



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

Tuesday, August 15, 2023

3:44 P.M. – 5:00 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, September 19, 2023 at 3:30 P.M.

Financial Investment and Advisory Committee

Eric "Brian" Smith Jr., Chair
Brian Chappell
Kendall Park

Excused

Erwin Lax, Secretary
Steve Glenn

Fund Staff

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

Guests

*Jordan Cipriani, RVK, Investment Consultant
*Lawsikia Hodges, Office of General Counsel
*Spencer Hunter, RVK, Investment Consultant
*Bob Sugarman, Fund Counsel
*Cyril Espanol, Journalist
*Reed Harmon
*Joseph Delaney
*Joe Ebisa, Journalist

*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.

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Tuesday, August 15, 2023
3:44 P.M. – 5:00 P.M.

Agenda

Chair Brian Smith called the meeting to order at 3:44PM.

I. Public Speaking

None.

II. Meeting Summaries – *action requested* a. *May 16, 2023 FIAC Meeting Summary*

Kendall Park moved to approve the May 16, 2023 FIAC Meeting Summary, seconded by Brian Chappell. The vote passed unanimously.

III. Investment Consultant Reports a. *Proposed Rebalance – Annual Payroll Reimbursement – action requested*

Jordan Cipriani discussed the Proposed Rebalance – Annual Payroll Reimbursement memorandum from RVK:

“The purpose of this memo is to discuss a plan to raise approximately \$190 million for the PFPF’s annual payroll reimbursement due at the end of September 2023 and approximately \$14.5 million for the union chapter funds distribution, for a total combined \$204.5 million.

Based on preliminary data as of July 31, 2023, the portfolio is currently 3.0% overweight its target (37%) to US Equity, 3.7% overweight its target (20%) to International Equity and -1.0% underweight its target (19.5%) to Fixed Income. Given the relatively equitable overweights, coupled with the relative ease of obtaining liquidity within each of the asset classes, RVK recommends US Equity and International Equity be used as a source of cash for the upcoming raise. Accordingly, our approach has sought to bring both sub-asset classes closer to their long-term targets, while maintaining fairly style neutral positioning within each sub-asset class composite. Post transaction, both asset classes will remain above their targeted allocations, though RVK and Staff anticipate the difference will come down over time as private market commitments continue to be approved and funded.”

Brian Smith said this memo needs to be voted on by the FIAC and recommended to the Board of Trustees.

Kendall Park said Jordan Cipriani did a good job explaining the memo.

Brian Smith entertained a motion to approve the Proposed Rebalance – Annual Payroll Reimbursement.

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Tuesday, August 15, 2023
3:44 P.M. – 5:00 P.M.

Brian Chappell moved to recommend approval of the Proposed Rebalance – Annual Payroll Reimbursement to the Board of Trustees, seconded by Kendall Park. The vote passed unanimously.

b. Private Market Commitment Recommendations

Jordan Cipriani said that RVK is bringing two recommendations for the FIAC to review today, one for Non-Core Real Estate, and the other for Private Credit. The two managers will present via ZOOM at the FIAC's September 19th meeting, and the FIAC would vote on the managers then. The managers would then present to the Board of Trustees at their September meeting on the 22nd.

Jordan Cipriani covered the Non-Core Real Estate Recommendation Summary on page 4:

"The PFPF's current asset allocation targets include a 5% target to Non Non-Core Real Estate.

In order to achieve the target allocation by 2025, our updated 2023 pacing analysis suggests that the PFPF should target approximately \$20 million in annual commitments to the asset class, with some flexibility, across one to two investment options a year over the next several years.

The purpose of the presentation today is to bring forward RVK's first 2023 Non-Core Real Estate fund recommendation to the PFPF, Ares Real Estate Partners Opportunity Fund IV ("AREOF IV"), a diversified opportunistic real estate fund and an RVK top idea. Specifically, RVK recommends the PFPF commit up to \$15M to AREOF IV.

A commitment of \$15M to AREOF IV will work towards meeting the PFPF's 2023 target commitment goal. RVK expects to likely bring one more Non Non-Core Real Estate recommendation forward later this year for FIAC and Board consideration.

RVK remains focused on identifying complementary, non non-traditional/niche sector, strategies with tailwinds supported by demand drivers that are delinked from economic cyclical (e.g., healthcare, housing, and/or storage-related strategies). We believe the AREOF IV investment strategy will directly contribute to meeting these goals."

