



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

Friday, October 15, 2021

3:32 P.M. – 5:19 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 Monday, November 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  
Kendall Park

### Guests

Richard Patsy, Trustee  
Steve Glenn – via ZOOM  
David Hirschberg, HIG – via ZOOM  
Luzmarina Lalli, HIG – via ZOOM  
Ira Weidhorn, HIG – 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  
Kevin Schmidt, RVK, Investment Consultant – via ZOOM  
Jim Voytko, RVK, Investment Consultant – via ZOOM  
Joseph Delaney, 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](http://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](mailto: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](mailto: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.

City of Jacksonville Police and Fire Pension Fund  
Summary to the Regular F.I.A.C. Meeting of  
Friday, October 15, 2021  
3:32 P.M. – 5:19 P.M.

## Summary

Chair Brian Smith convened the meeting at 3:32 P.M.

### I. Public Speaking

None.

### II. Meeting Summaries

#### *a. September 13, 2021 FIAC Meeting Summary*

Rodney Van Pelt moved to approve the September 13, 2021 FIAC Meeting Summary, with one correction on page 2, seconded by Erwin Lax. The vote passed unanimously.

### III. Fund Actuary Reports, Pete Strong, GRS

#### *a. Actuarial Assumed Rate of Return Recommendation*

Pete Strong updated the FIAC on the Actuarial Assumed Rate of Return Assumption. At the last Board of Trustees meeting, the Board discussed lowering the assumed rate, and ultimately chose six and five-eighths percent, or 6.625%.

Bob Sugarman said that although the Board of Trustees already approved 6.625%, the FIAC should go on the record with a recommendation one way or another.

Brian Smith said that the FIAC usually makes a recommendation to the Board of Trustees, then the Trustees discuss the recommendation at their next meeting, and approve it, or not. This time, we are looking for a recommendation for the FIAC to accept 6.625% or not.

Erwin Lax moved to recommend the Board of Trustees accept lowering the Actuarial Assumed Rate of Return to six and five-eighths percent (6.625%), seconded by Rodney Van Pelt. Discussion:

Richard Patsy said that he read through the FIAC's last meeting summary, and the discussion was similar to the Board's discussion. The Board has had a desire to lower the rate for a long time. The Board saw this as an opportunity to inch the rate down a little further.

The vote passed unanimously.

City of Jacksonville Police and Fire Pension Fund  
Summary to the Regular F.I.A.C. Meeting of  
Friday, October 15, 2021  
3:32 P.M. – 5:19 P.M.

IV. Investment Consultant Reports

*a. Monthly Investment Performance Analysis – September 30, 2021 – Preliminary*

Kevin Schmidt covered the monthly investment performance analysis as contained in the meeting book. He touched on the following topics:

- Global equity markets pulled back in September, with all major US and international indices posting low to mid-single digit losses. In the US, small cap indices outperformed large cap indices, and the S&P 500 posted its first month of negative returns following seven straight months of gains. Across both US and international equity markets, value stocks outperformed their growth counterparts.
- The spread of the coronavirus Delta variant, along with supply-chain bottlenecks, caused many economists to cut global growth projections. Additionally, concerns of high inflation continue to weigh on investors as market participants eye potential Federal Reserve action on asset tapering and interest rate hikes. Federal Reserve Chairman Jerome Powell once again confirmed that interest rates would remain near-zero for the next several quarters, though the FOMC indicated that rates could begin to increase in 2022 with the possibility for a total of 6 or 7 rate increases by the end of 2024. Additionally, the FOMC indicated that it expects the US economy to make “substantial further progress” by the end of the year which would initiate a tapering process of the \$120 billion in monthly Treasury and Agency MBS purchases.
- Equity markets posted negative returns in September as the S&P 500 (Cap Wtd) Index returned -4.65% and the MSCI EAFE (Net) Index returned -2.90%. Emerging markets returned -3.97% as measured by the MSCI EM (Net) Index.
- The Bloomberg US Aggregate Bond Index returned -0.87% in September, underperforming the -0.61% return by the Bloomberg US Treasury Intermediate Term Index. International fixed income markets returned - 2.94%, 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 -5.40% in September and 6.83% over the trailing five-year period.
- The Cambridge US Private Equity Index returned 48.11% for the trailing one-year period and 17.51% for the trailing five-year period ending March 2021.
- Absolute return strategies, as measured by the HFRI FOF Comp Index, returned 0.77% for the month and 15.00% over the trailing one-year period.
- Crude oil's price increased by 9.53% during the month, and has increased by 86.55% YoY.
- The Total Fund's Month-to-Date performance for September, net of fees, was -3.10%.
- The Total Fund Fiscal Year performance, net of fees, was 22.99%.

