THE RETIREMENT BOARD OF

ALLEGHENY COUNTY

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IN RE: MEETING

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BEFORE: ERICA ROCCI-BRUSSELARS, Chair
Frank J. DiCristofaro, Member
Corey O'Connor, Member
Jennifer Liptak, Member
Sarah Roka, Member
Sara Innamorato, Member
Kim Joyce, Member

HEARING: Thursday, February 20, 2025
12:02 p.m.

LOCATION: 436 Grant Street
4th Floor Gold Room
Pittsburgh, PA 15219

WITNESSES: None

Reporter: Benjamin Morrow

A P P E A R A N C E S

BRIAN GABRIEL, ESQUIRE
Campbell Durrant, P.C.
535 Smithfield Street
Suite 700
Pittsburgh, PA 15222
Counsel for Board

WALTER SZYMANSKI, MANAGER

ALSO PRESENT:
CHRIS BROKAW
TIM WALTERS
BRIAN ENGLERT
JUSTIN ELLSESSER

I N D E X

E X H I B I T S

Number	Description	Page Offered

NONE OFFERED

P R O C E E D I N G S

CHAIR:

We are going to call the meeting to order for the Retirement Board of Allegheny County. Thank you. We'll stand if you're able, for the Pledge of Allegiance.

(PLEDGE OF ALLEGIANCE RECITED.)

CHAIR:

Walt, could you take a roll call vote?

MR. SZYMANSKI:

Yes. Frank DiCristofaro?

MR. DICRISTOFARO:

Present.

MR. SZYMANSKI:

Sara Innamorato?

MS. INNAMORATO:

Present.

MR. SZYMANSKI:

Kimberly Joyce?

MS. JOYCE:

Here.

MR. SZYMANSKI:
Jennifer Liptak?
MS. LIPTAK:
Here.
MR. SZYMANSKI:
Corey O'Connor?
MR. O'CONNOR:
Here.
MR. SZYMANSKI:
Sarah Roka?
MS. ROKA:
Here.
MR. SZYMANSKI:
President Brusselars?
CHAIR:
Present.
Do we have any public comment?
MR. SZYMANSKI:
No public comment. Oh, wait, ---
CHAIR:
Brian is giving a public comment.
MR. SZYMANSKI:

--- we got one.

MR. ENGLERT:

Sorry, I didn't sign for it.

CHAIR:

That's okay.

MR. SZYMANSKI:

It's up here on the podium.

MR. ENGLERT:

Oh, I missed it.

CHAIR:

And we're going to have a three minute time limit with no ---.

MR. ENGLERT:

That's fine.

CHAIR:

Okay, thanks. Welcome. Could you say your name?

MR. ENGLERT:

Hi, my name is Brian Englert, E-N-G-L-E-R-T. I work over at the county jail. I'm president of the Officers' Union over there.

Of course, retirement is important to all the officers at the jail, especially since we contribute nine percent to the overall pension contributions. One of the things that we're concerned about the most is the fraudulent overtime that's going out to the sergeants and the impact that it's going to have on the pension.

We had a sergeant's union that four years ago made $8,400 in total overtime, among 17 sergeants. That number has gone up to $700,000 over 34 sergeants. Just the other night we caught them doing it again. This is a list of the sergeants that were scheduled for duty. This is a list of the sergeants that were paid. There's a sergeant on the pay sheet that was not scheduled for duty. We watched him walk around for an hour cutting locks off, going through filing cabinets. It's unnecessary, wasteful, fraudulent overtime in our opinion.

This same union, the County subcontracted our jobs to them. We filed an unfair labor practice in court. We won the unfair labor practice. We won the appeal. They can't do our jobs. The County cannot self-contract our jobs out to them. That is why they are getting this overtime. It is made up overtime and it has a lot of weight on future pension obligations.

Just this list here alone, four of these sergeants have close to or 20 years. So they're going to be able to spike their pension just like an officer can. But the problem is you're going see $200,000 salaries. That means it's going to be a $100,000 pension. And the more sergeants do this, the bigger the obligations get. It's just wasteful, fraudulent overtime.

I brought my concerns to the Controller's Office for investigation and I would really like the Retirement Board to look at how the County is authorizing overtime in this facility because it's going to eventually trickle down to pension problems. Thank you.

MR. SZYMANSKI:

Thank you.

CHAIR:

Next, we have the president's update. Trying to figure out this sound. The --- we will have an election for the vice president of the Pension Board that will take place on

March 2025, our next meeting. This is consistent with the bylaws we adopted last year, so we're excited to have that in place.

And also a quick update on the working group for plan funding and modernization. We met on January 24th, 2025, and had an initial meeting to discuss what additional information, especially information from the plan actuary and legal, and are expecting to meet again in March or April.

Next we will --- oh, there's one more thing. We'll now in this meeting later see a director approval, a Director Report from Walt Szymanski, who was elevated from a manager position to a ---

MR. SZYMANSKI:

Thank you.

CHAIR:

--- director position at the beginning of the year as a reflection of the tremendous work he's done in his seven years as now director. So thank you.

MR. SZYMANSKI:

Thank you.

CHAIR:

And Walt will read through the Board approvals. Oh, sorry.

MR. SZYMANSKI:

All right, thank you very much.

All right, first, we'll start with the Board approvals. Motion to approve the Board meeting minutes from the December 19th, 2024 Board meeting.

MR. O'CONNOR:

So moved.

MS. INNAMORATO:

Second.

CHAIR:

Hearing a motion and a second, is there any discussion? Hearing none, all in favor?

AYES RESPOND

CHAIR:

Any opposed? Hearing none, the motion passes.

MR. SZYMANSKI:

Okay, next, we will have a motion to ratify the acceptance of the financial statements, which include the pension fund assets, the statement of changes and plan that assets, and the RBAC balance sheet for November of 2024.

MR. O'CONNOR:

So moved.

MR. DICRISTOFARO:

Second.

CHAIR:

Hearing a motion and a

second, is there any discussion? Hearing none, all in favor?

AYES RESPOND

CHAIR:

Any opposed? Motion passes.

MR. SZYMANSKI:

Okay.

Next, we'll need a motion to accept the financial statements, which include the pension fund assets, the statement of changes in plan net assets, and the RBAC balance sheet for December of 2024.

MS. JOYCE:

Motion.

MR. DICRISTOFARO:

Second.

CHAIR:

Hearing a motion and a second, is there any discussion? Hearing none, all in favor?

AYES RESPOND

CHAIR:

Any opposed? Motion passes.

MR. SZYMANSKI:

Okay, next, we will need a motion to approve the February invoices totaling $385,527.51.

MR. O'CONNOR:

So moved.

MR. DICRISTOFARO:

Second.

CHAIR:

Hearing a motion and a second, is there any discussion? Hearing none, all in favor?

AYES RESPOND

CHAIR:

Any opposed? Motion passes.

MR. SZYMANSKI:

Okay.

Next item on the agenda is a motion to approve the invoice for PricewaterhouseCoopers for a foreign tax claim in the amount of $80,169. The total tax reclaim was for $320,679.51. The invoice was for 25 percent of the reclaim, and the reclaim began in 2022. This was for a Greenspring StepStone investment.

CHAIR:

Can I ---?

MR. O'CONNOR:

So moved.

MR. DICRISTOFARO:

Second.

CHAIR:

Hearing a motion and a second, is there any discussion? Seeing none, all in favor?

AYES RESPOND

CHAIR:

Any opposed? Motion passes.

MR. SZYMANSKI:

And next we'll move on to applications. The first will be a motion to ratify the approval of the January 2025 applications. There were four --- or six early voluntary, four full retirement and one disability.

CHAIR:

Can I have a motion?

MR. O'CONNOR:

So moved.

MR. DICRISTOFARO:

Second.

CHAIR:

Hearing a motion and a second, is there any discussion? Seeing none, all in favor?

AYES RESPOND

CHAIR:

Any opposed? Motion passes.

MR. SZYMANSKI:

Okay, next set of applications is a motion to approve the February of 2025 applications. There were 12 early voluntary, 17 full retirements, one disability and two payment plans.

MR. O'CONNOR:

so moved.

MR. DICRISTOFARO:

Second.

CHAIR:

Hearing a motion and a second, is there any discussion? Seeing none, all in favor?

AYES RESPOND

CHAIR:

Any opposed? Motion passes.

MR. SZYMANSKI:

Next will be the independent medical examiner's opinion for disability application approvals. This will be a motion to approve that Member 102627, upon the recommendation of three designated physicians, is totally and permanently disabled from any gainful employment in

Allegheny County.

MR. O'CONNOR:

So moved.

MS. JOYCE:

Second.

MR. DICRISTOFARO:

Second.

CHAIR:

Hearing a motion and a second, is there any discussion? Hearing none, all in favor?

AYES RESPOND

CHAIR:

Any opposed? Way to get through them, team.

Next, we have reports. Director Szymanski.

MR. SZYMANSKI:

Thank you very much and thank you all to the Board for the promotion and the vote of confidence and all the work we do at the office. Thank you.

