage profile is 47% loan-to-value. Capital structures are investment grade (rated or shadow rated). Preference for long-dated, fixed or swapped debt matching underlying contract durations. Emphasis on cash yield and avoiding sub-investment-grade structures that reduce cash flow.

They currently have 18 portfolio companies. Investments range from long-term holdings to more recent acquisitions. Focus on building and backing strong management teams, independent Boards, and robust operating systems and incentives.

Capital is deployed through organic and inorganic means. Organic Growth is expansion within existing businesses (e.g., utilities building new infrastructure). Inorganic Growth is acquisitions and bolt-on deals sourced by internal teams. This avoids competitive auctions in favor of strategic growth with trusted leadership.

Preston has been part of the team for almost 9 years and sits on the Board of Directors for two of JPM’s businesses that he is responsible for:

- El Paso Electric
 - Regulated electric utility in Texas and New Mexico
 - Serves 460,000 customers with 1,100 employees
 - Fully vertically integrated (generation, transmission, substations, distribution).
 - Acquired in 2020 during Covid (take-private deal).
 - Over \$1 billion in equity invested since acquisition.
 - Growth drivers: electrification, reshoring of manufacturing, and tech sector interest (e.g., data centers).
- Onward Energy
 - Unregulated power business operating across 22 U.S. states.
 - Owns wind, solar, and natural gas plants.
 - Grown primarily through inorganic acquisitions.

- Contracts average 14 years, offering cash flow visibility.
- Focus is on operational excellence and strategic asset integration.

Preston emphasized the firm's strategic advantage; long-term relationships with management teams and Boards, disciplined capital deployment, and diversified portfolio offering consistent risk-adjusted returns.

Current Market Environment & Quarterly Investment Report

Brett Christenson from Marquette was in attendance to present.

4Q24 Market Takeaways:

- Fixed Income: The Fed continued to cut in 4Q, but rates pushed higher out the curve due to inflation and deficit fears. This provided a headwind to fixed assets during the quarter. Spreads remain tight and trade inside long-term averages, but credit fundamentals remain resilient. Spreads could remain tight for an extended period, but fixed income yield remains attractive. Diversification will remain key going forward.
- U.S.: Given the expectation for strong economic growth, the U.S. equity market remains attractive following two consecutive standout years. If earnings growth broadens out across non-Mag 7 companies, investors may exhibit a rotation out of growth- and momentum-oriented stocks and may increasingly favor small-cap and value equities. Small caps specifically remain attractively valued relative to their large-cap counterparts.
- Non-U.S.: Non-U.S. developed large-cap equities face headwinds (e.g., trade policy uncertainty and economic challenges), while non-U.S. developed small-caps are poised to benefit from lower rates and may be more insulated from economic turmoil given their domestic revenue basis. EM stocks face a mixed outlook, with tailwinds for countries like Taiwan, Japan, and India, though China and Latin America face short-term struggles.
- Real Assets: 2025 appears poised to be an attractive entry point for commercial real estate investment with valuations stabilizing, debt markets improving, and property fundamentals strengthening. Core infrastructure assets in the U.S. remain stable given inflation-linked revenue streams and growing interest in energy transition opportunities.
- Private Equity: Buyout valuations remain below public market multiples. 2025 should be a strong year for dealmaking, though inflation and uncertainty surrounding the future path of interest rates could significantly influence exit activity and fundraising this year.
- Private Credit: Though new issue spreads have tightened in recent quarters, direct lending yields remain attractive. Increases in M&A expectations and pent-up demand for private equity exits supports strong origination volumes in 2025, while indicators of potential credit stress remain benign in aggregate.

Chair Moller made a motion to approve and accept the Marquette year-end quarterly report. Committee member Morris seconded the motion. The motion was approved by unanimous roll call vote.

Chair Moller made a motion to approve rescinding the outstanding withdrawal requests with Morgan Stanley and Principal, as recommended by Marquette:

- Morgan Stanley Outstanding Amount: Approximately \$3.7 million
- Principal Outstanding Amount: Approximately \$2 million

Committee member Gamel seconded the motion. The motion was approved by unanimous roll call vote.

IPS amendment of Policy Benchmark and Bandwidths

Director Salstrom presented a chart showing each asset class alongside its target allocation, minimum, and maximum ranges. The proposal focuses on adjusting the minimum and maximum bandwidths around most of the public market asset classes.

Key changes proposed:

- Core Plus and Core Bond Allocations:
 - Minimums reduced from 9% to 8% and 7% to 6%, respectively.
- Public Equity Allocations (All Cap and U.S. Equities):
 - Minor adjustments to both minimums and maximums to allow greater flexibility in response to market movements.
- Private Debt Allocation:
 - Maximum increased slightly to accommodate strong performance without triggering a rebalancing solely due to positive returns.

The purpose of these adjustments is to provide greater flexibility around natural market fluctuations within months or quarters, to avoid being forced to sell assets during market drawdowns simply to maintain strict allocation bands, and to ensure the system can continue to make monthly benefit payments without causing unnecessary rebalancing actions during volatile periods.

These adjustments are not intended to add new managers or change strategic allocations. The goal is to reduce operational constraints and improve stability around cash flow and market movement management.

Value Bias Update and Recommendation

Marquette's recommendation is right now to hold steady and monitor quarterly.

Training – Investment Terms and Concepts

Brett discussed investment terms and concepts, focusing on indices and benchmarks.

- Investment benchmarks and active vs. passive management:
 - Benchmarks developed by companies S&P, F, and MSCI (slide 13)
 - Active managers try to outperform benchmarks, with higher fees and operating expenses (slide 16)

- Passive vs. active management, rebalancing, and bond investing:
 - Brett discussed indexing and rebalancing, then switched to bonds, highlighting their risk-return chart.
- Fixed Income investing, including bond duration and spread:
 - Brett discussed fixed income investing strategies.
 - Spread and yield are important factors in fixed income investing.
 - Managers aim to take risk in different sub-asset classes for higher returns.
 - Duration and maturity are key metrics for interest rate sensitivity.
- Diversifying investments through asset classes with varying correlations:
 - Brett discussed correlation and risk in asset allocation, highlighting the importance of diversification and manager discretion in bond selection.
- Active management in fixed income investments, with a focus on outperforming the index:
 - Brett discussed active management in fixed income, highlighting the underperformance of core bond managers in recent years.
- Bond investing, active management, and private credit:
 - Bond managers can use skills to pick better risks, overweight yield, and generally beat benchmark.
 - Private credit managers are making loans with maturity of 3-4 years, floating rate, and senior position.
- Private credit market growth, risks, and opportunities:
 - Discussed private credit market growth since financial crisis, highlighting increased demand for managers and floating rate benefits.
 - Predicts private credit market will evolve in the next 10-15 years, with competition returning and managers adapting to changing regulations.

Adjournment

Following a motion to adjourn by Trustee Gamel and seconded by Trustee Morton. The Committee approved the motion by unanimous roll call vote. The meeting was adjourned at 2:01 p.m.

Meeting video link: <https://archive.org/details/crs-investment-2-6-25>

Next Meeting: Thursday, May 1, 2025, at 12:00 P.M. City Hall Council Chambers and via Zoom

Secretary Jon Salstrom