Joseph Delaney covered the Ares Real Estate Opportunities Fund IV: Snapshot on page 5:

- Target Size: \$3.0 billion
- Target Return: 15-17% Net IRR
- Term: 8 years, extendable by two 1-year extensions; Fund has a 3-year investment period post final close
- Fees: 1.0% management fee on uncalled committed capital during the investment period; 1.5% on invested capital thereafter; 2.5 basis points admin fee on invested capital; no acquisition/disposition fee; 9% preferred return; 20% carry with a 40/60 catch-up
- Style: Opportunistic Real Estate
- Closing: Final close expected in 4Q 2023
- Overview: Ares Management Corp (NYSE: ARES) is a global alternative investment manager with \$325B AUM, operating across Credit, Private Equity, Real Assets, Secondary Solutions, and Strategic Initiatives. Collaboration across platforms underpins Ares' success, offering shared insights, deal flow, and informed decision-making.
- Strategy: AREOF employs a flexible three-pronged approach:

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Tuesday, August 15, 2023
3:44 P.M. – 5:00 P.M.

- Enhance and Reposition Assets and Portfolios
- Develop Core-Quality Assets: In high-growth submarkets via de-risked developments
- Acquire Platforms and Special Situations: Tapping market dislocations, distressed transactions, and scalable platforms
- Value Creation: Ares leverages proprietary insights, a vertically integrated platform, and extensive networks for deal sourcing.

On page 6, Joseph Delaney covered the Fund Profile:

Merits:

- Ares' resources yield informed decisions via internal sharing.
- Dynamic approach captures dislocated market opportunities.
- NNN Leases ensure predictable cash flows against inflation.
- Strategy aligns with post-COVID trends and demographically supported sectors.

Considerations:

- Higher leverage in line with opportunistic strategies.
- Opportunistic approach entails higher risk-reward spectrum.
- Modest GP commitment (\$50M) vs. fund size.
- Rising competition for attractively priced distressed deals.

Brian Smith expressed his thoughts on RVK's presentation, describing it as lacking clarity due to excessive jargon and a lack of real-world examples. He emphasized that the presentation felt overly broad and expressed concern that the Board of Trustees might not respond positively unless significant improvements are made before the presentation.

Joseph Delaney shed light on the nature of the AREOF IV fund, categorizing it as a "blind pool" with no capital committed to specific deals yet. Due to this, there are limited concrete examples to reference.

Brian Smith articulated his desire to gain a deeper understanding of the fund's operational mechanics, ARES's decision-making criteria, and their overarching strategy. He especially emphasized the need for insights into their utilization of leverage and the level of adaptability they possess.

Jordan Cipriani acknowledged that unlike previous real estate opportunities presented to the FIAC, AREOF IV operates as a blind pool. Nonetheless, she stressed that a wealth of case studies from prior vintages exists. She said ARES could incorporate emblematic examples from these prior vintages into their presentation for the FIAC in September. This would provide a tangible context for the FIAC to better understand the operational framework of AREOF IV.

Brian Smith raised a concern that he had previously discussed with Jordan Cipriani. He expressed a sense of disappointment that the presentation fell short of expectations, noting that he believes Jordan should have been better prepared to deliver a more effective presentation. Additionally, Smith questioned the seemingly high fee schedule proposed by ARES.

Joseph Delaney acknowledged that the fee structure does appear elevated. He indicated that the market standard generally falls within the 1-1.5 basis points range. The inclusion of a 2.5 basis points administrative fee is somewhat unconventional. Delaney emphasized that RVK is fully aware of this aspect and has undertaken comprehensive due

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Tuesday, August 15, 2023
3:44 P.M. – 5:00 P.M.

diligence. While acknowledging that the fees tend towards the higher end, he highlighted certain advantages, such as a slight break on committed capital and a discount for RVK clients achieved through consultant-level aggregation for clients. If RVK clients collectively commit \$100 million, a fee reduction would be implemented.

Brian Chappell emphasized the pivotal role of trust in private asset investments, where limited partners (LPs) entrust their capital to general partners (GPs). He underscored the significance of having strong confidence in the capabilities and personnel of the partnering firm. Chappell pointed out that while the PFPF has established a partnership with ARES in the realm of private credit, the familiarity with their real estate operations remains limited. Chappell stressed the importance of delving into subjective aspects beyond just the firm's objective attributes when evaluating new private investment opportunities.

Joseph Delaney offered insights into ARES' real estate endeavors, noting the existence of an established real estate team within the organization. He highlighted a combination of organic growth within ARES and strategic acquisitions from external firms.

