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

Monday, October 24, 2022
3:30 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, November 15, 2022 at 3:30 P.M.

Financial Investment and Advisory Committee

Eric "Brian" Smith Jr., Chair
Brian Chappell
Steve Glenn

Fund Staff

Timothy H. Johnson, Executive Director – Plan Administrator
Steve Lundy, Deputy Director
Kevin Grant, Finance Manager

Guests

*Kevin Schmidt, RVK, Investment Consultant
*Bob Sugarman, Fund Counsel
*Joseph Delaney, RVK, Investment Consultant
*Joe Ebisa, With.Intelligence
*Tricia Lynn, RVK, Investment Consultant

Excused

Erwin Lax, Secretary
Kendall Park

*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.

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.

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Monday, October 24, 2022
3:30 P.M. – 5:21 P.M.

Summary

I. Public Speaking

None.

II. Meeting Summaries

a. *September 20, 2022 FIAC Meeting Summary*

Steve Lundy informed the FIAC that at the September FIAC meeting, the Committee discussed lowering the Actuarial Assumed Rate of Return from 6.625% to 6.5%, and the Committee believed they had already voted to recommend the Board of Trustees approve the reduction to 6.5% in 2021, and another recommendation was unnecessary. Contrary to the FIAC's belief, the FIAC discussed reducing the rate to 6.5% in 2021, no vote was actually taken.

Steve Lundy said that in September 2022, the Board of Trustees voted to reduce the rate to 6.5% and the FIAC would need to make a formal recommendation to the Board of Trustees on that rate.

Steve Glenn moved to approve the September 20, 2022 FIAC Meeting Summary, seconded by Brian Chappell. The vote passed unanimously.

III. Investment Consultant Reports

a. *Monthly Investment Performance Analysis – September 30, 2022*

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

- Global equity markets pulled back sharply in September, with most major indices posting high-single digit to low-double digit losses during the month. Recession fears, along with persistent inflation, weighed on investor sentiment and contributed to the continued sell off in the stock market. Though inflation remains elevated and fears of a potential recession in 2023 persist, the US job market remains strong as the unemployment rate sits below 4%.
- In September, the Federal Open Market Committee (FOMC) announced an additional 75 basis point increase in the federal funds rate, an attempt aimed to further combat inflation. The FOMC cited the Russia-Ukraine war as a key driver of inflationary pressure, along with the supply and demand imbalances related to the pandemic. The continued tightening of monetary policy led to challenges for fixed income investors during September, with most bond indices positing mid-single digit losses.
- Equity markets posted negative returns in September as the S&P 500 (Cap Wtd) Index returned -9.21% and the MSCI EAFE (Net) Index returned -9.35%. Emerging markets returned -11.72% as measured by the MSCI EM (Net) Index.

- The Bloomberg US Aggregate Bond Index returned -4.32% in September, underperforming the -2.40% return by the Bloomberg US Treasury Intermediate Term Index. International fixed income markets returned -6.41%, 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 -12.18% in September and 2.93% over the trailing five-year period.
- The Cambridge US Private Equity Index returned 8.60% for the trailing one-year period and 17.95% for the trailing five-year period ending June 2022.
- Absolute return strategies, as measured by the HFRI FOF Comp Index, returned -2.01% for the month and -6.84% over the trailing one-year period.
- Crude oil's price fell by 11.23% during the month, but has increased by 5.94% YoY.

Kevin Schmidt noted that there has been a slight adjustment on page 3, where Core and Non-Core Real Estate were originally separated. In order to be more consistent with the Investment Policy Statement, both have been combined into 'Real Assets". All asset classes remain in line with policy ranges.

Brian Smith said that it has been a few years since the IPS was updated, and maybe Core and Non-Core Real Estate should be carved out.

Brian Chappell said he would welcome revisiting the IPS. He said that he reviewed the IPS a couple of times, and a few things are not completely clear.

Timothy Johnson said he would add the IPS to the FIAC Work Plan for Fiscal Year 2023.

Kevin Schmidt said he would speak with Timothy Johnson offline, and that the IPS could be revisited any time.