*b. H.I.G. Realty Fund IV*

Jordan Cipriani introduced David Hirschberg, Ira Weidhorn, and Luzmarina Lalli of H.I.G. Realty Partners. They will discuss the H.I.G. Realty Partners IV fund, which would be the PFPF's first Non-Core Real Estate investment opportunity, with a commitment of \$25 million.

Luzmarina Lalli discussed pages 4 and 6 of the HIG presentation:

City of Jacksonville Police and Fire Pension Fund  
Summary to the Regular F.I.A.C. Meeting of  
Friday, October 15, 2021  
3:32 P.M. – 5:19 P.M.

- Representative Key Terms for the Fund (page 4):
  - Fund: H.I.G. Realty Partners IV, L.P.
  - Commitment Period: 4 years from effective date
  - Term: Eight years from final closing with two, one-year extension options at the discretion of the general partner of the fund
  - Management Fee: 1.50% per annum on committed capital
  - Carried Interest: 20%
  - Preferred Return: 8% preferred return with a 50% general partner catch-up
  - Minimum Investment: \$10 million
  - G.P. Commitment: 4%
  - Auditor: Deloitte LLP
  - Legal Counsel: McDermott Will & Emery LLP
  
- H.I.G. Capital Family of Funds: H.I.G. manages over \$45bn1 of capital through a number of highly interconnected and synergistic strategies focused on the small-cap market; Real Assets (\$3.9 bn AUM), Private Equity (\$23.1 bn AUM), and Credit (\$17.9 bn AUM) (page 6).

Ira Weidhorn continued the presentation and covered the following topics:

- Fund IV Overview (page 8)
  - Opportunistic Small-Cap Strategy: Significant opportunity in distressed and / or mismanaged and capital starved small-cap assets where H.I.G. can apply its value-add strategy to deliver outsized returns.
  - Inefficient Small-Cap Market: More attractive asymmetric risk-return, driven by a less competitive market
  - Gross Target Return: 17 – 20% IRR, 2.0x+ MOIC
  - H.I.G. Value-Add: Ability to source, diligence, price, rehabilitate, re-develop, re-position and rebrand distressed, capital starved and/or mismanaged assets
  - Target Equity Investment: \$10 – \$50mm
  - Target LTV: 65% - 70%
  - Target GAV: Typically less than \$200mm
  - Sector Focus: Nimble, sector agnostic approach capturing the best relative value throughout the inefficient small-cap market while applying moderate leverage
  - Geographic Focus: North America – Targeting Top 30 MSAs
  - Target Average Holding Period: 4 years
  - Diverse Target Portfolio: 30 – 35 transactions
  
- H.I.G. Realty Status Update; H.I.G. Realty IV Activity Summary (page 12)
  - H.I.G. Realty generated a strong performance across the portfolio in 2020 by capitalizing on COVID-19 related market conditions and investing in resilient assets
  - 2020 and 2021 Investments:
    - Deployed \$165M in 7 equity investments
    - Focused on resilient asset classes including multifamily, industrial, and life science properties
  - Portfolio Performance Update:
    - Generating strong cash-on-cash returns

City of Jacksonville Police and Fire Pension Fund  
Summary to the Regular F.I.A.C. Meeting of  
Friday, October 15, 2021  
3:32 P.M. – 5:19 P.M.

