



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

Friday, September 11, 2020

3:34 P.M. – 4:45 P.M.

City of Jacksonville Police and Fire Pension Fund
1 West Adams Street Suite 100, Jacksonville, FL 32202
ZOOM ONLINE MEETING – NO PHYSICAL LOCATION

The next Financial Investment and Advisory Committee (F.I.A.C.) meeting will be held October 16, 2020 at 3:30 P.M.

Financial Investment and Advisory Committee

Eric “Brian” Smith Jr., Chair
Rodney Van Pelt, Secretary
Rob Kowkabany
Erwin Lax
Kendall Park

Staff

Timothy H. Johnson, Executive Director – Plan Administrator
Steve Lundy, Deputy Director
Kevin Grant, Finance Manager
Jordan Cipriani, RVK, Investment Consultant
Kevin Schmidt, RVK, Investment Consultant
Jim Voytko, RVK, Investment Consultant
Pedro Herrera, Fund Counsel

Guests

Julie Canna, Northern Trust
Gar Chung

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 convened the meeting at 3:34 P.M.

I. Public Speaking

Gar Chung thanked the FIAC for letting him join and watch today’s meeting.

Brian Smith said the FIAC appreciates having Mr. Chung present today.

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II. Meeting Summaries

a. August 14, 2020 FIAC Meeting Summary

Erwin Lax made a motion to approve the August 14, 2020 FIAC Meeting Summary. Seconded by Rodney Van Pelt. The vote passed unanimously.

III. Northern Trust Update

Julie Canna gave her presentation on 50 South Capital, Northern Trust's alternative investments platform. She said that since the FIAC is looking at alternative assets, she thought it would be helpful to provide food for thought as the PFPF moves forward with the decision to add private investments to its portfolio. She covered the following pages and topics as attached to the FIAC meeting book:

- Long-Term Outperformance / The Illiquidity Premium (page 3)
- Private Equity Sectors (page 4)
- Key Observations in the Venture Capital Market (page 5)
- Key Observations in the Secondaries Market (page 6)
- Why Lend to Private Equity-Backed Companies (page 7)
- Manager Selection is Critical in Private Equity (page 9)
- ... In Private Credit (page 10)
- Private Equity Fund-Of-Funds Overview (page 12)

IV. Director's Report

Timothy Johnson updated the FIAC on one action item on today's agenda: the Rebalancing Memo, which is a repayment to the City. The City pays the PFPF's benefit payments throughout the year, and every fall, we repay them. This year, the total is \$166.8 million. The Board of Trustees is holding a special meeting this Monday morning to approve the FIAC's recommendation on the Rebalancing Memo, to give managers and staff enough time to liquidize the assets.

Brian Smith asked if Kendall Park has completed the City Council approval process to be added to the FIAC.

Timothy Johnson said that Kendall Park is a full member of the FIAC. He welcomed him to the committee, and asked about his confirmation experience.

Kendall Park said that it was a great experience, he enjoyed it, and that Steve Lundy was a gracious host. He said Steve Lundy took him to City Hall for the Finance Committee meeting, and it was a good process. He said he is looking forward to working with the FIAC.

Brian Smith said it is good to have a full committee again.

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V. Investment Consultant Reports

a. Monthly Investment Performance Analysis – August 31, 2020 – Preliminary

Kevin Schmidt covered the Monthly Investment Performance Analysis as of August 31, 2020 as attached to the FIAC meeting book. He noted that “August was a very strong month for US equity markets, with all major indices finishing in positive territory. The S&P 500 Index reached its all-time high in August, driven by continued expectations of low interest rates coupled with strong corporate earnings. Better-than-expected economic data, declining COVID-19 cases, and optimism of a vaccine in the near future also spurred investor confidence.”

Rodney Van Pelt asked about the Fund’s U.S. Equity managers, and asked at what time period do we say ‘they aren’t performing?’ Over the trailing 1, 3, 5, and 10-year periods, they seem to be underperforming.

Kevin Schmidt said that we have been in a growth market for the past 10 years, and it is hard to predict how long that will continue.

Jim Voytko said that the trailing performance will switch back and forth at times based on the most recent Year-To-Date numbers. This flows back in time. Market leadership is concentrated in a few names that the Fund’s managers are typically underweight in their allocation, relative to the market. So, when they perform well, the managers lag the index. When this pattern reverses, it will test the Fund’s U.S. Managers’ strategy.