Jordan Cipriani acknowledged the challenge of balancing available time with the level of detail in presentations. She explained that the presented material is a condensed glimpse of RVK's extensive research. Cipriani assured that while the due diligence report cannot be shared in this forum, RVK is fully prepared to share the complete report with the FIAC via email.

Kendall Park inquired about the comparatively lower returns of Fund I in comparison to Fund II. Joseph Delaney provided context, attributing the variance to the distinct post-financial crisis environment. Factors such as differing interest rates and investment landscape, as well as the 2015 Fed pause, contributed to the varied operating conditions. Despite these factors, Delaney underscored that Fund I's net multiple of 1.4 and net IRR of 11 remained attractive.

Spencer Hunter covered the Private Credit Recommendation Summary on page 9:

“The PFPF’s current asset allocation targets include an 8% target to Private Credit. In order to achieve the target allocation by 2025, our updated 2023 pacing analysis suggests that the PFPF should target approximately \$20 million in annual commitments to the asset class, with some flexibility, across one to two investment options a year over the next several years.

The purpose of the presentation today is to bring forward RVK’s 2023 Private Credit fund recommendation to the PFPF, Blue Owl Diversified Lending Fund (ODL ODL), an upper middle market direct lending fund and an RVK top idea. Specifically, RVK recommends the PFPF commit up to \$20M to ODL .

RVK remains focused on identifying strategies for the Private Credit composite that provide diversification to the current investments and strengthen the program’s ability to generate competitive returns across all phases of the market cycle.”

Reed Harmon presented the Blue Owl Diversified Lending Fund (ODL) Snapshot from page 10:

- Fund Size: \$1.3 billion as of 03/31/2023; aiming for \$2.5-3 billion
- Target Return: 10% Net IRR – Cross Cycle; 13% Net IRR – Current Cycle
- Term: Evergreen; Allows for 3-year extensions with a 180-day opt-out notice
- Fees: 1.0% on invested capital (RVK Discount); 10% incentive fee over a 6% hurdle (incentive fee waived through 2025)
- Fund Focus: Senior Secured, Upper Middle-Market Direct Lending in the US

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Tuesday, August 15, 2023
3:44 P.M. – 5:00 P.M.

- Closing Schedule: Evergreen (Monthly Closes)
- Overview: The Blue Owl Diversified Lending Fund is a direct lending strategy providing senior secured loans to privately-owned, sponsor-backed middle-market US companies.
- Investment Strategy: The portfolio's scope involves 75-100 loans, each constituting 1-2% of the portfolio at any given time. The strategy primarily targets first lien term loans ranging from \$20 million to \$250 million in size. Borrowers are typically stable companies in non-cyclical industries with EBITDA between \$10 million and \$250 million. This strategy allows Blue Owl to tap into larger-scale borrowers than the norm for middle-market peer strategies. While this offers access to exclusive opportunities, it limits access to the less efficiently priced lower middle market compared to smaller peers.
- Platform: Blue Owl's approach benefits from its seasoned investment team, which has originated over \$75 billion across 415 deals since its inception in 2016. With a network of over 665 private equity sponsors, Blue Owl enjoys a sourcing advantage that bolsters origination capabilities and maintains a robust investment pipeline. Blue Owl often assumes a leadership role within lender groups, enabling direct negotiation of loan terms with borrowers and implementation of a defensive strategy. This approach has led to a relatively low average annualized loss rate of approximately 0.06% for the strategy.

Brian Chappell inquired about Blue Owl's comparative size in relation to its peers.

Reed Harmon responded, explaining that Blue Owl boasts a substantial Assets Under Management (AUM) and strategically targets the upper echelon of the market. Notably, there is limited competition in this high-tier segment, with only a handful of competing firms.

Brian Chappell sought clarification on whether Blue Owl's total AUM stood at \$71 billion or if this figure pertained solely to their private lending arm.

Reed Harmon clarified that the \$71 billion AUM is specific to the private lending division, while the overall AUM for the firm is closer to \$140 billion.

Brian Smith expressed his interest in obtaining more concrete examples from both Blue Owl and ARES during their forthcoming presentation to the FIAC next month.

Kendall Park inquired about the nature of credit provided by Blue Owl, questioning whether it was fixed-term, a working capital line of credit, or subject to an adjustable rate.

Reed Harmon explained that their approach primarily involves floating-rate credit. Additionally, he elaborated on the option of a delayed draw term loan arrangement, which allows for additional capital infusion alongside the term loan. This flexibility serves as a distinct advantage over traditional banks, contributing significantly to the appeal of Blue Owl's offerings. Notably, a substantial portion—over 90%—of their portfolio consists of senior secured, top-priority, first lien structures linked to underlying companies.