So if you turn to your director's tab in the book, I'll highlight some areas on the dashboard. If there are any questions, please let me know.

Retiree Payroll was up four and a half percent compared to this time last year. Contributions look very high, but only because there were three pays in January this year, so it's going to balance itself next month.

Contributions refunded were down 74.11 percent. Total retirements on the year were down 15 percent. If you turn to the next page, we have cleaned up the pension estimate tab. So now you'll see just office estimates and online kiosk estimates. So your totals will be listed there and moving forward it will balance out of the online section once we get to probably November of this year when they started being tracked. Capital calls for the year there were three so far for $215,740.14, three distributions so far for $298,805. And that's all I have on the dashboard. Are there any questions? No?

The office budgets listed there as of January 31st, 2025. And then I will need Board approval and there's also a Board update. Any questions? Okay.

Item for Board approval is requesting the acceptance and vote on appeal number 2024-3. This is in which the Board having received interview report and recommendation vote on motor to approve and adopt the proposed findings, conclusions and recommendation of the hearing officer in appeal number 2024-3, thereby denying the appeal.

MS. JOYCE:

Motion.

MR. DICRISTOFARO:

Second.

CHAIR:

Hearing a motion and a second, is there any discussion? Seeing none, all in favor?

AYES RESPOND

CHAIR:

Any opposed? Motion passes.

MR. SZYMANSKI:

Thank you.

The next item is Board updates. I had mentioned in December I'd be coming back to the Board this month with an update from Seubert on the insurance policy. They have offered us an additional coverage on the crime policy. I've listed what the current coverage is alongside with the new coverage that would add forgery, alteration, and money orders and counterfeit money. The increase would only be about roughly $9,000 for us since we already paid the initial invoice. But I'm not asking for approval today. It's for the Board to think about. I'll come back next month asking for approval if we decide to move forward. Brian's reviewed it too legally and we think it makes sense, but I want you guys to have a chance to take a look.

CHAIR:

Thank you.

MR. SZYMANSKI:

Then I also included as the request of Controller O'Connor, the contract list is behind my report that shows our current contracts. Last time they were RFP'd and then an estimated RFP schedule over the next three years of what can start being RFP'd out for the

Board's approval.

Another update on the 1099s were printed and mailed the week of January 13th. The new software performed flawlessly so far and it was a much easier process than in years past.

<u>CHAIR</u>:

And that's very early. Congratulations.

<u>MR. SZYMANSKI</u>:

Yes, thank you. Thank you.

<u>MR. O'CONNOR:</u>

Thank you.

<u>MR. SZYMANSKI:</u>

You're welcome.

And then also the Retirement Office staff, we met with the County police. We were --- at February 3rd, were at the airport police headquarters, and then the 11th --- or 10th we were in Green Tree. We had a great turnout. Lots of people came. So we're planning on going back in April for the afternoon shifts along with the jail too. So probably like a 2:00 to 6:00 or 2:00 to 7:00 for those who come in later.

CHAIR:

Great. Thank you.

MR. SZYMANSKI:

You're welcome. And that's all I have this month.

CHAIR:

And just for --- just an addition on the draft RFP schedule because I know not everybody has materials that are shared with the Board. It's --- the draft would have the Case Sabatini auditor, the work that's currently with Case Sabatini for the annual audit work would go out to this year, potentially the legal work would go to bid this year or next year, followed by the phase 14 disability consultant in 2026, the investment consultant in 2026, '27. I skipped around a little bit the work that Duncan's doing, the online work in 2026 also, and the actuarial work in 2027.

So I just wanted that to --- many of these have --- you know, it's been a long time on some of the contracts that the Board currently has. And so we --- I know the Controller thinks this and I agree. I think many --- everybody on the Board thinks it, but I'll just speak for myself. It's --- we're excited to have a schedule and then talking with Walt. That will probably really just look like kind of plowing through one at a time and like keeping the case moving. So thank you.

MR. SZYMANSKI:

You're welcome.

CHAIR:

Is that it? All right. Is there anything else? Was there anything else, Walt?

MR. DICRISTOFARO:

One thing.

CHAIR:

Oh, yeah?

MR. DICRISTOFARO:

Happy birthday, Mr. Walter.

MR. SZYMANSKI:

Oh, thank you.

CHAIR:

Is it today, today?

MR. DICRISTOFARO:

Tomorrow.

MR. SZYMANSKI:

Tomorrow, tomorrow.

CHAIR:

Oh, happy birthday. Thank you.

CHAIR:

Next we'll have our

solicitor, Brian Gift.

ATTORNEY GABRIEL:

Thank you, Erica.

The Solicitor's Report is current as of February 13th. There is one action item, which if you turn to page four of the Solicitor's Report, section 6A is under Zeta Global Holdings, Inc., and that is a motion to ratify Board authorization to Labaton Keller Sucharow to file a motion on behalf of ACERS to serve as lead plaintiff in securities class action against Zeta Global Holdings, Inc.

CHAIR:

Yeah, and just to clarify, this is something the Board voted by email to do in January, and so we're ratifying it now. And it's also --- can I say the second part, which is it's --- we won't actually be an active participant in the case?

ATTORNEY GABRIEL:
Yes. So things move quickly sometimes, ---
CHAIR:
Okay.
ATTORNEY GABRIEL:
--- especially with our class action counsel request. But both of those points are correct.
CHAIR:
Okay.
ATTORNEY GABRIEL:
It was an email vote approving it, but since that time, the motion was filed and was not granted so that the Board will not be an active participant.
CHAIR:
Okay.
So can we have a motion? We're looking for a motion to ratify this January Board authorization.

MR. O'CONNOR:

So moved.

MS. JOYCE:

Second.

CHAIR:

Hearing a motion and a second, all in favor?

AYES RESPOND

CHAIR:

Any opposed? Hearing none, the motion passes.

ATTORNEY GABRIEL:

There are no other action items, but I'd certainly be happy to answer any questions.

CHAIR:

It looks like there are none. Thank you.

ATTORNEY GABRIEL:

Thank you.

CHAIR:

Next, we have our asset consultants from Mariner Institutional, Chris Brokaw, Tim Walters and Justin Ellsesser.

Did I do okay? Okay. And I'll just preface it by they've been doing a lot of work since the transition of the other asset work to their domain in October. And so this little --- this is sort of like a many part --- there's many parts to what they'll be sharing with us today. So we're excited and everybody drank their coffee, so we're ready.

MR. SZYMANSKI:

I'll read through the motions, Chris ---

CHAIR:

Okay.

MR. SZYMANSKI:

--- will explain them when they get to their reports.

CHAIR:

Can I add one thing before we do the motions?

MR. SZYMANSKI:

Yes.

CHAIR:

The --- wait, so are we looking for each one to do like motion, second and then we discuss?

MR. SZYMANSKI:

Yes.

CHAIR:

Okay.

MR. SZYMANSKI:

And Chris will explanation on it.

CHAIR:

Okay.

And I'll just say that like some of these we've talked about before and some of these we haven't as a board and certainly anything that we want more time on we can hold till the future month. So I know in the past there have been some things that came through quickly and we're not --- this isn't an attempt to do that, but I think some of them may maybe clear decisions. So we wanted to have the possibility today. So thank you.

MR. SZYMANSKI:

Sure, no problem.

So the first is a motion to approve the updated investment policy statement.

MR. BROKAW:

So --- excuse me. In the section of the book labeled Reports Mariner, page one of 199 starts with a number of these motions that Walt is going to read through.

So the first one regarding the investment policy statement, when you look through the investment policy statement, which starts on page four, the red lined items on nine and 12 are the changes. So it eliminates a couple of asset classes, the hedge funds and liquid policy portfolio. Those investments --- hedge funds are not in your portfolio. There's no approved investments there. And the liquid policy portfolio, you had previously voted to use that as a source of liquidity.

So basically this item adjusts the investment policy statement to get rid of that five percent allocation that was in the liquid policy portfolio. And on page one of 199, you see the specific items that are adjusted. Five (5) percent is gone from the liquid policy portfolio and that five percent is added back to the asset classes, U.S. equity, non U.S. equity and core fixed income, that were primarily held in that liquid policy portfolio.

The second item there is the private equity benchmark. Private equity was really benchmarked to the portfolio itself. So basically it was saying that the returns are, let's say, idiosyncratic, and therefore there was no public benchmark out there. This S&P 500 plus two percent, which is what we're recommending, is a common benchmark used by other funds. So those are the changes in the IPS that we're seeking approval for.

CHAIR:

I'll ask one question. I didn't realize there was the hedge fund --- the hedge fund piece. I know we --- it's sort of later in the presentation that we really have some hedge fund in the private equity portfolio.

Is that a fair statement?

MR. BROKAW:

That I think is a ---.

CHAIR:

Non fair statement.

MR. BROKAW:

A debatable.

CHAIR:

Okay, okay. That's fair.

MR. BROKAW:

So the specific investments that you have that in some public databases is referred to as a hedge fund, one could argue is not actually ---

CHAIR:

Okay.

