Memo

To: **Board of Trustees – FELRA & UFCW Pension Fund,**
Mid-Atlantic UFCW and Participating Employers Pension Fund

From: **Rich Sichel, David Russell, Jennifer Carroll**

CC: **Bill Jensen, Barry Slevin, Esq., Harry Burton, Esq.**

Date: **July 17, 2017**

Re: **FELRA & UFCW Pension Fund – Cash Flow Analysis**

Following is a summary of the investment items discussed at the meeting on July 13, 2017. All recommendations requiring action are highlighted in yellow.

FELRA Pension Fund

An updated Asset Allocation/Glide Path review was distributed and discussed. The importance of liquidity was discussed by IPS with particular emphasis on not having illiquid real estate and/or HFoF investments as we approach insolvency. *There are no new recommendations at this time, but IPS reminded the Trustees of the recommendation to change the intermediate fixed income target to 25% at year end to coincide with the reduction in the RE allocation from 15% to 10%.*

IPS reminded the Trustees of the following pending changes that are being coordinated by the Fund office:

- JPM – to get to 10% allocation as of year-end, $23m redemption scheduled for 9/30 and $10m for 12/31
- Vanguard – Terminate in September and use proceeds for 10/1 benefits
- Gryphon – Terminate in September and use proceeds for 10/1 benefits
- First Eagle – redeem $14.5m on 11/30 to rebalance to 15% at year end
- EnTrust Permal – full redemption in process
- Mesirow –full redemption in process

Mid-Atlantic Pension Fund

Asset Allocation

Recommendation: Due to the growth of the Fund and for additional diversification, consider other asset classes and reduction to GTAA (global tactical asset allocation).

AA review materials were presented. The opportunistic and private equity asset classes were discussed again. Education regarding each was provided. Three scenarios were presented to illustrate potential allocations with expected returns closer to the Fund's 8% assumption. IPS indicated that there was not a high probability of achieving a long-term net of fee return of 8%.

Scenario #3 was discussed in detail, which included new asset classes of: small/mid cap equity (Great Lakes or Rothschild), value add RE (Intercontinental), opportunistic (Corbin and/or Entrust), and private equity (Grosvenor, Portfolio Advisors). **Due to the Fund's 8.0% actuarial assumption, IPS focused on Scenario #3, which has the highest expected return and has the following target AA: 25% LC/10% SMID/10% SD HY/10% Core RE/5% VA RE/5% Opportunistic Investments/5% PE/30% GTAA.**

Manager Searches

The Trustees heard presentations from the following investment managers by asset class:

(1) Small/mid cap equity – Great Lakes (John Quigley/Jenny Notte) and Rothschild (John Thomas/MJ Cullinan). Although the GL fee is lower than Rothschild (55 bp vs. 85 bp), there appeared to be more interest in Rothschild. Both managers offered good downside protection. Consider an $8m allocation.

(2) Value add RE/Core Plus – Intercontinental (Peter P./Jimmy Beloff) – 50% core, approximately 40% leverage, $200m queue expected to last one quarter. Consider a $4m allocation.

(3) Opportunistic Investing – Corbin (Adrianne Clancy/Ralph) and EntrustPermal (Rich Cuite/Chris Keenan). Corbin discussed the selling arrangement with Kearney Capital. Consider $3m to Corbin and a $2m commitment to EntrustPermal.

(4) Private Equity/Secondaries – Portfolio Advisors (Eric Thunum/Patrick Gerbracht) and GCM Grosvenor (Ed Patchett/Brian Sullivan). There appeared to be more interest in GCM Grosvenor. Consider an $8m commitment.

(5) At the request of George Murphy, Kevin Murphy and Chang Suh from the AFL-CIO HIT attended the meeting. This may be a potential investment for VEBA.

Note: Funding sources of the above mandates would be GTAA (First Eagle) and new cash flow.