Kevin Schmidt covered the Asset Allocation & Performance (Net of Fees) on page 5. The Fund finished Fiscal Year 2022 at -16.64%.

b. TSW Termination Recommendation

Kevin Schmidt covered the Thompson Siegel & Walmsley Termination Recommendation Memo:

> "RVK has performed a comprehensive review of the Thompson Siegel Core Fixed Income mandate ("TSW") on behalf of the City of Jacksonville Police and Fire Pension Fund. This review has been prompted by a material decline in fixed income assets under management ("AUM") at the firm in addition to material shifts in the firm's ownership. The objective of this evaluation was to evaluate the ongoing degree of conviction in the ability of the firm, team, and philosophy to continue providing competitive risk adjusted performance and the risk and return profile expected by the PFPF.
>
> RVK reviewed recent changes to the firm, including the ownership structure of TSW that underwent two separate acquisitions in as many years. RVK has also reviewed the material decline in fixed income AUM following the loss of TSW's singled largest fixed income client, a sub-advisory relationship for core plus fixed income which has left the PFPF as the only remaining core plus client of TSW. Following these meaningful changes to the firm, the outlook for TSW moving forward is challenged. The firm's ability to access the market

> and provide best execution to clients has deteriorated due to asset declines and ongoing minimal overall fixed income assets. This is compounded by changes to the parent firm ownership of TSW which impacts the degree of support the TSW fixed income team may receive going forward, in addition to enhancing the future risk of changes to the team. This is all further aggravated by a competitive fixed income investment environment defined by a historically swift rise in rates and high inflation. The PFPF has held a mandate with TSW since 1991, and while the manager has provided competitive historical results, RVK believes that the headwinds facing the TSW fixed income team could meaningfully inhibit their ability to continue producing favorable results. Due to heightened uncertainty surrounding ongoing parent company support for TSW fixed income, limited market access and higher trading costs due to asset declines, and the highly competitive current investment environment, RVK recommends terminating TSW and identifying a competitive replacement option."

Kevin Schmidt added that RVK does not believe there is alarming concern to pull assets from TSW immediately, but the assets could remain with TSW until the PFPF selects a replacement manager.

Steve Glenn said that Kevin Schmidt made a compelling argument to terminate the relationship. He said the question now becomes who should be the replacement, and that there is no shortage of managers. He said he sees no reason to continue the relationship with TSW.

Brian Smith asked if there are downsides to terminating the relationship right away, and keeping the assets in a cash position.

Kevin Schmidt said that the fund would lose exposure to the space, and would change the intended risk profile. He said he does not believe the investments pose a risk. TSW would still work hard to manage the assets. However, it would be prudent to get ahead and move to a new manager before any decision could have a negative impact on the portfolio.

Steve Glenn moved to accept RVK's recommendation to terminate TSW, seconded by Brian Chappell. Discussion:

Brian Smith said that RVK has made a recommendation to the FIAC, and now the would make the recommendation to the Board of Trustees. He said he expects the Board will vote to terminate, as the case is compelling.

Steve Glenn asked what the fund would do with TSW's money in the interim.

Kevin Schmidt said part of RVK's recommendation is to keep the funds with TSW, as RVK feels the assets are not in jeopardy.

The vote passed unanimously.

Brian Smith said this would be the first time the FIAC has voted to terminate a manager with RVK. He said that in the past, when new managers are selected, 5 were brought to the FIAC to interview. He asked if the FIAC would like RVK to bring a top 2 or 3 to the FIAC to interview.

Brian Chappell said 3 should be fine.

Timothy Johnson reminded the FIAC that the Board gave the FIAC the responsibility to apply its "DEI Policy" and to implement the "Rooney Rule" – a diverse candidate must be in the mix.

Kevin Schmidt asked if that applies to when RVK begins a search, or to the finals.

Timothy Johnson said that the "Rooney Rule" applies to the finals.

Kevin Schmidt said he expects to bring candidate managers at around the January 2023 meeting.

c. Non-Core Real Estate and Private Credit Update

Joseph Delaney and Tricia Lynn presented RVK's Private Market Commitment Recommendations presentation, covering Bell Partners Value-Add Fund VIII, and Kennedy Lewis Capital Partners Master Fund III:

Non-Core Real Estate Recommendation Summary:

