

Investment Committee Meeting Minutes

Meeting Title	LSPRS Investment Committee Meeting
Date of Meeting	May 27, 2020
Where	9224 Jefferson Highway, Baton Rouge, LA 70809
Start Time	9:30 a.m. VIA Videoconference

- 1) Chairman Amy Mathews called the meeting to order.
- 2) Kimberly A. Gann, Assistant Director, called roll as follows:
Frank Besson Jr., Designee for Superintendent, – PRESENT
Andrea Hubbard, Designee for Commissioner of Administration – PRESENT
Amy Mathews, Designee for Treasurer – Chairperson – PRESENT
Kevin Marcel, Active Representative, Committee Vice Chairman – PRESENT
Jay O’Quinn, President LSTA – PRESENT (Exited at 10:30 am)

The records reflect that the following persons were also present:

Rob Bickham, UBS Institutional Consulting	Claire Guidry, Retirement Benefits Analyst
Katie Hammond, JPMCB Strat Prop Fund	Kathleen Hurley, JPMCB Strat Prop Fund
Wendy Ingram, Administrative Assistant	Lawrence Ostow, JPMCB Strat Prop Fund
Kevin P. Reed, Executive Director	John Schroder, State Treasurer (Exited at 10:30 am)
Kevin Smith, PRISA Real Estate	Lexi Woolf, PRISA Real Estate
Kimberly A. Gann, Assistant Director	

- 3) The Pledge of Allegiance was led by Amy Mathews and the prayer was led by Kevin P. Reed. No public comments.
- 4) Rob Bickham opened the meeting by directing the Committee to the UBS Investment Performance Evaluation for Period Ending April 30, 2020 (**See Exhibit A Attached**) focusing on Pages 2, 3, 4 and 6. In summary, the April 30, 2020 LSPRS total asset value was \$844.4 million, while bringing to the Committee’s attention that the alternative investments have a lag period in reporting their market values. Mr. Bickham touched on the portfolio’s current asset allocation, noting that with UBS’ current view there is no need to recommend any changes. Within the alternative investment space, Mr. Bickham elaborated on our investments in Real Estate (8% of the portfolio), in particular PRISA and JPMC asset managers. Both Real Estate managers will provide the Committee with a more in-depth presentation later in this meeting.

Mr. Bickham elaborated on the current and longer-term rates of returns of our portfolio; with April reflecting a sizeable rebound in stock values from recent volatility, precipitous declines and low values associated with the COVID-19 shuttering of the economy. The recovery of the markets is directly correlated with the unprecedented support being provided by both the Federal Reserve and Congress, coordinated supportive fiscal and monetary policies. This massive support and stimulative activity includes both direct and indirect purchasing of a broad array of securities while providing stability, liquidity, and marketability to the financial markets.

UBS anticipates a significant contraction in GDP for one to two quarters. As cities open back up and with the ultimate development of a vaccine, UBS would expect to see the GDP creeping back toward reaching its prior levels by Q1 2022.

The individual sleeve managers of the portfolio's allocation to stock, bonds, alternatives and money market instruments, performed as anticipated during these times of unprecedented financial market volatility. Fixed income investments tended to deviate the greatest from their stated benchmarks. This is somewhat due to the broader diversification in fixed income incorporating a more aggressive stance we have taken, primarily reaching for additional alpha by Brandywine and Loomis fixed income managers.

Kevin Reed noted that we continue to review our investment in the Loomis fixed income fund, with ongoing consideration to migrate the investment to a similar Loomis fixed income trust having a lower fee structure. We anticipate on commencing with this change once the financial markets' volatility has subsided, credit spreads have contracted, along with further increases in liquidity.