- H.I.G. value-add execution well-ahead of schedule, with two investments likely to be fully or partially realized during late 2021
- Q2 2021 portfolio current mark of a gross 1.4x MOIC (50% gross IRR)
- Princeton R&D Portfolio; Transaction Highlights and Post-Investment Update (page 27)
  - Transaction Overview
    - Large life sciences campus with ~1.1mm SF of lab/office space and 100 acres of land purchased from a publicly-traded pharmaceutical company for under \$40 PSF or ~85%+ discount to replacement cost.
    - 30+ building campus includes a data center and large development parcel.
    - COVID-related disruption resulted in a broken sale process, forcing Seller to make significant concessions.
    - Small-cap, complex execution, leveraging H.I.G.'s BioHealth team's knowledge.
  - H.I.G. Investment Thesis and Unique Approach
    - Seller was facing pressure from shareholders to sell, and original buyer's financing source backed away.
    - Through local NJ relationships, H.I.G. learned of the sale, quickly evaluated the opportunity and through lender relationships, secured the financing for a timely execution.
    - H.I.G.'s BioHealth team helped assess the campus' quality and confirmed the strong leasing demand for pharmaceutical-grade lab space in the area.
    - Diverse campus positioned to be sold in multiple parts, mitigating downside scenarios.
  - Performance Update
    - Executed leases for 30% of the space with top-tier tenants, well-ahead of underwriting projections.
    - Inbound inquiries for space have increased meaningfully post-COVID.
    - Under contract with a pharmaceutical company to purchase half of the land and one building for \$75mm, representing a partial realization that would generate a 2.0-2.5x MOIC without accounting for the remaining portfolio's unrealized value.
    - Investment was marked to 2.2x in Q2 2021.

David Hirschberg continued the presentation and covered the following topics:

- Project Quad; Transaction Highlights and Post-Investment Update (page 26)
  - Transaction Overview
    - Portfolio of industrial assets (~650,000 SF) located throughout the U.S. (the "Portfolio") purchased from a privately held company (the "Seller" or the "Tenant") at a 40%+ discount to replacement cost.
    - Portfolio located in "last mile" infill locations in or near major metropolitan areas.
    - At closing, H.I.G. entered into a 12-year triple net lease with the Seller at a 10% capitalization rate with annual increases.
    - Off-market, small cap, complex / structured execution which leveraged the synergies and knowledge of H.I.G. Capital's private equity platform.
  - H.I.G. Investment Thesis and Unique Approach
    - H.I.G. Realty believed that the Portfolio would have significant value whether the tenant remained or vacated the property due to attractive submarket dynamics.

City of Jacksonville Police and Fire Pension Fund  
Summary to the Regular F.I.A.C. Meeting of  
Friday, October 15, 2021  
3:32 P.M. – 5:19 P.M.

- Private equity team provided insight on the Tenant’s balance sheet and leading market position.
- Sourced via a close H.I.G. relationship; the same equipment liquidator involved in the Fund III Newnan investment.
- Strong lender relationships helped secure attractive financing to meet an accelerated deadline.
- Performance Update
  - H.I.G. expects to exit this investment after a one-year hold, producing returns of approximately a 105% IRR and 2.0x MOIC.
  - Strong current market validation with an unsolicited bid at a 7.1% cap rate and third-party broker valuations supporting a 2.0x MOIC.
  - Investment was marked up two months after acquisition to 1.8x MOIC in Q2 2021.

Ira Weidhorn answered questions from the FIAC, touching on a project that underperformed expectations due to supply and demand issues in the local market.

David Hirschberg and Ira Weidhorn discussed how they met at Solomon Smith Barney in the mid 1990s, and how their relationship and business skills are complimentary and beneficial to running their business, H.I.G. Realty Partners.

