



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

Tuesday, March 14, 2023

3:40 P.M. – 6:10 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 Tuesday, April 18, 2023 at 3:30 P.M.

Financial Investment and Advisory Committee

Eric “Brian” Smith Jr., Chair
Brian Chappell
Steve Glenn
Kendall Park
*Erwin Lax, Secretary

Fund Staff

Timothy H. Johnson, Executive Director – Plan Administrator
Steve Lundy, Deputy Director
Kevin Grant, Finance Manager

Guests

*Jordan Cipriani, RVK, Investment Consultant
*Spencer Hunter, RVK, Investment Consultant
*Pedro Herrera, Fund Counsel
*Jim Voytko, RVK, Investment Consultant

*Jeff Simmons, Baird Advisors
*Stephanie Notowich, Dodge & Cox Advisors
*Eric Mueller, Income Research + Management
*Matt O’Connell, Income Research + Management
*Lyniese Patterson, Income Research + Management
*Mike Sheldon, Income Research + Management

*Gar Chung, FIN-NEWS
*Joe Ebisa, with.Intelligence
George Fikaris, Entrust
Mark Guariglia, Entrust

*Asterisk denotes virtual meeting attendance via the ZOOM application

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.

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Summary

Chair Brian Smith convened the meeting at 3:40 P.M.

I. Public Speaking

Mark Guariglia and George Fikaris of the firm Entrust spoke and introduced themselves and their firm to the FIAC. They said they would be available to speak to the FIAC members more if interested.

II. Meeting Summaries – *action requested*

a. *January 17, 2023 FIAC Meeting Summary*

Kendall Park moved to approve the January 17, 2023 FIAC Meeting Summary, seconded by Steve Glenn. The vote passed unanimously.

III. Investment Consultant Reports

a. *Monthly Investment Performance Analysis – February 28, 2023*

Jordan briefly covered the Monthly Investment Performance Analysis, in the interest of time, given today's lengthy agenda. She noted the fund was negative 2.33% Month-to-Date, but positive 9.39% on a Fiscal Year-to-Date basis. Negative performance for the month was mostly due to equities.

Jordan Cipriani discussed the recent Silicon Valley Bank (SVB) and Signature Bank collapses with the FIAC, noting that on a high level, there is no material impact on the Fund.

Jim Voytko discussed the recent bank collapses and what led to the situation, noting that this was a classic case of a mismatch in bank liabilities and assets, and coupled with a run on the banks due to cash demand, the banks became insolvent.

b. *Investment Policy Statement – action requested*

Jordan Cipriani discussed the Investment Policy Statement review. As a best practice, the investment policy is reviewed annually, and is the consultant's responsibility. RVK coordinated with Timothy Johnson, PFPF Staff and GRS to produce today's proposed amended Investment Policy Statement.

Jordan Cipriani summarized the five recommended changes to the Investment Policy Statement:

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1. Page 2: Surtax Smoothing Policy language added
2. Page 5: Watch List policy language added
3. Page 8: Updating the Actuarial Rate of Return assumption to 6.5%
4. Page 10: Proactive rebalancing language added specific to illiquid private market investments
5. Page 18: Language added on the prohibition of investments in cryptocurrencies

Timothy Johnson noted that three of the five changes, numbers 1, 2, and 3 have already been vetted by the FIAC.

Kendall Park asked if any managers were on the watch list.

Jordan Cipriani said yes, Sawgrass Asset Management and WEDGE Capital Management.

Kendall Park asked how long managers stay on the watch list before a decision needs to be made.

Jordan Cipriani said that managers should not be on the watch list for more than 24 months without seeing an improvement in performance or organizational stability. That is when RVK would talk about potential next steps.

Steve Glenn asked about authorized investments on page 8, and the “Section 215.47” reference, and whether this limits the Fund from making tactical investment changes to its asset allocation.

Bob Sugarman said he would research that State Statute.

Brian Chappell asked about long-term evaluation of investment performance on page 20, noting that the IPS references “rolling” periods, whereas performance has been reported on a trailing period basis.

Jordan Cipriani said that RVK has started reporting the rolling periods in the quarterly investment performance reports.