- 5) Rob Bickham directed the Committee to view Page 2 of the Power Point of the Capital Market Assumption (CMA) Updates (**See Exhibit B Attached**) noting that these assumptions have been updated as of April 2020. With the Strategic forecast representing projected returns over the next business cycle (5 -10 years) and Equilibrium forecast representing rates of return for a longer period, over multiple market cycles, thus more representative of the longer-term outlook of defined benefit plans. Summarizing the new return assumptions, and overlaying this with the portfolio's current asset allocation, indicates the portfolio's projected return of 5% over the next 5-7 years, while longer term the portfolio's projected return being 6% or slightly higher. Page 7 of the report reflected the correlations of the various asset classes, noting the high level of the correlation between high-yield bonds and equities, especially during times of heightened equity market volatility.
- 6) Rob Bickham directed the Committee to a discussion of the Market Flash Report ending April 30, 2020 (**See Exhibit C Attached**). China's exposure in the overall portfolio is 2%, which is relatively small as China is classified as an emerging market, and not a developed market. Mr. Bickham stated that the fiscal year to date return of real estate through April 30, 2020 is approximately -4.34%. This is not unexpected given the current COVID-19 related environment. Since inception LSPRS total portfolio is up 7.15%; reflecting the more conservative investment posture the portfolio has in place, thus providing some protection on the downside.
- 7) Mr. Bickham conveyed to the Committee that the portfolio's overall exposure to real estate is slightly over 8%. Our two primary managers of real estate, JP Morgan and PRISA PGIM Real Estate, will make presentations to the committee today.

Lawrence Ostow and Kathleen Hurley with JPMCB Strat Prop Fund were introduced to the Committee and were given thirty minutes to present their asset management information (**See Exhibit D Attached**). Mr. Ostow directed the Committee to more specifically view Pages 17, 18, 19, 20, 21, 28, 31 and 32. Late in Q1 2020 they had their appraisers revalue 50% of the NAV of the fund, including all the retail assets, taking into consideration several aspects of the impact of the store closures associated with COVID-19. The fund has a fortress balance sheet and provides a more than adequate level of liquidity to fund their liabilities. Mr. Ostow elaborated on the various levels of rent collections, incorporating some of the adverse aspects of COVID-19. He indicated that the overall quality of their underlying

real estate clients have provided a higher level of stability and rent collections. Ms. Hurley noted that JPMC has recently revised their expected long-term return for real estate, on a very broad perspective moving from 5.8% to 6.6%.

- 8) Kevin Smith and Lexie Woolf with PRISA PGIM Real Estate were introduced to the Committee and were given thirty minutes to present their real estate asset management information (**See Exhibit E Attached**). Ms. Woolf, directed the committee's attention to pages 8, 10, 14, 16, 32 and 53 providing an overview of PRISA and its current levels of liquidity and fundamentals, with leverage being a modest 22% which is in-line with the Odyssey benchmark. She also provided a broad overview of the sources of the portfolio's returns. For the current quarter, there is insufficient information and it is too early to accurately adjust capitalization rates. With collections and cash flows being lower from their prior levels, near term returns are expected to also be somewhat lower.

Kevin Reed commented on the presentations stating that the real estate side challenges are going to be rent collections, and the determination of capitalization rates, which will most likely be moving somewhat higher given recent events. With the experience of our real estate managers, along with the distressed aspects of real estate, it appears to be an opportune time and environment to acquire distressed real estate.

Rob Bickham feels both entities are similar as to their exposure in office space and industrial real estate holdings. Mr. Bickham feels the significant difference is in their exposure levels to retail space. Kevin Reed and Mr. Bickham noted that they anticipate that the opportunity for real estate asset managers to acquire additional investments will occur once the non-residential real estate market is marked-to-market, most probably occurring in the 2nd and 3rd quarter of 2020.

- 9) Rob Bickham touched on the broad activity of the Fed; While they are direct buyers of a wide range of financial instruments, they provide various levels of direct and indirect lending to businesses. They send support dollars directly to unemployed and other individuals, and he does not believe the Fed will become a direct purchaser of equities.

The Committee reviewed the ACT 1004 Comparison Chart (1st Quarter, 2020). (**See Exhibit F Attached**)

- 10) A **MOTION** was made by Kevin Marcel to adjourn. The **MOTION** was seconded by Andrea Hubbard. No opposition. The motion passed.

Amy A. Mathews

Amy Mathews, Chairman, Investment Committee
Louisiana State Police Retirement System