



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

Tuesday, August 16, 2022

3:30 P.M. – 5:12 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 20, 2022 at 3:30 P.M.

Financial Investment and Advisory Committee

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

Guests

*Jordan Cipriani, RVK, Investment Consultant
*Hector Sanchez, Carr, Riggs & Ingram
*Kevin Schmidt, RVK, Investment Consultant
*Bob Sugarman, Fund Counsel

*Gar Chung, FIN News

Excused

Erwin Lax, Secretary

Fund Staff

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

*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.

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Summary

I. Public Speaking

None.

II. Meeting Summaries

a. May 12, 2022 FIAC Meeting Summary

Kendall Park moved to accept the May 12, 2022 FIAC Meeting Summary, seconded by Steve Glenn. The vote passed unanimously.

Brian Smith welcomed Brian Chappell to the FIAC. Today is his first meeting as FIAC committee member, fully approved by City Council.

III. Investment Consultant Reports

a. Monthly Investment Performance Analysis – July 31, 2022 – Preliminary

Kevin Schmidt covered the General Market Commentary from the Preliminary Monthly Investment Performance Analysis:

- Global equity markets rebounded in July, despite headlines continuing to be dominated by higher than expected inflation, rising interest rates, and disappointing economic activity. Domestic equity indices posted mid-single digit to low-double digit gains, while international indices finished with low to mid-single digit gains. Additionally, growth stocks outperformed their value counterparts during the month.
- In July, the Federal Open Market Committee (FOMC) once again voted to raise interest rates by an additional 75 basis points, to a range of 2.25%-2.50%. This increase matches the Fed's move in June, which was the largest interest rate hike for a single meeting dating back to 1994.
- Additionally, U.S. GDP contracted for the second consecutive quarter during Q2 2022 at an annualized rate of 0.9%, due to a variety of reasons including decreasing inventories, declining government spending, and falling investment figures. Recession fears grew as two consecutive quarters of the U.S. economy contracting is often seen as an indicator of a recession.
- Equity markets posted positive returns in July as the S&P 500 (Cap Wtd) Index returned 9.22% and the MSCI EAFE (Net) Index returned 4.98%. Emerging markets returned -0.25% as measured by the MSCI EM (Net) Index.
- The Bloomberg US Aggregate Bond Index returned 2.44% in July, outperforming the 1.34% return by the Bloomberg US Treasury Intermediate Term Index. International fixed income markets returned 2.12%, as measured by the FTSE Non-US World Gov't Bond Index.

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- Public real estate, as measured by the FTSE NAREIT Eq REITs Index (TR), returned 9.06% in July and 6.88% over the trailing five-year period.
- The Cambridge US Private Equity Index returned 27.60% for the trailing one-year period and 19.71% for the trailing five-year period ending March 2022.
- Absolute return strategies, as measured by the HFRI FOF Comp Index, returned 0.50% for the month and - 4.36% over the trailing one-year period.
- Crude oil's price fell by 6.75% during the month, but has increased by 33.36% YoY.

Kevin Schmidt covered the Asset Allocation by Asset Class, Asset Allocation vs. Target, and Schedule of Investable Assets on page 3.

Kevin Schmidt covered the Asset Allocation & Performance (Net of Fees) on page 5. As of July 31, the Total Fund was up 4.77% Month-to-Date, and close to flat versus the Total Fund Policy Index which was up 4.80%, for a difference of - 0.03%. The Total Fund is down on a Fiscal Year-to-Date basis by -8.41%, behind the index by -4.57%.

Kevin Schmidt said that the market is extremely volatile, and to not pay too much attention to these numbers. The last couple of years have seen historic volatility: the US Stock Market fell 35%, rose 120%, declined 24%, then most recently, gained 19% in the last few weeks. This is unbelievable volatility. There is a lot of cyclicity in the markets, but we have never seen this much volatility in such a small amount of time.

Steve Glenn complimented RVK on the incredible job of sticking to their guns and keeping balanced in light of the recent volatility. He asked if there have been any discussions to consider commodities or natural resources.

Kevin Schmidt said it is a team effort, and the FIAC and Board of Trustees' long-term discipline is coming through. He said that the last two years have seen the Fund exit Master Limited Partnerships, which are mostly invested in commodities. Although commodities have been an exceptional winner over the last 12-18 months, they have been an exceptional loser over the previous 30 years. This is volatility we are arguably trying to move away from.

Brian Smith asked if RVK would devote some time to discussing the performance of the Fund's alternative assets.

Jordan Cipriani said that the alternative investment performance would be discussed in the quarterly report, next on the agenda. She said that Artemis had its first capital call in July. Ares, the Fund's first alternative investment is off to a good start. She also briefly covered Victory Park Capital and HIG.