Brian Smith asked about the property HIG manages in Jacksonville.

Ira Weidhorn discussed the apartments HIG owns in Jacksonville, which were developed in the early 2000s as a low income tax credit project. HIG bought the property, and reduced costs by installing efficient lights, toilets, etc... Occupancy is at 98%. The property is geared to older residents as an affordable senior community. This property was a very strong performer through the COVID-19 situation.

Ira Weidhorn discussed how HIG selects markets in which to invest – areas with good demographic trends, and at least one sports franchise are attractive, especially in the Southeast and Southwest US.

Ira Weidhorn and David Hirschberg discussed their ‘sector agnostic’ approach, their investment selection process, their best performing investments, and their practice of visiting almost every property.

HIG left the ZOOM call, as the FIAC began to discuss investing in the opportunity.

Jordan Cipriani said that RVK finds HIG Fund IV attractive because it is diversified and flexible, and without a single sector focus, which is a good first Non-Core Real Estate investment for the PFPF. HIG is a very stable, capable firm with a long tenure.

Joseph Delaney of RVK said that HIG has set themselves apart from peers by being quick to act to capitalize on the market inefficiencies created by the COVID-19 situation.

The FIAC discussed the private investment manager selection process, and how it is different than that of public managers.

**Jim Mattera moved to recommend the Board of Trustees approve RVK’s recommendation for a \$25 million commitment to the H.I.G. Realty Partners IV Fund, seconded by Erwin Lax. The vote passed unanimously.**

City of Jacksonville Police and Fire Pension Fund  
Summary to the Regular F.I.A.C. Meeting of  
Friday, October 15, 2021  
3:32 P.M. – 5:19 P.M.

V. Executive Director's Report

a. *Fiscal Year 2022 FIAC Work Plan*

Timothy Johnson discussed the Fiscal Year 2022 FIAC Work Plan, which contained the following recommendations:

- FIAC Meeting Fiscal Year Calendar: Reducing Meetings from 12 to 8 for the year; October, November, January, March, April, May, August and September. The FIAC would tighten its focus on duties required by ordinance.
- Moving meeting dates from Fridays at 3:30PM to Mondays at 3:30PM.
- Unnecessary items like the building appraisal would be removed from the FIAC's agendas.

Bob Sugarman said that if there was an emergency during an off month that necessitated FIAC action, like a sudden market drop, the FIAC Chair and the Executive Director could always schedule a special FIAC meeting.

Jim Mattera asked if meetings would run longer since there would be less meetings during the year.

Brian Smith said the answer is "we don't know yet", but we have discussed the possibility. He said the FIAC should try, and see what happens.

Timothy Johnson said that the only day in 2022 where the Monday FIAC meeting would fall on a holiday is in January, on MLK Day. This meeting could be moved to Tuesday.

**Erwin Lax moved to approve the Fiscal Year 2022 FIAC Work Plan, and the new FIAC meeting schedule, with meetings to occur on Mondays at 3:30PM, seconded by Kendall Park. The vote passed unanimously.**

VI. Counsel Reports

Bob Sugarman complimented the FIAC on a job well done today. The length and breadth of today's discussion, questions asked, and answers given immediately were impressive. RVK's and the FIAC's processes are good.

Bob Sugarman informed the FIAC that his firm has added names to its firm, and is now Sugarman Susskind Braswell & Herrera.

VII. Old Business

None.

VIII. New Business

City of Jacksonville Police and Fire Pension Fund  
Summary to the Regular F.I.A.C. Meeting of  
Friday, October 15, 2021  
3:32 P.M. – 5:19 P.M.

None.

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

X. Adjournment  
5:19 P.M.

Rodney Van Pelt, FIAC Secretary

**Summary Prepared By:**

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

**Posted:** 10/20/2021

**To be Approved:** 11/15/2021