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

Monday, September 13, 2021
3:30 P.M. – 5:08 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 October 15, 2021 at 3:30 P.M.

Financial Investment and Advisory Committee

Eric "Brian" Smith Jr., Chair
Rodney Van Pelt, Secretary
Erwin Lax
Jim Mattera – via ZOOM
Kendall Park

Guests

Steve Glenn – via ZOOM

Staff

Timothy H. Johnson, Executive Director – Plan Administrator
Steve Lundy, Deputy Director
Kevin Grant, Finance Manager
Jordan Cipriani, RVK, Investment Consultant – via ZOOM
Joseph Delaney, RVK, Investment Consultant – via ZOOM
Kevin Schmidt, RVK, Investment Consultant – via ZOOM
Jim Voytko, RVK, Investment Consultant – via ZOOM
Pete Strong, GRS, Fund Actuary – via ZOOM
Bob Sugarman, Fund Counsel – via ZOOM

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

a. August 13, 2021 FIAC Meeting Summary

Rodney Van Pelt moved to approve the August 13, 2021 FIAC Meeting Summary, seconded by Erwin Lax. The vote passed unanimously.

III. Fund Actuary Reports, Pete Strong, GRS

a. Actuarial Assumed Rate of Return Recommendation

Fund Actuary, Pete Strong of GRS, presented his 'Recommendation for Change in Actuarial Assumed Rate of Investment Return' memo to the FIAC. The PFPF's current investment return is 6.90%.

Pete Strong showed that, based on capital market assumptions, a reasonable range for the long-term net compound average investment return is 5.75% to 6.75%. The PFPF's assumed rate of 6.90% does not fall significantly outside of this 'reasonable range', but GRS's recommendation is to lower it at least enough to fall within this range.

Pete Strong presented GRS's recommendation to lower the rate of return assumption as of October 1, 2021 to at least 6.75%, with an intent to make further reductions in future years.

Pete Strong noted that the PFPF's stellar performance this Fiscal Year would offset a decrease in the assumed rate of return, "Fiscal year 2021 is not yet over, but the PFPF's actual fiscal year-to-date investment return (on the market value of assets) is approximately +26%. Due to the use of asset smoothing in the calculation of the actuarial value of assets, only 20% of the excess market return (in excess of the assumed return of 6.9%) will be recognized in the actuarial value of assets as of October 1, 2021. If the year-to-date investment results hold up through September 30, 2021, then this year's recognized return (20% of the excess market return) is expected to reduce the City contribution requirement by approximately $5.0 million and increase the funded ratio of the PFPF by about 1.5% to 1.75%."

The FIAC discussed potential impacts of lowering the rate to a level less than 6.75%.

Rodney Van Pelt asked if there is any indication on where the City is willing to go.

Timothy Johnson said the City Retirement System, or GEPP, reduced their assumed rate a year ago, similar to the PFPF. He said he would ask the City where they intend to go. The PFPF recommendation last year assumed the step down to

6.90% would be followed by 2-3 more steps to even lower rates. It would be helpful to anticipate coming back again next year to continue reducing the rate.

The FIAC discussed lowering the rate further below 6.70%.

Brian Smith asked if there was any reason not to go down to 6.50%.

Pete Strong said that the only reason would be that it would increase the City Contribution. Unless the market tumbles, the PFPF will have another gain to smooth in the next year, and two more years after that.

Rodney Van Pelt asked if the City has received any federal dollars for COVID-19 relief, and if it could help with funding.

Timothy Johnson said that he was not sure, but that the City has received phenomenal tax returns, and the City just announced each employee will receive a $2,500 bonus as part of COVID-19 relief.

Pete Strong suggested the possibility of getting State of Florida approval to recognize more of this fiscal year's extraordinary market return next year. Instead of smoothing 20% a year for 5 years, maybe a higher amount could be recognized next year to lessen the impact of lowering the assumed rate below 6.7%.

Rodney Van Pelt said that there is an uncertain revenue stream for the next 10 years until the PFPF begins to receive the surtax revenue. He said he is leaning to a lower assumed rate, like 6.5%, given the short term concern.

Kendall Park asked for the drawbacks to lowering the rate to 6.5% instead of 6.7%.

Pete Strong said the only drawback is it would cost the City more money. There would be a net increase of about $10 million.

Brian Smith asked the FIAC members for their individual thoughts.

Jim Mattera said that a rate reduction to 6.5% or 6.75% could not be as drastic as possible swings in the market.

Erwin Lax said that he thinks the step-down approach was to keep the City contribution level – not to change drastically in one step. He said that although the future is unknown, going to a 6.7% rate seems reasonable to him.

Kendall Park said he agrees with everything Erwin Lax just said.

Jim Voytko discussed RVK's views, noting that this is a funding decision, capital market return assumptions are all trending down, and that future citizens should not have to pay for current services.

Brian Smith said that based on what he knows now, he is comfortable with a reduction to 6.70%. This is a once in a decade opportunity considering the large FYTD return. He asked if a decision is needed today.

