



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

Monday, November 15, 2021

3:32 P.M. – 5:15 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, January 18, 2022 at 3:30 P.M.

### Financial Investment and Advisory Committee

Eric "Brian" Smith Jr., Chair

Jim Mattera

Kendall Park

### Guests

Richard Patsy, Trustee

Steve Glenn – via ZOOM

Patrick Hammes, Hammes Realty Advisors – via ZOOM

Gar Chung – via ZOOM

### Staff

Timothy H. Johnson, Executive Director – Plan Administrator

Steve Lundy, Deputy Director

Kevin Grant, Finance Manager

Jordan Cipriani, RVK, Investment Consultant

Joseph Delaney, RVK, Investment Consultant – via ZOOM

Kevin Schmidt, RVK, Investment Consultant

Pedro Herrera, Fund Counsel – via ZOOM

### Excused

Rodney Van Pelt, Secretary

Erwin Lax

### 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  
Monday, November 15, 2021  
3:32 P.M. – 5:15 P.M.

## Summary

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

### I. Public Speaking

None.

### II. Meeting Summaries

#### *a. October 15, 2021 FIAC Meeting Summary*

Kendall Park moved to approve the October 15, 2021 FIAC Meeting Summary, seconded by Jim Mattera. The vote passed unanimously without discussion.

### III. Investment Consultant Reports

#### *a. Hammes Partners Fund IV Recommendation*

Jordan Cipriani discussed a new Non-Core Real Estate investment opportunity for the PFPF, Hammes Partners Fund IV. This would be RVK's last recommendation for 2021. Patrick Hammes will join the meeting shortly to present to the FIAC.

Jordan Cipriani discussed the process by which the PFPF would reach its Non-Core Real Estate target allocation. There is a little left over to meet this year's allocation. Hammes Partners Fund IV is a healthcare focused fund, and one of RVK's 'best ideas' for 2021. Hammes is the best in its space.

Jim Mattera asked if Hammes has always been a healthcare focused fund.

Jordan Cipriani said that yes, Hammes has been a healthcare focused real estate fund for about 20 years, and 30 years if you consider prior experience. This recommendation is in short order today since the fundraising period is so short.

Jordan Cipriani covered the following slides and topics from the 'Non-Core Real Estate Recommendation: Hammes Partners Fund IV' presentation as contained in the FIAC meeting book:

#### **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.

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

- The purpose of the presentation today is to bring forward RVK’s second 2021 non-core real estate fund recommendation to the PFPF, Hammes Partners Fund IV, a healthcare focused value add real estate fund and an RVK best idea in the space. Specifically, RVK recommends the PFPF commit \$7.5M to Hammes Partners Fund IV.
  - In October of 2021 the PFPF made it’s first non-core Real Estate Commitment to H.I.G. Realty Fund IV.
  - Consistent with our previewed goals earlier in the year to focus on identifying complimentary, nontraditional / niche sector, strategies with tailwinds supported by demand drivers that are delinked from economic cyclicity (e.g. healthcare, housing, and/or storage related strategies), we believe the Hammes Partners Fund IV investment strategy will directly contribute to meeting these goals.
- A commitment of \$7.5M to Hammes Partners Fund IV, in addition to the \$25M committed to H.I.G. Realty Fund IV earlier in the year, will complete the PFPF’s non-core real estate commitments for 2021.
  - While slightly under our targeted commitment dollar goals for the year, RVK recognizes the highly oversubscribed nature of Hammes Partners Fund IV and the benefit to the PFPF of establishing a long-term partnership with such a high quality general partner. Furthermore, our pacing models are somewhat flexible and will factor this year’s commitments into future pacing plans and related recommendations.

