



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

Tuesday, September 19, 2023

3:40 P.M. – 5:25 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, October 10, 2023 at 3:30 P.M.

Financial Investment and Advisory Committee

Eric “Brian” Smith Jr., Chair

Brian Chappell

Steve Glenn

Kendall Park

Excused

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

*Joseph Delaney, RVK, Investment Consultant

*Reed Harmon, RVK, Investment Consultant

*Spencer Hunter, RVK, Investment Consultant

*Bob Sugarman, Fund Counsel

*Andrew Holm, Ares Management

*William Lee, Ares Management

*Craig Packer, Blue Owl Capital

*Colin Vick, Blue Owl Capital

*Joe Ebisa, with.Intelligence

*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

I. Public Speaking

None.

II. Meeting Summaries – *action requested*

a. *August 15, 2023 FIAC Meeting Summary*

Brian Chappell voted to approve the August 15, 2023 FIAC Meeting Summary, seconded by Kendall Park. The vote passed unanimously.

III. Executive Director's Report

a. *First Annual Trustee Breakfast – Friday, September 22, 2023 at 8:00AM*

Timothy Johnson reminded the FIAC of the upcoming Annual Trustee Breakfast.

b. *Upcoming Manager Update Workshops*

Timothy Johnson informed the FIAC of the upcoming Manager Update Workshops scheduled monthly through March 2024.

Timothy Johnson reminded the FIAC of the 2023 Engagement Survey.

IV. Counsel Reports

Bob Sugarman had nothing new to report.

V. Investment Consultant Reports

Jordan Cipriani presented the Ares US Real Estate Opportunity Fund IV (AREOF IV) to the FIAC, highlighting key details and insights. The proposed commitment stands at \$15 million, with a lofty target size of \$3.0 billion. The fund's investment style leans toward opportunistic ventures within the US non-core real estate sector. AROEF IV boasts a

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versatile approach, allowing opportunistic investments across various sectors, including Multi-Family, Industrial, Hospitality, NNN Lease, and specialized areas like Student Housing and Life Sciences. Their strategy encompasses the enhancement, renovation, and repositioning of existing assets, the completion of development projects, and seizing opportunities in distressed and special situations. The target return is substantial, with a Gross IRR range of 18% to 20% and a Net IRR of 15% to 17%. The fund operates on an 8-year term, extendable by two 1-year periods, with an investment window of 3 years from the final closing. Maximum leverage is set at 75%, and the fee structure comprises a 1.0% management fee on uncalled committed capital during the investment period, rising to 1.525% on invested capital after that period. A preferred return of 9% and a 20% carry with a 40/60 catch-up mechanism complete the fee arrangement.

Steve Glenn inquired about the geographic focus of AREOF IV, to which Jordan Cipriani clarified that the fund primarily targets US-based opportunities. He also asked about the personal investments of Ares' key decision-makers, with Jordan revealing a commitment of \$50 million from their personal wealth—a noteworthy factor in private investments.

Brian Smith sought insight into why RVK favored the Ares investment team.

Jordan Cipriani cited the team's seasoned real estate professionals, impressive track records, and their ability to navigate complex transactions, particularly in large deals like AREOF IV. She highlighted their capability to undertake ground-up development in challenging, tightly regulated markets such as New York City. She also provided additional clarity on the fund's fee structure and maximum leverage.

a. Non-Core Real Estate Recommendation – action requested

William Lee introduced Ares Management, a global alternative investment manager with approximately \$378 billion in assets under management. Ares operates across five business groups: Credit (\$250.1 billion AUM), Real Assets (\$64.8 billion AUM), Private Equity (\$35.5 billion AUM), Secondaries (\$23.0 billion AUM), and Other Businesses (\$4.2 billion AUM).

Andrew Holm then began the presentation on AREOF IV, highlighting Ares Real Estate, a global real estate investment manager with a vertically integrated operating platform focused on generating compelling risk-adjusted performance through market cycles. The key advantages of Ares Real Estate include a scaled platform with experience across all sectors, a specialized industrial-focused platform with over 170 professionals, a cycle-tested and collaborative team with strong local networks, and access to real-time corporate and market insights.

Holm also covered Ares' extensive U.S. real estate equity team, consisting of over 200 professionals in 12 offices, emphasizing their local sourcing and management capabilities, as well as their centralized business infrastructure.

The presentation then delved into the track record of Ares' U.S. Opportunistic Real Estate investments, with a demonstrated history of meeting or exceeding target returns across market cycles. As of June 30, 2023, the AREOF Series achieved a blended gross IRR of 20% (net IRR of 14%) across \$2.2 billion of invested capital. AREOF III achieved a gross IRR of 22% (net IRR of 15%) at fair values as of the same date, with substantial commitments of approximately \$1.6 billion. Predecessor vehicles AREOF II and AREOF generated proceeds of approximately \$1.3 billion, representing 146% of invested equity, demonstrating the success of larger fund sizes and their ability to unlock unique opportunities. The portfolio maintained leverage at 62% loan-to-value (LTV).

