



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

Tuesday, March 19, 2024

3:30 P.M. – 5:11 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, April 23, 2024 at 3:30 P.M.

Financial Investment and Advisory Committee

Eric “Brian” Smith Jr., Chair

Erwin Lax, Secretary

Brian Chappell

Steve Glenn

Excused

Kendall Park

Fund Staff

Timothy H. Johnson, Executive Director – Plan Administrator

Steve Lundy, Deputy Director

Kevin Grant, Finance Manager

Guests

Jordan Cipriani, RVK, Investment Consultant

Spencer Hunter, RVK, Investment Consultant

*Matt Sturdivan, RVK, Investment Consultant

*Jim Voytko, RVK, Investment Consultant

Greg Ealey

*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.

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Summary

I. Public Speaking

None.

II. Meeting Summaries – *action requested*

a. *January 26, 2024 FIAC Meeting*

Brian Chappell moved to approve the January 26, 2024 FIAC Meeting Summary, seconded by Steve Glenn. The vote passed unanimously.

III. Executive Director's Report

Timothy Johnson presented his Executive Director's Report. He started by acknowledging Brian Chappell's accolade as the FIAC Member of the Year for 2023, as elected by the PFPF Staff, and presented him with an award recognizing his engagement. Timothy Johnson thanked Brian for his dedicated service to the committee.

Timothy Johnson presented the "2023 Actuarial Valuation Report Presentation to City Council Finance Committee" slide. He delved into aspects such as Funding Policy and Pension Health metrics. Notably, he highlighted that the City Contribution, including the Surtax, amounted to \$178.1 million. The True Employer Contribution stood at \$275.6 million, representing the City Contribution minus the Surtax, resulting in substantial City Savings of \$97.5 million. Additionally, Johnson showed the Normal Cost, pegged at \$71.3 million, which would be the City Contribution if the pension fund were fully funded.

Addressing recent speculations regarding the pension fund's potential role in funding the Jaguars Stadium renovations, Johnson clarified that these were rumors. He emphasized the absence of any formal proposal from the City or official meetings on the matter. Expressing concerns among pension fund members about the City's commitment and ongoing labor negotiations, Johnson reassured attendees that any City proposal would undergo rigorous scrutiny. Stressing the fiduciary responsibilities of the FIAC and Board of Trustees, including the obligation of care, prudence, and loyalty, he underscored the importance of due diligence in evaluating such investments. He assured transparency and openness in all proceedings, inviting member participation when the time comes.

a. *Brian Chappell Reappointment – action requested*

Brian Smith proposed the reappointment of Brian Chappell, nearing the end of his first term, for a second term. He sought a motion to recommend the Board of Trustees request the City Council to extend Chappell's tenure.

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Steve Glenn moved to reappoint Brian Chappell to the FIAC, seconded by Erwin Lax. The vote passed unanimously.

IV. Investment Consultant Reports

a. Private Market Pacing Analysis

Jordan Cipriani presented the Private Markets Pacing Analysis, outlining a revised five-year target commitment allocation schedule aimed at bringing the total fund closer to its private market targets, specifically in Non-Core Real Estate and Private Credit.

On page 3, Cipriani detailed the Non-Core Real Estate pacing recommendation summary, proposing annual commitments of \$20 million for 2024-2026, and \$25 million for 2027-2028.

Additionally, on page 5, she discussed the Private Credit pacing recommendation summary, suggesting annual commitments of \$30 million for 2024-2026, and \$25 million for 2027-2028.

Cipriani also delved into page 9, focusing on the Non-Core Real Estate Allocation Analysis, projecting a continued increase in the total fund's allocation to non-core real estate with additional commitments. The analysis included estimated allocation growth totals with and without new commitments.

Timothy Johnson informed the FIAC of the hiatus scheduled for June and July, seeking clarification on any anticipated allocation recommendations prior to the break.

In response, Cipriani indicated the possibility of a Non-Core Real Estate recommendation before June for an investment in the data center space.

b. Domestic Equity Structure Review

Spencer Hunter provided an overview of the Domestic Equity Structure Review, highlighting a strategic initiative of the PFPF to conduct a study on the US Equity composite this year.

The presentation aimed to achieve two main objectives:

1. Educate on the factors essential for evaluating the structure of public equity.
2. Summarize RVK's analysis concerning the PFPF's US Equity structure.

Key points from the presentation included:

- The possibility of restructuring and/or conducting manager searches based on the study's outcomes.
- Considerations such as Style and Capitalization Biases, Active/Passive Management, Structure Efficiency, Selection/Evaluation of Active Managers, and Fees.
- Emphasis on evaluating portfolio exposures, ensuring active management fees yield expected excess returns, assessing portfolio efficiency, aligning managers with mandates, and exploring opportunities for fee savings through mandate consolidation.