- The PFPF's current asset allocation targets include a 5% target to Non-Core Real Estate.
- In 2021, the Board approved two Non-Core Real Estate commitments consistent with the PFPF's pacing goals. H.I.G. Realty Fund IV ($25M) and Hammes Partners Fund IV ($15M), totaling $40M in commitments.
- In March 2022, RVK presented an updated pacing analysis for the Non-Core Real Estate allocation (see Appendix for summary), which recommended continuing to target approximately $40 million in annual commitments to the asset class, across one to two investment options per year, in order to achieve the target allocation by 2026.
- In May 2022, the FIAC and Board approved a $25M commitment to Artemis Real Estate Partners (REP) Healthcare Fund II, a healthcare-focused real estate fund.
- The purpose of the presentation today is to bring forward RVK's recommendation for the second of two 2022 Non-Core Real Estate fund recommendations, Bell Partners Value-Add Fund (VAF) VIII, a multi-family focused value-add real estate fund. Specifically, RVK recommends the PFPF commit $20M to Bell VAF VIII, thus completing and achieving our commitment goals for 2022.
- RVK remains focused on identifying complementary, 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). We believe the Bell VAF VIII investment strategy will directly contribute to meeting these goals.

Bell Partners VAF VIII: Snapshot:

- Overview: Founded in 1976, Bell Partners Inc. ("Bell Partners" or "Bell") is a leading institutional fund manager and direct operator of apartment properties in major U.S. markets. Bell is a vertically integrated real estate investment management company that focuses exclusively on US multifamily investments. They are headquartered in Greensboro, North Carolina with regional investment offices located in nearly all of their 14 target markets. Since 2002, Bell has acquired ~$17.5 billion of multifamily assets, resulting in a total realized net levered return of 17.6% IRR and a 2.1x equity multiple. The Bell platform has ~70,000 units under their management, inclusive of third-party relationships.
- Investment Strategy: Continue their successful strategy of acquiring well-located, institutional quality multifamily assets in 14 targeted U.S. markets and generating attractive total returns through value-enhancement strategies. The Fund will focus on select markets in the US to acquire, redevelop, develop, reposition, manage, and dispose of multifamily properties. The Fund targets a net levered IRR of 11-13% and a 1.8x equity multiple with modest leverage capped at 65%. Development is capped at 15%, though little to no development is expected.

- Value-Add Approach: Bell, unlike many value add multifamily managers, has a variety of value-add levers they can pull to create value. They have shown the ability to successfully pivot between the different levers as the investment landscape evolves. Additionally, they have observed increasing pricing pressure from the deep pool of others playing in the older vintage assets space where assets require higher levels of capex. As such, they will target slightly newer assets requiring lower levels of capex where bidder pools have been shallower.

Compelling Strategy

- Multiple value-add levers with a history of providing strong returns across all strategies, including:
- Renovation - Renovate and reposition well located assets to meet current market expectations.
- Enhance Operations - Enhance cash flow through improved property operations.
- Transitioning Neighborhoods - Acquire assets in emerging neighborhoods in the path of growth.
- Pricing Dislocation - Acquire assets through unique or “broken deal” characteristics.
- Development - capped at 15% but little to none is expected in Fund VIII.

Strong Geographic Selection

- When identifying “Target Markets,” Bell utilizes a research-driven approach that considers both short- and long-term results such as vacancy, unit deliveries, job growth, and median incomes.
- Bell ranks each market on the following variables when identifying target markets for the fund:
- Performance (50%): Revenue growth, standard deviation of revenue growth, and total returns.
- Supply and Demand (25%): Job gain and growth, tech employment, and inventory growth.
- Expected Tenant Demand (25%): Market share and projected growth of 25-34 year old population, along with educational attainment..

Resilient & Definable Demand Drivers within Target Sectors

- The Fund is positioned to take advantage of demographic and economic tailwinds. There is strong rental demand driven by population and job growth, strong rental household formation, housing starts below long-term averages, and homeownership rates challenged by low vacancy.
- Bell’s target assets are located in sub-markets that are poised to benefit from millennial renters.

Strong Geographic Selection

- The platform, to date, has exhibited strong performance with many of the funds achieving top quartile status within the broader value add peer group.
- Bell Partners’ senior management team has vast industry experience. The senior members of the team have over 20 years of real estate investment experience.

Private Credit Recommendation Summary:

- The PFPF’s current asset allocation targets include an 8% target to Private Credit.
- In 2021, the Board approved a $100M commitment to Ares Pathfinder Core as the initial anchor to the Private Credit Program.

