

LSPRS || LOUISIANA STATE POLICE RETIREMENT SYSTEM

9224 Jefferson Highway | Baton Rouge, Louisiana 70809
(225) 295-8400 or (800) 256-5210
Fax: (225) 295-8408 | Email info@lsprs.org

Investment Committee Meeting Minutes

Meeting Title	LSPRS Investment Committee Meeting
Date of Meeting	Wednesday, August 23, 2023
Where	LA State Police Retirement System Building, 9224 Jefferson Highway
Start Time	9:30 a.m.

1) Investment Committee Chairman, Amy Mathews, called the meeting to order.

2) Gretchen Marquez, Executive Staff Officer, called roll as follows:
Amy Mathews, Chairman – PRESENT
Frank Besson, Designee for Superintendent – Vice-Chairman – NOT PRESENT
Andrea Hubbard, Designee for Commissioner of Administration – PRESENT
Representative Vanessa LaFleur, member – PRESENT (Arrived after roll call)
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
Gretchen Marquez, Executive Staff Officer
Joey David, House Retirement staffer
Kevin Marcel, Board member
Laura Sullivan, General Counsel (Arrived after roll call)

3) The Pledge of Allegiance was led by Amy Mathews 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 July 31, 2023, noting total investment assets of \$1,067,785,063. Total Equities were just above the allocation target at 57.3% (or \$611.5M) of the portfolio. Fixed income was 21.4% (or \$228.9M) of the portfolio, and Alternatives were below target at 17.0% (or \$181.6M). The Money Market fund position represented \$45.8M, or 4.3% of the portfolio. **(See Exhibit A - attached)**

Rob Bickham focused on the calendar year-to-date period of the returns summary for the period ending July 31, 2023, of the market value and returns summary. In the calendar year-to-date column, total equity managers returned 17.42%, domestic equity managers returned 18.93%, and international equity managers returned 14.82%. Mr. Bickham stressed the high returns for T. Rowe Large Cap Growth at 35.39% and the S & P 500 at 20.62% so far for the calendar year. Mr. Bickham stated it has been a very strong year in the equity markets. Conversely, he

mentioned that the reason for the move away from Vontobel into GQG is Vontobel's consistent underperformance, which is indicated in the trailing 1-, 3-, and 5-year returns. The total fixed income managers returned 3.15% so far for the calendar year-to-date. The total fund for the year has returned 9.84% so far and a 7.42% return from inception manager analyzed. **(See Exhibit B - attached)**

- 5) Focusing on the House View, Mr. Bickham directed the committee to view page 9, which showed the Quilt Chart of select asset classes' calendar year performance. He indicated that the classes that did the worst in 2022 are the highest return so far in 2023. On page 10, he discussed that the fixed income markets had the worst drawdown last year at -14% going all the way back to 1945. Fixed income has not really recovered since last year. Page 17 of the House View indicated GDP growth expectations. Growth is continually expected to slow for the rest of the year into 2024. In 2022, the US had a 2.1% GDP growth expectation. This year, the rate is 1.4%. For 2024, the rate is expected to be even 0.5% lower. **(See Exhibit C - attached)**

Focusing on the central scenario on page 26 of the House View, Mr. Bickham said that the US economy will slow further and near zero growth by early 2024. Inflation will continue to slow in the US and Europe but will end the year above central bank targets. The central banks will keep interest rates at elevated levels for the rest of the year before rate cuts become more likely toward the second half of 2024. **(See Exhibit D - attached)**

- 6) Doug Hanly gave an introduction of GQG before the firm gave a presentation. GQG will be a replacement for Vontobel and will pair with Brandes in the emerging market portfolio. GQG focuses more on quality growth and Brandes focuses more on value when investing in companies. GQG has more of an emphasis on management and earnings.

Thomas Hoerner and Sudarshan Murthy (via Zoom) gave a presentation of their firm, GQG. GQG (Global Quality Growth) was founded in 2016 when the founder and CIO, Rajiv Jain, who spent two decades at Vontobel Asset Management, left Vontobel and started his own firm. GQG currently has a little over \$108 billion in assets. GQG is diversified into 4 different strategies- US, emerging markets, global, and international. GQG is predominantly known for institutional assets but also has a retail business. Unlike other firms who focus on backward-looking statistics, GQG has a forward-looking mindset where the quality focuses on sustainability and compounding potential of a company. **(See Exhibit E - attached)**

GQG has non-traditional analysts that includes investigative journalists who are tasked with getting information that is not readily available from traditional Wall Street sources. There are also analysts that specialize in accounting, ESG, and credit analysis. Mr. Murthy emphasized that there may be 2-6 analysts looking at a company at different points in time. This is important because each diverse analyst looks at the company from a different perspective.