**Hammes Partners Fund IV: Key Questions & Answers**

- **What’s the Role of Hammes Partners Fund IV?:** Serves as an attractive, complimentary investment for the PFPF’s Non-Core Real Estate program. It provides the PFPF dedicated exposure to a sector-focused strategy (healthcare) with extremely favorable dynamics, inclusive of an aging population which will drive greater demand for healthcare going forward, the evolution in how healthcare services are provided (e.g. increases in outpatient venues due to lower costs of care and patient convenience), and the durable and defensive nature of the market opportunities the Fund will pursue.
- **Why Hammes Partners Fund IV?:** Their dedicated focus to a sector RVK views very favorably, the complex labor intensive nature of the strategy which makes it very difficult to replicate, the informational and experiential advantage the Hammes real estate team has versus peers, the unique sourcing advantages Hammes has over peers given smaller individual asset focus, and a strong, long-term, and consistent track record across market cycles and fund vintages.
- **How does the PFPF Benefit?:** An investment in Hammes Partners 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?:** We expect the life of the Fund to run approximately 10 years, with the possibility for two one-year extensions. Hammes will begin to call committed capital from investors in early 2022, and likely continue to call the majority of capital over the course of the following 4 years. We anticipate the investment period to last approximately 4 years. A period of asset “harvesting” will follow over the subsequent 5 to 6 years, where the Hammes team will focus on maximizing asset value, exiting its investments, and realizing profits, which will be returned to investors over time.
- **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.

Joseph Delaney continued RVK’s presentation:

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

**Hammes Partners Fund IV**

- Target Size: \$675 million with a hard cap at \$725 million; Early 2022 Final Close; Closed-End Limited Partnership Structure; 10-Year term; Value Add Real Estate Investment Style;
- Investment Strategy: Fund IV will target well-located, high-quality healthcare-related real estate in the U.S. Targeted assets include medical office buildings (“MOBs”), ambulatory care centers (“ACCs”) and other healthcare facilities that are well positioned within their geographic market and that are expected to remain integral to established healthcare providers from a strategic, operational, and tenancy perspective. The Fund will leverage their established relationships with healthcare providers and affiliates in order to generate risk adjusted value-add returns, by primarily making investments in stabilized healthcare-related real estate assets.
- Value add Approach: Hammes Partners benefits greatly from their relationship with Hammes Healthcare (HH) which is recognized as a leading healthcare-related real estate developer and manager that provides services to the healthcare industry that include (i) operational strategy and planning, (ii) healthcare facility development and project management, and (iii) healthcare-related real estate advisory services. Through this relationship, Hammes will lean on their vertically integrated model to acquire, develop, re-tenant and lease-up healthcare-related real estate assets. Through these activities the team will look to realize embedded value and seek asset dispositions via portfolios which demand a premium.
- Firm: Hammes Company Health Care (HCHC) was founded in 1991 by Jon Hammes to provide real estate services to clients focused on the healthcare space. In the early 2000s HCHC began purchasing health care assets that healthcare systems were looking to dispose of, as these became more frequent the firm looked to raise comingled funds to capitalize on these opportunities. Today, Hammes has a national footprint with 11 offices across the U.S. with headquarters in Milwaukee Wisconsin.
- Leverage: Limited to 70% at the portfolio level.

**Opportunity Set: Medical Office**

- Entering 2020, the U.S. commercial real estate market was experiencing one of its longest expansions in history. Following a relatively short correction period, it appears the worst is behind us. However, we remain cautiously optimistic but acutely aware of potential future disruptions.
- Medical office provides an attractive investment opportunity that offers downside protection qualities (credit worthy tenants, long leases, sticky tenants, strong demand, and barriers to entry for new supply).
- Strong demand for the sector driven by an aging population and outpatient procedures becoming an increasingly popular way to deliver healthcare.

Richard Patsy asked if the low multiple and IRR for Hammes Partners Fund III (three) is because it is still in the value creation stage.

Joseph Delaney said yes, that is due to the J-curve. Over time, we will see the upside.

