



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

Tuesday, March 15, 2022

3:30 P.M. – 5:19 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, May 17, 2022 at 3:30 P.M.

Financial Investment and Advisory Committee

Eric "Brian" Smith Jr., Chair

*Erwin Lax, Secretary

Steve Glenn

Kendall Park

Fund Staff

Timothy H. Johnson, Executive Director – Plan Administrator

*Steve Lundy, Deputy Director

Kevin Grant, Finance Manager

Guests

*Brendan Carroll, Victory Park Capital

*Brian Chappell

*Gar Chung, FIN News

*Jordan Cipriani, RVK, Investment Consultant

*Pedro Herrera, Fund Counsel

*Justin Outslay, RVK, Investment Consultant

Richard Patsy, Trustee

*Kevin Schmidt, RVK, Investment Consultant

*Olibia Stamatoglou, Victory Park Capital

*Tom Welch, Victory Park Capital

*Jim Voytko, RVK, Investment Consultant

*Asterisk denotes virtual 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.

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Tuesday, March 15, 2022
3:30 P.M. – 5:18 P.M.

Summary

I. Public Speaking

None.

II. Investment Consultant Reports

a. *Monthly Investment Performance Analysis – February 28, 2022*

Kevin Schmidt covered the General Market Commentary on page 2 of the Monthly Investment Performance Analysis:

- Global equity markets pulled back for a second consecutive month in February, with most major indices finishing in negative territory. Growth stocks continued to underperform value stocks across both domestic and international equity markets.
- Headlines in February were dominated by the geopolitical tensions seen in Ukraine and Russia, eventually leading to the Russian invasion of Ukraine. The United States, along with many other countries around the world, implemented a wave of economic sanctions against Russia which include removing select Russian banks from the SWIFT financial messaging network and freezing Russian central bank assets held in the United States.
- Additionally, inflationary pressure is expected to continue to build as Russia and Ukraine are prominent exporters of commodity goods such as oil, natural gas, precious and industrial metals, and wheat. Financial markets experienced heightened volatility in February due to current geopolitical events, as the Russian invasion of Ukraine could further exacerbate several preexisting issues such as elevated inflation, supply chain disruptions, and central bank behavior.
- Equity markets posted negative returns in February as the S&P 500 (Cap Wtd) Index returned -2.99% and the MSCI EAFE (Net) Index returned -1.77%. Emerging markets returned -2.99% as measured by the MSCI EM (Net) Index.
- The Bloomberg US Aggregate Bond Index returned -1.12% in February, underperforming the -0.45% return by the Bloomberg US Treasury Intermediate Term Index. International fixed income markets returned -1.27%, 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 -3.13% in February and 7.75% over the trailing five-year period.
- The Cambridge US Private Equity Index returned 47.16% for the trailing one-year period and 20.02% for the trailing five-year period ending September 2021.
- Absolute return strategies, as measured by the HFRI FOF Comp Index, returned -0.70% for the month and 0.25% over the trailing one-year period.
- Crude oil's price increased by 8.59% during the month, and has increased by 55.64% YoY.

Kevin Schmidt also covered the Asset Allocation by Asset Class, Asset Allocation vs. Target, and Schedule of Investable Assets on page 3, and the Asset Allocation and Performance starting on page 5. The total fund was down 1.73% on the Fiscal Year-to-Date basis.

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Tuesday, March 15, 2022
3:30 P.M. – 5:18 P.M.

III. Meeting Summaries

a. January 18, 2022 FIAC Meeting Summary

Kendall Park moved to approve the January 18, 2022 FIAC Meeting Summary, seconded by Steve Glenn. The vote passed unanimously.

IV. Investment Consultant Reports (continued)

b. Non-Core Real Estate Pacing Analysis

Jordan Cipriani covered the Non-Core Real Estate Pacing Analysis:

Objective:

- Set a reasonable 5-year target commitment allocation schedule that results in the total fund approaching the non-core real estate allocation.
 - The commitment pacing plan should be revisited annually

Process:

- RVK uses proprietary software to model the existing portfolio and expected forward commitments. A number of assumptions are made throughout this analysis and include the following:
 - Real Estate investment cash flow/valuation patterns based on historical data from Prequin Alternatives
 - A custom annualized growth rate for the overall total composite, net of spending rate