Bob Sugarman noted that Section 215.47 refers to the limit of an 80% maximum equity allocation; however, this does not apply to municipal plans. He said that, however, none of his clients have an equity allocation greater than 80%, and there would need to be a very good reason to set an equity allocation at greater than 80%, especially given this is a closed plan.

Brian Smith tabled the vote on the IPS, noting that amendments may be added and approved by the FIAC at a later meeting.

c. Pacing Study Analysis: Real Estate and Private Credit

d. MWBE & SDVOB Broker / Dealer Utilization Report

Brian Smith said that these items will be skipped and the FIAC will move to the Fixed Income Replacement Presentations in the interest of time.

IV. Fixed Income Replacement Presentations – *action requested*

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Jordan Cipriani briefly overviewed RVK's process for selecting managers to interview following the FIAC and Board of Trustees' termination of Thompson Siegel & Walmsley.

a. Baird Advisors

Jeff Simmons of Baird Advisors presented his firm, and covered the following topics from the presentation:

- Firm Update (page 5)
 - 1919: Founded in Milwaukee
 - 2004: Baird becomes employee-owned
 - 5,000 Associates (Nearly three-quarters are shareholders)
- Baird Advisors Overview (page 6)
 - Experienced Team with a Competitive Track Record in High-Quality Fixed Income Management
- Portfolio Management Team (page 7)
- Baird Advisors - Representative Clients
 - Average Client Relationship Exceeds 14 years
- Competitive Advantages
 - Experienced team of investment professionals
 - Risk-controlled discipline delivering over 35 years of competitive returns
 - Consistency of returns versus peers
 - Strategically sized, emphasizing bottom-up versus top-down approach
 - All cash bonds, all U.S. dollar-denominated, no derivatives, no leverage
 - Attractive expense ratio benefits future returns (30 bps Institutional Class)
 - Employee-owned, strong financial services firm
- Baird Taxable Bond Funds Total Net Returns as of February 28, 2023 (page 11)
- Consistency is Key Baird Taxable Bond Funds – Institutional Shares (page 12)

Steve Glenn asked what the average maturity was for the fund.

Jeff Simmons said the average maturity is 8 years.

Brian Smith asked how investment decisions are made at Baird.

Jeff Simmons said that the Senior Team sets the outlook and strategy, and the Sector Teams execute the strategy. The idea generation is from the Sector Teams, but has to be approved by the Senior Team.

Jeff Simmons concluded his presentation and exited the ZOOM meeting.

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b. Dodge & Cox Advisors

Stephanie Notowich of Dodge & Cox presented her firm, and covered the following topics from the presentation:

- Key Characteristics of Our Organization (page 3)
 - Over 90 Years of Investment Experience
 - Independent Organization
 - One Business
 - Single Investment Decision-making Office
 - Independent Research Staff
- Dodge & Cox's Focused Investment Strategies (page 4)
 - \$322.9B in Total Assets
 - \$188.6B in Equities
 - \$134.3B in Fixed Income
- Fixed Income Asset Breakdown (page 5)
- Fixed Income Investment Philosophy (page 7)
- Experienced, Integrated, and Stable Investment Team (page 8)
- Our Commitment to Diversity, Equity & Inclusion (page 9)
- Building Investment Conviction (page 10)
- Historical Performance & Sources of Excess Return (page 11)
- Portfolio Structure (page 12)
- Portfolio Composition by Theme (page 13)

Kendall Park asked if the average returns on page 11 were net of fees.

Stephanie Notowich said they are net of fees.

Brian Smith asked what the fee would be for the PFPF.

Stephanie Notowich said it would be 41 basis points.

Brian Smith asked if the investment decisions are a bottom-up process, where the analysts present the ideas and the investment committee makes the decision.

Stephanie Notowich said yes, and there is a lot of overlap.

Stephanie Notowich concluded her presentation and exited the ZOOM meeting.

Brian Smith asked for the FIAC's thoughts on the first two presentations.

Steve Glenn said he is very familiar with both firms. He said if these were the only presentations, he would move to allocate the \$90 million between both firms equally.

Brian Smith said that Baird is competitive on fees, and uses no derivatives. He asked how the City uses Baird.