MR. BROKAW:

--- a hedge fund. So I'm still fine ---.

CHAIR:

You're comfortable with it. Okay.

MR. BROKAW:

comfortable with this.

CHAIR:

Okay.

Do we have a motion to move forward with this today?

MR. O'CONNOR:
So moved.
MR. DICRISTOFARO:
Second.
CHAIR:
Hearing a motion and a second, is any discussion? We're looking at a motion to approve the updated investment policy statement.
MS. LIPTAK:
I just have a note.
CHAIR:
Yeah.
MS. LIPTAK:
So there's still a list or definition of hedge fund in the policy. Were you planning on keeping that in there or will that be removed as well? Page eight. Or page 12 of 109.
MR. BROKAW:
Oh, that should be struck as well. Thank you.
MS. LIPTAK:

Okay.

So that --- I figured as much, it's just like a clerical thing, so.

MR. BROKAW:

Yeah.

MS. LIPTAK:

But just note for the record that that ---

CHAIR:

Yeah.

MS. LIPTAK:

--- will be struck as well.

CHAIR:

Yeah. Thank you.

MS. LIPTAK:

Okay, thank you.

CHAIR:

Are there any other discussion or adjustments? Hearing none, we're voting on the motion to amend the investment policy statement with the additional striking of the hedge fund definition. All in favor?

AYES RESPOND

CHAIR:

Any opposed? Motion passes.

MR. SZYMANSKI:

Thank you.

The next item on the agenda is a motion to approve the maturing of the Israel Bonds over the next three years.

MR. BROKAW:

So, again, on the memo, page one of 199, this is the second item on page one. Account consolidation. The Israel Bond portfolio is about $8 million. It's currently managed by CIM. CIM also manages another fixed income portfolio. And our recommendation is to merge those two portfolios and the bonds. And the way the motion is phrased, those bonds are --- you can think of it as a U.S. savings bond, if you ever got one of those. They're not necessarily liquid, you can't sell it in the market. But the bonds that you hold, some mature this year, some in '26 and some in '27. This recommendation to consolidate those portfolios then allows CIM to invest the portfolio in any investment that they see as appropriate in their diversified portfolio, which includes a limited number of international bonds as well.

So basically you do not have any other fixed income investments that are dedicated to, you know, one country or one very specific small part of the market. This consolidates two similar bond portfolios with the same manager.

MS. LIPTAK:

So doing this is in the best interest of the fund to allow for better investment?

MR. BROKAW:

Absolutely, yes.

CHAIR:

Are there any other questions? Does someone want to make a motion to approve the maturing of the Israel Bonds over the next three years?

MR. DICRISTOFARO:

I'll make that motion.

MR. O'CONNOR:

Second.

CHAIR:

Hearing a motion and a second, is there any discussion? Hearing none, all in favor?

AYES RESPOND

CHAIR:

Any opposed? Motion passes.

MR. SZYMANSKI:

Thank you.

The next item is a motion to approve the liquidation of the CCA Black Fund.

MR. BROKAW:

So page two, starting at the top of page two, there's two items. The first one refers to the CCA Black fund specifically. The CCA Black Fund is --- has market value of $5.2 million. CCA, Corry Capital, these are the investments in the life insurance portfolio. $5.2 million, I spoke with the manager. The expectation is that the payments will come out over the course of one or two years. This particular item which you can see in the back of the book under --- well I guess it's the last tab is the actual request for withdrawal from CCA Black, really just puts you on record as saying we're interested in getting distributions from the fund as soon as possible.

So that is our recommendation. The request puts you in a queue with other investors and again it just really solidifies your desire to get the fund distributions over the next 18 to 24 months.

CHAIR:

Thank you.

Do we have a motion to approve the liquidation of the CCA Black Fund?

MR. O'CONNOR:

So moved.

MR. DICRISTOFARO:

Second.

CHAIR:

A motion and a second, is there any discussion? Hearing none, all in favor?

AYES RESPOND

CHAIR:

Any opposed? Motion

passes.

MR. SZYMANSKI:

Next item on the agenda is a motion to disapprove the extension of the Valstone Opportunities Fund V.

MR. BROKAW:

So this is the item number two on page two and this relates to Valstone Opportunity Fund V. Originally it was a ten year investment. Subsequent to the end of that period there have been two one year extensions and the second one year extension expires at the end of this month, 2024.

CHAIR:

In eight days.

MR. BROKAW:

2025, oh my gosh. . So their request is for another extension. The portfolio, this portfolio is invested in a number of real estate properties. You know, item D there refers to the fact that in their materials explanation they talk about how roughly half of those property should be liquidated over the next 12 months.

This request, the reason we're recommending that you do not approve it is because of the desire to get additional liquidity in the portfolio. The reality, they noted in their request that the last two times they asked for these extensions they got 80 percent approval. So it's a democracy here amongst the limited partners. So if they get 80 percent approval again, even if, you know, you don't vote for it or just abstain, you're in the same category as all the other limited partners.

So I guess what I'm

saying is it's most likely that the extension for another year will continue. But not voting for it puts you on record as saying we want our money back.

MS. LIPTAK:

I have a question.

CHAIR:

Yeah.

MS. LIPTAK:

May I?

So I wasn't necessarily familiar that within our contracts that we don't have the ability to not extend. And I guess this is the type of because of the product that this is. So we think we're going into a product for a period of time with extensions and the assumption, at least for me, is that we have the ability to stop at a point if we choose not to. But from what I'm hearing is is that we don't. If the majority of the other investors decide, we are --- I don't want to say forced, but we will also have to extend without our possible consent.

Is that normal or is that just the language that was required for this particular agreement? And I'm looking at both of you.

ATTORNEY GABRIEL:

Yeah, and Chris may shed more light on it. I would say it is normal with some variation in the realm of the limited partnership agreements under the private equity portfolio. So it's very common there in my experience. It's not common elsewhere. So for instance, our, you know, investment manager agreements, things like that, are completely different. But in terms of limited partnerships agreements, yes

MS. LIPTAK:

Okay. May I ask another question?

CHAIR:

Yeah.

MS. LIPTAK:

Chris, do we have addition --- do we have more of these types of products that we have where we don't have the ability to independently say we're done?

MR. BROKAW:

Yes.

CHAIR:

Is it fair to say they're basically --- most of the private equity value is set up that way, like we're just in it until it ends?

MR. BROKAW:

I will answer that question as yes and Justin has a whole presentation that refers to some of those issues and the liquidity issues of your expectations when you originally signed up for some of these investments on when you would receive the cash back and the reality as it has played out.

So there's more detail in his presentation. So if you don't mind deferring more conversation on private limited partnership liquidity until that point, I think it will be instructive.

CHAIR:

Is --- I don't know if this falls into that category. Is it fair to say some of the private equities are set up where there's not an end date where they'd have to ask for exceptions, or are they all set up with an end date? Or did I --- I can hold it back. I can wait until Justin's up.

MR. ELLSESSER:

Can I?

MR. BROKAW:

Go ahead, please.

MR. ELLSESSER:

So most --- these are closed-in vehicles, so there should be an end date.

CHAIR:

Okay.

MR. ELLSESSER:

And then they have these explicit extensions in the LPA agreements. The caveat to that is there's also generally language in there that says that in the event that the LPs do not vote to extend the fund, the manager has the ability to wind it down in a responsible manner, which is very vague and can mean it can take years. The other out of that is if the investors really felt like this manager was not doing what they should be doing, they can fire that manager from the fund. But you would obviously need --- once again, each LPA is different, but generally speaking, you would need kind of a two thirds majority of the investors to do so.

CHAIR:
Thank you.

MS. INNAMORATO:
Can I ask a question?

CHAIR:
Yeah.

MS. INNAMORATO:
Thank you.
What's the return been on this fund since we've invested in it?

MR. WALTERS:
The Valstone one in question?

MS. INNAMORATO:
Yes, yes.

CHAIR:
And I'll just add based

on what you said. This is what often we refer to as the life Settlements investment.

MR. BROKAW:

Yes.

CHAIR:

Is that a fair ---?

MR. BROKAW:

Yes.

CHAIR:

Is that a fair --- so these are --- are you familiar with these? These are like the life insurance contracts that we ---.

MR. WALTERS:

No, no.

MR. BROKAW:

Oh, okay. I'm sorry, yeah. We moved on to Valstone.

CHAIR:

Oh, sorry, no. Oh, sorry. No I skipped --- you're right, I skipped back. Sorry. This is real estate.

MR. BROKAW:

So there's a new section, a new report that we're providing, and that's why there's 199 pages. So the private, or as we call it, Allegheny County Employee Retirement System Alternative Assets starts on page 110. And the first several pages there outline the partnerships that you've invested in that were in the, I don't know, colloquially referred to as private equity portfolio, or I would say assets that were previously under asset strategies' purview. And so page ---

MR. WALTERS:

112.

