

PROCEEDINGS
OF THE
Board of Trustees
OF THE
**Public School Teachers' Pension and
Retirement Fund of Chicago**

Investment Committee Meeting – Official Report
Tuesday, August 22, 2023

An Investment Committee meeting of the Board of Trustees of the Public School Teachers' Pension and Retirement Fund of Chicago was held on Tuesday, August 22, 2023.

The Chair, Mr. Philip Weiss, called the meeting to order at 9:54 a.m.

PUBLIC PARTICIPATION

Presentation by Tina Padilla

Ms. Tina Padilla, a retired member, thanked the Committee for their work and stated that she will continue to attend the meetings and be a public participant.

ROLL CALL

Trustees present: Mr. Jeffery Blackwell, Ms. Lois Nelson, Mr. Victor Ochoa (via video conference), Ms. Jacquelyn Price Ward, Ms. Mary Sharon Reilly, Ms. Maria J. Rodriguez, Ms. Tammie F. Vinson, Mr. Quentin S. Washington, Mr. Philip Weiss – 9

Trustees absent: Ms. Tanya D. Woods, Dr. Jerry Travlos – 2

Also in attendance were Mr. Carlton W. Lenoir, Sr. (*Executive Director*), Mr. Daniel J. Hurtado (*Chief Legal Officer*), Mr. Joseph Miller of Ottosen DiNolfo Hasenbalg & Castaldo, Ltd. (*Board Counsel*), Mr. Fernando Vinzons (*Chief Investment Officer*), Ms. Brianne Weymouth, Mr. Angel Haddad, Mr. Pete Keliuotis and Ms. Bernie Bazile of Callan Associates (*Investment Consultants*), and various observers and staff members.

Motion to Approve Trustee Remote Attendance and Full Participation, Approved

Ms. Reilly made a motion, seconded by Mr. Blackwell, to approve trustee remote attendance and full participation.

Chairperson Weiss stated that Trustees are expected to attend in person, but in accordance with Section 7(a) of the Open Meetings Act, if a quorum of the members of the Board is physically present, then the Board may allow other trustees to attend by other means (video or audio conference) when prevented from attending in-person for one or more of the reasons outlined below:

- (i) personal illness or disability;
- (ii) employment purposes or the business of the public body;
- (iii) a family or other emergency; or
- (iv) unexpected childcare obligations.

Mr. Ochoa stated that he is attending remotely due to one of the statutory reasons.

The motion passed by the following roll call vote:

AYES: Mr. Blackwell, Ms. Nelson, Mr. Ochoa, Ms. Price Ward, Ms. Reilly, Ms. Rodriguez, Ms. Vinson, Mr. Washington, Mr. Weiss – 9

NAYS: None

ABSENT: Ms. Woods, Dr. Travlos – 2

May 23, 2023, Minutes Deferred

Mr. Weiss stated that the minutes of the May 23, 2023, will be deferred and approved at the October meeting.

Ms. Rodriguez inquired as to why the minutes are being deferred.

Executive Director Carlton Lenoir stated that counsel is currently reviewing the minutes and will be presented for approval at the October Investment Committee meeting.

Private Credit Structure and Implementation

Ms. Brianne Weymouth and Mr. Pete Keliuotis presented Callan's Private Credit Structure and Implementation Plan. The Board approved a 3% allocation to private credit or approximately \$350 million in future commitments earlier this year. The primary role of private credit in the Fund's portfolio is to add further diversification and provide yield enhancement. Three primary objectives were identified to guide the proposed program: 1. Structure a portfolio that supports absolute return with potential for income distributions; 2. Utilize MWDBE investment managers; and 3. Implement a structure with competitive fees.

Callan proposes prioritizing direct fund investments – both draw-down funds (closed-end) and evergreen funds (open-end). If a competitive advantage is identified, the use of a fund-of-funds structure may be considered. Mr. Keliuotis and Ms. Weymouth addressed questions raised by the Board.

Motion to Approve Private Credit Structure and Implementation, Approved

Ms. Price Ward made a motion, seconded by Ms. Reilly, to approve Callan's proposed private credit structure and implementation recommendation.

The motion passed by the following roll call vote:

AYES: Mr. Blackwell, Mr. Ochoa, Ms. Price Ward, Ms. Reilly, Ms. Vinson, Mr. Washington, Mr. Weiss – 7

NAYS: Ms. Nelson, Ms. Rodriguez – 2

ABSENT: Ms. Woods, Dr. Travlos – 2

Long Wharf Fund VII Re-Up Recommendation

Ms. Bernie Bazile presented the Long Wharf Real Estate Partners Fund VII re-up investment recommendation. Long Wharf Real Estate Partners Fund VII is a continuation of Fund VI and the prior value-added funds in the series. Fund VII will focus on acquiring assets in need of repositioning, re-leasing or operational improvements in primary and select markets of the U.S. where Long Wharf can execute value-enhancing strategies and position an asset for sale into the core marketplace. LW Fund VII is targeting \$500 million with plans to make 25 to 35 investments with an average equity investment of \$10 to \$25 million. Fund VII has a target gross IRR of 15% to 18% (12% to 15% net) and a gross equity multiple of 1.7x-1.8x (1.4x-1.5x net), of which approximately 30% is anticipated to come from income and 70% from appreciation. The Fund will utilize up to 65% leverage. CTPF previously committed \$35 million USD to LW Fund VI in 2018. Through 1Q23, LW Fund VI has performed 21.2% net IRR and 1.22x. Ms. Bazile addressed questions raised by the Board.