Kevin Schmidt said that alternative investment managers do not report commentary or attribution in the same way that public managers do. RVK holds calls with them either quarterly or semi-annually. Updates are not frequent. This may be the expectation regarding insight beyond the numbers themselves.

b. Quarterly Investment Performance Analysis

Jordan Cipriani covered the Quarterly Investment Performance Analysis handout, beginning with the Second Quarter Economic Environment on page 4:

“Continued rising inflation, accelerated tightening of global monetary policy and falling economic growth estimates led to most major indices ending negative in Q2. Inflation continued to rise in the US as the Consumer Price Index (CPI) rose

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to 9.1% at the end of June, spurred on by supply chain disruptions tied with the war in Ukraine and China's zero-COVID policy. The OECD's June Economic Outlook report now forecasts global inflation to end the year near 9%. Central banks continued to tighten monetary policy with the Federal Open Market Committee raising the federal funds rate by 0.75% in June which followed a 0.50% increase in May. Following the June CPI release, a 1.0% increase at the FOMC meeting in July is now the most likely scenario based on probabilities implied by traders. Forecasters are increasingly citing a rising risk of a recession in the US however the data is less clear. The Atlanta Fed's GDP Nowcast indicates a modest contraction of growth in Q2, with declining residential investment and private inventory overhang as key negative effects. However, manufacturing and services Purchasing Managers' indexes (PMIs) indicate expansion. The unemployment rate ended June at 3.6% as non-farm payroll growth averaged just under 375k per month. According to the latest JOLTS survey, the US currently has roughly two job openings for every unemployed individual. The Atlanta Fed's wage tracker also lists average annual wage growth at 6.7% based on a 3-month moving average."

Jordan Cipriani covered the Asset Allocation, Performance & Schedule of Investable Assets on page 13, and the Total Fund vs. All Public Plans (\$1B to \$5B) Asset Allocation vs. Current Target and Plan Sponsor Peer Group on page 14.

Jordan Cipriani covered the Total Fund vs. All Public Plans (\$1B to \$5B) Plan Sponsor Peer Group Analysis on page 15. On the quarter-to-date, the Total Fund was down -11.21%, placing it in the 91st percentile.

The FIAC discussed the percentile rankings for the Plan with Jordan Cipriani.

Kevin Schmidt emphasized that the Fund's portfolio is equity-heavy, but in a down markets, diversification is your friend.

Steve Glenn asked about investing aggressively due to the Plan's funded status.

Kevin Schmidt said that the Plan hasn't taken on more risk, but focused on diversification, and reducing risk.

Brian Smith said that Steve Glenn has a good point, but no decisions were made to take on more risk due to the Plan's funded status. What has been done, however, is that the FIAC and Board of Trustees has reduced the Actuarial Rate of Return assumption, which increases the City Contribution payment.

Jordan Cipriani covered the Performance Attribution on page 17, and the Asset Allocation & Performance (Gross of Fees) on page 18. Everything is down, and there are not many places to hide. She also discussed the performance detail by manager on page 19.

Jordan Cipriani discussed some organizational changes in certain managers. The co-CEO of Acadian Asset Management retired, which was expected and well telegraphed. In addition, a partner at Baillie Gifford retired, which was also well telegraphed, with no anticipated impact. Lastly, last month, Sawgrass Asset Management announced it had created the new role of President and filled the role with Alicia Dator, who has 21 years of experience with the firm, and will run the day-to-day operations.

Brian Smith asked if the new role at Sawgrass was well telegraphed.

Jordan Cipriani said that from RVK's perspective, this was a new announcement and something RVK was unaware of. RVK has not yet met Alicia, and the announcement was less telegraphed than the others.

Kevin Schmidt said that Alicia Dator's background as Chief Technology Officer doesn't seem like a typical evolution to the role or responsibility of President. It is to be determined what the day-to-day role entails and what decision making she is involved in.

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Brian Smith updated Brian Chappell on the history surrounding Sawgrass. Earlier this year, RVK recommended Sawgrass for termination based on performance and issues of communication and transparency. The FIAC approved RVK's recommendation, but the Board of Trustees did not. The Board opted instead to keep a closer eye on Sawgrass.

Brian Smith said that he does not see any lack of transparency in this case, but it does seem out of the ordinary. He said he wants to keep an eye on this as well.

Brian Chappell asked if Sawgrass should be asked to give an update.

Brian Smith said that is something that definitely could be done. RVK talks with Sawgrass regularly.

Steve Glenn mentioned Wedge, and whether or not they were put on a watch list.

Brian Smith said there is not an official 'watch list', but RVK is watching all the managers closely.

Jordan Cipriani said that RVK feels good about Wedge's current trend. There is no change in personnel. The last eight months have been crazy.

Brian Smith asked about Loomis.

Jordan Cipriani said that Loomis has had performance struggles recently, which is unsurprising. From a philosophy and personnel perspective, nothing has changed.

