



**City of Cincinnati Retirement System
Investment Committee Meeting
Minutes
May 1, 2025 / 12:00 P.M.
City Hall – Council Chambers and remote**

Committee Members Present

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

Administration

Jon Salstrom

Marquette

Brett Christenson

Law

Kevin Frank

CALL TO ORDER

Chair Morris called the meeting to order at 12:01 p.m. and a roll call of attendance was taken. Committee Members Morris, Riddle, Gamel, Rahtz, Menkhaus, Morton, Moller and West 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 February 6, 2025, was moved by Committee Member Moller and seconded by Committee Member Morton. The minutes were approved by unanimous roll call vote.

Old Business

Update Investment Manager Contracts (Private Equity)

All private equity contracts have been finalized. Siguler Guff was signed in December, and Timber Bay and JP Morgan were completed by the end of the first quarter. Timber Bay has already begun calling some capital. Given current conditions, the secondaries market in private equity is expected to perform well, so it's encouraging to see funds being deployed.

Additionally, the CEM benchmarking contract has been signed. A kickoff call is scheduled in

the coming weeks, with the goal of having CEM present their findings to the Board in the late fourth quarter.

New Business

Reams (Columbus Core Plus) Fixed Income Presentation

Presented by: Todd Thompson & Adrian Schulte

Firm Overview:

- Founded in 1981.
- Headquartered in Indianapolis, Indiana.
- \$30.7 billion in assets under management.
- 8 fixed income strategies along with extensive custom separate account capabilities.
- Affiliate of Raymond James Investment Management, a subsidiary of Raymond James Financial, since November 2017.

Investment Philosophy:

- Risk Focus: Not defined by volatility, but by potential for permanent loss.
- Approach: Value-driven, opportunistic, and disciplined.
- Key Beliefs:
 - Forecasting is unreliable
 - Markets often misprice risk
 - Emphasize downside protection
 - Exploit market dislocations
 - Prioritize long-term value over short-term noise

Investment Process:

- Duration & Yield Curve: Based on valuation, not rate predictions.
- Sector Allocation: Combines quantitative spread analysis with qualitative macro-overlays.
- Security Selection:
 - Total return focus
 - Preference for senior, well-collateralized bonds
 - Avoid securities with poor downside potential
- Risk Management
 - Bottom-up bond-level analysis
 - Scenario-based modeling
 - Custom active risk and return attribution

Track Record:

- Outperformed Bloomberg U.S. Aggregate in all 9 rate-hike periods since 1998.
- Captured more than 100% of bond market upside during strong periods.
- Delivered positive returns in 6 of the 9 rate-hike periods.

Market Outlook & Positioning:

- Economic Concerns:

- Erratic trade/tariff policy has unsettled markets
- Rising stagflation risks (weak growth + rising prices)
- Fed seen as responding to slowdown, not just normalizing
- Market Behavior:
 - Inflation expectations are rising
 - Dollar weakening despite traditional safe-haven status

Portfolio Adjustments (Q1):

- Took advantage of select opportunities but remain patient on valuations
- Moved credit exposure closer to neutral after Q1 underperformance
- Normalized MBS allocations post-early outperformance
- Found value in ABS/CMBS later in the quarter
- Added global rate exposure in eligible accounts; reduced non-dollar exposure post-outperformance

Key Differentiators:

- Focused fixed income specialist
- Veteran, stable investment team
- Benchmark-agnostic with high conviction positions
- Strong client service and risk controls

Director Salstrom commented that Reams Asset Management was hired for core plus bond contracts due to their contrarian investment approach—strategically “zigging” when others are “zagging.” This market environment presents an opportunity for them to demonstrate their value. They were invited to discuss how they plan to position the portfolio, offering a perspective that differs from traditional fixed income managers. The hope is that they will perform well over the next six months as the market continues to experience volatility.

Current Market Environment & Quarterly Investment Report

Brett Christenson from Marquette was in attendance to present.

1Q 2025 Market Summary:

- Fixed Income: Delivered stable returns despite equity pullbacks. Yields remain attractive (4.5%) though valuations are still rich. Spreads have widened due to recent economic shocks. Volatility may create buying opportunities, but risks like recession and stagflation remain.
- U.S. Equities: Started strong in January but declined by quarter-end due to policy uncertainty, tariffs, and spending cuts. Market volatility surged and consumer sentiment fell.
- Non-U.S. Equities: Saw a shift in investor preference early in the year. Despite a sharp sell-off after the U.S. tariffs, they continue to outperform U.S. markets. Global volatility is expected to persist amid trade tensions.
- Real Assets: Commercial real estate stabilized, but new tariffs on construction materials raise concerns. Core infrastructure is favored for stability and income in a volatile, inflationary environment.