**Hammes Partners IV: Strengths and Merits**

- Strong Historical Performance
  - Hammes Partners track record has ranked well relative to their peers placing them in the 1st and 2nd quartile across their track record.
  - Capital risk of loss analysis showed that Hammes Partners has shown remarkable ability to avoid losses on investments, with just one investment across their last three funds being held at less than cost.

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

- Vertically Integrated Synergies
  - Hammes Partners is the only institutional quality vertically integrated medical office real estate investment platform.
  - Hammes Partners stands to benefit from their extensive network and relationships between healthcare providers, Hammes Healthcare and Hammes Realty Advisors.
- Investment Opportunity Set
  - Significant healthcare system consolidation and evolution of delivery of care has created attractive risk-adjusted opportunities.
  - Demographic tailwinds continue to support the sector with the aging of the U.S. population.
  - Investment attributes of medical office space remain attractive, tenants tend to favor longer-term leases and there is relatively lower tenant turnover.
  - Relative to traditional office, medical office assets generally have lower levels of capital expenditure requirements.
- Individual Asset Size
  - Individual MOB assets tend to be on smaller end of the market, less than \$10 million in equity.
  - Smaller individual assets makes it challenging for large-mega funds to compete at acquisition.
  - This contributes to the unique advantages Hammes has in sourcing and closing deals.
  - The exit strategy makes the sector a compelling one in which there is significant interest from core buyers to purchase portfolios in order to gain scale.

Joseph Delaney said that there is high demand for Hammes' products – their opportunity set is compelling, rents are 'sticky', and resilient to downturns in the market.

Brian Smith asked if the capital calls will be for the full amount of the commitment, or smaller amounts like \$300,000.

Jordan Cipriani said the amount would be called over time, over a handful of years.

Richard Patsy asked if the capital calls would be pro rata based on each investor's commitment.

Jordan Cipriani said yes, over a few years.

Brian Smith asked if Northern Trust would deliver the funds to Hammes.

Jordan Cipriani said RVK would work with Timothy Johnson, Kevin Grant and Steve Lundy to fulfill the capital calls, considering overweighted allocations (such as US equities and fixed income) in the PFPF's portfolio as sources for the capital.

Timothy Johnson agreed and said that the PFPF would send the money directly to Hammes through the PFPF's custodian, Northern Trust.

Brian Smith said Northern Trust has done a great job at tracking and reporting on minority and female-owned brokerage. He asked if there would be the same oversight on non-core real estate.

Jordan Cipriani said that the assets are private, and does not believe Northern Trust would be able to do this. There is no underlying stock to research.

Kendall Park asked how frequent performance is reported.

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

Jordan Cipriani said that performance reporting is quarterly.

Joseph Delaney said that although the reporting is quarterly, it lags one quarter.

Jordan Cipriani continued the presentation:

**Hammes Partners Fund IV: Issues to Consider**

- Increased Competition
  - The pairing of record levels of dry powder and increased investor interest in the sector has contributed to pricing pressure.
  - Real estate valuations remain supported by strong fundamentals and demographic tailwinds, however exuberance from new investors in the sector could lead to price distortion.
- Concentration of Investment Committee
  - The current Investment Committee is a carryover from Fund III, comprised of Jon Hammes, Patrick Hammes and Todd Kibler.
  - This level of concentration presents an elevated Key-Person risk to investors.
  - Hammes may look to expand membership of the Investment Committee during the investment period of Fund IV.
- Single Sector Focus
  - There are increased levels of concentration and execution risk associated with investing in a focused strategy.
  - The Fund exclusively invests in the medical office sector, not other healthcare proximate sectors or strategies.
  - The sizing of the recommended Hammes commitment, relative to the PFPF's other non-core real estate commitment to H.I.G., helps to assuage some of the risk associated with the single sector focus of this strategy.

Richard Patsy asked how many funds have the same focus as Hammes.

Jordan Cipriani said that some funds have exposure to the healthcare sector, but not the whole fund. There are a handful of healthcare focused funds, but Hammes is by far the premier player in the space.