MR. BROKAW:

--- 112 has the three Valstone investments listed under real estate towards the top. And we are specifically with this item on the agenda referring to Valstone V. And if you go to the far right, there's a couple of measures there that speak to performance. The one --- the second to the last column there that says IRR is the return. So that's 4.7 percent as of the last valuation date, which is 12/31/2024. So 4.7 percent annually since the inception of the investment back in 2013.

MS. LIPTAK:

May I?

CHAIR:

Yeah.

MS. LIPTAK:

Do you mind going through the line? Because there's a couple new --- I'm not going to say ---.

MR. BROKAW:

Yeah.

MS. LIPTAK:

There's a couple new Board members, but just to go and explain exactly what --- because when we commit, I don't want ---

MR. BROKAW:

Yeah.

MS. LIPTAK:

--- anyone to think that when we commit and then they extend that means we commit more money.

CHAIR:

Yeah.

MS. LIPTAK:

We commit what we commit.

MR. BROKAW:

Right.

MS. LIPTAK:

So they may extend, but we don't commit beyond --- that's our decision.

MR. BROKAW:

Right.

MS. LIPTAK:

Would you mind explaining all that? Because we do have some new members.

CHAIR:

Thank you, Jen.

MR. BROKAW:

Yes, great point. Thank you. So starting from the left, so Valstone V valuation date, that's the last point that we've received an update on the portfolio. Vintage year is when they started investing the portfolio. So 2013, so 12 years ago.

The next one, investment strategy value add real estate, Justin could explain a whole lot more about that, but it is real estate. They're buying individual properties, they're doing enhancements, fixing them up in one way or another.

The $20 million capital commitment, the next column. So back in 2013, the Board approved an investment, a commitment of $20 million. So you said, we're going to give you $20 million. Where it says drawn down, that's $22 million. Basically what that's saying is the money that you said you would give them, they took it all. And that extra $2 million, a lot of times --- again this is a technicality that could take a long time to explain, recallable capital. So sometimes they give you distribution and they have the right to retain it, to reinvest it.

Market value is an important number. The next two numbers are probably the most important ones at this point in time. Market value is when you look at your report, when we look at the report from Valstone, they're saying this is what your investment is worth. $16 million. The next one, $14.8 million, they've given you back $14.8 million over the last 12 years.

So the way that the private investments work versus all of the public investments, you know, in regular stocks and bonds, if you give your equity manager a million dollars, they invest it and they'll invest it forever, and they won't give you any money until you ask them for it. The way the private investments work, you commit the money, you give them the money over the course of three or four years, generically speaking, and then after that period, they start giving you money back.

So again, the $16 million is on your statements as that's what the investment is worth. And over the last 12 years, they've given you back $14.8 million.

So the return, as you go over, remaining commitment --- sorry, I skipped that column. Remaining commitment, Oftentimes, even if you commit, you know, in my --- well, I'll just look at the number here. You commit $20 million. Oftentimes, the investment manager does not call the full amount. They're not going to ask you for $54,000 at any point in time. That's just --- you know, they never called it.

IRR is the return. So basically based on all the money that you gave them, the $20 million over time, the $16 million that the investment is worth today on the books, and the 14.8 that they gave back to you, you add that all up and that is a annual return of 4.7

percent. I hope I did a good job explaining.

CHAIR:

I thought that was lovely. Are there any questions? Are we --- did we take a motion already?

MR. SZYMANSKI:

No, we didn't.

CHAIR:

No. Would anyone like to make a motion to disapprove the extension of the Valstone Opportunities Fund V?

MR. O'CONNOR:

So moved.

MS. JOYCE:

Second.

CHAIR:

Hearing a motion and a second, is there any further discussion? Hearing none, all in favor?

AYES RESPOND

CHAIR:

Any opposed? Motion passes.

MR. SZYMANSKI:

Thank you.

The next three items will be updates on the Emerging Manager Program. The first will be a motion to terminate Etho Climate Leadership.

MR. BROKAW:

So the investment --- this again is back on page two. The investment is $2 million in the all cap portfolio. The watch list with quantitative criteria, we introduced that. I guess it was about six months ago or nine months ago for the core portfolio. And then once we were assigned the emerging manager portfolio we used the same criteria to look at the managers in the emerging manager portfolio.

The two that you see here

on page two starting with, you know, item one, the Etho portfolio, they failed the criteria and made it onto the watch list.

The last item there, item D, any information that we looked up, this is a fund and it is managed by their prospectus by title investments in Massapequa, New York and sub advised by Amplify Investments in Lisle, Illinois. And the Etho organization itself references offices in San Francisco, Los Angeles, Boston and New York. And the only reason I mentioned all of those other places is none of them are Pittsburgh or Pennsylvania.

So this fund is underperforming and again, now that we're responsible for the performance review of the Emerging Manager Portfolio coupled with some of the action that you've taken regarding the Emerging Manager Portfolio to get it more focused on the absolute performance, we're making the recommendation to liquidate this investment, $2 million investment.

CHAIR:

Does anyone have a question or want to make a motion?

MR. O'CONNOR:

so moved.

MR. DICRISTOFARO:

Second.

CHAIR:

Hearing a motion and a second to terminate Eco Climate Leadership Fund. Is there any discussion? Hearing none, all in favor

AYES RESPOND

CHAIR:

Any opposed? Motion

passes.

MR. SZYMANSKI:

Thank you.

Next item on the agenda is a motion to terminate Emstone.

MR. BROKAW:

Emstone, another emerging manager. $5.4 million, it's a fixed income portfolio. The manager did fail the quantitative watch list criteria and --- well, item C refers to the fact that it had been on the watch list not when it was under our purview, but we agree with the assessment that it should have been on the watch list for a number of quarters. We've already spoken with the manager. They're aware of the issues with the portfolio.

And finally, this goes to page three, the comment E. The actual investment itself, the short term investment, is something that in the period in the past when interest rates were very low it was an investment that could add value to the portfolio. Now that we're in an environment with higher long term interest rates, we think that your core portfolio with a longer term investment strategy and benchmark in place is more appropriate.

So not --- I guess I would say in summary two reasons. One failing the performance criteria and two, just not really a good fit for your overall portfolio at this time. So the recommendation is to terminate and use the funds for cash flow needs in the portfolio.

CHAIR:

Thank you.

Is there a motion?

MR. O'CONNOR:

So moved.

MR. DICRISTOFARO:

Second.

CHAIR:

Hearing a motion and a second to terminate Emstone, any discussion? Yeah.

MS. LIPTAK:

So the value ---.

CHAIR:

Is your mic on? Thank you.

MS. LIPTAK:

It's a habit.

The value of the prior one, Etho, we invested $2 million and the market value now is 1.9. Is that right?

MR. BROKAW:

Yes. Did I ---?

MS. LIPTAK:

No, I just wanted to --- right?

MR. BROKAW:
In the memo I may have rounded but yes, I am referring to the investment in Etho.
CHAIR:
Is this on page 38 of 199?
MR. WALTERS:
It's $1.996 million.
MS. LIPTAK:
What is it?
MR. WALTERS:
$1.996 million on page 38 of 199. We just have it listed there.
MR. BROKAW:
Thank you, Tim.
MS. LIPTAK:
So we invested $2 million and we're selling it for less than that. Right?
MR. BROKAW:
Oh, okay. So the --- it is an ETF. So the sales price will be the sales price that's

available in the market.

MS. LIPTAK:

So it'll ---?

MR. BROKAW:

Yes, yes. So the --- go ahead.

MR. WALTERS:

If you're referring to did you lose money on this investment, ---

MS. LIPTAK:

Yes.

MR. WALTERS:

--- we would have to go back and check what the initial purchase was. We don't know if it was $2 million. Chris was just using $2 million as a round number. But we can go back and check what the initial inception dollar amount was and see what it was to this $1.996 million and that would show whether there was a gain or a loss.

MS. LIPTAK:

I was just looking at --- I apologize. I don't want to confuse anyone because I agree with your recommendation, but would I look at return inception and so on. So when I'm looking at those numbers, it does seem to be a --- that's why I was asking because I saw --- I was hearing $2 million and I see 1.9. So, okay, I understand now. I'm fine. I think there was a return --- I'm sorry.

MR. WALTERS:

Since inception dating back to 2016, the Etho investment has annualized return of about 10.9 percent.

MS. LIPTAK:

Which didn't meet the benchmark, but still had a return?

MR. WALTERS:

Correct.

MS. LIPTAK:

Okay.

CHAIR:

Is there any other questions or discussions? Are there, rather.

MS. LIPTAK:

Thank you.

CHAIR:

We love questions. All in favor of the motion to terminate Emstone?

AYES RESPOND

CHAIR:

Any opposed? The motion passes.

MR. SZYMANSKI:

Thank you.

The next item on the agenda is a motion to consolidate Gridiron Capital Multi-Asset into Gridiron Capital Fixed Income.