- Private Equity: Improved financing from late 2024 rate cuts helped, but tariff-related uncertainties may slow dealmaking and exits despite initial optimism.
- Private Credit: Expected to remain stable with strong yields. Mostly insulated from tariff impacts due to domestic focus, though some sector exposure exists.

Pension Fund Quarterly Activity Summary:

- Principal's January 2025 redemption payments fulfilled the remaining outstanding balance of both 2022 redemption requests. Morgan Stanley's outstanding redemption total of 3.74 million was rescinded in February 2025. JPM SPF's full redemption remains in process.
- The plan's Private Debt funds called \$19.8 million during 1Q25 while distributing \$2.5 million.
- The plan's Private Equity funds called \$4.9 million during 1Q25 while distributing \$10.6 million.

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

Private Equity Recommendations to Hit Pacing and Diversification Targets

The fund is currently underweight in venture and growth equity, particularly in early-stage investments. Venture capital access remains limited, with preferred fund-of-funds options not expected to open for 1–2 years. However, two strong opportunities are available now:

1. Sapphire Ventures Fund VII
 - a. Affiliated with SAP, a leading software company.
 - b. Raising \$1.75B, with a \$1.25B funded by SAP itself, leaving \$500M open to external investors, showing strong internal commitment.
 - c. Focused exclusively on business software, especially in cybersecurity and AI/machine learning, which are high-margin, high-growth sectors.
 - d. CEO Net Promoter Score of 82, reflecting strong founder satisfaction and value-add partnership.
 - e. Established track record, with fund launches in 2011, 2013, and most recently in 2021.
 - f. Viewed as a high-quality venture opportunity, offering rare access and meaningful diversification for the portfolio.
2. Windrose Health Investors Fund VII
 - a. Targets growth equity and buyout opportunities in the healthcare sector, which remains fragmented.
 - b. Strategy includes roll-up and consolidation plays—adding operational value and streamlining fragmented subsectors.
 - c. Longstanding, experienced team with strong historical fund performance.
 - d. Provides exposure to a sector where the current portfolio has limited allocation.

Recommendation:

- Allocate up to \$10 million each to Sapphire Ventures Fund VII and Windrose Health Investors Fund VII.

- These investments will diversify the private equity portfolio across venture/software and healthcare/growth equity.
- After these allocations, the fund can pause new commitments and reassess the market landscape in 12–18 months.

Chair Morris made a motion to approve the recommendation to allocate up to \$10 million each to Sapphire and Windrose. The motion was seconded by Committee Member Moller and approved by unanimous roll call vote.

IPS amendment of Policy Benchmark and Bandwidths

This update follows up on discussions from the February Investment Committee meeting, where the goal was to better align the target policy benchmark with the actual portfolio allocation.

Adjustments were made to the Investment Policy Statement (IPS), specifically:

- Page 196: Updated benchmark indices for fund investments.
- Page 197: Updated CRS policy benchmark.

Key Changes:

- Private Equity:
 - Policy benchmark adjusted to 9% (up from 8%)
 - Reflects current overweight positioning at 11.5%
- Private Credit:
 - Policy benchmark adjusted to 5.5% (down from 6.5%)
 - Aligns with current deployment and positioning

These updates are intended to reflect the portfolio's actual allocation while maintaining alignment with long-term strategy.

Motion to approve the IPS policy benchmark changes was made by Chair Morris, seconded by Committee Member Gamel, and approved by unanimous roll call vote.

Value Bias Update and Recommendation

Over the 5-year period, performance has been moderate, with a continued value bias in both large-cap and small-cap equities. Despite recent underperformance—particularly during March and April, when U.S. markets struggled—there is a strong belief that maintaining the value bias remains appropriate due to underlying valuations in these segments.

While the short-term results have been disappointing and somewhat unexpected, especially in a weak market environment, it is not the right time to eliminate the value tilt. The recommendation is to maintain current positioning and to continue discussions around this strategy going forward.

Adjournment

Following a motion to adjourn by Committee Member Moller and seconded by Committee Member Morton. The Committee approved the motion by unanimous roll call vote. The

meeting was adjourned at 1:39 p.m.

Meeting video link: <https://archive.org/details/crs-investment-5-1-25>

Next Meeting: Thursday, August 7, 2025, at 12:00 P.M. City Hall Council Chambers and via Zoom

Secretary