Patrick Hammes joined the ZOOM call and began his presentation of Hammes Partners Fund IV:

**Hammes Partners IV: Terms Summary**

- Target Size: \$675 million;
- Objective: Acquire and selectively develop Targeted Facilities throughout the U.S., leveraging Hammes' established relationships with leading healthcare providers; Target a gross 13-15% IRR and a 2.0x-2.5x gross multiple; net 11-13% IRR and a 1.5x to 2.0x net multiple, with double digit net annual cash yields;
- Preferred Return: 8% compounded annually;
- Term: 10 years, with two one-year extensions;
- Leverage: Maximum 70% leverage across the portfolio, 75% for a single investment

**Overview: Differentiated investment platform with deep industry experience in a resilient sector**

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

- Experience
- Sector
- Strategy
- Track Record

**Hammes Partners: Experienced Team: Deep, growing team with healthcare industry experience and network**

- Hammes believes that its longstanding industry experience and network provide distinct advantages to invest in targeted healthcare assets
  - Leverage affiliate resources: Hammes Healthcare (“HH”) is a leading national healthcare strategic advisory, facility operator and developer established in 1993, and Hammes Realty Services (“HRS”) provides property management and other real estate services

**Market Opportunity: Attractive Opportunity Set:**

- A large and attractive opportunity set of institutional-quality facilities
  - Pressures for healthcare providers to monetize or develop assets helps generate deal flow
  - Hammes believes that Targeted Facilities typically have attractive investment attributes

Patrick Hammes discussed a case study from Hammes Partners Fund III, the Tyler Medical Office Building Development on page 15 of his presentation.

Jim Mattera said that he feels everything has been covered, and he feels good about Hammes.

Kendall Park said he agrees, and that everything was well covered, and that he is satisfied with RVK’s due diligence.

Brian Smith asked Patrick Hammes for detail on his firm’s DEI initiatives.

Patrick Hammes said that more recently, Hammes has hired an ESG consultant, and formed an ESG committee. Hammes has room to grow, but is taking meaningful steps in an effort to formalizing its processes in this area.

Brian Smith asked if Hammes would be willing to share its DEI related data with RVK for tracking.

Patrick Hammes said he is willing to do that.

**Jim Mattera moved to follow RVK’s recommendation for an investment of up to \$15 million with Hammes Partners Fund IV, giving discretion to the Executive Director – Plan Administrator to consult with RVK and execute, seconded by Kendall Park. The vote passed unanimously.**

*b. 2021 ADEC Allocation*

Jordan Cipriani discussed the Proposed Rebalance – Annual Payroll Contribution memo with the FIAC.

The FIAC discussed how the money would be allocated according to the memo.

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

Jim Mattera moved to accept RVK's recommendation as is, with up to a \$5 million cash disbursement for fees, and any necessary true-ups with associated market movements along the way, seconded by Kendall Park. The vote passed unanimously.

*c. Monthly Investment Performance Analysis – October 31, 2021 – Preliminary*

Deferred to December.

*d. Watch List Discussion*

Deferred to December.

IV. Executive Director's Report

*a. 2022 FIAC Meeting Dates*

Timothy Johnson said that due to a scheduling conflicts, Bob Sugarman wouldn't be available to meet for the currently scheduled FIAC meetings in 2022. The new schedule would move the FIAC meetings to Tuesdays.

Kendall Park moved to accept the 2022 FIAC Meeting Dates, seconded by Jim Mattera. The vote passed unanimously.

V. Counsel Reports

Pedro Herrera said that he has been working on the agreements in conjunction with the GEPP on Hammes Partners Fund IV, and is working on the side letter with Hammes' counsel. He said everything should be OK legally.

VI. Old Business

None.

VII. New Business

None.



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

VIII. Adjournment  
5:15 P.M.

Rodney Van Pelt, FIAC Secretary

**Summary Prepared By:**

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

**Posted:** 11/19/2021

**To be Approved:** 01/18/2022