



## Louisiana State Police Retirement System (LSPRS)

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### Investment Committee Meeting Minutes

<b>Meeting Title</b>	LSPRS Investment Committee Meeting
<b>Date of Meeting</b>	Wednesday, May 24, 2023
<b>Where</b>	LA State Police Retirement System Building, 9224 Jefferson Highway
<b>Start Time</b>	9:30 a.m.

- 1) Investment Committee Chairman, Amy Mathews, called the meeting to order.
- 2) Gretchen Marquez, Administrative Assistant, called roll as follows:  
Frank Besson, Designee for Superintendent – Vice-Chairman – PRESENT (Arrived after roll call)  
Andrea Hubbard, Designee for Commissioner of Administration – PRESENT  
Amy Mathews, Chairman – PRESENT  
Representative Vanessa LaFleur, member – NOT PRESENT  
Alan Verhoef, member – PRESENT

The records reflect that the following persons were also present:

Rob Bickham, UBS Institutional Consulting (via ZOOM)  
Doug Hanly, Chief Investment Officer  
Margaret C. Michel, Executive Director

- 3) The Pledge of Allegiance and prayer was led by Margaret Michel. No public comments.
- 4) Rob Bickham directed the committee to look at the flash report including the Asset Allocation and the Market Value and Returns Summary as of April 30, 2023, noting total investment assets of \$1,020,734,690. Total Equities were just below the allocation target at 62.3% (or \$635.4M) of the portfolio. Fixed income was above target at 18.1% (or \$184.7M) of the portfolio, and Alternatives were below target at 17.9% (or \$182.4M). The Money Market fund position represented \$17.9M, or 1.8% of the portfolio. **(See Exhibit A - attached)**

Rob Bickham focused on the fiscal year to date period of the returns summary for the period ending April 30, 2023, of the market value and returns summary. In the fiscal year to date column, total equity managers returned 9.35%, domestic equity managers returned 8.93%, and international equity managers returned 10.28%. The total fixed income managers were 2.02%. The total fund for the fiscal year to date period had a total rate of return of 4.87%. Mr. Bickham stated we may truly be at 5-5.5% right now due to a vast majority of alternatives not reporting through April yet. **(See Exhibit B - attached)**

- 5) In terms of the markets, Mr. Bickham stated that the firm's view is that the economy is starting to slow due to the rise in Fed fund interest rates and GDP growth may be 0.8 this calendar year.

Mr. Bickham stated that the probability of a recession is 50/50. Unemployment is still low, and wages are strong. It is projected that there will be slow growth between now and the end of the year.

- 6) Doug Hanly directed the committee to view IPS target allocation changes from Item 1 of the risk analysis and asset allocation review (page 2 of 16). The reason for the allocation change is to diversify the portfolio and lower the portfolio's sensitivity to equity markets. Mr. Hanly showed how the portfolio's beta to the equity markets (S&P 500) has increased from approximately 0.4 in the early 2000's to approximately 0.7 today. By reducing US equity exposure, and adding core fixed income, LSPRS would improve its diversification. Mr. Hanly also recommended reducing the US Large Cap Equity minimum from 20% to 15% and reducing the US Equity minimum from 50% to 45%. These changes would prevent LSPRS from becoming forced buyers in the case of US Equity and Equity underperformance. Based on independent portfolio optimizations performed by Mr. Hanly, UBS, and Curran Actuarial Consulting, these changes to the LSPRS portfolio would allow the portfolio to still be expected to achieve its target rate return of 6.95% while also lowering the portfolio's risk. **(See Exhibit C - attached)**

Andrea Hubbard clarified that the projected return would be lower, but the risk would also be lower. Mr. Bickham noted that fixed income is picking up more yield now than ten years ago so the moves that are being made are consistent with less risk in the portfolio and still meet the 6.95% rate of return.

To execute the asset allocation transition, Mr. Hanly recommended reducing T Rowe Price, the S&P 400, and the R1000 Value. Mr. Hanly recommended adding to Money Market Funds and opening a new position in the SSGA Barclays 1-3 Yr. Govt/Credit Index at an approximate 4.5% weighting. The new bond position would take advantage of an inverted yield curve, with near term bonds offering higher yields than longer term bonds. The shorter duration investment would also better protect against interest rate rises when compared to the Barclays US Agg Index. To rebalance, Mr. Hanly recommended adding to Brandes Emerging Markets and the MSCI ACWI Ex-US Index.