Motion to Approve Recommendation to Invest \$30M with Long Wharf Real Estate Partners Fund VII, Approved

Mr. Blackwell made a motion, seconded by Ms. Reilly, to accept the recommendation to invest \$30M with Long Wharf Real Estate Partners Fund VII.

The motion passed by the following roll call vote:

AYES: Mr. Blackwell, Mr. Ochoa, Ms. Price Ward, Ms. Reilly, Ms. Vinson, Mr. Washington, Mr. Weiss – 7

NAYS: Ms. Nelson, Ms. Rodriguez – 2

ABSENT: Ms. Woods, Dr. Travlos – 2

2Q23 Total Fund Performance Review and Watch List Approval

Mr. Angel Haddad and Ms. Brianne Weymouth presented the second quarter 2023 executive summary. The Fund was valued at \$11,895 million at the end of the second quarter, representing an increase of approximately \$224 million from March 31, 2023. The change in the Fund's market value was attributable to capital appreciation and cash outflows. Investment performance resulted in an increase in the Fund's valuation

of \$356 million, and outflows totaled \$132 million over the period. Overall, the Fund's asset allocation was close to the permissible Investment Policy ranges, with the exception of private equity and fixed income.

The private equity component of the portfolio exceeded the upper bound of the range by approximately 1.4% while fixed income was below the lower bound of the range by approximately 1.3%. Based on a recent study, the Board voted to adopt a new strategic asset allocation for the Fund, resulting in a reduction to non-U.S. equities and the introduction of private credit. Callan believes it prudent to take advantage of cash flow activity and the impending strategic reduction to non-U.S. equity to rebalance the fixed income allocation. Conversely, given the illiquid nature of private equity investments, the overweight position in this asset class should be corrected over time by employing an appropriate pacing strategy. With respect to the Fund's asset allocation versus the current target at the end of the second quarter, underweights to domestic equity (-1.3%), international equity (-2.8%), and fixed income (-4.3%) were offset by overweight to real estate (+2.3%), private equity (+3.4%) and cash (+2.6%).

For the second quarter, the Fund underperformed the market benchmark by 16 basis points, gross of investment management fees (26 basis points net of fees) and ranked in the 44th percentile of its peers. Longer-term performance (trailing three years and longer) continues to be competitive relative to benchmarks. Mr. Haddad and Ms. Weymouth addressed questions raised by the Board.

Mr. Fernando Vinzons, Chief Investment Officer, reviewed the current Watch List. He reviewed each manager and recommended the Board approve the current Watch List.

Motion to Approval Watch List, Approved

Ms. Vinson made a motion, seconded by Ms. Reilly, to approve the CTPF Watch List. The motion passed by the following roll call vote:

AYES: Mr. Blackwell, Ms. Nelson, Mr. Ochoa, Ms. Price Ward, Ms. Reilly, Ms. Rodriguez, Ms. Vinson, Mr. Washington, Mr. Weiss – 9

NAYS: None

ABSENT: Ms. Woods, Dr. Travlos – 2

Investment Manager Fee Reduction

Mr. John Freihammer, Investment Portfolio Manager, presented a memo summarizing the recent lowering of fees by a fixed income manager in the CTPF portfolio. CTPF was notified recently that Wellington Asset Management was lowering its management fee schedule for CTPF effective June 1, 2023, due to the triggering of an MFN (Most Favored Nations) clause by one of Wellington's clients. The change moved CTPF from a flat fee schedule of 18 bps on all assets under management to a tiered fee schedule with lower break points for any assets under management exceeding \$200 million. While the actual nominal and relative amount of savings will vary with the level of assets under management going forward (as determined by market prices and any contributions/withdrawals to our CTPF account), the estimated dollar amount of fee savings to CTPF would have been slightly over \$6,000 using the most recent average monthly balance of \$260,114,656.24 from 2Q23, resulting in an effective net fee of 17.1 bps. If the balance remained constant, this would represent an annual savings of more than \$24,000 per year to the Fund. Mr. Freihammer addressed questions raised by the Committee.

Fossil Fuel Update

Mr. Fernando Vinzons, Chief Investment Officer, reviewed CTPF's coal, oil and gas (COG) exposure. He stated that the Fund's total COG public market exposure decreased by over \$10 million between July 2023 and April 2023 which was due primarily to market action. The total COG exposure represents 4.02% (from 4.36%) of total publicly traded investments (or 3.1% of total Fund).

Mr. Vinzons also reviewed the next steps regarding fossil fuel engagement and addressed questions raised by the Committee.

ADJOURNMENT**Motion to Adjourn the Meeting, Approved**

Ms. Rodriguez made a motion, seconded by Ms. Reilly, to adjourn the meeting.

The motion passed by the following roll call vote:

AYES: Mr. Blackwell, Ms. Nelson, Mr. Ochoa, Ms. Price Ward, Ms. Reilly, Ms. Rodriguez, Ms. Vinson, Mr. Washington, Mr. Weiss – 9

NAYS: None

ABSENT: Ms. Woods, Dr. Travlos – 2

The meeting adjourned at 11:47 a.m.

Respectfully submitted,

Philip Weiss
Committee Chairperson

*Minutes approved by the Investment Committee at a meeting held on October 24, 2023
Minutes prepared by Sharena Bennett Bridgmon (Executive Assistant, CTPF).*