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

Friday, May 15, 2020
3:40 P.M. – 5:23 P.M.

City of Jacksonville Police and Fire Pension Fund
1 West Adams Street Suite 100, Jacksonville, FL 32202
WEBEX ROOM 5

The next Financial Investment and Advisory Committee (F.I.A.C.) meeting will be held June 12, 2020 at 3:30 P.M.

Financial Investment and Advisory Committee

Eric "Brian" Smith Jr., Chair
Rodney Van Pelt, Secretary
Erwin Lax

Excused

Rob Kowkabany

Guest

Gar Chung

Staff

Timothy H. Johnson, Executive Director – Plan Administrator
Steve Lundy, Deputy Director
Kevin Grant, Finance Manager
Jim Voytko, RVK, Investment Consultant
Jordan Cipriani, RVK, Investment Consultant
Kevin Schmidt, RVK, Investment Consultant
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 Maria Young, Custodian of Public Records for the City of Jacksonville Police and Fire Pension Fund at 904-255-7373 or MariaY@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.

Summary

Chair Brian Smith opened the meeting, noting that this meeting is held via Webex in an audio-visual conference – allowed under Governor DeSantis's emergency order to accommodate social distancing during the ongoing COVID-19 pandemic.

I. Public Speaking

None.

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II. Meeting Summaries

a. April 10, 2020 FIAC Meeting Summary

Rodney Van Pelt made a motion to approve the April 10, 2020 FIAC Meeting Summary. Seconded by Erwin Lax. The vote passed unanimously.

III. Investment Consultant Reports

Jordan Cipriani & Kevin Schmidt, RVK

a. Monthly Investment Performance Analysis – April 30, 2020 – Preliminary

Jordan Cipriani said that April was a reversal of March – performance has rebounded.

Kevin Schmidt said that March witnessed a historic selloff – April was equally historic, and stocks posted their best month gain since 1987.

Kevin Schmidt covered the following topics from the Monthly Investment Performance Analysis as attached to the meeting book:

- Asset Allocation by Asset Class, Asset Allocation vs. Target, and Schedule of Investable assets (page 3) – All asset classes remain in target ranges.
- Asset Allocation & Performance (Net of Fees) (page 5) – The fund underperformed by roughly 130 basis points for April. This is attributed to the US Equity and MLP allocations.

Rodney Van Pelt asked if this underperformance was enough to offset the Fund's performance over the past few years.

Kevin Schmidt said yes – however these are short term numbers, and the Fund's FYTD numbers are closer to the policy index.

- Asset Allocation & Performance (Net of Fees) (page 6) – The strongest performance for April is Small Cap.

b. Tortoise Advisors Mandate Recommendation Memo

Jordan Cipriani covered the Tortoise Advisors Mandate Recommendation Memo as attached to the meeting book:

- During the second quarter, Tortoise Advisors reached out to Tim Johnson and RVK to discuss the prospect of expanding the investment opportunity set in the MLP strategy Tortoise currently manages for the PFPF. Specifically, Tortoise proposed evolving the current MLP strategy to their Strategic Midstream strategy.

- The primary difference between the two strategies is that the Strategic Midstream strategy does not have the 30% restriction on the number of C-corporations (C-corps) that the pure MLP strategy currently has. In addition, the Strategic portfolio can invest in seven public Canadian midstream companies. In short, the Strategic Midstream strategy offers a broader opportunity set and added flexibility for the portfolio team to invest in what they believe are the best companies across the entire midstream energy universe, regardless of corporate structure.
- RVK is supportive of evolving the current mandate with Tortoise to the Strategic Midstream strategy. The move would continue to provide exposure to a basket of midstream energy securities, but on an expanded basis. In our view, this move would broaden the opportunity set and provide the portfolio managers with more flexibility, while likely not materially changing the risk/return profile, but possibly enhancing it.

Rodney Van Pelt asked what document limits what Tortoise is allowed to do.

Jordan Cipriani said that document is the investment manager agreement, which was signed with Tortoise in 2011. This document limits the investable universe to MLPs on US exchanges.

Rodney asked if this would make Tortoise identical to the other MLP manager, Harvest.

Brian Smith asked if this would change the balance between the Fund's two MLP managers.

Jordan Cipriani said that the investable universe would be similar between the two managers. There has always been overlap between the two. This is not unusual, just like US Equity managers. A change in allocation between the two MLP managers may be recommended following the asset allocation study.

Brian Smith asked for Timothy Johnson's thoughts, since he took the initial call from Tortoise.

Timothy Johnson said the Fund has a good relationship with Tortoise, and it is not unusual for Tortoise to call him directly. Additionally, they work with the City GEPP. He said he supports their request and gave it to Jordan Cipriani to write the memo.

Jordan Cipriani said Tortoise has made the same request to the City GEPP, and RVK will bring it to the GEPP Board in two weeks. The recommendation is the same.

Rodney Van Pelt made a motion to accept RVK's recommendation for Tortoise. Seconded by Erwin Lax. The vote passed unanimously.

Rodney Van Pelt asked if there was anything in the Investment Policy Statement requiring the Fund to invest in MLPs.