Pete Strong said a decision is not required today. At latest, the Board of Trustees would need to approve this at its November meeting. October would be better.

The FIAC continued to discuss changes to the return smoothing method.

Brian Smith asked if there were any motions at this time. There were none.

Rodney Van Pelt said that he understands the current smoothing method, and prefers not to see an atypical method applied based on current market conditions.

Brian Smith summarized, and said the FIAC is looking for more information, and would put this item on the October meeting agenda. He said his preference is a 6.70% rate, but is also interested in 6.60% or 6.50%.

Jim Mattera said he believes there is such a thing as too much information.

Rodney Van Pelt asked RVK if they could show how public plans lowered their rates – showing the starting and ending rates.

Jim Voytko said that would be possible.

IV. Investment Consultant Reports

a. Monthly Investment Performance Analysis – August 31, 2021 – Preliminary

Not discussed in the interest of time.

b. HIG Introduction

Jordan Cipriani and Joseph Delaney covered RVK's recommendation of the HIG Realty Fund IV as a potential candidate for the PFPF's Non-Core Real Estate target allocation. They covered the following points from the presentation:

Non-Core Real Estate Recommendation Summary

- In late 2020, the PFPF Board approved new asset allocation targets, including a 5% target to Non Core Real Estate.
- In the Spring of 2021, RVK presented a pacing analysis for the Non Core Real Estate allocation (see Appendix for summary), which recommended approximately $40 to $45 million in annual commitments to the asset class, across one to two investment options per year , in order to achieve the target allocation by 2025.
- The purpose of the presentation today is to bring forward RVK's first non core real estate fund recommendation to the PFPF.
- Over the past 15 months, the RVK Real Estate Research Team has held over 175 meetings with fund managers and reviewed close to 30 unique strategies targeting an opportunistic real estate strategy. Ultimately, that research process led us to identify H.I.G. Reality Fund IV as a compelling candidate for the PFPF Non Core Real Estate allocation.
- Specifically, RVK recommends the PFPF commit $25 million to H.I.G. Realty Fund IV in 2021.
    - Doing so will leave approximately $15 million of additional dollars to commit to another to be identified non core real estate fund, which RVK anticipates bringing forward in late 2021; taken collectively, these investments will fulfill the PFPF's 2021 Non Core Real Estate target commitments.
    - Going forward, RVK plans to focus on identifying complimentary, non traditional / niche sector, strategies with tailwinds supported by demand drivers that are delinked from economic cyclicality (e.g. healthcare, housing, and/or storage related strategies) with an eye on diverse and / or female owned organizations.

HIG Realty Fund IV: Key Questions & Answers

- What's the Role of H.I.G. Realty Fund IV?
  - Serves as an attractive initial investment for the PFPF and provides the building blocks to the Non Core portfolio with a positively ranked General Partner ("GP") that offers diversification across attractive sectors within the top 30 U.S. markets, as measured by population.
- Why H.I.G. Realty Fund IV?
  - Their focus on in favor sectors, smaller deal size, having an informational advantage from their private credit and equity teams aides in the underwriting process, a flexible investment strategy, smaller fund size, and a proven process, are all factors that make this opportunity compelling.
- How does the PFPF Benefit
  - An investment in H.I.G. Realty Fund IV will contribute towards the PFPF's build out of its Non Core Real Estate allocation and help better align the Fund with its long term policy targets. Our goal with non core real estate in general is to offer the Fund the ability to generate attractive long term risk adjusted returns, with low correlations to traditional asset classes.
- What is the Expected Time Horizon?
  - H.I.G. will begin to call committed capital from investors in late 2021, and likely continue to call the majority of capital over the course of the following 2 3 years. The fund has a stated 4 year investment period during which to call down capital. We anticipate the investment period to last approximately 2 to 3 years. A period of asset "harvesting" will follow over the subsequent 4 to 5 years, where the H.I.G. team will focus on maximizing asset value, exiting its investments, and realizing profits, which will be returned to investors over time. In total, we expect the life of the Fund to run approximately 8 years. Please note, a visual depiction of the expected Fund lifecycle has been included in the Appendix.
- How Will Capital Calls be Funded?
  - Capital calls will be sourced via overweight investments in equities and fixed income, which are highly liquid. RVK and Staff will use existing targets to guide the rebalancing process over time.

The HIG Realty Fund IV's target size is $750 million, is sponsored by HIG Capital, has a final close in Q4 2021, is structured as a closed-end limited partnership, has a term of 8 years, and is styled as opportunistic real estate.

