



SUMMARY TO THE REGULAR F.I.A.C. COMMITTEE MEETING

Friday, February 12, 2021

3:30 P.M.

City of Jacksonville Police and Fire Pension Fund
1 West Adams Street Suite 100, Jacksonville, FL 32202

The next Financial Investment and Advisory Committee (F.I.A.C.) meeting will be held April 14, 2021 at 3:30 P.M.

Financial Investment and Advisory Committee

Eric "Brian" Smith Jr., Chair
Erwin Lax
Kendall Park

Excused

Rodney Van Pelt, Secretary

Guests

Jim Mattera

Staff

Timothy H. Johnson, Executive Director – Plan Administrator
Steve Lundy, Deputy Director
Kevin Grant, Finance Manager
Jordan Cipriani, RVK, Investment Consultant
Kevin Schmidt, RVK, Investment Consultant
Jim Voytko, RVK, Investment Consultant
Austin Head-Jones, RVK, Investment Consultant
Robert Lemmon, CRI, Fund Auditor
Lawsikia Hodges, Office of General Counsel
Bob Sugarman, Fund Counsel

Notice

Meeting Agendas and Summaries are available on our website at jaxpfpf.coj.net. For additional meeting documents, please contact Steve Lundy, Custodian of Public Records for the City of Jacksonville Police and Fire Pension Fund at 904-255-7373 or SLundy@coj.net to file a public records request.

Pursuant to the American with Disabilities Act, accommodations for persons with disabilities are available upon request. Please allow 1-2 business days notification to process; last minute requests will be accepted, but may not be possible to fulfill. Please contact Disabled Services Division at: V(904) 630-4940, TTY-(904) 630-4933, or email your request to KLMcDan@coj.net. If any person decides to appeal any decision made with respect to any matter considered at this public meeting such person will need a record of proceedings, and for such purpose such person may need to ensure that a verbatim record of the proceedings is made at their own expense and that such record includes the testimony and evidence on which the appeal is based. The public meeting may be continued to a date, time, and place to be specified on the record at the meeting. Additional items may be added / changed prior to meeting.

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Friday, March 12, 2021
3:34 P.M. – 4:55 P.M.

Summary

Brian Smith convened the meeting at 3:34 P.M., noting that there is currently no quorum as Erwin Lax is running late. He started the meeting with the Investment Consultant Reports.

I. Investment Consultant Reports

a. *Monthly Investment Performance Analysis – February 28, 2021 – Preliminary*

Erwin Lax joined the meeting at approximately 3:38 P.M. At this point, the FIAC has a quorum of three members present.

Kevin Schmidt covered the preliminary Monthly Investment Performance Analysis as attached to the meeting book. He gave the following update to the FIAC:

- Equity markets began the month strong, before pulling back sharply the last week of January, finishing with mixed results. Broad international and US indices ended the month roughly flat, although domestic small cap indices outperformed their large cap counterparts and finished with mid-single digit returns. The strong performance early in the month was largely due to vaccine and stimulus optimism, but pulled back in part due to renewed uncertainty over likelihood of the large \$1.9T stimulus package being passed by Congress, and due to the continued spread of COVID-19 combined with delays in the distribution of vaccines.
- Adding to the downwards pricing pressure on equity markets towards the end of the month, groups of retail investors attempted to enact a short squeeze on select hedge funds with large short interest in certain small cap stocks. Some hedge funds were forced to sell large amounts of liquid equity positions in order to remain solvent.
- At the January Federal Reserve meeting, the FOMC announced it would continue its pace of purchasing assets while keeping the federal funds rate near zero to support the economy, noting that the US' economic outlook remains uncertain.
- Equity markets posted negative returns in January as the S&P 500 (Cap Wtd) Index returned -1.01% and the MSCI EAFE (Net) Index returned -1.07%. Emerging markets returned 3.07% as measured by the MSCI EM (Net) Index.
- The Bloomberg US Aggregate Bond Index returned -0.72% in January, underperforming the -0.24% return by the Bloomberg US Treasury Intermediate Term Index. International fixed income markets returned - 1.41%, as measured by the FTSE Non-US World Gov't Bond Index.
- Public real estate, as measured by the FTSE NAREIT Eq REITs Index (TR), returned 0.10% in January and 5.51% over the trailing five-year period.
- The Cambridge US Private Equity Index returned 13.35% for the trailing one-year period and 12.99% for the trailing five-year period ending September 2020.
- The return for absolute return strategies, as measured by the HFRI FOF Comp Index, is currently unavailable.
- Crude oil's price increased by 7.58% during the month, and has increased by 1.24% YoY.

