

North Broward Hospital District Board of Commissioners
1700 Northwest 49th Street, Suite #150, Ft. Lauderdale, 33309

**PENSION AND INVESTMENT COMMITTEE MEETING
Immediately following the Audit Committee Meeting
February 26, 2020**

1. **NOTICE**

Official notice and agenda of this meeting is attached to the Minutes, as EXHIBIT I and EXHIBIT II, as presented for consideration of the Committee.

2. **CALL TO ORDER** 3:12 p.m.

3. **COMMITTEE MEMBERS**

Present: Commissioner Christopher T. Ure, Chair
Commissioner Nancy W. Gregoire, Vice Chair
Commissioner Ray T. Berry

Senior Leadership

Additionally Present: Stacy L. Angier/Commissioner, Gino Santorio/Chief Executive Officer, Alan Goldsmith/Chief Administrative Officer, Alex Fernandez/Chief Financial Officer, Linda Epstein/Corporate General Counsel, Jerry Del Amo/Deputy, General Counsel

4. **PUBLIC COMMENTS** None

5. **APPROVAL OF MINUTES**

Staff Recommendation: That the Pension and Investment Committee of the North Broward Hospital District approve the minutes from December 11, 2019.

Staff recommendation *carried* without dissent.

6. **TOPIC OF DISCUSSION**

* Please note, Item 6.2., Review Private Equity Investments, Quarter Ending 12/31/19 was heard prior to item 6.1., Review Non-Private Equity Investments, Quarter Ending 12/31/19.

6.2 Review Private Equity Investments, Quarter Ending 12/31/19 – Chris Lagan, Congress Asset Management

Mr. Chris Lagan, with Congress Assets Management, presented the private equity portion of the quarterly report. Mr. Lagan reported on new managers and status of allocation of funds.

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Mr. Lagan informed the committee that the December 31, 2019 marks would become available the end of April. He also reported that the portfolio remained in good health.

Prior to giving his report, Mr. Lagan reminded the committee of their last votes to approve \$15 million in 2020 towards the unrestricted fund and \$10 million towards the employee pension fund. Mr. Lagan predicted it would put them at the target of 7.5 % by the end of the year.

Mr. Lagan reported on the Unrestricted Fund Commitment amount referenced on the Valuation Summary as of September 30, 2019, in addition to the Subsequent Commitment made prior to September 30 (see page 4 of 24).

- Valuation Summary as of September 30, 2019
 - Commitment **\$84,500,00**
 - Paid-In **\$55,235,845**
 - Distributed **\$49,315,060**
 - Market Value \$32,512,901
 - Total Value \$81,827,961
 - Net Benefit \$26,592,116
 - Remaining Commitment \$32,716,992
 - Subsequent Commitment **\$6,650,000**
 - Adj. Remain Commitment (12/31) \$39,366,992

The Employee Pension Funds were not reported in detail, however Mr. Lagan noted that it was basically the same trajectory, just smaller numbers. (see page 5 of 24).

- Valuation Summary as of September 30, 2019
 - Commitment **\$63,000,000**
 - Paid-In **\$37,184,143**
 - Distributed **\$37,822,118**
 - Market Value \$19,386,667
 - Total Value \$57,208,785
 - Net Benefit \$20,024,642
 - Remaining Commitment \$26,376,782
 - Subsequent Commitment **\$6,650,000**
 - Adj. Remain Commitment (12/31) \$46,016,992

Regarding the Unrestricted Fund cash flow activity as of December 31, 2019, Mr. Lagan reported that the fund paid-in \$56.6 million and received \$5.1 million in distributions, which is pleasing to see (see page 6 of 24).

Mr. Lagan briefly spoke to the Quartile Ranks for the Unrestricted Funds and Employee Pension, that ranged from 2007 through September 30, 2019, which continue to perform well. He noted that any funding that was initiated in 2019 and 2020 would not be valued on, as they need a minimum of a year to be evaluated fairly. (see pages 10 and 11 of 24).

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Mr. Lagan highlighted projections found on the Private Equity Allocation Review graphs. The Unrestricted Fund Assets totaled \$624 million as of December 31, 2019. The Employee Pension totaled to \$392 million as of December 31, 2019 (see pages 12 and 13 of 24).

Regarding the reporting on developments within the portfolio, Mr. Lagan spoke to two 2007 vintage funds. Trivest Fund IV and Westshore Capital Partners, both sold their remaining portfolio companies.