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Holm went on to outline Ares' U.S. Opportunistic Real Estate Strategy, which is designed to capitalize on changing market conditions. The strategy includes pursuing distressed and special situations, enhancing and repositioning assets and portfolios, and developing core-quality assets.

Holm also discussed the portfolio construction of AREOF IV, highlighting the fund's dynamic allocation across property types and strategies, including Multifamily, Industrial, Hospitality, and NNN.

During the presentation, Brian Smith inquired about Ares' strategy for front yard residential and car dealerships due to market dislocations, as well as Ares' approach to converting office space to residential. Holm shared insights on these topics, emphasizing Ares' adaptability to evolving market dynamics.

Two case studies were presented: 55 Broad Street, reflecting the AREOF IV strategy, and Project LaGrange Industrial Portfolio, a programmatic industrial joint venture. These case studies showcased Ares' ability to source opportunities, manage risks, and capitalize on changing market demands.

Steve Glenn expressed his appreciation for the presentation, highlighting its relevance in the current investment landscape. Kendall Park commended Ares for its impressive capabilities, and Jordan Cipriani emphasized Ares' expertise, flexibility, and strategic approach.

Regarding investment size, Jordan Cipriani clarified that while more could be allocated, the current pacing called for \$20 million to be allocated to the Non-Core Real Estate asset class as a whole in the current calendar year, with an additional \$5 million reserved for future opportunities. However, she proposed the option of granting PFPF Staff the authority to allocate "up to \$20 million" to provide greater flexibility.

Brian Smith, in contrast to his previous critique in August, commended RVK's improved presentation, specifically noting its conciseness and reduced use of industry jargon. He expressed a desire for future RVK presentations to include case studies.

Jordan Cipriani thanked Brian Smith for the feedback and expressed her commitment to tailoring presentations to better serve the FIAC.

Steve Glenn moved to recommend the Board of Trustees allocate up to \$20 million to AREOF IV, seconded by Kendall Park. The vote passed unanimously.

b. Private Credit Recommendation – action requested

Jordan Cipriani presented a Private Credit Recommendation, suggesting a \$20 million commitment to the Blue Owl Diversified Lending Fund. The fund's target size ranges between \$2.5 billion and \$3 billion, and it currently stands at \$1.4 billion. The closing schedule for this fund is evergreen, with monthly closing opportunities.

In terms of investment style, the fund specializes in Direct Lending within the Private Credit sector. It targets senior secured loans with floating rates, aiming for an allocation of approximately 75 to 100 loans in total. The fund's primary focus is on privately-owned, sponsor-backed middle market companies in the US, with an EBITDA ranging from \$10 million to \$250 million.

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Regarding expected returns, the fund targets a Net IRR of 10% over the Cross Market Cycle and 13% in the Current Market Cycle. It boasts a track record with an IRR of 13.1% gross and 12.2% net, and an average yield of 12.1%, with an impressively low loss rate of 0.06%.

In terms of structure, the Blue Owl Diversified Lending Fund operates as a Private Fund with General Partner and Limited Partners, maintaining an evergreen status. The fund offers rolling 3-year extensions and allows investors to opt-out with 180 days' notice. The investment period is perpetual, and distributions occur on a quarterly basis. The fund targets a maximum leverage range of 0.9x to 1.25x debt to equity, with a cap at 2.0x total commitments. The fee structure includes a 1.25% fee on invested assets, with a reduced fee of 1.0% on invested assets for RVK clients. Additionally, there is a 10% incentive fee over a 6% hurdle, and this incentive fee is waived through 2025. Notably, there is no management fee on undrawn capital commitments.

Colin Vick introduced Blue Owl, a prominent asset manager that's revolutionizing the world of alternative investments. With a staggering \$150 billion in assets under management, they are divided into three key segments: \$73.8 billion in Credit, \$50.9 billion in GP Strategic Capital, and \$24.8 billion in Real Estate.

Blue Owl is all about providing investors with distinctive investment opportunities, focusing on delivering robust performance, risk-adjusted returns, and the preservation of capital. In the Credit arena, formerly known as Owl Rock, they stand as the preferred partner for privately-owned middle- to upper-middle-market companies seeking innovative and tailored financing solutions across the entire capital structure. Meanwhile, their GP Strategic Capital platform, previously known as Dyal Capital, has been at the forefront of delivering inventive, long-term minority equity and financing solutions for more than a decade. Additionally, their Real Estate platform, formerly Oak Street, is a dominant force in the private equity real estate space, offering flexible and unique capital solutions to investment-grade and creditworthy tenants.

Craig Packer then delved into the Credit Platform Overview, showcasing the scale of Blue Owl's \$73.8 billion in assets under management. This impressive feat is driven by a robust proprietary deal flow, nurtured through an extensive network of sponsors. Backed by sophisticated investors, Blue Owl boasts a seasoned investment team with over 100 professionals. What sets them apart is their alignment with the cause, with \$670 million in capital commitments from Blue Owl employees and affiliates. They invest alongside their clients, emphasizing partnership and collaboration as the core foundation for navigating all market cycles. Their track record speaks volumes, with \$78.3 billion in gross originations since inception. They've demonstrated a remarkable ability to source direct lending investment opportunities, boasting over 675 sponsor relationships and reviewing more than 8,400 deals since their inception. Their credit performance is stellar, with below-market payment defaults and a net annual loss rate of just 6 basis points since inception. To top it off, they've earned investment-grade ratings for five of their funds.