Amy Mathews asked Mr. Hoerner about the percent ownership of the business. Mr. Hoerner stated that Rajiv Jain, CIO, retains 68.8% of the business, Tim Carver, CEO, owns 5.6%, 20.1% is publicly listed, 4.0% is owned by a firm called Pacific Current who was first used when GQG began and started, and the rest (1.5%) is owned by employees in restricted stock units.

Mr. Bickham asked Mr. Murthy if the CIO has ultimate decision-making authority or is there a committee that will make the final decision. Mr. Murthy stated that GQG does have a 3-person portfolio management team that reviews all the strategies. However, Mr. Murthy said that the CIO does make the ultimate decisions and there is no committee.

Ms. Mathews asked Mr. Murthy how long GQG typically keeps a company and at what point does GQG leave a company if things are not working as expected. Mr. Murthy stated that when Covid started in December 2019, GQG cut back exposure to insurance companies and Chinese names, as well as banks that GQG owned in Indonesia and India because they were poor countries with bad healthcare infrastructure. GQG deployed the sale proceeds into E-commerce and gaming companies. The reason why GQG can change so quickly when the data points change is because they are trading in liquid companies.

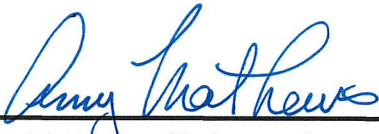
Ms. Mathews inquired as to GQG's management fees. Mr. Hoerner said that GQG's management fees on the emerging markets mutual fund are 90 bps.

- 7) Mr. Hanly gave an overview of the merits and risks of investing with GQG. Mr. Hanly stated one merit of GQG is the CIO, Rajiv Jain, who has a long track record of success at both Vontobel and GQG. The second merit is that GQG is complementary to Brandes. Page 9 of Mr. Hanly's investment memorandum showed a graph depicting how Brandes and GQG have complemented each other, specifically during 2020 and 2021. The last merit is that GQG can be defensive and rotate quickly. GQG has historically protected capital better than the index as demonstrated by its downside capture ratio and maximum drawdown since inception. Mr. Hanly stated that two key risks with GQG include how LSPRS would be investing in the 40 Act mutual fund structure and how Rajiv Jain is the key person at the firm. If Mr. Jain were to leave the firm, it may trigger future underperformance through a departure from the fund. Mr. Hanly stated that that this key person risk is mitigated based on Mr. Jain owning most of the firm and succession plans. In addition, the fund is daily liquid and invests in large-cap liquid holdings so LSPRS would likely be able to exit quickly if need be. **(See Exhibit F - attached)**
- 8) A **MOTION** was made by Andrea Hubbard to move to terminate Vontobel for poor performance and to authorize staff to provide notice of termination. The motion was seconded by Alan Verhoef. No opposition. The motion passed.

A **MOTION** was made by Andrea Hubbard to move to invest in GQG Partners Emerging Market Equity with a target of 3.5% of the LSPRS portfolio, pending legal review. The motion was seconded by Alan Verhoef. No opposition. The motion passed.
- 9) Ms. Mathews directed the committee to the Investment Watch List. Ms. Michel noted that she will update the list to remove Vontobel since we have terminated them. Otherwise, there are no new changes. **(See Exhibit G - attached)**
- 10) In other business, Mr. Hanly stated that he and Mr. Bickham were starting to look over the commitment pacing profile for private markets, especially considering our cash outflows. They are starting to look at prospective funds in that category. LSPRS is currently underweight in the private equity target allocation.

At the final investment committee meeting for 2023, Mr. Bickham stated that the goal would be to give a view on the calendar and what we are considering on the private equity and credit side and give an update on the managers for annual reviews. In January, prospective private managers will come into the office and give presentations. The committee would then make a decision on if they would like to fund any of the private entities.

- 11) A **MOTION** was made by Alan Verhoef to adjourn the meeting. The motion was seconded by Andrea Hubbard. No opposition. The motion passed.



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