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Spencer Hunter then delved into the background of asset allocation:

- Over time, the PFPF has actively diversified its asset allocation, notably reducing exposure to public equities since 2016. Additionally, it has introduced and implemented alternative asset classes like Non-Core Real Estate and Private Credit since 2021.
- The current target allocation comprises a blend of capital preservation, capital appreciation, and inflation hedging asset classes. This diversified mix aims to capitalize on various market environments and withstand market fluctuations.
- A notable addition to the target allocation adopted in January 2021 is Private Credit. Its objective is to yield robust risk-adjusted returns with a relatively low correlation to publicly traded assets and economic events. This strategy offers a degree of downside protection coupled with significant upside potential.
- Given this context, the role of the Equity portfolio, while maintaining a focus on growth and capital appreciation, warrants evaluation within the broader asset allocation framework of the total portfolio.

Spencer Hunter proceeded with key takeaways and recommendations of the review:

- **Style and Capitalization:** The current US Equity structure exhibits a well-diversified mix across both style and capitalization. Overall, it does not show significant biases in style and size compared to the Russell 3000 Index. However, there is a noticeable underrepresentation in the mid-capitalization segment of the US equity market, particularly within value. This presents an opportunity to enhance portfolio exposure.
- RVK suggests that the PFPF considers evolving the current active small-cap value mandate to incorporate mid-cap exposure, similar to the approach taken with the SMID-cap growth implementation. Such a strategy not only adds mid-cap exposure but also allows for holding companies that transition from small to mid-cap if deemed beneficial.
- It's worth noting that the current small-cap value manager for PFPF, Wedge Capital, already manages a SMID-cap value strategy, which could be explored. Alternatively, conducting a search to assess a broader range of potential options is recommended.

Spencer Hunter continued with further insights and recommendations:

- **Active/Passive Management:** The current structure employs a mix of active and passive management. While the percentage of active management within the US equity composite has slightly decreased over the past decade, it remains relatively high compared to peers. Over various time periods, active management has generally been beneficial, particularly in small- and SMID-cap equity, as well as large-cap value equity. RVK suggests considering a greater emphasis on passive management within US large-cap equity.
- **Structure Efficiency:** There is minimal redundancy within the composite structure overall. However, some overlap exists at the manager level, particularly within the large-cap growth segment. RVK recommends streamlining this segment by utilizing a single manager, such as Loomis Sayles, given their all-weather approach and potential for higher market capture. Alternatively, conducting a search for other potential options is advised.
- **Selection/Evaluation of Active Managers:** With few exceptions, the current lineup of active US Equity managers has performed well against their benchmarks and peers over longer-term periods. While performance can vary with market cycles, the focus on longer-term performance trends provides confidence in the current active manager selection.

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- Fees: Active management fees across the US equity composite are competitive compared to peers, except for Eagle, which falls on the higher end of the spectrum. Despite this, the strategy consistently outperforms its benchmark net of fees. The blended fee for the overall composite is 42 basis points, and adopting alternative portfolio structures would not significantly alter this fee.

Spencer Hunter concluded the presentation by discussing Potential Alternative Structures:

- RVK explored several alternative structures in response to the recommendations made earlier, aiming for modest enhancements to the existing structure. These alternatives are outlined below:
 - Potential Portfolio 1: Increase large-cap passive management and streamline large-cap growth implementation.
 - Potential Portfolio 2: Increase large-cap passive management, streamline large-cap growth implementation, and augment mid-cap value exposure by implementing a SMID-cap value mandate.

Manager	Current Portfolio	Potential Portfolio 1	Potential Portfolio 2
Eagle LCV	28%	24%	24%
NT S&P 500	28%	36%	36%
Loomis Sayles LCG	14%	24%	24%
Sawgrass LCG	14%	--	--
Wedge SCV	8%	8%	--
Placeholder: SMID Value	--	--	8%
Pinnacle SMG	8%	8%	8%
Blended Fee	42 bps	41 bps	41 bps

Upon receiving the presentation, the FIAC acknowledged the information provided and requested RVK to furnish additional potential portfolios featuring varying allocation percentages across active and passive managers.

c. Monthly Investment Performance Analysis as of February 29, 2024

Jordan Cipriani then briefly summarized the Monthly Investment Performance Analysis as of February 29, 2024, highlighting that the total fund had surpassed the \$2.6 billion milestone for the first time in its history, driven by positive equity performance.

V. Old Business

None.

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VI. New Business

None.

VII. Upcoming Meetings

- a. Manager Update Workshop – ARES Management – Thursday, March 28, 2024 at 12:00PM*
- b. Manager Update Workshop – WEDGE Capital Management – Tuesday, April 23, 2024 at 12:00PM*
- c. FIAC Meeting – Tuesday, April 23, 2024 at 3:30PM*

VIII. Adjournment

5:11 P.M.

Erwin Lax, FIAC Secretary

Summary Prepared By:

Steve Lundy, Deputy Director

City of Jacksonville Police and Fire Pension Fund

Posted: 03/25/2024

To be Approved: 04/23/2024