MR. BROKAW:

So this is item number two on page three. Gridiron

Capital Fixed Income is $14.6 million of the portfolio. That is and has been in your Core Investment Portfolio. The Multi Asset Portfolio was in the Emerging Manager Portfolio. Those two investments have about 49 percent overlap in holdings. The fixed income fund has a slightly lower fee, ten basis points versus 75. And the Fixed Income Portfolio fits into your fixed income allocation, whereas the multi asset fund was, let's say neither fish nor fowl. It wasn't equity, wasn't bonds.

We believe that their --- Gridiron Fixed Income Portfolio is a good performer for your fixed income allocation. So we're recommending merging those two funds together or specifically requesting the Multi-Asset Portfolio move in to be combined with the Fixed

Income Portfolio.

CHAIR:

Are --- is there a motion?

MR. DICRISTOFARO:

I'll make that motion.

MR. O'CONNOR:

Second.

MR. DICRISTOFARO:

Hearing a motion and a second to consolidate the Gridiron Capital Multi-Asset into Gridiron Capital Fixed Income, are there any questions? Hearing none, all in favor?

AYES RESPOND

CHAIR:

Any opposed? Motion passes.

MR. SZYMANSKI:

Okay, next we'll need a motion to consolidate Emerald All Cap into Emerald Small Cap.

CHAIR:

Friends, this is the last

one. Oh, you think we skipped one?

MS. INNAMORATO:

I think we skipped Emstone.

CHAIR:

Did ---?

MR. SZYMANSKI:

I thought we voted on it.

CHAIR:

I thought we ---.

MS. INNAMORATO:

We talked about it, but ---.

CHAIR:

I wrote ---.

MR. SZYMANSKI:

I thought we voted on --- I thought there was a vote on Etho then --- we can have another vote just to be safe.

MR. BROKAW:

Yeah.

CHAIR:

Can the transcriber tell

us or is that not a thing.

COURT REPORTER:

There was a vote on Emstone but no motion.

CHAIR:

There was a vote but no motion. Okay, we'll go back. Thank you, transcriber.

MR. SZYMANSKI:

Thank you.

MR. O'CONNOR:

I'll make --- so moved.

CHAIR:

All right.

So we --- Corey just made a motion to terminate Emstone. This is item V sub D --- B on the --- towards the bottom of the page. Is there a second?

MR. DICRISTOFARO:

Second.

CHAIR:

Is there any discussion? All in favor of terminating on Emstone?

AYES RESPOND

CHAIR:

Any opposed? Motion passes.

Thank you, team, for that one.

MR. SZYMANSKI:

Thank you.

CHAIR:

And then we think everything went okay with the Gridstone Capital one? All right. Gridiron capital. Thank you.

We --- this is the last one, the one Walt's going to read.

MR. SZYMANSKI:

Motion to consolidate Emerald All Cap into Emerald Small Cap.

MR. BROKAW:

This is similar to the prior item with Gridiron but with a different manager, Emerald. The Emerald All Cap 6.6 million, Emerald Small Cap 16 million. The Small Cap Portfolio is their flagship product. It has good performance. It's a good representative of a small cap growth investment in your portfolio. It does have 50 percent overlap, the all cap and the small cap portfolio. So 50 percent of the holdings in the all cap are the same as in the small cap portfolio. And then about 40 percent of the portfolio is in Magnificent Seven stocks. These are --- you know, we've mentioned them before, the top holdings in the S&P 500. You have significant exposure there in your large cap managers.

So we think that this consolidation will serve the portfolio well. We like the

Emerald Small Cap Portfolio. We also like the large cap managers. And we think that they can do a good job in that part of the market. So recommendation is to merge those two funds together into the small cap.

CHAIR:

Thank you.

Is there a motion to consolidate the emerald All Cap Into Emerald Small Cap?

MS. JOYCE:

Motion.

MR. DICRISTOFARO:

Second.

CHAIR:

Hearing a motion and a second, is there any discussion? Hearing none, all in favor?

AYES RESPOND

CHAIR:

Any opposed? Motion passes. And that concludes the giant pile of motions for today and leaves us with so much reporting to look at.

MR. BROKAW:

Moving on to the next item, the quarterly performance report. The quarterly performance report starts on page 19. There's a few items and certainly if you have any questions along the way, we'd be happy to talk about other items that are in the report as well.

Maybe one of interest in light --- especially in light of our private equity conversation later in the day, is to take a quick look at page 37. And here what you see is the assets in your portfolio. On the column on the left, the market values, 37 of 199. Yeah. The numbers on the bottom right. Thank you. Which you see in the market value the beginning of the year.

And I'm looking at private equity again of our subsequent conversation today.

Started the year at $179 million. You received over the course of the year net of any contributions, you received $16,262,154 in net distributions from the private equity portfolio. Over the course of that time, $5.6 million, the negative return over that period and you ended the year with $157,296,262 in the portfolio. And I just point that out because part of --- and maybe a large part of the private equity conversation is going to be about the cash flows, when you can expect to receive distribution.

So I did want to make mention of the fact that, you know, we're going to talk about wanting to get more money faster, but you are at the present time continuing to receive --- at least last year it was $16 million. In some of the prior years it was upwards of 25, $30 million dollars. So wanted to point that out to the Board.

Maybe another item just to point out a new page in the report on page 21. I'm sorry, gosh. Now I'm referring to page 40 of 199. So a question came up in a conversation with the Board members regarding the liquidity in the portfolio. And here, the blue bar on the left, most of the assets in the portfolio are stocks, bonds, daily liquidity, and there are some that are monthly, some quarterly and some that are illiquid as well.

So you do have some investments that are not immediately liquid that are in your core portfolio. So it's not just these private equity assets that are liquid, but the majority of the assets are our daily liquid.

MR. WALTERS:

And page 40 is the aggregation. 39 and 38 will show you each individual manager line item, strategy and define what liquidity we apply to it.

CHAIR:

Thank you.

Are there any questions while we're here? All right, keep going.

MR. BROKAW:

A comment on performance on page 43 of 199 for the year. So top line portfolio as of December 31st, the value was $945 million. For the quarter, it was a negative quarter in the market. The U.S. equity market was generally positive in the quarter, but international investments primarily impacted by the strength of the dollar experienced negative returns. Fixed income negative returns as well due to rising interest rates in the quarter. So the quarter negative returns for the full year, you see a positive 6.08 and relative outperformance when compared to the benchmark.

I wanted to mention pages 47 and 48 of 199 because these are the pages that talk about the watch list and give you, you know, red light, yellow light, green light, kind of, you know, just a straightforward two page view which managers might be problematic, which ones are okay. So these pages are in every quarterly book. And on page 48 you see the two managers I referred to earlier, Etho and

Emstone.

So regarding the total portfolio, I do not have any additional prepared remarks, but we'd be happy to answer any questions.

So that brings us back to page 110 which I briefly introduced the new portion of our presentation which shows the private equity investments. And I'll, you know, leave it at a summary level to say that 111 through 113 shows each investment in the portfolio and it shows that the return. And the return, as I mentioned earlier on the far right, the second column from the right shows the annualized returns from inception.

So there are some significant positive numbers, there are some that are less significant, but I didn't necessarily want to spend a lot of time on this report because I think that Justin is more interesting than me and he has some more in depth analysis regarding the private equity investments themselves and how to view things going forward and potential action items which I think are much more important than the listings of the data for all of the individual managers.

MR. WALTERS:

This quarterly private equity report is an important step in data aggregation for us because as we were going and surveying the 55 managers that were in this portfolio, we were able to reconcile some data discrepancies with the manager prior consultant.

So we are 100 percent confident that we've got the correct data, we've reconciled it with manager contracts and then if you were to scour some of the pages further in the report, each manager has dedicated detail. So at any one point in time we can look up, we'll know what they are, their role in the portfolio and then get all the historical data. We'll produce this quarterly, but just in terms of bulk, we might not include it always in the quarterly reporting package.

CHAIR:

And like practically speaking, is it really the annual valuations on these private investments that are for the most meaningful?

MR. ELLSESSER:

So the annual evaluations are typically the ones that are audited.

CHAIR:

Okay.

MR. ELLSESSER:

They do provide valuations quarterly, but three quarter's unaudited, one quarter audited, ---

CHAIR:

Okay.

MR. ELLSESSER:

--- one --- audit.

CHAIR:

All right, Justin's going to go.

MR. ELLSESSER:

All right.

CHAIR:

Let's go, Justin.

MR. ELLSESSER:

All right, well, it's great to be here in front of you again today. I'm starting off on page 182 of 199. That's the cover page, so you can go to 183.

When I was here later

last --- or last year, towards the end of last year, we talked a lot about kind of how we approach private markets and the importance of portfolio construction, portfolio management, not just about picking managers, which we talk a lot about, but it's --- the bigger picture is important also. And we're going to see a little bit about why today.

But as part of that early steps, once we were retained, Tim and Chris and my team got together and we put in what is step one of that, which is a cash flow forecasting model, commitment model, pacing model, it's all the same thing. But basically what this model is supposed to tell us is how much this plan should be committing to private markets each year in order to maintain its target allocation of, in this case, 20 percent. Because you have money coming in, money going out, values go up and down. There's a lot of variables.