- Total \$4.9 million invested, distributions \$12.1 million, 24% net IRR.
- These funds will move to “*Liquidated Partnerships*” status and no longer be reported on

Mr. Lagan also mentioned the challenges and watch list:

- Allocation cutbacks: Top quartile managers are heavily oversubscribed
 - Trivest TGIF / Discovery: Submitted \$5 million, but only allocated \$1.6
 - Arlington Capital Partners V: Submitted \$5 million, but only allocated 2.5 million
- Z Capital Partners II (2014) had a +8.3 % return since inception, but down -6.4% in 2019.
- Wave Equity Fund I (2016) had a +6.6% return since inception, but down _10.1 in 2019.

Regarding the new commitments, Mr. Lagan reported that in 2019 there was one commitment made to Kohlberg TE Investors IX for \$5 million. In 2020, there were two commitments made, one to Trivest Growth Investment Fund II and the second to Trivest Discovery Fund for \$1.6 million. Despite the cutbacks, both were good prospects (see page 14 of 24).

6.1. Review Non-Private Equity Investments, Quarter Ending 12/31/19 – Rosemary Guillette, Segal Marco Financial Advisors

Ms. Guillette of Segal Marco Advisors, presented Broward Health’s Pension Fund analysis of investment performance for fourth quarter, highlighting gains and losses. Her presentation included the following subjects, (see page 2 of 186).

- Financial Market Conditions
- Total Fund
- Domestic Equity Managers
- International Equity Managers
- Emerging Markets Equity Managers
- Fixed Income Managers
- Global Fixed Income Managers
- Macs Managers
- Real Estate Managers
- Hedge Fund of Funds
- Closed-Ended Funds
- Private Real Estate
- Infrastructure Managers

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- Investment Manager Roster

Ms. Guillette reported that the asset allocation performance for the period was strong. Broward Health was up 5.45%, although slightly under performing the policy index for the quarter, it was up 18.4% for the year. Since inception, the asset allocation has been outperforming the policy index as it has been over 8% since 1993 (see page 4 of 186).

Ms. Guillette noted that all asset classes profiled, as well as commodities, were up in 2019. In 2019 the Federal Reserve rates were reduced three times as an attempt to move the yield curve down, which aided performance (see page 5 of 186).

Regarding money managers and allocations, Ms. Guillette reported that although there may have been slight fluctuations with a few of the managers, Brown, Fisher, Wellington, Brandes, JP Morgan, and Baird outperformed since inception. The only manager that needs to be watched closely is BMO. Ms. Guillette noted that although Blackrock underperformed in former quarters, it performed strongly in the fourth quarter. Loomis slightly underperformed in the last quarter (see page 26 of 186).

Regarding the private real-estate portfolio, Ms. Guillette reported that it is expected that it be negative, however once fully invested they anticipate it will go up.

In closing, Ms. Guillette reported on cash flow and fees, at the beginning of the period being January 1, 2019, Broward Health had \$339,349,599, which ended in a gain of \$62,425,118 in assets, totaling to \$391,974,699 and a net overflow of cash was -\$9,800,047.

Ms. Guillette reported on the Unrestricted Fund, reviewing asset allocation and total fund performance.

- Financial Market Conditions
- Total Fund
- Domestic Equity Managers
- International Equity Managers
- Emerging Markets Equity Managers
- Fixed Income Managers
- Global Fixed Income Managers
- Macs Managers
- Real Estate Managers
- Hedge Fund of Funds
- Closed-Ended Funds
- Private Real Estate Managers
- Infrastructure Managers
- Short Term Assets
- Investment Manager Roster

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Ms. Guillette reported on asset allocation comparisons for the Unrestricted Fund. She noted that the managers were the same, however the allocations were slightly different. She briefly highlighted the allocation range and targets as seen below (see page 26 and 27 of 185).

- Equity > over
- Fixed Income > over
- Real Estate > under
- Private Equity > under
- Hedge Funds > under
- Residual Cash > small gain
- Total market value \$624,450,746 invested portfolio for December 31, 2019

Ms. Guillette referenced the unrestricted fund comparative performance and noted that it was much more conservatively invested than the other portfolios (see page 26 of 185).

Much like the pension fund, the BMO unrestricted fund underperformed slightly (see page 29 of 185).