- In March 2022, RVK presented an updated pacing analysis for the Private Credit allocation (see Appendix for summary), which recommended targeting approximately $60 million in annual commitments to the asset class, across two investment options per year, in order to achieve the target allocation by 2026.
- In March 2022, the FIAC and Board approved a $30M commitment to the Victory Park Capital Asset-Backed Opportunistic Credit Fund, which seeks to build a diversified portfolio of senior secured asset backed loans with strong structural protections and attractive yields.
- The purpose of the presentation today is to bring forward RVK's recommendation for the second of two 2022 Private Credit fund recommendations, Kennedy Lewis Capital Partners Master Fund (MF) III, a special situations and opportunistic credit fund that pursues a flexible investment strategy focused on both performing and stressed investment opportunities that are uncorrelated or counter-cyclical to broader credit markets. Specifically, RVK recommends the PFPF commit $30M to Kennedy Lewis Capital Partners MF III, thus completing and achieving our commitment goals for 2022.
- RVK remains focused on identifying strategies for the Private Credit composite that provide diversification to the current investments and strengthen the program's ability to generate competitive returns across all phases of the market cycle.

Kennedy Lewis Capital Partners MF III: Snapshot

- Overview: Kennedy Lewis Capital Partners Master Fund III is a special situations and opportunistic credit fund that pursues a flexible investment strategy focused on both performing and stressed investment opportunities that are uncorrelated or counter-cyclical to broader credit markets.
- Investment Strategy: The Fund targets event-driven and opportunistic debt financings across both public and private markets with a particular focus on middle-market companies facing disruption, whether cyclical, secular, or regulatory. The strategy focuses on six investment verticals, including Life Sciences, Power, TMT/IP, Homebuilder Finance, Tactical Opportunities, and Opportunistic Cyclicals. The team's robust proprietary sourcing engine allows it to repeatedly exploit identified themes in sectors experiencing disruption or going through a transition. As such, Kennedy Lewis has established a more "all-weather" profile than many of its special situations' peers, with the ability to seek the best relative value across a range of differentiated strategy opportunity sets. We believe Kennedy Lewis' unique deal flow, combined with its focus on highly structured and senior secured debt, has contributed to its top quartile peer group performance and low loss rate of 0.25%.
- Platform: Kennedy Lewis has invested nearly $4 billion across more than 40 special situations and opportunistic credit investments since 2017. A seasoned group of senior investors with nearly 25 years of average experience captains the strategy. The investment team includes over 20 professionals across offices in New York and Miami.

The FIAC discussed the two prospective private market manager recommendations. Ultimately, the FIAC requested more information on Kennedy Lewis, specifically case studies across multiple 'verticals', to help better understand how exactly the manager exploits identified themes in sectors that are experiencing disruption.

IV. Executive Director's Report

a. Retreat Survey Results & Fiscal Year 2023 Performance Goals

Timothy Johnson briefly covered his 'PFPF Fiscal Year 2023 Survey / Retreat Results & Performance Goals' slide. Trustees, Committee Members, Professional Service Providers and Staff surveyed on topics to pursue in Fiscal Year 2023. In early October, PFPF Staff met in a retreat and used the feedback to create performance goals.

V. Counsel Reports

a. Smoothing the Pension Liability Surtax Revenue

Timothy Johnson said that this recommendation from Pete Strong is to smooth the surtax growth rate. The rate is currently at 4.25%, but actual experience has been higher. Bob Sugarman and OGC are reviewing the local and state laws to determine that if approved, this would be legal.

Bob Sugarman said that his office has determined that this is legal in reference to State Law. OGC is still working on whether it would be legal based on local City Charter and the Code of Ordinances.

VI. Old Business

a. Actuarial Assumed Rate of Return

Timothy Johnson said that Steve Lundy has already discussed the miscommunication last month. The Board of Trustees has already approved a reduction to 6.5%, and needs a recommendation from the FIAC.

Brian Smith said the current actuarial assumed rate of return is 6.625%, and GRS recommends lowering it to 6.5%.

Brian Chappell moved to recommend the Board of Trustees lower the actuarial assumed rate of return for the plan to 6.5%, seconded by Steve Glenn. The vote passed unanimously.

VII. New Business

None.

VIII. Upcoming Meetings

a. Board of Trustees & FIAC Manager Update Workshop: Baillie Gifford – Tuesday, November 15, 2022 at 12:00PM

b. FIAC Meeting – Tuesday, November 15, 2022 at 3:30PM

IX. Adjournment

5:21 P.M.

Erwin Lax, FIAC Secretary

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

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