Craig Packer continued by breaking down the Credit AUM, where Diversified Lending shines with \$43.1 billion in assets under management. This strategy commenced in March 2016 and successfully raised \$21.8 billion in equity. It focuses on senior secured, floating-rate investments, primarily in first lien and unitranche structures, including second liens.

Packer also provided a case study involving Troon Golf LLC. Troon Golf, founded in 1990 and headquartered in Scottsdale, AZ, is the largest outsourced golf facility management company globally. They offer a range of services, including agronomy, food and beverage, and caddie services, to around 300 golf properties in the U.S. and internationally. Troon also owns and operates two golf facilities, Troon North and North River Yacht Club. In September 2017, Leonard Green & Partners acquired Troon, financing the acquisition with a \$15.0 million revolving credit facility

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and a \$155.0 million first lien term loan. Since then, Blue Owl has continued to invest in the business to support various transactions.

Brian Chappell moved to allocate \$20 million to the Blue Owl Diversified Lending fund, seconded by Steve Glenn. The vote passed unanimously.

c. Monthly Investment Performance Analysis – August 31, 2023

Jordan Cipriani covered the General Market Commentary of the Monthly Investment Performance Analysis as of August 31, 2023:

- Global equity markets pulled back in August, with most US and international indices experiencing low to mid-single digit losses for the month. In the US, small cap stocks generally underperformed large cap stocks, and internationally emerging markets declined more than developed markets.
- The annual U.S. inflation rate was 3.20% through the end of July, up slightly from 3.00% the month prior. Inflation has moderated considerably since 2022 highs, although still remains higher than the Fed's 2.00% target.
- On August 1, 2023, Fitch Ratings downgraded the US debt rating from AAA to AA+ due to concerns over rising fiscal deficits in the near-term, unsustainable debt and deficit trajectories, increased political dysfunction, and polarization among policymakers in addressing fiscal challenges. The downgrade, along with higher treasury issuance, led to an increase in longer-dated yields during August, as well as heightened bond market volatility.
- China's economic growth concerns also contributed to the pullback in global stocks. Economic and deflation data came in weaker than expected, factory activity continued to decrease, and both consumer and business confidence remain weak. During August, the People's Bank of China lowered interest rates twice in an attempt to address these issues, but China's difficulties continue to weigh on the global economy.
- Equity markets posted negative returns in August as the S&P 500 (Cap Wtd) Index returned -1.59% and the MSCI EAFE (Net) Index returned -3.83%. Emerging markets returned -6.16%, as measured by the MSCI EM (Net) Index.
- The Bloomberg US Aggregate Bond Index returned -0.64% in August, underperforming the 0.05% return by the Bloomberg US Treasury Intermediate Term Index. International fixed income markets returned -2.03%, as measured by the FTSE Non-US World Gov't Bond Index.
- Public real estate returned -3.11% in August and 3.69% over the trailing five-year period, as measured by the FTSE NAREIT Eq REITs Index (TR).
- The Cambridge US Private Equity Index returned -0.36% for the trailing one-year period and 16.18% for the trailing five-year period ending March 2023.
- Absolute return strategies returned 0.08% for the month and 3.49% over the trailing one-year period, as measured by the HFRI FOF Comp Index.
- Crude oil's price increased by 2.24% during the month but has decreased by 6.61% YoY.

Jordan Cipriani provided an overview of the Asset Allocation by Asset Class, Asset Allocation vs. Target, and the new addition, the Schedule of Investable Assets on page 3. It's important to note that all assets are currently well within their target ranges. The Schedule of Investable Assets section presents data on Beginning Market Value, Net Cash Flow, Gain/Loss, Ending Market Value, and Percentage Return, both on a Calendar and Fiscal Year to Date basis.

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Moving on to page 5, Jordan Cipriani delved into Asset Allocation & Performance (Net of Fees). Notably, she highlighted that the Total Fund saw a -2.13% decline on a month-to-date basis, factoring in fees.

Brian Smith inquired about the City Reimbursement payment for the year, to which Kevin Grant responded that the reimbursement is set at \$204 million, encompassing payments to the Unions for the Chapter Funds.

VI. Old Business

None.

VII. New Business

None.

VIII. Upcoming Meetings

a. FIAC Meeting – Tuesday, October 10, 2023 at 3:30PM

b. Manager Update Workshop – Sawgrass Asset Management – Thursday, October 12, 2023 at 12:00PM

IX. Adjournment

5:25PM

Erwin Lax, FIAC Secretary

Summary Prepared By:

Steve Lundy, Deputy Director

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Posted: 09/20/2023

To be Approved: 10/10/2023