

# MINUTES OF THE INVESTMENT MANAGERS MEETING

## City of Aurora General Employees' Retirement Board

Held Thursday, February 28, 2019  
12100 East Iliff Avenue, Suite 108  
Aurora, CO 80014

### 8:00 AM- Meeting Called to Order

#### Roll Call

Chairperson	David McConico	Excused
Legislative Members	Helen DiBartolomeo	Present
	Cliff Haight	Present
	Joe McCleary (Vacant)	
	Michelle Reding	Present
	Sue Sandstrom	Excused
	Trevor Vaughn	Present
Nonvoting Members	Janice Napper (for the City Manager)	Excused
	Jackie Ehman (Finance)	Present
	Dianna Giordano (Human Resources)	Present
	Hans Hernandez (City Attorney)	Excused
Staff	Steve Shanks	Present
	Aaron Kahn	Present

#### 1) 4<sup>th</sup> Quarter 2018 Performance Report

Alex Browning

Alex Browning reviewed the economy and 4<sup>th</sup> quarter performance. Alex noted that this December was the worst December since 1931. The Plan lost 5.85% for the quarter and lost 2.75% for the year ending December 31, 2018. On average, active managers detracted from returns by 1.5% under their respective target returns in 2018. While comparing GERP's return to the index is disappointing, if we look at the Callan peer group of midsized Public Fund sponsors, GERP is in the top quartile for the last quarter, the last year, and the last 5 years.

#### 2) Segall, Bryant and Hamill (Core Fixed Income)

Ken Harris, Darren Hewitson and Brittany Meisner

Ken Harris stated that the acquisition for Denver Investments by Segall, Bryant and Hamill has been successful. The acquisition provides a wider product offering, a deeper team, and greater resources. Segall, Bryant, and Hamill has \$18.6 billion in assets under management. Darren

Hewitson noted that they have consistently outperformed the Bloomberg Government Corporate index under all periods with an overweight to credit.

Segall, Bryant and Hamill had a return of 1.51% for the 4<sup>th</sup> quarter, and 0.28% for 2018, significantly outperforming the Bloomberg Government Credit index.

**3) Western Asset Management (Core Plus Fixed Income)**  
Kevin Gore and Travis Carr

Kevin Gore noted that Western Asset Management, founded in 1971, has \$429.1 billion in assets under management. Kevin noted that they recently opened an office in Zurich in response to some concerns regarding Brexit. Travis Carr noted that it has been a difficult year for fixed income. Western Asset Management used a diversified strategy to both mitigate risk and to find opportunities for excess return. Mr. Carr noted that the effect of the trade war has been minimal, so far, but trade policy could create escalated risk.

Western Asset Management had a return of 1.11% for the 4<sup>th</sup> quarter and a loss of 0.97% for the year.

**4) Board Discussion on Investment Performance**

Board members were impressed by both Segall, Bryant, and Hamill and Western Asset Management's presentations. Board members feel that the acquisition of Denver Investments by Segall, Bryant, and Hamill seems to have gone smoothly, but feel that continued additional scrutiny is appropriate. Segall, Bryant, Hamill is still on the Board's watch list.

**5) Private Equity Trends**

Alex Browning provided the Private Equity Performance Report as of December 31, 2018. The report provided performance measures for each portfolio that GERP is invested in. Alex briefly reviewed performance and will continue to develop measures that provide clarity on the investment class.

**6) Setting Capital Market Expectations**

Alex Browning reviewed Callan's capital market projections. The projections represent Callan's best ideas to attempt to predict the return over the next ten years. Alex reviewed the process of predicting returns for each asset class. Once Callan has predicted returns, volatility, and correlation, they run an optimizer which provides asset mixes on the efficient frontier, which maximized return for a given level of risk. GERP's current mix is very close to this efficient frontier.

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Callan added Hedge Funds as a possible asset class and noted that there are diverse sets of strategies that may or may not be appropriate for GERP. Board members requested additional education on the hedge fund asset class.

**7) Environmental, Social, and Governance Investing**

Alex Browning presented Callan's Environmental, Social, and Governance Overview. Alex noted that ESG is a broad term, and it's important to understand the nuances of different approaches. He noted that some approaches to ESG look at investment opportunities in diversity and investments which have a positive impact and others will exclude investments which invest in stocks with a negative impact. Alex noted that ESG is a broader term than Socially Responsible Investment which, historically excluded opportunities. He noted that ESG is not used to address risk concerns of firms which have been shown to be irresponsible, nor to look for investment opportunities in companies expected to have a positive impact on the world economy.

Callan has dedicated ESG resources which the GERP Board can use as a resource, especially during a manager search.

Trevor Vaughn made, and Michelle Reding seconded, a motion to adjourn. The motion passed unanimously.

Meeting Adjourned at 10:25 AM  
Minutes Submitted by Aaron D. Kahn

Minutes Approved

*David L. McConico*

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Chairperson of the Board

*4/18/19*

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Date