Jordan Cipriani finished the presentation of the quarterly report by covering the Alternative Investment Performance for Private Credit and Non-Core Real Estate on pages 61-62.

c. Rebalancing for COJ Reimbursement

Kevin Schmidt covered the Proposed Rebalance – Annual Payroll Reimbursement memo. The purpose of the memo is to discuss a plan to raise approximately \$199 million for the PFPF's annual payroll reimbursement due at the end of September 2022. He covered figure 1, which shows the asset allocation as of the end of July, the target allocation, the difference versus target, and the post-transaction allocation and difference versus target. He also covered figure 2, the transaction proposal, which breaks down each transaction by individual money manager, adding up to \$199 million.

Brian Smith asked the PFPF Staff to explain the payroll reimbursement process for new members of the FIAC.

Kevin Grant explained the payroll reimbursement process, noting that every year, the PFPF has to pay its retirees. The City advances these payments, and the PFPF's operational expenses. Member contributions throughout the year offsets this amount. The PFPF reimburses the City at the end of the Fiscal Year.

Brian Chappell asked about the timing of the City's contribution to the PFPF.

Kevin Grant said that the City's contribution normally comes to the PFPF in December.

Brian Smith said there needs to be a motion for approval of RVK's memo. He said typically, the Chair does not make motions, but can entertain one. He said he thinks the motion should be, "to approve RVK's recommendation to raise the \$199 million, with the understanding that this number may change."

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Kevin Grant said the City has confirmed the \$199 million figure.

Brian Smith rephrased, the motion would be, “to approve RVK’s plan to raise \$199 million for the PFPF annual payroll reimbursement at the end of September.”

Steve Glenn moved to approve RVK’s plan to raise \$199 million for the PFPF annual payroll reimbursement at the end of September, seconded by Brian Chappell. Discussion:

Bob Sugarman said this would be based on the recommendation of RVK and the PFPF Staff, and would go to the Board of Trustees.

The vote passed unanimously.

d. MWBE & SDVOB Broker / Dealer Utilization Update

Jordan Cipriani covered the Minority/Women Women-owned Business Enterprises (“MWBE”) and Service Service-Disabled Veteran Veteran-Owned Businesses (“SDVOB”) broker / dealer utilization report for the PFPF. This report covers October 1, 2021 – March 31, 2022.

Jordan Cipriani covered page 3 of the report, showing the snapshot of findings. Commissions decreased from the prior 6-month period. This is attributed to a decrease in trading across managers. Northern Trust continues to have the highest utilization of total commissions paid to minorities.

Jordan Cipriani continued to page 4, covering the percentage of MWBE and SDVOB commissions by type:

- 63% of all MWBE & SDVOB commissions were paid to three firms: Penserra Securities LLC, Guzman & Company, and Mischler Financial Group.
- Hispanic owned broker / dealers accounted for the highest commission category at 48% of MWBE & SDVOB commissions.
- Remaining commissions are split, fairly, evenly between Women owned firms and Disabled Veteran owned firms, while Black / African American represented the lowest commission category.
- Penserra Securities LLC had the highest level of commissions and was utilized by two different investment managers.

IV. Fiscal Year 2021 Audit

Hector Sanchez covered the Fiscal Year 2021 Audit, and noted that this year, his firm offers its highest level of assurance, and noted there were no findings. He briefly covered the following sections:

- Independent Auditors’ Report (page 1)
- Management Discussion and Analysis (page 3-5)
- Statement of Fiduciary Net Position (page 8)
- Statement of Changes in Fiduciary Net Position (page 9)

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- Notes to Financial Statements (page 10)
- Note 6 – Pension Plans for Fund Employees (page 19)
- Schedule of Changes in Net Pension Liability and Related Ratios, Last 10 Fiscal Years (page 27)
- Schedule of City Contributions for the Last 10 Fiscal Years (page 28)
- Schedule of Investment Returns (page 29)
- Combined Statements (pages 32-33)

Timothy Johnson noted that the Board of Trustees has already approved the Fiscal Year 2021 Audit, but contingent on the FIAC's approval.

Kendall Park moved to approve the Fiscal Year 2021 Audit, seconded by Steve Glenn. The vote passed unanimously.

V. Executive Director's Report

Timothy Johnson said that towards the end of the Fiscal Year, he solicits the FIAC members how the PFPF Staff has done accomplishing goals originally set out for at the beginning of the year. He said he asks for suggestions for new goals for the upcoming fiscal year as well. He told the FIAC members to expect a call from him soon. He also said that we expect a new alternative asset recommendation from RVK before the end of the calendar year.

VI. Counsel Reports

Bob Sugarman said that pension funds have experienced substantial losses from cryptocurrency investments lately, and that investing in cryptocurrencies is like the Wild West.

Jordan Cipriani said that RVK has not recommended investment into the cryptocurrency sector.

VII. Old Business

None.

VIII. New Business

None.

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- IX. Upcoming Meetings
 - a. *FIAC Meeting – Tuesday, September 20, 2022 at 3:30PM*

- X. Adjournment
5:12 P.M.

Erwin Lax, FIAC Secretary

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

Posted: 08/18/2022
To be Approved: 09/20/2022