



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

Friday, December 11, 2020

3:41 P.M. – 4:59 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 January 15, 2021 at 3:30 P.M.

Financial Investment and Advisory Committee

Eric "Brian" Smith Jr., Chair
Rodney Van Pelt, Secretary
Rob Kowkabany
Erwin Lax – via ZOOM

Guests

Trey Jean
Victoria Adebayo

Notice

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

Brian Smith called the meeting to order at 3:41 P.M.

I. Public Speaking

None.

Staff

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

Excused

Kendall Park

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II. Meeting Summaries

- a. *October 16, 2020 FIAC Meeting Summary*
- b. *November 13, 2020 FIAC Meeting Summary*

Rodney Van Pelt made a motion to approve the October and November FIAC meeting summaries. Seconded by Rob Kowkabany. The vote passed unanimously.

III. Executive Director's Report

Timothy Johnson covered his Executive Director's report from the Board of Trustees Meeting book (handout). He covered the items which would be discussed today at the FIAC meeting, in addition to updating the FIAC on the status of the John Keane settlement, and new securities litigation lawsuits involving Wells Fargo, Carnival Cruises, and Citigroup.

IV. Investment Consultant Reports

- a. *Monthly Investment Performance Analysis – November 30, 2020 – Preliminary*

Kevin Schmidt covered the monthly investment performance analysis:

- After declines in both September and October, global equity markets rebounded sharply in November with all major indices finishing in positive territory. US and developed international market indices posted double digit returns for the month, and emerging markets finished with a monthly return over 9%. Value indices significantly outperformed their growth counterparts but still trail year-to-date.
- Despite rising COVID-19 cases, market participants traded on optimism over news regarding vaccines released by Pfizer-BioNTech and Moderna that demonstrate efficacy rates among trial participants over 90%. Experts speculate that distribution of a vaccine could occur in mid-2021, with possible approval for emergency use as soon as late-2020 or early-2021.
- The result of the recent US elections also contributed to the November rally as investors responded well to diminished political uncertainty. With Biden's victory in the presidential race, and Republicans expected to maintain control of the Senate, investors gained confidence that future tax raises would be modest and liquidity will remain available.
- Equity markets posted positive returns in November as the S&P 500 (Cap Wtd) Index returned 10.95% and the MSCI EAFE (Net) Index returned 15.50%. Emerging markets returned 9.25% as measured by the MSCI EM (Net) Index.
- The Bloomberg US Aggregate Bond Index returned 0.98% in November, outperforming the 0.12% return by the Bloomberg US Treasury Intermediate Term Index. International fixed income markets returned 2.26%, 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 10.92% in November and 4.48% over the trailing five-year period.

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- The total fund return for the month ending November 30, 2020 was 8.92%.
- Through December 10, 2020, estimated return is remarkable: month-to-date performance of 1.7%, Fiscal Year-To-Date performance of 9.8%, and Calendar Year-To-Date performance of 11.4%.

Kevin Schmidt and Jim Voytko discussed underlying manager's contributions to alpha, or over performance. The top three were Eagle, Pinnacle, and Baillie Gifford.

Jim Voytko discussed portfolio diversification across asset classes, sub-asset classes, geography, and methodology.

Kevin Schmidt said that next year, we will be looking at the structure of the Fund's asset classes – from Active vs. Passive management, Growth vs. Value assets, to Domestic vs. International assets.

b. Payroll Contribution Analysis

Kevin Grant discussed the Annual Contribution Rebalancing Analysis handout. The PFPF is interested in changing the timing and annual process of receiving the City's annual contribution, and funding payroll. He covered the following topics with the FIAC:

- Annual Contribution Timeline: COJ Annual Contribution, FIAC/Board Investment Approval, Funds Invested, COJ Repayment Calculation, and FIAC/Board Liquidation Approval.
- Historical COJ Contributions and PFPF Repayments
- Contribution and Beneficiary Payroll Amounts
- Monthly / Quarterly / Annual Rebalancing

Brian Smith said it is difficult to liquidate funds and make the repayment to the City by the deadline.