So this is using statistics, over 10,000 funds historically speaking, broken into various categories, where we get the average of what the funds in your portfolio are supposed to behave like. We use your portfolio statistics, we smooth out your portfolio value over four quarters to try to remove some of the volatility that can happen in publics. Because we are making long term decisions, as we talked about earlier, these funds are ten, 11, 12, 15 years.

If --- during COVID is a prime example, right, in February, March, the public markets fell tremendously. If we would have done a pacing model then for a client, it would have produced vastly different numbers than what would have just happened six months later when public markets came roaring back. And there you have vastly different decisions for what are long term consequences.

So we wanted to try to smooth that out and we used the net return of the plans and we also coordinate with your advisors for each plan that we to do this for. And we do it annually to biannually.

So this was step one of kind of that portfolio construction process and some interesting things did come out of it. Normally this would be a very quick, easy kind of meeting and a one page thing, but we did see some things that we wanted to discuss and kind of talk about next steps and how we might want to address them.

So if you want to go to page 184., kind of bottom line up front is we think that pausing private equity commitments for the time being for at least maybe a six month period while we continue to dig a little deeper into some of the things we found would be the way to go. And then after that we should have more information, more detail, kind of be in a better place to project forward what we should do from that point. But you know, we --- they put in this request for 2025. You know, a lot of people want to make sure that he committing. So being early 2025, we wanted to say, well, we think this is a scenario we want to pause just for a minute, dig a little deeper and we're going to talk about what specifically we want to dig into and what we found.

Some of the reasons why we're going to pause I'm going to explain over the next few slides. When we do this exercise, I mentioned some of the variables already, but this is an exercise in statistics and an ever evolving, changing market. There is a level of variation that is expected. That's why we do this annually or at most biannually for each client that does private markets.

However, when you get outside of what is considered roughly normal levels of variation, what the model is telling us to do, we begin to question it. Right? Because okay, well, this doesn't look normal. So I don't necessarily want to follow through with what the model says we should do where it's built to produce recommendations in kind of a set band of standard situations.

So what happened when we ran your portfolio was it did raise some concerns and some things that we saw as being outside of what we would normally see for one of our clients. And on page 185, it kind of highlights the one that is most pertinent and I think is going to drive what we're going to do, what we're actually currently doing, plus what we're going to do over the subsequent months on our side.

So basically what this slide shows, the blue line is Allegheny County's portfolio and it represents your current holdings. Now, the very first data point on the far left, 2024, is your actual market value in June of last year, which is ---.

MR. WALTERS:

Of the private equity.

MR. ELLSESSER:

Of the private equity, yes. Just to be clear, everything in this is just your private equity sleeve. So $178 million and change as of June of last year.

Everything from that data point onwards is a projection. So it's using the model. You can see from the 2024 actual portfolio value of $178 million to 2025, which is the first projected year, is a massive drop off. About $89 million, somewhere roughly around 10 percent depending on how you look at the portfolio value.

So that is outside of

what we would normally see from one of our clients. The dotted rust colored line there on the right hand side, that is an actual client that we have. That's kind of more standard what we see. You can see that it does drop a little bit at the forefront. That is kind of your standard level of variation, up, down, et cetera. But then generally you're looking at kind of a two percent drop off a year. And then that's kind of where we're comfortable with what the model is providing us at that point.

What this denoted to us was that there's likely some issues potentially with the holdings in the portfolio, and not necessarily issues to where they're underperforming, but something is probably outside of what we would consider standard and we needed to kind of go into the line items and at the forefront, the allocation itself. So that is really what this slide is kind of what's driving what comes after it is that level of variation. Because on the next page ---.

CHAIR:

Is it fair to say ---?

MR. ELLSESSER:

Oh, yes, go ahead, sorry.

CHAIR:

I know I previewed this a couple weeks ago ---

MR. ELLSESSER:

Yeah.

CHAIR:

--- and it was --- like, I'm like, what does this mean? What does this mean? Your model is basically saying like there's --- and you're going to get into this, right? Like there's all these things that haven't paid out. Like we were just talking about the ---

MR. ELLSESSER:

Right.

CHAIR:

--- Valstone that's taking forever. And your model would be like, oh, we'd expect all these things to pay out like now. And so ---

MR. ELLSESSER:

Exactly.

CHAIR:

--- this $89 million isn't oh, it's really worth $89 million, it's really like half the value should have come due by now.

MR. ELLSESSER:

Yeah, the model is saying --- the model is saying based on the age of your holdings and what you're invested in, that your portfolio value in 2025 should be about half of what it is right now. Which means that it has --- there's more retained value than there should be, so people haven't been sending back money as rapidly as what would be considered historically normal. Distributions are behind schedule, in summary.

CHAIR:

Right, right. Yeah, that's ---.

MR. ELLSESSER:

--- boiling this down than I am, so yes.

CHAIR:

Yes. I think the takeaway from this one is not that our assets are worth half of what it's saying.

MR. ELLSESSER:

No, that is not the takeaway.

CHAIR:

The takeaway from this page is that distributions are behind schedule.

MR. ELLSESSER:

Yes.

CHAIR:

Thank you.

MR. ELLSESSER:

This is purely an exercise in cash flow.

CHAIR:

Okay.

MR. ELLSESSER:

This is not commenting on the performance of the individual funds or anything else.

MS. LIPTAK:

Can I ask a question?

CHAIR:

Yeah.

MS. LIPTAK:

So two questions.

MR. ELLSESSER:

Yes.

MS. LIPTAK:

The first --- or first is

a comment. We've had issues in the past that were brought to us where we have to extend because they don't want to close it and we would question that. I recall this a lot and a few times we didn't agree with it and we told them to push back because we thought we should get our money back. So this kind of confirms in my mind what I was thinking.

But secondarily when I look at something like this, it reminds me of a debt chart. So basically when you look at this, it's basically projecting when you're going to get all your money back. Right?

MR. ELLSESSER:

Yes.

MS. LIPTAK:

And that's why it goes down to zero?

MR. ELLSESSER:

Yes.

MS. LIPTAK:

So we're looking at the chart normally with the debt --- Alex in the background is probably laughing at me. Normally you like to see a nice even flow down. So what you're saying, this drastic drop and then flow down is an indicator that there's a problem with the, I'll say the types of investments and how they're flowing?

MR. ELLSESSER:

Yeah, and we're going to get --- yeah, we're going to get into some of the background to it, but really it's about you're kind of off schedule ---

MS. LIPTAK:

Yeah.

MR. ELLSESSER:

--- and how much money you should have got back. Yeah.

MS. LIPTAK:

So it should be like this and we're like this?

MR. ELLSESSER:

Yeah. If --- in a --- in this rust colored line is a client that Tim and I work on. Right? And we've done that portfolio for over six years, almost seven years. So in their portfolio this wouldn't happen. Like if we were in front of them, they would be sitting at ten percent right now versus where you're at, which is just under 20. So you're just behind on where you should be as far as distributions.

MR. WALTERS:

And we do have an illustrative exhibit in the back that will show that point exactly.

MR. ELLSESSER:

Yeah. This next slide on

186, this is actually what we normally kind of would just present to clients when we come and we do our annual or biannual pacing study. It's normally just a one, maximum two slide type deal and this is what we'll present. Now in the chart in the upper right is really kind of where the rubber hits the road. This is what the model produces. The caveat here, and this is important to point out, this chart starts in 2025. Right? So the last slide shows that the problem isn't between the value last year and today. So this would just show kind of well, just based on the projections, what would it mean? And the bars at the bottom, the model suggested that we should be committing $40 million this year, $40 million in 2026, $25 million in 2027, and then gradually going down because it thinks that you're under allocated, even though we know that you are not as dramatically under allocated.

So you can see why with the variation on the last page we just reviewed, whenever these are the results we got, we said we don't want to follow this right now because we need to take a harder look and we need to do a better, more nuanced analysis of the cash flow. We can't use historical norms. We got to get a little more specific.

So to be clear, even though this is saying this, we are not recommending the $40 million in commitment right now. We are just saying we wanted to show you what the model produced. We didn't just want to keep it in the background.

If that variance wasn't there, I would be here looking at this page and saying, yep, the model says you should commit $40 million, but it is there. So we need to dig a little deeper.

And this next page on 187, I think drives Home is just something that we tend to talk to people about a lot is very little consequences today on the decisions we're going to make. If we were to commit, it's about six, seven, eight years from now. So we ran three scenarios. Each of these scenarios assumes that you were to commit the amount of money that the model recommended on the last page. Right? So $40 million the next two years, 25 and then reducing. You can see here that there's three different results. And what we did was we took that massive variance that you have, about $89.1 million and we said, okay, if we're going to realize this pretty evenly over five years, what would happen?

Well, that's scenario one. You can see you're actually under allocated by nearly $40 million. We don't want that because you're losing out on return. Private markets are supposed to provide you with premium return.

