



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

Tuesday, September 20, 2022

3:35 P.M. – 4:51 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 18, 2022 at 3:30 P.M.

Financial Investment and Advisory Committee

Erwin Lax, Secretary

Brian Chappell

Steve Glenn

Kendall Park

Guests

Kevin Schmidt, RVK, Investment Consultant

*Pete Strong, GRS, Fund Actuary

*Bob Sugarman, Fund Counsel

*Joe Ebisa, With.Intelligence

Excused

Eric "Brian" Smith Jr., Chair

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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City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Tuesday, September 20, 2022
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Summary

I. Public Speaking

None.

II. Meeting Summaries – *action requested*

a. *August 16, 2022 FIAC Meeting Summary*

Steve Glenn moved to approve the August 16, 2022 FIAC Meeting Summary, seconded by Kendall Park. The vote passed unanimously.

III. Investment Consultant Reports

a. *Monthly Investment Performance Analysis – August 31, 2022 – Preliminary*

The FIAC welcomed Kevin Schmidt, who attended the meeting in person.

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

- Global equity markets pulled back in August, with most major indices finishing in negative territory. Domestic and international indices posted low to mid-single digit losses, with the exception being emerging markets which posted a slight gain for the month. Persistent heightened inflation, along with recession fears, continue to weigh on investment results.
- In August, Federal Reserve chair Jerome Powell reaffirmed that monetary policy would remain tight in an attempt to combat the soaring inflation, and that the Fed's focus is to return the long-run inflation target of 2%. As of the end of July, inflation recorded an 8.5% gain year-over-year, slightly down from the 9.1% figure as of the end of June.
- Despite the poor economic conditions, the nation's job market remains very strong, with the national unemployment rate being 3.7% as of the end of August, and jobs continuing to be added throughout the United States each month.
- Equity markets posted negative returns in August as the S&P 500 (Cap Wtd) Index returned -4.08% and the MSCI EAFE (Net) Index returned -4.75%. Emerging markets returned 0.42% as measured by the MSCI EM (Net) Index.
- The Bloomberg US Aggregate Bond Index returned -2.83% in August, underperforming the -2.01% return by the Bloomberg US Treasury Intermediate Term Index. International fixed income markets returned -5.78%, 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 -5.97% in August and 5.63% 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.

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Tuesday, September 20, 2022
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- Absolute return strategies, as measured by the HFRI FOF Comp Index, returned 0.88% for the month and -4.50% over the trailing one-year period.
- Crude oil's price fell by 9.20% during the month, but has increased by 30.73% YoY.

Kevin Schmidt covered the Asset Allocation by Asset Class, Asset Allocation vs. Target, and Schedule of Investable Assets on page 3. All asset classes are within policy in terms of the minimum and maximum range bounds.

Kevin Schmidt covered the Asset Allocation & Performance (Net of Fees) on page 5. Total Fund performance was -2.78% MTD, -14.04% CYTD, and -10.94 FYTD.

Kevin Schmidt covered manager performance on page 6, and private investment performance on page 7.

Timothy Johnson asked Kevin Schmidt to elaborate on the benchmarks used for the Fund's private investments.

Kevin Schmidt said the benchmarks used are fairly standard, however there is no one great benchmark in private credit or non-core real estate, because every strategy will be different depending on the sector mix of their investments. These benchmarks are broadly used by investors.

Timothy Johnson asked if these benchmarks are used across RVK's clients and the industry.

Kevin Schmidt said the benchmarks are standard, and what RVK recommends to its clients. Sometimes clients will have specific benchmarks that they want to utilize. However, it gets difficult as the portfolio develops. The benchmark may match the first investment, but not the second or third, depending on differentiation of the investments.

Kendall Park asked if there was such a thing as a 'pension fund index'.