Kevin Schmidt noted that the legacy target allocation is shown in addition to the newly approved allocation targets.

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Brian Smith asked about the volatility, speculation, and outlook in the bond market.

Jim Voytko discussed the yield curve – the front end has hardly changed at all, as it is most directly controlled by the Federal Reserve. There is an ongoing debate on whether the rising oil and commodities prices are indicating a possible 2-3% inflation. Fed Chair Powell indicated that the Fed does not care – it is focused on controlling employment, not inflation. The pivot in the equity market from growth to value also contributes to the consensus view that we may experience rising inflation in 2021. However, considering the weight of debt will slow GDP and the velocity of money, the case for long-term inflation is not there.

Kevin Schmidt covered monthly performance through yesterday's close:

- Fund Performance Month-to-Date: +2.2%;
- Fund Performance Year-to-Date: +5.1%;
- Fund Performance Fiscal Year-To-Date: +17.8%

b. Private Credit Update

Austin Head-Jones of RVK discussed the Private Credit Implementation presentation. She covered the overview on page 4:

Access to private credit can be sourced via Direct Fund Investments or Fund of Funds:

- Fund of Funds are less prevalent in private credit because:
 - The second layer of fees in private credit destroys value;
 - There is relatively less risk associated with individual fund selection in private credit, and;
 - Private credit contains less constraint to access top top-tier funds

Austin Head-Jones covered the three main methods of investing in Private Credit, and three aspects of differentiation for each:

- Direct Fund Investments (With a Non-Discretionary Consultant):
 - Customization: Complete investor control over manager selection each vintage year
 - Administrative Burden: Higher burden in terms of client time and Staff/Board resources
 - Cost: Manager fees and non-discretionary consultant fee
- Direct Fund Investments (With a Discretionary Consultant):
 - Customization: A third party has discretion over the private credit manager selection
 - Administrative Burden: Low administrative burden, only one relationship for the client to maintain
 - Cost: Manager fees and discretionary consultant fee
- Fund of Funds (With a Non-Discretionary Consultant):
 - Customization: A third party has discretion over the private credit manager selection
 - Administrative Burden: Low administration burden, only one relationship for the client to maintain
 - Cost: Two layers of manager fees

Bob Sugarman asked who the fiduciary is in the non-discretionary consultant methods.

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Austin Head-Jones said she believes the consultant accepts fiduciary responsibility.

Jim Voytko agreed and said we accept the fiduciary duty.

Bob Sugarman asked if RVK would make a recommendation to each investment offered, and say whether it was in the official best interest of the Fund.

Jim Voytko agreed.

Austin Head-Jones said there would be a written recommendation.

Bob Sugarman asked if the general partner would acknowledge fiduciary responsibility.

Jim Voytko said yes, if that was requested.

Austin Head-Jones said that she does not believe that RVK has accepted a manager who has rejected the request to be fiduciary.

Bob Sugarman discussed the fiduciary duty as it concerns RVK's responsibility regarding due diligence.

Austin Head-Jones said that when it comes to general partners, in Direct Fund Investments with a non-discretionary consultant, RVK would highlight a general partner as best-in-class strategy, and the Board would give a yes or no. In Direct Fund Investments with a discretionary consultant, and in Fund of Funds with a non-discretionary consultant, the consultant will go ahead and source money to a series of general partners without approval.

Jim Voytko said that in Direct Fund Investments with a non-discretionary consultant, the Board makes decisions every year. In Direct Fund Investments with a discretionary consultant, there is one decision for a manager who then decides.

Brian Smith said that this is a big learning curve, and that by the time the FIAC digests it all, then the Board of Trustees will have to as well. He suggested a joint Board of Trustees and FIAC meeting to review these methods of investing in private credit.

Brian Smith tabled the discussion to a future date – noting he would talk with Timothy Johnson and the Board of Trustees to determine the best path going forward. This needs to be done differently in a way that works better for everyone.