Output:

- The pacing study provides a recommended annual commitment volume to meet the total fund's non-core real estate target.
 - Vintage commitments shown below may be made to one or more investment managers depending on the size of the commitment
 - Likely to approach non-core real estate target slowly to minimize vintage year risk

Pacing Recommendation Review:

- In 2021, RVK recommended initial commitments of \$40 million then increasing to \$45 million in 2023 to reach the target allocation of 5%.
- After updating our pacing analysis in 2022, RVK recommends \$40 million in commitments a year.
- The modest change in commitments in later years is due to a 0.40% decrease in the expected growth rate from approximately 2.9% to approximately 2.5%.
- The total plan's allocation to non-core real estate is now expected to reach the target allocation of 5% by approximately 2026.

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Tuesday, March 15, 2022
3:30 P.M. – 5:18 P.M.

c. Private Credit Pacing Analysis

Justin Outslay covered the Private Credit Pacing Analysis:

Objective:

- Set a reasonable 5-year target commitment allocation schedule that results in the total fund approaching the private credit allocation.
 - The commitment pacing plan should be revisited annually

Process:

- RVK uses proprietary software to model the existing portfolio and expected forward commitments. A number of assumptions are made throughout this analysis and include the following:
 - Private credit investment cash flow/valuation patterns based on historical data from Preqin Alternatives
 - A custom annualized growth rate for the overall total composite, net of spending rate

Output:

- The pacing study provides a recommended annual commitment volume to meet the total fund's private credit target.
 - Vintage commitments shown below may be made to one or more investment managers depending on the size of the commitment
 - Likely to approach private credit target slowly to minimize vintage year risk

Pacing Recommendation Review:

- In 2021, RVK recommended an initial commitment of \$100 million to an evergreen fund and then annual commitments of \$40 million to traditional closed-end private credit funds to reach the target allocation of 8%.
- After updating our pacing analysis in 2022, RVK recommends increasing the annual commitment schedule to \$60 million, tapering to \$40 million by 2026.
 - Within the 2022 commitment schedule, RVK recommends committing \$30 million to the VPC Asset-Backed Opportunistic Credit Fund. The remaining \$30 million shall be reserved for another private credit fund to be brought forth later this year.
- The increase in the commitment schedule amount is primarily due to the following factors:
 - The Ares Pathfinder Core Fund distributes income rather than reinvests income.
 - The Ares Pathfinder Core Fund began investing later than we originally anticipated, but the Fund's initial deployment remains in line with our expectations.
- The total plan's allocation to private credit is still expected to reach the target allocation of 8% by approximately 2026.

Brian Smith asked Steve Glenn to introduce Brian Chappell, a potential new FIAC member.

Steve Glenn introduced Brian Chappell. He said he has known Brian for almost 20 years. He said Brian worked with a firm called Corbel which produced corporate retirement plan documents for insurance and mutual fund companies to use as their prototype plan documents. He transitioned to a private practice at UBS, specializing in corporate

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Tuesday, March 15, 2022
3:30 P.M. – 5:18 P.M.

retirement plans. He provides investment and fiduciary services to a number of high profile companies in north Florida and the southeast. He brings a lot to the table, and is an astute student of this industry.

Brian Chappell thanked Steve Glenn for the introduction. He said he is honored to be nominated for the committee. He said his back office compliance is taking time before giving the all clear.

Brian Smith recognized Trustee Richard Patsy, and said he appreciates him attending the FIAC meeting as the Board Liaison.

V. Private Credit Fund Recommendation

a. Victory Park Capital

Brendan Carroll, Tom Welch and Olibia Stamatoglou of Victory Park Capital presented their firm, Victory Park Capital:

VPC Presenting Team (page 2)

- This investment experience and operational expertise has enabled our team to consistently act as a value-added partner to our investors and portfolio companies

Firm Overview (page 3)

- Victory Park Capital Advisors, LLC (“VPC”) is a privately held, global alternative investment firm

Established Credit Manager

- Founded prior to the global financial crisis in 2007 by Richard Levy and Brendan Carroll
- VPC has long-standing experience investing opportunistically amidst volatility and market complexities
- Headquartered in Chicago with resources in New York, Los Angeles, Austin and Miami
- Since inception, VPC’s Credit Strategy has invested approximately \$6.5 billion across 100+ investments¹ through investment funds and accounts managed by VPC

Private Credit Solutions

- Private credit specialist with a focus on capital preservation across multiple market environments
- Lender to both established and emerging businesses across various industries in the U.S. and abroad
- Extensive experience lending to companies across the credit spectrum

Developed Risk Management Culture & Process

- Deeply embedded risk culture permeates the firm
- VPC leverages proprietary risk tools and analytics to drive underwriting and portfolio management decisions
- Customized monitoring and reporting process allows for granular analysis across multiple dimensions

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Tuesday, March 15, 2022
3:30 P.M. – 5:18 P.M.