Jordan Cipriani said that this MLP allocation would be explored, along with the percentage allocation to other asset managers as part of the Asset Allocation Study.

c. Private Investments Primer

Jim Voytko covered the Private Investments presentation as attached to the meeting book. He covered the following points, among others (page 2):

- The primary benefit of the asset class is the potential to generate alpha above public market returns.
- As more companies choose to stay private longer, there exists a potential loss of opportunity in the small/mid-cap space by preventing public market investors from becoming owners in these companies.
- The asset class does introduce a unique set of risks, including investment illiquidity, cash flow uncertainty, and wide divergence in manager performance.
- There are significant challenges that investors face in the successful implementation of an alternative investment program: resources, access, transparency, lack of regulation, etc.

Bob Sugarman said his firm has guided many clients into the Private Equity realm. The process of working out an agreement is long, as is the time to investing.

Jim Voytko agreed and said fiduciaries must be patient to get a shot at these higher returns.

Jim Voytko covered these additional topics:

- Private Equity Strategies (page 3): Venture Capital, Growth Equity, Buyout Investing, Mezzanine Financing, Distressed Debt, and Turnarounds/Special Situations
- Private Equity Strategies: Differences in Risk Tolerance and Investment Options (page 4) – Potential for return differs among strategies.
- Vintage Year Diversification (page 5) – Not participating in specific years can have a significant effect on overall return. To achieve the long-term expected return, it is important to maintain consistent exposure in each vintage year.

Brian Smith asked about looking at examples of actual returns for individual Private Equity funds, not just in aggregate.

Jim Voytko said that RVK has a storehouse of individual funds and can look at some good and some bad examples in the future.

- Illiquid Structure (page 6) - A drawdown investment structure results in what is commonly referred to as a J-curve effect, in which investments in an illiquid asset class will reflect losses in the short-term (generally, in the first three to four years) as the result of fees being paid up-front, skewing the time-weighted rate of return ("TWR") calculation of the portfolio.
- The Importance of Manager Selection (page 7) – there is a much larger dispersion in performance among private equity funds than in public funds.
- RVK's Approach to Private Equity (page 8) – RVK looks favorably on Private Equity funds with experienced General Partners and strong operational capabilities.

Kevin Schmidt covered the Private Credit portion of the presentation:

- Why Private Credit? (page 9) - The primary benefit of this asset class is the potential to generate strong risk-adjusted returns with a relatively low correlation to publicly traded assets and economic events. The asset class does introduce a unique set of risks, including investment illiquidity and uncertainty around the timing of cash flows, risk of loss given a default, and yield compression. There are significant challenges that investors face in the successful implementation of a private credit investment program. The most significant challenges include high level of required resources, limited access, low transparency, lack of regulation, and the need to continually deploy capital into new funds due to the drawdown structure used by most private credit managers.

- Private Credit Opportunities (page 10) – this is an attractive investment in a low-yield environment.
- RVK's Approach to Private Credit (page 11) – forced sellers are desperately seeking liquidity. High yield spreads are soaring and credit prices are dipping, creating an interesting opportunity to invest. Opportunities include Dislocation Funds, and the Term Asset-Based Securities Loan Facility program.

Jordan Cipriani covered the Non-Core Real Estate portion of the presentation:

- Why Non-Core Real Estate? (page 13) – low correlation, inflationary hedge, liability matching, higher sharpe ratio, and increased transparency.
- Non-Core Real Estate (page 14) - Focus on Existing Assets That Were Once Core: Non-core real estate assets may have been considered core real estate at some point, but have one or more components that make them non-core. Non-Core Managers Buy Assets to Maximize Value and Then Sell and/or Try to Make Them Core.
- Non-Core vs. Core Real Estate (page 15)
- RVK's Approach to Non-Core Real Estate (page 18) - Despite current market dislocations from COVID-19, we remain bullish on the long-term benefits of commercial real estate in an institutional portfolio construct.

Jordan Cipriani asked if the FIAC wanted to focus on a specific type of private investment, either Private Equity, Private Debt, or Non-Core Real Estate in its scenarios for the Asset Allocation Study.

Brian Smith said he is open to discuss any classes of investments.

Rodney Van Pelt said he is open to all three, but he thinks Private Debt is intriguing given the current markets. The Fund's liquidity situation is strong, and we are in a good position to move into this asset class.

Erwin Lax said that this meeting's presentations were very valuable, and that he remains open to looking closer into these new areas of investments.

d. 2020 Work Plan and Transition Timeline

Jordan briefly covered the 2020 Work Plan and Transition Timeline as attached to the meeting book.

Rodney Van Pelt asked if RVK has any recommendations regarding the target assumed rate of return for the Fund.

Timothy Johnson said that the Board of Trustees voted on that in April. The recommendation was to reduce the assumed rate of return from 7% to 6.9%. This will affect the City's contribution in December 2021. Also, the recommendation included the subcommittee to reconvene later this year to consider possible future reductions.

IV. Old Business

None.

V. New Business

None.

VI. Adjournment

5:23 P.M.

Summary Approved:

Rodney Van Pelt, FIAC Secretary

Summary Prepared By:
Steve Lundy, Deputy Director
City of Jacksonville Police and Fire Pension Fund

Posted: 05/28/2020

To be Approved: 06/12/2020