Scenario two says you're about right at the allocation and that's --- you're not going to get much back for two years and then we evenly distribute it. And scenario three is we even distribute it over ten years because maybe liquidity is even worse than what we think. In scenario two, you're right at the target. It's not the worst case scenario. Scenario three, you're over allocated by $25 million and that's around 2030 and 2031.

So we said this because whenever we want to pause commitments, it's not because it's going to dramatically affect you next year. We don't want to put future boards or this board in six, seven years in a bad spot to where if assets continue to climb in the portfolio or whatever might occur, they're left with all these illiquid assets. Especially considering, you know, this assumes stability in every other market. If the public markets were to go into a bare market, that black line is going to shift down potentially dramatically, in which case you now have two out of the three scenarios where you're heavily over allocated. And we don't want that because then that really handcuffs you in what you can do. Because to our point what we talked about, these are very illiquid, very tough to get out of, especially at par at what they're held at.

CHAIR:

So all these scenarios and you're not recommending them?

MR. ELLSESSER:

No, these are just to ---.

CHAIR:

But you're showing them.

MR. ELLSESSER:

It's more educational to say ---.

CHAIR:

They all assume like different versions of ongoing commitments to keep private ---?

MR. ELLSESSER:

Yeah, basically the commitments the model showed on the prior page 186, this model --- these --- all scenarios assume that those commitments would be made.

CHAIR:

So our actuaries keep telling us we're going to run out of money in like 15 years inside the pension plan, but everybody's pension benefits will be secure.

MR. ELLSESSER:

Yeah.

CHAIR:

And so I guess I thought 20 percent of zero would be like zero towards the 2040 range. So how are --- like how is the total plan assets being calculated for these scenarios? Or it's sort of irrelevant because we're not looking on that half at this point?

MR. ELLSESSER:

Yeah, I know Chris went

through or Chris and Tim, I'm not sure which of the two went through the actuary report and provided me like the negative annual return which would basically I think equal what the --- what that scenario is.

MR. WALTERS:

I believe your question is answered on page 186.

CHAIR:

Okay.

MR. WALTERS:

We account for the actuarial projection with a negative 6.6 annual growth rate to decrease the portfolio. Page 187 is more illustrative, ---

CHAIR:

Okay.

MR. WALTERS:

--- doesn't reflect ---

CHAIR:

Okay.

MR. WALTERS:

--- that decline.

CHAIR:

Okay, thank you.

MR. WALTERS:

Yeah.

MR. ELLSESSER:

So that kind of explains you know, the issue we found, the variants, what the model would say to do and the potential consequences which could be it's everything's fine or could be negative in six seven years. So what's driving the issue? And that's on 188.

So there's two that we found. One is an allocation issue which includes the holdings of the private equity portfolio at kind of a portfolio allocation level and two is individual holdings within the portfolio that might --- that are decently behind their scheduled distributions from what the model would say they should do. And we're going to break these down and look at each one individually.

So the first one is the allocation issue. If you go to page 190, basically when we looked at your holdings, this is the private equity allocation of 20 percent, but what we found was a third of the allocation is actually not in strategies or managers that we would dub as private equity. Twenty seven (27) percent is in real estate, those are mostly represented by the Valstone strategies. There's a little bit of private debt. I think that's Crestline four percent. It says hedge funds at six percent. Erica, to your statement earlier. That's CCA and Emtrust. Your definition of --- in your IPS of hedge funds, as is many where it's very vague. So generally anything that doesn't fall into any of the other asset classes gets designated as such. But they're not like long, short hedge funds or anything like that.

CHAIR:

We don't have a definition of hedge funds anymore.

MR. ELLSESSER:

That's a fair point. As of ten minutes ago. Yeah. But --- so that was one thing, because all these different asset classes behave differently in different environments, different levers, different returns, different risk expectations. So whenever a third of the portfolio doesn't actually fit with what it's designated, it can cause behaviors to be different and it can cause this allocation's role within your portfolio to differ from what we would expect.

So that was one issue that we found. And then coupled with that on the next page, just looking at the two thirds of your portfolio that is actually what we would dub traditional private equity and we would further define that as buyout, growth, capital or venture capital, 70 percent is either growth or venture. And we made that between those two designations because it is a very gray area between them. You can see a lot of managers flip back and forth between them.

Looking at the underlying, I can tell you I think the majority of this is venture. And that is an issue not because I'm saying these managers are bad, but venture is longer dated, more illiquid, and at the moment in one of the worst liquidity environments it's seen since the early 2000s. That's due to a number of issues from fundraising, interest rates, et cetera. And that I --- when we saw kind of that allocation, we expected, okay, this is probably driving some of the issues that we're seeing as far as distributions. And we're going to look at kind of proof as such later on in the deck.

On the next page 192, these are just general market slides. We got this from MSCI Burgess. This shows that they did a study between 2015 and 2019, generally seen as fairly normal periods in private equity pre COVID that --- if you see the top tier line is buyout, on average, once your fund hits to the point where they're distributing capital, they'll distribute 27 percent of their market value every quarter, whereas on average venture capital was doing about 14 percent.

So ten percent --- over ten percent less, but the actual lines show you what has happened in the last, call it three years, three or four years where liquidity really plummeted in 2022 with the increase in interest rates. Right now this ends in 2023, but I would say that this has generally extended into last year and currently where venture capital is distributing very little money, just north of five percent a year according to the study.

So it's just a visual representation of --- this isn't just Allegheny's managers having issues, this is a market issue. And the area of the market that the portfolio is most heavily exposed to is probably going through the worst liquidity environment within an already illiquid asset class.

So on the next slide on 193 comes down to our recommendations and some options just for this allocation issue. So one is on our recommendation if we do make further commitments to private equity, you know, if in a year, six months, whatever it may be, we come and we say we want to make more commitments, we would probably bring you more buyout focused investments. They are more liquid, they're generally more mature, they're producing profit, less risk. Yes, you're going to give up a little bit on the upside, but you're --- as we just saw, you're going to be in a more liquid space within the overall allocation. And if you are in a scenario where the portfolio could be declining, you really have to keep an eye on that liquidity issue. Sorry, go ahead, Jennifer.

MS. LIPTAK:

Can I ask a question?

CHAIR:

Please.

MS. LIPTAK:

If our fund was not in the position it is today, ---

MR. ELLSESSER:

Yes.

MS. LIPTAK:

--- meaning funding status, would you recommend what you're just recommending?

MR. ELLSESSER:

Every plan is ---.

CHAIR:

Do you mean the pausing?

Is this specifically about pausing or the buyouts?

MS. LIPTAK:

I'm talking about switching to less aggressive investments that are more liquid.

CHAIR:

Okay.

MR. ELLSESSER:

So we view institutions as their own organization, their own entities, right? I mean it's just like people, right? You have ten different people, you have ten different financial roles. I would say our average client allocation is flipped. So if you look at our average client, you're looking at 70 percent buyout, 30 percent venture. And venture is only done for clients that are willing to accept that it is a very high risk, high reward, but high risk asset class.

MS. LIPTAK:

Do you know what I'm asking?

MR. WALTERS:

I think so. I believe what this recommendation represents is a more intentional way about thinking about private equity allocations. So it's not just throwing a dart against the wall and not being aware, consciousness or recording what type of strategy it is because each type of strategy and sub strategy has its own characteristics.

So if we are going to make future allocations, you're going to see a much more thoughtful and intentional approach. And the approach would be to move towards buyout strategies for the speed of the distributions.

MS. LIPTAK:

So if were at a ---

CHAIR:

Hundred percent fund level.

MS. LIPTAK:

--- hundred percent fund, you would recommend the same?

MR. WALTERS:

Correct, yes.

MS. LIPTAK:

Okay.

That's kind of --- I just wanted to have a mindset that we're not moving into a direction because of our funding status because that would kind of concern me. I just wanted to see if it was more about this is the right --- which it sounds like, I just wanted to ask that question.

MR. WALTERS:

Yeah, the recommendation at the top of the page is independent of Allegheny County's funding status. It's just in the observance of a better PE portfolio.

CHAIR:

Yeah, but I think we're going to --- is it fair to say, right, there is a point at which one needs confidence in the funded status of their plan to be able to make these illiquid investments? I mean, I don't think we're --- I don't think we're at that date yet.

MR. WALTERS:

And that that's coming up ---

CHAIR:

Right.

MR. WALTERS:

--- in the liquidity ---

CHAIR:

Yeah.

MR. WALTERS:

--- portion of this.

CHAIR:

I was going to ask --- oh, what is the typical --- I don't know if duration is the right word. Like how long would you expect a buyout time frame to be versus a venture growth?

MR. ELLSESSER:

So venture fund is generally between 12 to 15 years.

CHAIR:

Okay.

MR. ELLSESSER:

It's a stated term and can take up to 20 to become fully realized.

CHAIR:

Okay.

MR. ELLSESSER:

A buyout fund, a ten year stated term, plus two years of extensions, between two to three, generally speaking, each fund is different. But if you're talking about practically, you're looking at really a 14, 15 year before it's fully wrapped up. But to keep in mind when we talk about fully wrapped up, you might have, you know, $10 million commitment. You might have one position that's worth $300,000 just lingers for two years.