Brian Smith expressed his appreciation of this approach. He also mentioned another firm that presented a similar strategy to the FIAC, focusing on senior secured loans. He concluded by thanking Reed Harmon for his presentation.

Spencer Hunter highlighted RVK's endorsement of this strategy due to its ability to complement the rest of the PFPF's private credit portfolio. He invited feedback from the FIAC prior to the scheduled September meeting.

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Tuesday, August 15, 2023
3:44 P.M. – 5:00 P.M.

c. Quarterly Investment Performance Analysis – June 30, 2023

Spencer Hunter expressed his satisfaction with Q2 2023, emphasizing that it has been a remarkable year overall for the PFPF. Notably, the PFPF achieved the top position within the \$1 billion to \$5 billion peer group for the trailing 1-year period among all pension funds. This impressive performance was the result of a well-balanced asset allocation strategy combined with investment managers who collectively outperformed their benchmarks.

Spencer Hunter delved into the various asset classes within the PFPF portfolio, underscoring the solid performance of July. The fund experienced a 3.17% increase for the month and a notable 14.01% rise year-to-date.

Spencer Hunter indicated that while no immediate managerial recommendations were forthcoming, RVK plans to engage in a detailed discussion about the PFPF's equity portfolio in October. This discussion is intended to provide a platform for a deeper exploration of investment managers who warrant further attention. This dialogue will extend into the final months of the year.

Brian Chappell directed the conversation towards the watch list.

Spencer Hunter addressed Sawgrass: performance-related concerns were raised due to its failure to meet established performance standards over rolling periods. Additionally, organizational and personnel factors came into consideration. On the other hand, WEDGE's performance concerns were not as pronounced as Sawgrass, although apprehensions regarding asset loss were acknowledged. It was noted that recent performance exhibited a positive recovery. Furthermore, qualitative assessments of investment managers Loomis Sayles and Principal were noted, primarily involving turnover within their investment teams. However, RVK did not express immediate concerns.

Brian Chappell inquired about rolling periods of performance figures and their presence in the quarterly investment performance report.

Jordan Cipriani confirmed that rolling periods were introduced a few quarters ago and begin on page 28 of the current quarter's report.

Brian Chappell emphasized the necessity of reviewing rolling periods as stipulated by the Investment Policy. He requested that RVK include performance evaluation using rolling periods in future agendas for discussion.

Spencer Hunter assured that RVK would accommodate this request and expressed gratitude to the FIAC for their valuable feedback.

IV. Executive Director's Report

Timothy Johnson began by sharing that the PFPF budget had been presented to the City Council a week ago, and some minor adjustments were made, which is standard practice. He then turned the focus to the new approach for presenting private credit and non-core real estate recommendations. This method allows the FIAC time to thoroughly consider the recommendations for a month before directly engaging with the managers in a live session. This approach aims to provide the FIAC with a more comprehensive understanding, enabling them to assess the managers' presentations more effectively.

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Tuesday, August 15, 2023
3:44 P.M. – 5:00 P.M.

Brian Smith voiced his appreciation for this format, highlighting that it doesn't feel rushed. He extended gratitude to Timothy Johnson for orchestrating this approach.

Timothy Johnson informed the FIAC that more developments are on the horizon for the year, particularly with the upcoming equity structure study. He also revealed that he would be reaching out via email to gather the FIAC's input on any new goals they wish to pursue in the upcoming fiscal year, commencing on October 1.

V. Counsel Reports

Bob Sugarman, as the Fund Counsel, emphasized the importance of the process rather than solely focusing on the outcome. He stressed that every FIAC member and Trustee should be capable of articulating their rationale for selecting each money manager in their own words. He lauded the Chair's guidance, noting that it would undoubtedly enhance the quality of the presentation when investment managers engage live in the following month.

VI. Old Business

None.

VII. New Business

None.

VIII. Upcoming Meetings

- a. Northern Trust Manager Update Workshop – Wednesday, September 13, 2023 at 12:00PM*
- b. FIAC Meeting – Tuesday, September 19, 2023 at 3:30PM*

Steve Lundy provided an update on the forthcoming Investment Manager Update Workshops scheduled at the PFPF office. He said that these workshops have been organized through March 2024, with a presentation from one of the PFPF's different investment managers monthly to provide updates on performance.

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Tuesday, August 15, 2023
3:44 P.M. – 5:00 P.M.

IX. Adjournment
5:00 P.M.

Erwin Lax, FIAC Secretary

Summary Prepared By:

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

Posted: 08/16/2023

To be Approved: 09/19/2023