Seasoned Investment Team

- Senior investment team averages over 20 years of relevant experience
- History of generating strong returns throughout various market cycles
- Differentiated restructuring expertise complements strong risk management

Introduction to Asset-Backed Lending (page 4)

- The corporate lending world can, in its simplest form, be divided into two different approaches: 1) assetbacked lending (“ABL”) and 2) cash flow-based lending
 - In ABL transactions, the lender is secured by the borrower’s assets, which then form the basis for how much credit the borrower can access
 - In contrast, a cash flow-based lending methodology of determining credit availability is principally based on an analysis of the borrower’s enterprise value, with a particular focus on cash flow
- VPC considers the ABL market as divided between two segments:
 - Traditional: Borrowers pledge asset collateral such as accounts receivable and inventory
 - Non-traditional: Borrowers pledge a variety of assets such as loan receivables, real estate, equipment and other contractual and verifiable streams of cash flow
- VPC operates predominantly within the non-traditional ABL segment of the market
 - Each transaction is secured against an underlying balance sheet asset coupled with specific covenants and structure tailored to that asset
 - VPC believes the non-traditional ABL segment offers flexible financing solutions for all borrowers, including large balance sheet and emerging companies that require capital to expand and grow
- VPC believes it can continue to generate strong risk-adjusted returns as a result of its asset-backed underwriting and structuring expertise across multiple industries and economic cycles
 - Conservative loan-to value (“LTV”)
 - Directly control collateral
 - Dynamic borrowing base
 - “Controlling cash”
- VPC’s deal flow is not driven by traditional private equity M&A activity; instead, VPC is typically the originator and sole lender on its transactions which allows for lower leverage, pricing power, stronger covenants and control

Executive Summary (page 5)

Investment Offering

- The ABOC Fund will seek to offer a diversified portfolio of asset-backed loans with strong structural protections and an attractive net cash on cash return
- Senior secured credit strategy that provides opportunistic financing across select investment verticals
- The investment strategy is short duration when compared to cash flow lenders and focused on capital protection and income generation

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Tuesday, March 15, 2022
3:30 P.M. – 5:18 P.M.

Target Investments

- Primarily focused on lending to both established and emerging, asset-rich companies with significant corporate governance and a strong growth trajectory
- Target loans are VPC originated and non-syndicated with typical investment size of \$25 million to \$100 million+
- VPC seeks to provide flexible credit solutions to borrowers with strict contractual protections, enforced covenants and management observation rights

Investment Objective

- Offers higher yields and greater structural protections than traditional cash flow lenders with an emphasis on capital preservation throughout market cycles
- Low correlation to both traditional and alternative asset classes

Experienced Team & Track Record

- Established, value-oriented credit investor with experience lending against a variety of different asset types
- Expertise in originating, underwriting and opportunistically purchasing asset-intensive credit investments at strategic entry points
- Experience developed over approximately \$6.5 billion invested across 100+ investments within the VPC Credit Strategy

Investment Focus (page 6)

An asset intensive, income focused, short duration private credit investment strategy targeting a diverse pool of assets

- VPC's investments are intended to offer capital protection and income generation throughout various market cycles
- VPC opportunistically seeks investments across the investment verticals below to generate attractive risk-adjusted returns
- The firm's investment professionals have extensive experience investing across these verticals and believe the breadth of this mandate provides the greatest opportunity in today's market

Proprietary Sourcing Advantage (page 7)

LEVERAGING THE VPC PLATFORM

- Long-standing relationships with portfolio company management teams, industry professionals and experts create a differentiated deal pipeline
- Relationships are a critical advantage in sourcing deals and securing preferential capacity in a portfolio company's development

PROPRIETARY ADVANTAGE

- "Boots on the ground" in four major cities provides VPC with a wide funnel of investment opportunities

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Tuesday, March 15, 2022
3:30 P.M. – 5:18 P.M.