CHAIR:

Okay.

MR. ELLSESSER:

But the vast majority is realized.

MR. BROKAW:

I hate to have too many chefs in the kitchen, but I do want to just call out that we are very, very interested in the results and the ongoing work that you're doing with the working group on plan funding and ---.

CHAIR:

Modernization.

MR. BROKAW:

I wrote authorization. Modernization. Yes, because that gets to the liquidity point. If we are supposed to believe a report that says in 2025, there's a certain amount of assets and in 2040 there's a different amount, it's difficult to make a ten or 12 or 15 year commitment at that point.

MS. LIPTAK:

Yeah.

MR. BROKAW:

So I just wanted to make sure that I stated that ---

CHAIR:

Yeah.

MR. BROKAW:

--- explicitly.

CHAIR:

Thank you.

MR. ELLSESSER:

And then for the other

component of the allocation issue, which is just having assets that aren't traditionally private equity from our point of view can take one of two paths. One is just let what's in there roll off and just try to commit to future private equity funds from here for the allocation, or if wanted, because that could take some time to shift the assets into their relevant buckets, whether it be real estate, moving the balance to the real estate bucket, et cetera, and then adjusting the private equity allocation potentially so that maybe you're targeting 15 percent instead of 20, et cetera. I'm just throwing out numbers. But making the adjustments based on the underlying assets.

The other issue, the liquidity issue --- I'll pause there. Any other questions on the allocation issue or what's been discussed so far?

CHAIR:

So this is the end of the allocation issue. So I'm seeing two things. One is when that --- when we're done pausing in six months, what we imagine you'll be bringing to us should we want to be investing further in PE is the buyout side. That's what your recommendation piece says.

MR. ELLSESSER:

Yes.

CHAIR:

And then on option one and two, we're basically talking about do we --- for 25 years or however long it's been around, we've called it the private equity portfolio and now we're all sitting in a room and we're saying it's really an alternatives or a bunch of stuff portfolio. Do we want to move the pieces that aren't actually private equity to where they belong, where their friends are in the report. And to some degree that's a reporting question, but I mean my instinct is to always put things in their proper place so that when we're doing modeling, we know we have a --- 16 percent --- like our report right now says we have 11 and 11.4 percent real estate allocation, but we probably really have a 16 percent real estate allocation. And I think we should be upfront about that.

I don't know if this is in word vote territory or just discussion. And we --- I don't think we need to --- I don't know where we're at. They'll just report things how they think it's about to report things?

MR. O'CONNOR:

Yeah.

CHAIR:

Yeah. Yeah, that sounds good. Report things in a --- I think, yeah, report things with their private equity --- with their actual allocation they're actually allocated with.

MR. WALTERS:

On page 193, option one and option two will eventually become a written recommendation.

CHAIR:

Okay, that's what I didn't understand. Thank you.

MR. ELLSESSER:

More kind of putting out there for ---.

CHAIR:

Perfect.

MR. ELLSESSER:

This is probably one of the two ways ---

CHAIR:

Okay.

MR. ELLSESSER:

--- we can address it. So on the individual liquidity positions, you can skip ahead to page 195. So we went through the portfolio, the individual line items, and we tried to identify one of two groups. One is just heavily mature funds, funds that probably should be wrapped up at this point, well past their tenure. The other are funds that the model says are well behind where they should be in terms of distributions. And we came up with roughly the list in front of you.

To be clear, we're not saying these managers are bad. As a matter of fact, we recommend some of these managers proactively to clients. What we are saying is these are some of the managers and some of the assets, the bulk that are driving that $89 million variation that is leading us to question and maybe pause until we get a better handle on pacing the actual forecasting.

So, and we subtotaled some of them up by category. And based on the prior slides and what we just discussed, you cannot be surprised venture was the largest piece that was behind by roughly $28 million. Real estate was the second largest. Because real estate has actually been in a liquidity crunch for longer than private equity has. When private equity started at the increase in interest rates in 2022, COVID really was the thing that kind of threw the real estate market into that space prior to that.

So it's not a surprise whenever we did the numbers kind of what two areas were concentrated when it came to this group. But these were the individual holdings that we identified. And what we're looking to do is to gain some more intelligence on these holdings.

So on page 196, we want to provide an example of A, actual holdings that you have and how we kind of view them moving forward and B, an example of what the intelligence we're seeking to gain on all these positions.

Adam Street, you hold several funds vintage 2003, 2008, 2009. We know Adam Street very well. We have a deep relationship with them, we recommend them actively. And we know that the 2003, 2008 vintages went through a secondary sale, have this ten percent stub piece left, and it is expected that piece will be realized within the next one to three years.

So now we can go into that model and make a very targeted ad hoc allocation for Adam Street to say, okay, in three years, this should be fully out for those two funds. 2009 vintage is actually in the process of going through something similar potentially. It's not finalized yet, but our understanding is it could be coming and it could be coming in the back end of this year. So in that case we can also make targeted adjustments to the cash flow forecasting model.

But though it's a manager we know very well and we have detailed knowledge of their holdings, we need to now go through and look at all your other options and all your other holdings within this portfolio to try to get the same level of understanding so that going back to way at the beginning of the presentation, we don't run into a bad scenario. We can make a more nuanced evaluation of where your distributions are going to be in the next two, three, four years and then come with a recommendation we're more confident in into how much money you should put into the market so that we don't run into an issue six, seven, eight years from now in terms of liquidity, in terms of being over allocated.

So and those recommendations you can see on 197 targeted outreach to manager. To be clear, this says recommended and it says in option one, we're already doing this. The team, when we identified this, Chris and Tim put this request in at the end of last year, we talked about the results in December or early January and immediately the private equity team and also the private debt, real estate and hedge fund teams were all kind of divvied up to managers and have been making calls. So we're already trying to understand where the distributions and how fast they're going to come.

When we come back with the results, which I believe we're expected to do later this year and kind of a holistic report as a result of those conversations and other outreach we're doing, then option two might become something we want to look at. Where option two is if we identify a large holding that Allegheny County has that is stated to be, you know, a very long time before we get distributions, the one option we have is a secondary sale.

So we mentioned about the extensions and whatnot. Yes, it's a democratization. It's meant to be that no one investor can target the location liquidation of a fund. So in some essence you can't get out. But one thing you can do is potentially sell in the secondary market. That is something some of our clients have looked at in other scenarios.

The caveat is on slide 198 to provide you context, you're not going to get the full value that you have for the position. These are rough numbers we get from setter, which is one of the intermediaries in the secondary market. And it kind of shows different assets classes. Here you can see LBO is the industry term for buyout, VC venture capital, you can see real estate and infrastructure there. So the percentages represent the percentage of market value on average that people are getting for these different types of holdings. I can tell you you're probably not going to get what's exactly on this page because it depends on many things. The general partner, the demand, the agent fund, et cetera. But this is something that could happen later on in the year.

MR. BROKAW:

And this is for my benefit. So just, you know, to be super clear, VC funds, you're saying the market out there right now is about 70 percent. So if you try to sell your fund and it's a hundred dollars, you're going to get $70 for it. But those are for potentially larger chunks, more liquid funds. The specific pieces in the Allegheny County Employees' Retirement Fund, what impact would, you know, the size and the manager type --- would you expect a lower price and potentially meaningfully lower? I just want to set expectations.

MR. ELLSESSER:

Potentially. It all depends because it comes down to the manager. If you have a manager that is in very high demand and seen as very positive, then if we were to go --- and the process would be, we would take your portfolio to an intermediary who would then value it and then take it out to potential secondary buyers and you would get bids, basically.

So if it's a high in demand general partner, maybe you're going to hit the average. But more than likely, because of the size of the commitments, you would probably take a discount even lower than what's on this page. The larger the size, almost counterintuitively generally the less the discount is what we generally see. It's not --- you know, these are all generalizations. Everything's a unique transaction. But yeah, you probably could expect a little lower.

MR. BROKAW:

Thank you.

MR. ELLSESSER:

Yeah. If any other questions, happy to answer. But that concludes kind of where we are with the pacing study and the results that we found.

CHAIR:

Thank you.

Are there any other questions? I think --- let me look at my agenda before I mess it up. Thank you, Justin and the whole Mariner team. Is there any new business?

MR. SZYMANSKI:

No new business.

CHAIR:

Our next meeting is March 20th, 2025. Is there a motion to adjourn?

MR. DICRISTOFARO:

Motion.

MR. O'CONNOR:

Second.

CHAIR:

Meeting's adjourned.

* * * * * * * *

MEETING CONCLUDED AT 1:34 P.M.

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CERTIFICATE

I hereby certify, as the stenographic reporter, that the foregoing proceedings were taken stenographically by me, and thereafter reduced to typewriting by me or under my direction; and that this transcript is a true and accurate record to the best of my ability. Dated the 24th day of February, 2025

Benjamin Morrow

Benjamin Morrow,
Court Reporter