Jordan Cipriani said the City has a similar fund with Baird, in a separate account mandate.

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Brian Smith asked if the FIAC were to split the \$90 million between the first two managers, if there were any pros or cons.

Jordan Cipriani said that she does not think there would be any fee increases with the reduced mandate size.

c. Income Research + Management

Eric Mueller, Matt O’Connell, Mike Sheldon, and Lyniese Patterson of the firm Income Research + Management presented their firm, and covered the following topics from their presentation:

- IR+M Overview: Key Facts (page 3)
 - 35 years since firm’s inception
 - \$92.3 billion in assets under management
 - Exclusively US dollar-denominated fixed income
 - Consistent, team-oriented, bottom-up investment approach
 - 13-year average portfolio manager tenure
 - Privately owned with 69 employee shareholders
- Who We Are (page 4)
- Sector Management (page 7)
 - Securities considered must pass three decision filters
 - Credit
 - Structure
 - Price
 - Selectivity is a key differentiator
- Securitized (page 8)
 - Credit Analysis
 - Structure and Price Evaluation
- Core Plus Strategy Characteristics (page 12)
- Core Plus Strategy Risk Characteristics (page 13)
- Investment Process: Corporates

IR+M concluded their presentation and exited the ZOOM meeting.

Brian Smith asked RVK if they were instructed to recommend one firm, which they would recommend.

Jordan Cipriani said that RVK would be comfortable with any of the managers brought forward to the FIAC today. She said she recognizes this is about who the PFPF would like to partner with for a long term relationship, after being vetted by RVK. She said that if RVK were to recommend one manager, it would be Baird, given their long track record. There were concerns over Thompson Siegel & Walmsley’s stability, ownership, and dedication, whereas Baird checks all the boxes. Baird is a very capably fixed income manager.

Brian Smith said he thinks Baird would be a very good part of the PFPF’s portfolio.

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Steve Glenn said he would prefer splitting the \$90 million between Baird and Dodge & Cox because of their different approaches. He said he eliminated IR+M based on their short track record.

Brian Chappell said that IR+M was the manager he knew the least about, but IR+M intrigued him the most. He said that Baird and Dodge & Cox are what the FIAC is most familiar with. IR+M does not have as much history, but their history is good, and they offer the most diversity. He said IR+M would be more nimble and hungry than the others. He said he likes IR+M the best.

Brian Smith said that personally, he would go all-in with Baird, because he likes to see long track records. He said he wished we also had more than \$90 million to work with. He said RVK did a good job narrowing down the choices and making the FIAC's decision difficult.

Kendall Park asked for a side-by-side comparison of the three managers.

Jordan Cipriani directed the FIAC's attention to pages 5-6 of the RVK memo.

Brian Smith said that whatever recommendation the FIAC makes, the Board of Trustees would mull it over and likely change it. He said he would entertain a motion.

Brian Smith entertained a motion to go with RVK's recommendation to put all \$90 million in Baird.

Steve Glenn moved to put 100% of the \$90 million with Baird, seconded by Erwin Lax. Discussion:

Brian Chappell said that IR+M would be the most different from what the Fund currently has, in philosophy and strategy. He said he likes that IR+M would be more nimble and tactical.

Jordan Cipriani said that this mandate would be replacing TSW as the core anchor. Loomis is supposed to be the tactical manager in the current lineup.

Bob Sugarman spoke about a concern he had with 'non-investment grade' bonds. He said he would speak with OGC.

The vote passed unanimously.

V. Executive Director's Report

Timothy Johnson said that he has nothing to report other than the Annual Meeting in April, scheduled for April 21 at 9:00 A.M.

VI. Counsel Reports

Bob Sugarman said that Florida House Bill 3 has cleared committee, and he would keep the PFPF posted.

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VII. Old Business

None.

VIII. New Business

None.

IX. Upcoming Meetings

a. FIAC Meeting – Tuesday, April 18, 2023 at 3:30PM

X. Adjournment

6:10 P.M.

Erwin Lax, FIAC Secretary

Summary Prepared By:

Steve Lundy, Deputy Director

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Posted: 03/15/2022

To be Approved: 04/18/2023