Rodney Van Pelt asked for a quarter by quarter graph of these managers, showing when they have beat the index, over the last 3-5 years.

b. Rebalancing Memo

Jordan Cipriani overviewed the Proposed Rebalance – Annual Payroll Reimbursement memo. The purpose of the memo is to discuss a plan to raise approximately \$166.8 million for the PFPF’s annual payroll reimbursement to the City of Jacksonville, which is due the end of September.

Jordan Cipriani discussed the Transition Proposal on page 2. Figure 2 “details RVK’s proposed plan to redeem approximately \$166.8M from the Domestic Large Cap Equity, International Developed Large Cap Equity, Core Fixed Income, and Core Plus Fixed Income composites. [...] post transaction, all four asset classes will remain overweight their respective targets on a relatively equitable basis, thereby avoiding an unintended relative over or under allocation to each asset class given the long-term targets. Furthermore, within Domestic Large Cap Equity, the proposed transactions seek to bring the growth and value styles back to relatively equitable weights, while also seeking to achieve an equitable split between the growth managers post rebalance. Within International Developed Large Cap Equity, the proposed transaction seeks to draw on a relative and absolute overweight allocation to growth. For Core Fixed Income and Core Plus Fixed Income we have tried to keep the relationship between the two equitable on a relative basis. Additionally, specific to Core Plus Fixed Income, the transactions attempt to align the long-term targets to each underlying manager.”

Jordan Cipriani also discussed the Appendix on page 4. “Per comments and questions raised by the FIAC in August, RVK has also explored a scenario whereby a complete liquidation of the MLP assets is considered as part of the cash raise. Figure 3 details what such a scenario would look like. In summary, the direction follows a very similar path to the proposed plan outlined in Figure 2, but with less dollars needing to be raised from the equity and fixed income managers, given the additional proceeds from the MLP redemption (approximately \$51.3M). While RVK sees long term

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merit in exiting the asset class, we would highlight two notable considerations to doing so now. First, given the necessary timing required to both notify the managers and perform a prudent liquidation, we are hesitant to assert that the PFPF will receive proceeds in time for the payroll reimbursement needs. Second, we ultimately view this as an asset allocation decision and therefore believe such a decision should be made within the context of a solidified long term asset allocation determination by both the FIAC and Board.”

Jordan Cipriani said RVK would work with PFPF staff to execute these transactions quickly to make sure all funds are available before the end of the month.

Timothy Johnson asked about the liquidation of assets between active and passive managers, and how that balance was achieved.

Jordan Cipriani said that the decision on the amounts to be taken from active and passive managers was equitable and style driven. We wanted to get to a closer style weighting, and wanted to balance the ease of practicality.

Rob Kowkabany made a motion to accept the Proposed Rebalance – Annual Payroll Reimbursement, specifically the rebalancing outlined in Figure 2. Seconded by Erwin Lax. The vote passed unanimously.

c. Asset Allocation Review

Jordan Cipriani covered the Asset Allocation Review. Page 2 offers a background in the form of a timeline. There is not too much new information to cover today. Hopefully all the committee members feel they have received all the education necessary from RVK to make a potential vote.

Jordan Cipriani covered the potential portfolios on page 4. Exposure to private asset classes adds the benefits of diversification, and a higher expected return over the long term.

Jim Voytko said that he wanted to reiterate that private assets should not be entered unless you plan to stay invested in them for a long time.

Brian Smith asked if there was a motion, or any additional questions.

Rodney Van Pelt said he was hesitant in the past, because of the risk involved, but Jordan Cipriani was helpful in answering all his questions off line.

Rodney Van Pelt made a motion to recommend the Board of Trustees adopt the Asset Allocation shown in Potential Portfolio 3. Seconded by Erwin Lax.

Brian Smith said that he is in favor of potential portfolio 3. He said he likes the reduction in expected risk, and the increase in expected return. This is a nice balance.

The vote passed unanimously.

Pedro Herrera asked what the timeline for investment into the new asset class looked like.

Brian Smith said he remembers it would be around 3 years.

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Jordan Cipriani said that RVK would help determine the best implementation path. The investment period for Private Credit is around 2-4 years. Non Core Real Estate would be around 3 years.

Pedro Herrera said the governor has not extended his emergency order beyond September 30. If the order is not extended, the Board and Committees would have to meet in person starting in October.

VI. Old Business

VII. New Business

VIII. Next Meeting – October 16, 2020 at 3:30 P.M.

IX. Adjournment
4:45 P.M.

Rodney Van Pelt, FIAC Secretary

Summary Prepared By:

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

Posted: 09/15/2020

To be Approved: 10/16/2020