* Items 6.1.2., Custodial and Benefit Payment Search and 6.1.3., Blackstone Hedge Fund vs. S&P 500 were heard prior to item 6.1.1., Update on Fisher Investments.

6.1.2. Custodial and Benefit Payment Search

Ms. Guillette provided a memo regarding the Northern Trust Custody and Asset Administration Fee Review and potential changes.

Service Description	Northern Trust Charge	Top Tier Peer Indicative Pricing
Asset-based Fee	1.0 bps on Asset under Custody (Separate account assets)	0.9 bps – 1.0 bps excluding cash balances held within bank's cash sweep vehicle
Cash Account	\$2,500 per cash account	\$500 - \$1,000 per cash account
Equity / Fixed Income Transactions	\$15 per trade	\$10 - \$12 per trade
Pass-Through Transactions	\$20 per trade	\$10 - \$15 per trade
Mutual Fund Transactions	\$50 per trade	\$10 - \$15 per trade
Commingled Fund and Limited Partnerships Transactions	\$50 per trade	\$20 - \$25 per trade

- Benefit payment charges are within industry standard.
- Class action fees among the custodian bank industry range between 0%-3% on a contingency basis (charged only against the recovery proceeds). Currently, Northern Trust charges 2% of the proceeds with a maximum charge of \$250 per event. The Northern Trust fee is a reasonable charge and falls within the industry pricing range.
- Transition Management charges apply if the Funds effect a reallocation of assets using an external transition manager. While other top tier custodian banks with Transition

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Management service capabilities have similar fee clauses, these arrangements are not recommended. The client should be able to source pre-trade cost analysis from various transition managers and/or maintain a panel of 2-3 approved transition managers for cost assessment and engagement of the best in class proposal for the transition event without incurring added costs from their custodian.

- Based on the results of our examinations, peer industry pricing, renegotiating concessions within the costs identified above with Northern Trust can result in 10-12% annual cost savings for the Funds. Alternatively, the Funds may obtain greater fee savings ranging from 30%-50% with a second-tier custodian bank. The fee negotiations can be directed through a Request for Fee Inquiry (RFI). SMA can assist with the negotiation and/or RFI.

Ms. Guillette offered to renegotiate on the District's behalf (see page 2 of 16).

6.1.3. Blackstone Hedge Fund vs. S&P 500

In response to Chairman Ure's inquiries from the December 2019 committee meeting, Ms. Guillette briefly shared detail to the Blackstone versus S&P 500 Index, monthly returns since inception (see pages 1-4).

6.1.1 Update on Fisher Investments

6.1.1.1. SMID Replacement Search

Ms. Guillette provided possible candidates for replacement of the Fisher SMID Cap Value for pension fund and unrestricted fund.

Candidates considered:

- AllianceBernstein, LP
- Burgandy Asset Management, LTD
- Cooke & Bieler, LP

The book presented to the committee provided the following information (see pages 1 through 48).

- Search Book Parameters
- Asset Class Overview
- Research Process
- Firm Summary
- Strategy Summary
- Product Comparison
- Fee Comparison
- Performance Charts
- Manager Research Reports
- Litigation

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- Investment Terminology
- Segal Marco Advisors Disclosure Statement

6.1.1.2. International Core Replacement Search

Ms. Guillette reviewed recommendations for the international large cap core and SMID value.

International candidates considered:

- Arrowstreet Capital, Limited Partnership
- MFS Investment Management
- Walter Scott & Partners Limited

The book presented to the committee provided the following information (see pages 1 through 52).

- Search Book Parameters
- Asset Class Overview
- Research Process
- Firm Summary
- Strategy Summary
- Product Comparison
- Fee Comparison
- Performance Charts
- Manager Research Reports
- Litigation
- Investment Terminology
- Segal Marco Advisors Disclosure Statement

Regarding item 6.1.2., Custodial and Benefit Payment Search, Mr. Fernandez, CFO, requested approval to move forward with an RFI or RFP and then bring the results back to the committee for final review in an effort to produce a 10% to 20% savings, as per Ms. Guillette's analysis.

MOTION It was *moved* by Commissioner Gregoire and *seconded* by Commissioner Berry that:

Staff Recommendation: That the Pension and Investment Committee authorize the Finance Department Team to conduct an RFI for custodial fee arrangements.

Staff recommendation *carried* unanimously.

7. **ADJOURNMENT** 3:59 p.m.

Respectfully submitted,
Commissioner Stacy L. Angier, Secretary/Treasurer