HIG Realty Fund IV: Snapshot

- Investment Strategy: HIG Realty believes that the next several years will offer compelling opportunities for the Fund to make attractive investments in underperforming real estate, primarily due to undercapitalized assets in need of renovation and/or repositioning within sectors that exhibit favorable fundamentals The team will seek to acquire assets in the small/mid cap segment of the market where they will partner with best in class local operating partners to develop creative and effective business plans, and ultimately execute a successful turnaround of the investments.
- Value Add Approach: Through the team's relationship with local operating partners, they will look to design business plans that could take the form of capital improvements, cosmetic upgrades, lease up, expense reduction, and adaptive reuse or redevelopment. These improvements all look to drive outsized Net Operating Income growth, leading to additional value being created at the asset level.
- Firm: HIG was founded in 1993 by Sami Mnaymneh and Tony Tamer and at the time was solely focused on private equity investments in the small and mid-cap segments of the market. Since then, they have grown their

platform to offer solutions across private credit as well as real estate. Today the Firm has over 44 billion in asset under management and 18 offices globally HIG Capital scores favorably against their peers in the investment industry on workforce diversity metrics, with notably nearly 50 of their workforce being diverse.

- Development: The Fund does not have a limit but expects ground up development to be less than 10, which is in line with the previous Fund. Development opportunities will not include gateway market for sale condo projects.
- Leverage: The Fund does not have a stated limit, but the general partner has agreed to a side letter stating a limit for RVK clients. Historically, the Fund's peak and average loan to value (" levels have been in line with other value add and opportunistic strategies.

HIG Realty Fund IV: Merits & Considerations

Merits

- H.I.G. Capital Ecosystem Synergies: H.I.G. Capital has three primary lines of business; Private Equity, Private Credit and Private Real Estate. This ecosystem provides the real estate team with superior tenant insights which help inform their investment decisions and business plans, thus increasing potential positive outcomes.
- Smaller Asset Focus and Tenant Credit Quality Emphasis: In line with H.I.G. Capital's philosophy, Realty Fund IV will be looking to make investments in the lower middle market. Within this segment of the market there are greater inefficiencies as well as a mismatch between opportunities and institutional capital presence.
- Targeting a Short Hold Period: A shorter hold comes with a few benefits, namely it forces a team to establish a concise business plan to create value and can minimize the risk of market conditions at the end of a fund's life.
- Flexible Investment Strategy: When compared to their peers, we believe H.I.G. Realty has a competitive advantage in that they have a broader investment opportunity set, because they are not confined to sectors, markets or only equity investments.

Considerations

- No Stated Leverage Limit: The Fund has no stated debt limits as measured by a loan to value ratio. H.I.G is a risk aware GP that has shown to operate and deploy leverage within market expectations over the life of their funds. Further, H.I.G. Realty has agreed to a side letter that would limit the leverage deployed for RVK clients.
- Challenged Start to the Real Estate Platform: The platform experienced an atypical start and evolution since H.I.G. Capital first built out their in house real estate capabilities in 2006. The current team has grown from 12 professionals to 23 professionals ever since David and Ira took over as co heads of the real estate platform. Furthermore, the team has seen very low levels of turnover during this time.

Brian Smith said that the FIAC would digest this introductory information, and would hear from HIG via ZOOM at the next FIAC meeting. The FIAC should pose questions to RVK before the next meeting in anticipation of making a decision next month.

c. Eagle Fee Discussion

Timothy Johnson said this was for informational purposes, and would not be discussed today.

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V. Executive Director's Report

a. Erwin Lax Reappointment

Timothy Johnson said that although FIAC members serve until replaced, we still would like to reappoint Erwin Lax to his own term. His 'first' term was to fill the remaining term of a previous member.

Rodney Van Pelt moved to reappoint Erwin Lax to the FIAC, seconded by Kendall Park. The vote passed unanimously.

b. Steve Glenn Appointment

Timothy Johnson said that he had calls with Rodney Van Pelt and Steve Glenn, and that Rodney Van Pelt would like to serve through the end of Calendar Year 2021, and Steve Glenn would begin in January 2022, if approved by City Council. Mr. Glenn would participate during the next three months as well, but become a voting member in January. **He said he would like a motion to appoint Steve Glenn to the FIAC to fill Rodney Van Pelt's remaining term starting on January 1, 2022 (ending March 1, 2022), and for the following term.**

Steve Glenn introduced himself, and his background and experience. He said he is very excited to serve on the FIAC.

Jim Mattera moved to appoint Steve Glenn to the FIAC to serve the remainder of Rodney Van Pelt's term, beginning on January 1, 2022, and for the following full term (beginning March 1, 2022), Seconded by Erwin Lax. The vote passed unanimously.

Brian Smith said he is looking forward to Steve Glenn joining the FIAC. He said that Rodney Van Pelt is always welcome to call in to the meetings, and the FIAC is always open to hearing Mr. Van Pelt's thoughts. He said that fortunately, the FIAC has him for a few more months.

VI. Counsel Reports

Bob Sugarman said there is nothing new to report. He said that his firm represents 150 pension plans in the State of Florida, and that he is impressed by the Trustees and Committee Members' knowledge and skill. He said Mr. Glenn will be impressed with the high level at which the PFPF operates.

VII. Old Business

VIII. New Business

IX. Next Meeting – October 15, 2021 at 3:30 P.M.

X. Adjournment

5:08 P.M.

Rodney Van Pelt, FIAC Secretary

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

Posted: 09/15/2021
To be Approved: 10/15/2021