Timothy Johnson gave his thoughts, based on conversations with RVK, that a Fund of Funds model would be a good starting point, because the FIAC and the Board of Trustees has to work together to get every transaction done. There are two levels of governance. Production on these decisions takes 2-3 years, and we have instituted a 'Rooney Rule', which will require two potential choices for each allocation decision. The FIAC and Board of Trustees just do not have this level of experience yet.

Brian Smith asked if Timothy Johnson thinks the way to go would be to begin education based on just one option.

Timothy Johnson said he thinks the Board of Trustees would want to be part of that discussion. He said that he has experience with alternatives from his previous job as director of another pension plan. We can get over the administrative hurdle. The question is, do we have the fortitude in our governance structure to get through the work that has to be done?

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II. Public Speaking

None.

III. Meeting Summaries

a. February 12, 2020 FIAC Meeting Summary

Kendall Park made a motion to approve the February 12, 2020 FIAC Meeting Summary. Seconded by Erwin Lax. The vote passed unanimously.

IV. Auditor's Report

a. Fiscal Year 2020 PFPF Audit Report

Robert Lemmon discussed his Fiscal Year 2020 PFPF Audit Report with the FIAC. The headline is, there is nothing to report – this is good, as there are no findings. These are the draft financial changes, and will be final upon Board of Trustee approval.

Robert Lemmon covered various sections of the report:

- Independent Auditors' Report: This is unmodified, which means 'clean', and is the highest level of assurance an auditor can give.
- Management's Discussion and Analysis: This shows numbers and changes from the prior year.
- Statement of Fiduciary Net Position: This shows the assets and liabilities for this year and last year. Investments increased by almost \$100 million.
- Note 1: Description of the Fund showing general information like the number of participants, and benefit amounts. There is nothing new here.
- Note 2: Summary of Significant Accounting Policies
- Note 3: Reserve Accounts: There is \$16 million remaining in reserves
- Note 4: Fair Value Measurements: Investments are broken into 3 different levels based on measuring investment value
- Note 5: Deferred Retirement Option Program
- Note 6: Pension Plans for Fund Employees
- Note 7: Deposits and Investments: This is a snapshot of your investment categories at the end of the year, and risks associated with the investments.

Brian Smith thanked Robert Lemmon, Timothy Johnson, Chuck Hayes, Kevin Grant, and CRI for all their work on the audit.

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Robert Lemmon covered two items in the 'required communications' document attached to his report. The first item was regarding 'estimates', or uncertainty of the Fund's level 2-3 investments.

Robert Lemmon covered the Summary of Adjustments, noting that none were left unresolved. There were two small corrections to the original numbers submitted due to unrealized gains on real estate investments. The second correction was an accrual provided by the City. There was also a small control deficiency, which does not indicate any fraud risk, due to a coding error by the City's Information Technology Department in a payroll reconciliation report. Kevin Grant has since worked with ITD to fix the report. This error did not lead to any problems or errors in the numbers for the audit report.

Erwin Lax made a motion to approve the Fiscal Year 2020 PFPF Audit Report. Seconded by Kendall Park. The vote was unanimous.

V. Executive Director's Report

a. FIAC Recruitment: Jim Mattera

Timothy Johnson said that the FIAC had a great discussion with Jim Mattera in February, and outlined the approval process. The FIAC will recommend to the Board of Trustees to request City Council approve Jim Mattera as FIAC member. He should get approved in April or May.

Kendall Park made a motion to recommend Jim Mattera for the fifth member of the FIAC. Seconded by Erwin Lax. Discussion:

Brian Smith thanked Jim Mattera for being a part of the FIAC meetings. He said that when Jim Mattera visits the Councilmembers, he will have already attended two FIAC meetings.

The vote passed unanimously.

Jim Mattera thanked the FIAC for their approval.

Brian Smith said that he and Timothy Johnson would discuss offline how to move forward with joint meetings.

Bob Sugarman said that his office continues to work with OGC on fiduciary liability insurance coverage, and also noting that sovereign immunity applies to the committee members.

VI. Old Business

None.

VII. New Business

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None.

VIII. Next Meeting – April 14, 2021 at 3:30 P.M.

Adjournment

4:55 P.M.

Rodney Van Pelt, FIAC Secretary

Summary Prepared By:

Steve Lundy, Deputy Director

City of Jacksonville Police and Fire Pension Fund

Posted: 03/15/2021

To be Approved: 04/14/2021