Kevin Schmidt said no, because every pension plan has a different portfolio makeup. The PFPF has a 38% allocation to US Equity. Other plans may have 25% or 65%. However, in RVK's quarterly report, comparison slides are provided that show how the PFPF stands relative to pension funds of similar size (\$1-5 billion), called the 'public fund universe'.

b. FIAC Strategic Review

Kevin Schmidt covered the Private Market Performance Evaluation Education presentation, beginning with Performance Measurement on page 2. He covered the Time Weighted Return (TWR) and the Internal Rate of Return (IRR) metrics:

- TWR is used for liquid investments because the fund managers do not control cash flowing into or out of their funds.
- TWR is the return produced over time by a fund independent of contributions or withdrawals.
- TWR eliminates the impact of the timing of fund cash flows and isolates the portion of a portfolio's return that is attributable solely to the manager's actions.
- IRR is used for private fund managers because they typically exercise control over the amount and timing of fund cash flows.
- IRR is the discount rate that equates the cost of an investment with the cash generated by that investment.
- IRR accounts for the timing and magnitude of fund cash flows.
- A typical RVK performance report uses both TWR and IRR to calculate manager performance.

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Kevin Schmidt gave an example showing the difference in calculation methods of IRR vs. TWR on page 4, and discussed the J-Curve on page 5:

- The term J Curve refers to the shape of a private market fund's performance during its lifespan.
- Private market funds often experience negative IRRs during the beginning of the fund's life.
 - Primarily caused by early management fees and time required to invest capital.
- IRR recovers as investments appreciate.

Kevin Schmidt covered the Fund Lifecycle and Cash Flows on page 6. He also mentioned one of the Fund's new private managers, H.I.G. Realty, has already begun cash flow distributions.

- Traditional closed-end private credit and non core real estate funds typically have a seven to ten-year term and often have a provision that allows funds to request a one or two-year extension.
- These funds often utilize a three to five-year investment period where the fund actively seeks out and invests in new opportunities.
- Most of the capital will be drawn and most of the management fees and expenses will also be paid during the investment period.

Kevin Schmidt also covered the PFPF Performance as of August 31, 2022 on page 7.

Erwin Lax asked about the fund multiple. He asked if 'bigger is better' means more cash is distributed.

Kevin Schmidt said that a large fund multiple could be due to large cash distributions, a high valuation of the investments themselves, or a combination of both.

Kevin Schmidt said that although private market investments look good right now, some people do say that 'it's a lot of fluff until there is a transaction'.

Brian Chappell asked if the Fund could access secondary funds, or get into the private equity space.

Kevin Schmidt said that private equity is off the table because it is not an approved asset class. He said secondary funds are probably not a defined area of focus, however if there are dislocations in the market, there could be attractive opportunities. Some funds may have a portion allocated to buy secondary funds – it depends on the opportunity set. He said secondary funds are seen more on the private equity side, and it is very specific to the opportunity set, and usually an element within a larger structure.

IV. Actuary's Report

a. Actuarial Assumed Rate of Return Discussion

Pete Strong discussed variables which influence the City Contribution payment to the Fund. The first is the market return. The Fund is estimated to close Fiscal Year 2022 at around -13%. Since Fiscal Year 2021 was a great year at over 20%, there will be a cushion of gains smoothed into the next year, offsetting a lot of this year's negative experience. It will still result in an actuarial loss, since the assumed rate of return is 6.625%. this will cause an increase in the City Contribution by around \$1.5 million.

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Pete Strong said that changing the return assumption would also change the contribution. If the assumed rate of return is lowered to 6.5% from 6.625%, the city contribution would increase by about \$4 million.

Pete Strong said that the surtax growth rate is trending over 13%, which will reduce the City Contribution by over \$9 million.

Pete Strong said that given that the City will get a \$9 million break from the positive surtax experience, he recommends lowering the assumed rate of return. The positive surtax experience (\$9 million) would more than offset the negative investment experience (\$1.5 million) and the negative effect of lowering the assumed rate of return to 6.5% (\$4 million).

Pete Strong said that he is recommending the long-term assumed rate be lowered to 6.25%, but the logical next step would be to 6.5%.