Kevin Grant said it is difficult enough to give notifications to managers to liquidate within two weeks – but this is even shorter – the City wants the money by the 25th of September.

Kevin Schmidt said the City's GEPP utilizes a similar process for the repayment.

Jim Voytko said that liquidation and rebalancing is always a challenge, but on a sliding scale – the longer you prepare and size for it, the less of a challenge it is. More time for communication with managers is better.

Brian Smith asked why this is an issue if the PFPF has been using this process for the last 20-30 years. He asked if this is just a process improvement.

Timothy Johnson said this has been the process for the 5 years he has worked at the PFPF, and every year, the Trustees ask about the process. Our answer has been, 'this is how it has always been done'. This year, we are trying to sift out the answer.

The FIAC discussed alternative methods of making the City Repayment, or funding its own payroll. They discussed estimating a total amount to liquidate and repay the City a month ahead of schedule, which would give ample time to communicate with managers. They also discussed paying the City \$40 million each quarter.

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Kevin Schmidt said that from RVK's perspective, if we stick to the current process, it would be better to get a number to liquidate in early August. If we get a number in September, the window narrows. The earlier we get a firm number, the easier it is to administer.

Brian Smith said that 'Phase 1' is getting the number to liquidate earlier. The PFPF is saying this is a no-brainer. He said he is comfortable with recommending the PFPF estimates this number earlier. He said analysis is needed from RVK on Phase 2.

Rodney Van Pelt asked if it would be easier for liquidation purposes to build an amount in the index fund, then liquidate it, then back-fill it over a period of time.

Kevin Schmidt said yes, but the composition of the portfolio would be out of whack.

Rodney Van Pelt made a motion to change the payroll contribution process – to identify the total amount needed to liquidate earlier. Seconded by Rob Kowkabany. The vote passed unanimously.

a. Allocation of City Contribution

Kevin Schmidt overviewed the Allocation of City Contribution memo, and RVK's recommendation to allocate the \$126.5 million City Contribution.

The FIAC discussed when they might first see deployment into Non-Core Real Estate or Private Credit.

Jim Voytko said that this will take time for proper analysis and vetting by the FIAC, Board, and PFPF Staff. Key ideas will be presented over the 2nd to 4th quarter of next year. The decision making process by the FIAC and Board of Trustees will determine the amount of time it will take to invest in these new areas.

Rodney Van Pelt asked about the \$55 million currently invested in MLPs, and whether the active-passive split in US Equity could be tilted more towards the passive side, given the recent lackluster performance of the Fund's US Equity active management.

Jim Voytko said that would be within the purview of the FIAC and the Board of Trustees.

Kevin Schmidt said there is not a defined active-passive split outlined in the Investment Policy Statement. RVK's goal was to keep the split neutral.

Timothy Johnson said we need to return to this active and passive management discussion. This came up last time with rebalancing.

Kevin Schmidt said that this should be considered in a structure study – a more formal process.

Rob Kowkabany made a motion to approve RVK's recommendation for allocation of the City Contribution. Seconded by Rodney Van Pelt. The vote passed unanimously.

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b. Investment Policy Statement

Brian Smith deferred the IPS discussion to next month on the interest of time. There is no urgency to this item.

Rodney Van Pelt said that some FIAC member's terms expire in March. The reappointment process should take place sooner rather than later.

Steve Lundy said that Rob Kowkabany and Erwin Lax are up for reappointment on March 1, 2021.

V. Old Business

None.

VI. New Business

None.

VII. Next Meeting – January 15, 2021 at 3:30 P.M.

VIII. Adjournment
4:59 P.M.

Rodney Van Pelt, FIAC Secretary

Summary Prepared By:

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

Posted: 12/15/2020

To be Approved: 01/15/2021