- Extensive reach with active engagement of management teams and diligence opportunities
- Robust sourcing and direct origination allow VPC to primarily act as the sole lender for non-sponsored and non-syndicated investments

DIVERSIFIED CHANNELS

- Pipeline built through trusted and often repeat relationships, industry knowledge and value-added structuring capabilities
- Leverages a diverse database to directly target businesses that combine VPC's underwriting expertise with its thematic industry subsector views
- Potential sourcing avenues include direct relationships with portfolio companies, venture capital and private equity firms, investment banks, fixed income, structured product desks, restructuring advisors and traditional lenders

VPC Liquidation Valuation Analysis (page 8)

VPC focuses on lending against liquidation value and structures investments to be resilient to significant stress

- Investments are typically asset-backed with significant overcollateralization and credit enhancement to attempt to minimize any loss given default in a scenario where VPC must foreclose on collateral to repay its investment
- Overcollateralization is sized to withstand significant stress to liquidation values without impacting VPC's investment outcome
- VPC targets collateral assets with stable and predictable liquidation value and a clear path to exit in the event of a default
- Loans are secured via liens and equity pledges on the corporate entity or collateral which provide multiple avenues of structural protection

VPC Diversity, Equity and Inclusion & Community Involvement (page 11)

VPC believes in incorporating community Diversity, Equity, and Inclusion along with integrating Environmental, Social and Governance factors throughout the firm's culture and investment process

- VPC embraces and encourages our employees' differences in age, color, disability, ethnicity, family or marital status, gender identity or expression, language, national origin, physical and mental ability, political affiliation, race, religion, sexual orientation, socio-economic status, veteran status, and other characteristics that make our employees unique
- DEI initiatives lead by Richard Levy, Brendan Carroll, Jeff Schneider, Olibia Stamatoglou and Kelly Hitchman
- DEI program includes:
 - Ongoing unbiased training and employee education
 - Annual metric review with targeted goals
 - Two-day program for diverse and underprivileged high-school students - "A Day in the Life of VPC" which will focus on teaching financial literacy and industry awareness
 - Internship program targeting diverse candidates with local colleges and their DEI chapter

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Tuesday, March 15, 2022
3:30 P.M. – 5:18 P.M.

Why VPC (page 13)

- Since inception, the VPC Credit Strategy has invested approximately \$6.5 billion across 100+ investments generating a: Gross IRR of 13.9%, Gross MOIC of 1.3x and a Cumulative Net Loss of approximately 1%
- As an early mover, VPC believes it has established a reliable reputation, resulting in a robust origination engine with scalability that has led to 1,000+ investment opportunities since 2018 of which VPC has closed on approximately 1%
- Years of pattern recognition which VPC believes has driven its ability to be proactive in identifying investment opportunities and to secure investment capacity and pricing power
- Structural expertise typically centered around equity investor alignment, asset or collateral control, corporate guarantees and crosscollateralized borrowing bases

Steve Glenn moved to accept RVK's recommendation to recommend the Board of Trustees commit \$30 million to the Victory Park Capital Asset-Backed Opportunistic Credit Fund, seconded by Kendall Park. The vote passed unanimously.

VI. Executive Director's Report

a. Sawgrass Asset Management Update

Timothy Johnson said that the Board of Trustees wanted more information before acting on the FIAC's recommendation to terminate Sawgrass Asset Management. The FIAC's recommendation will be on the Board of Trustees agenda again on March 25.

VII. Counsel Reports

None.

VIII. Old Business

IX. New Business

X. Upcoming Meetings

a. Annual Members' Meeting – Friday, April 22, 2022 at 9:00AM

b. FIAC Meeting – Tuesday, May 17, 2022 at 3:30PM

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Tuesday, March 15, 2022
3:30 P.M. – 5:18 P.M.

XI. Adjournment
5:18 P.M.

Erwin Lax, FIAC Secretary

Summary Prepared By:

Steve Lundy, Deputy Director
City of Jacksonville Police and Fire Pension Fund

Posted: 03/21/2022

To be Approved: 05/17/2022