The FIAC discussed how the assumed rate of return was lowered to 6.625% last year.

Timothy Johnson asked Steve Lundy to research the FIAC's motion from last year. Steve Lundy did not find the motion until after the meeting concluded.

(NOTE: In September 2021, the FIAC discussed lowering the assumed rate of return to 6.5%, but did not vote. The FIAC ultimately voted to approve a 6.625% assumed rate of return in October 2021.)

V. Counsel Reports

Bob Sugarman said he has nothing to report. He said he appreciates the discussion on the assumed rate of return, and always learns something new from RVK.

VI. Executive Director's Report

a. 2023 Work Plan Discussion

Timothy Johnson said that the Fiscal Year is nearing its end. He said that he presents a list of goals to the Board of Trustees for the new Fiscal Year in October or November. He described the process of reviewing the prior year's minutes and emails to find any items which may have been outstanding, in order to add to the list. He told the FIAC to be on the lookout for an email from him in which he solicits their feedback regarding any new goals, or comments, they would like to make.

Timothy Johnson gave examples of some items which have already been discussed, like a manager watch list, investing in active Exchange Traded Funds, surtax growth smoothing, and the Senior Staff Voluntary Retirement Plan governance.

Timothy Johnson mentioned the 8 hours of required continuing education for FIAC members. He said that the Manager Update Workshops scheduled throughout the year count towards that requirement. Also, the PFPF will sponsor any conferences the FIAC members may be interested in attending such as the Florida Public Pension Trustees' Association, or the National Conference on Employee Retirement Systems.

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Timothy Johnson noted that RVK has committed to attending meetings in-person on a quarterly basis. The PFPF will coordinate with the GEPP to schedule meetings so that RVK can visit both plans on one trip as a courtesy.

Steve Glenn said he believes the watch list is something the FIAC should do.

Kevin Schmidt said that from RVK's perspective, a manager is placed on a watch list for reasons other than performance. There is a lot of nuance. For instance, managers may have trouble beating the index, which is underperforming, however they are in the top quartile of their peer group. In most instances, managers are put on watch because of significant decreases in assets under management, a change in ownership, or illegal activity. It is more than just performance in a vacuum. This is all up to the FIAC and Board of Trustees.

Kendall Park asked if RVK would come up with a list of criteria utilized to put managers on watch.

Kevin Schmidt said that RVK has an internal 'this is what we look at' list from the performance side. Since the concept of a formal watch list was not approved, RVK wouldn't have formal calculations. RVK would come to the FIAC quarterly with managers who need to come to the forefront of conversation, as opposed to a policy necessitating being put on watch because on an automatic trigger of some performance levels.

Steve Glenn asked if the FIAC members could suggest recommendations for new managers.

Kevin Schmidt said yes, RVK is always open to recommendations, and the RVK manager research team takes thousands of meetings a year. RVK has done this a handful of times with recommendations from Timothy Johnson and the Board of Trustees.

Timothy Johnson said this has not yet happened on the FIAC level because there has not been any recommendations.

Timothy Johnson reminded the FIAC to be on the lookout for his email, and to reply with any suggestions for the Fiscal Year 2023 Work Plan. He noted that there might be some new allocations needing an FIAC vote between now and the end of the calendar year.

Erwin Lax thanked Timothy Johnson, and said he will wait for the email.

VII. Old Business

None.

VIII. New Business

None.

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IX. Upcoming Meetings

- a. *FIAC Meeting – Tuesday, October 18, 2022 at 3:30PM*
- b. *Board of Trustees & FIAC Manager Update Workshop: WEDGE Capital Management – Monday, September 26, 2022 at 12:00PM*

X. Adjournment

4:51PM

Erwin Lax, FIAC Secretary

Summary Prepared By:

Steve Lundy, Deputy Director

City of Jacksonville Police and Fire Pension Fund

Posted: 09/22/2022

To be Approved: 10/18/2022