Mr. Hanly considered the allocation changes as Stage 1 of a process to better diversify the portfolio. Stage 2 of the process is intended to increase the portfolio's allocation to absolute return strategies. He stated that absolute return strategies can deliver attractive returns in various types of market environments. For example, absolute return strategies returned positively in 2008 and 2020 when the equity markets returned negative. Mr. Hanly showed how there is a high dispersion in absolute return strategies and highlighted the importance of investing in top quartile managers. Mr. Hanly plans on building LSPRS' relationships with top quartile managers to gain access to their capacity constrained funds.

Mr. Hanly concluded by illustrating how there are three options available to access absolute return strategies. These include investing directly in funds, investing in a fund of funds, or investing in a custom account managed by an external investment firm. After laying out pros and cons for each implementation option, Mr. Hanly stated that investing in a custom account may be the best option for LSPRS.

A **MOTION** was made by Alan Verhoef to sell T Rowe Price, R1000 Value, and S&P 400 as proposed by the CIO and purchase the Money Market Funds and Barclays 1-3 Yr Govt/Credit

as proposed by the CIO. The motion was seconded by Andrea Hubbard. No opposition. The motion passed.

A **MOTION** was made by Andrea Hubbard to rebalance any money left over from the sells and purchases to Brandes and MSCI ACWI up to no more than their targets. The motion was seconded by Alan Verhoef. No opposition. The motion passed.

A **MOTION** was made by Andrea Hubbard to change the IPS range for US Large Cap Public Equity from 20% to 15% and Total Public Equity from 50% to 45%. The motion was seconded by Alan Verhoef. No opposition. The motion passed.

- 7) Brandywine, Brandes, and Vontobel presented their firms to the committee. Brandywine and Brandes were put on watch on December 14, 2022, due to extreme underperformance during the latest cycle at the time and due to annual manager reviews. Vontobel was placed on watch on November 19, 2021, due to a change in the performance management staff assigned to the strategy and portfolio that we utilize. They have stayed on watch due to performance.

Brian Giuliano and Joseph Larkin of Brandywine gave a presentation of their firm, fixed income performance, and a global macro-overview for the second quarter of 2023. Brandywine was founded in 1986 and has 225+ employees nationwide. Their global opportunistic fixed income strategy is to capture interest income and generate principal growth through capital appreciation when market conditions permit. The strategy seeks to outperform the benchmark by 1.5% over rolling 5-year periods.

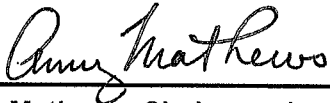
Chris Garrett of Brandes gave a presentation of his firm and spoke largely of emerging market equity. Brandes was founded in 1974 and has 192 employees nationwide. Brandes invests primarily in companies from countries in the MSCI Emerging Markets Index and has a bottom-up portfolio construction with approximately 70 holdings, historically. Brandes has a long-term approach and thinks 3-5 years out as opposed to next quarter. Mr. Garrett mentioned that emerging markets have been a tough asset class recently but was optimistic about seeing value.

Jeff Barrow and Ben Falcone of Vontobel presented their firm to the committee and spoke of emerging market equity. Vontobel was founded in 1984, has 76 employees nationwide, and focuses on quality growth investing. Vontobel largely invests in Chinese domestic consumption and focuses on companies they believe have lower regulatory and technical risks. They are monitoring the potential impact of lower interest rates on net interest margins at banks in their portfolio and believe their tier one institutions are considered safer and continue to report strong earnings growth. They also believe that weakness in public sector banks could result in their holdings picking up greater deposit flows.

- 8) Margaret Michel directed the committee to the Investment Watch List. Mr. Bickham recommended removing Brandywine off the watch list and keeping T. Rowe, Brandes, and Vontobel on watch at this time. **(See Exhibit D - attached)**.

Ms. Michel suggested performing an investment manager search and having alternative options by the next investment meeting. Mr. Hanly also mentioned that he will be working on negotiating with Vontobel on fee structure.

- A **MOTION** was made by Andrea Hubbard to remove Brandywine from the watch list due to performance. The motion was seconded by Alan Verhoef. No opposition. The motion passed.
- 9) Mr. Hanly mentioned that he has reached out to firms and larger organizations that have best practices for diligence procedures. He is compiling a list of findings so he can create a customization for LSPRS and be able to generate a presentation on what the overall research process is for an investment manager. Ms. Michel suggested creating an SOP once complete so it can be an education piece for the Board.
- 10) A **MOTION** was made by Alan Verhoef to adjourn the meeting. The motion was seconded by Andrea Hubbard. No opposition. The motion passed.



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