



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

Tuesday, May 16, 2023

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, August 15, 2023 at 3:30 P.M.

Financial Investment and Advisory Committee

Eric "Brian" Smith Jr., Chair

Brian Chappell

Steve Glenn

Kendall Park

Excused

Erwin Lax, Secretary

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

*Pedro Herrera, Fund Counsel

*Jim Voytko, RVK, Investment Consultant

*Joe Ebisa, with.Intelligence

*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
Tuesday, May 16, 2023
3:33 P.M. – 5:00 P.M.

Summary

I. Public Speaking

II. Meeting Summaries – *action requested*

a. *April 18, 2023 FIAC Meeting Summary*

Steve Glenn moved to approve the April 18, 2023 FIAC Meeting Summary, seconded by Kendall Park. The vote passed unanimously.

III. Investment Consultant Reports

a. *Monthly Investment Performance Analysis – April 30, 2023*

Jordan Cipriani covered the General Market Commentary on page 2 of the Monthly Investment Performance Analysis:

- Most equity indexes experienced positive returns in April, with both US and international broad market indexes posting low single-digit returns, supported by generally strong earnings announcements and moderating inflation figures. However, US small cap and international emerging markets stocks pulled back during April, due to their heavier exposure to banks and other sectors perceived to be at-risk.
- Following the failures of Silicon Valley Bank and Signature Bank in March, First Republic Bank was the latest US financial institution to collapse, with the FDIC ultimately organizing a sale of First Republic to JP Morgan at the end of the month. Similar to the failures of SVB and Signature, First Republic suffered from liquidity issues, large deposit outflows, and an asset/liability mismatch.
- Inflation continued to decrease, albeit remaining elevated relative to historical values. Year-over-year inflation as of March 2023 was 5.00%, as the annual rate in the United States slowed for the ninth consecutive month.
- During the first quarter of 2023, US GDP rose at an annualized rate of 1.10%, lower than expectations and a sign that the economy may be slowing. Expectations for economic growth throughout the rest of the year remain relatively muted, and the possibility of a recession continues to weigh on investors' minds. Growth prospects diminished from a global perspective as well, as the IMF lowered 2023 global growth forecasts to 2.80%, down from 2.90% in January and 3.40% a year ago.
- Equity markets posted positive returns in April as the S&P 500 (Cap Wtd) Index returned 1.56% and the MSCI EAFE (Net) Index returned 2.82%. Emerging markets returned -1.13%, as measured by the MSCI EM (Net) Index.
- The Bloomberg US Aggregate Bond Index returned 0.61% in April, outperforming the 0.54% return by the Bloomberg US Treasury Intermediate Term Index. International fixed income markets returned 0.31%, as measured by the FTSE Non-US World Gov't Bond Index.
- Public real estate returned 0.83% in April and 5.90% over the trailing five-year period, as measured by the FTSE NAREIT Eq REITs Index (TR).
- The Cambridge US Private Equity Index returned -2.34% for the trailing one-year period and 16.14% for the trailing five-year period ending December 2022.

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- Absolute return strategies returned 0.70% for the month and -0.06% over the trailing one-year period, as measured by the HFRI FOF Comp Index.
- Crude oil's price increased by 1.47% during the month but has decreased by 26.66% YoY.

Jordan Cipriani provided comprehensive coverage of the Monthly Investment Performance Analysis as of April 30, 2023. On page 3, she delved into the Asset Allocation by Asset Class, Asset Allocation vs. Target, and Schedule of Investable Assets. Notably, she observed that all asset classes are currently within the specified policy ranges.

Moving on to page 5, Jordan discussed the Asset Allocation & Performance (Net of Fees). In this section, she highlighted the impressive performance of the total fund for the month of April, which saw a gain of approximately 90 basis points after accounting for fees. Furthermore, she pointed out that the total fund performance, considering the fiscal year to date and net of fees, has experienced a remarkable increase of 12.85%. The leading contributors to this growth were equities, particularly US Equities.

Overall, April proved to be a robust month for the fund, and its performance throughout Fiscal Year 2023 thus far demonstrates a strong recovery from the negative performance experienced in the previous fiscal year.

b. Capital Markets Update & Asset Allocation Review

Jordan Cipriani presented the Capital Markets Update & Asset Allocation Review. As per the PFPF's Investment Policy Statement, it is recommended to conduct an Asset Allocation review at least once every five years. The last review conducted by the PFPF took place in 2019. Considering this, RVK saw it as an excellent opportunity to provide the FIAC with a fresh perspective on RVK's Capital Market Assumptions and present a new Asset Allocation review today. Going forward, RVK aims to conduct Asset Allocation reviews every three years. With that, Jordan handed over the floor to Spencer Hunter, who proceeded to outline the Capital Market Assumptions.

Spencer Hunter provided detailed coverage of various aspects related to RVK Capital Market Assumptions. On page 4, he explained the process behind the annual evaluation and update of RVK's long-term expectations for each asset class. These updates take into account factors such as historic performance, current valuations, and the overall economic environment. Key inputs considered include expected return, expected risk (standard deviation), and correlations between asset classes. It's important to note that RVK's assumptions lean towards conservatism and do not factor in anticipated excess returns from active management mandates.

Moving to page 5, Spencer discussed the themes for the 2023 Capital Market Assumptions. First, he addressed inflation, taking into account past and future levels, market conditions, sovereign intervention, and pricing behavior. RVK's inflation assumption for 2023 remained constant compared to the previous year, considering both short- to medium-term inflationary pressures and longer-term deflationary factors. He then explained mean reversion, considering asset classes that demonstrated weak or strong performance in the past. Equity return assumptions were increased due to improved valuation levels, while dividend yields also improved. Yield history and the current environment were considered for fixed income return assumptions, which were generally increased but with an expectation that the inverted yield curve will not persist indefinitely.

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On page 6, Spencer covered the importance of getting Capital Market Assumptions "right." Relative accuracy was emphasized, as assumptions should capture the relative relationships between asset classes to achieve balanced and diversified portfolios. However, absolute accuracy also matters to avoid misguiding contributions or demanding excessive amounts. Spencer proceeded to cover additional topics such as RVK Capital Market Assumptions for 2023 compared to 2022, historical perspectives of expected returns, and the range of potential outcomes for expected returns.

Moving to page 12, Spencer discussed the next step, which involves the Asset Allocation Study. The goal of this study is to review the current asset allocation targets in light of the updated Capital Market Assumptions, identify changes in expectations, and explore potential alternative portfolios that align with the PFPF's return objectives and risk tolerances. The study utilizes Mean Variance Optimization, a modeling process that generates optimal portfolios based on expected return and risk. These portfolios, known as the Efficient Frontier, represent the highest expected return for a given level of risk. Inputs include allowable asset classes, Capital Market Assumptions, and constraints. While the Efficient Frontier serves as a starting point, adjustments are made to incorporate qualitative factors. Additionally, a Monte Carlo analysis is conducted to assess the real-world probability of achieving return targets and associated risks over time.

Jordan Cipriani's coverage of the Asset Allocation Review provided valuable insights. On page 14, she presented the range of optimal allocations based on the asset classes and targets currently utilized by the PFPF. This range demonstrated the tradeoff between return and risk, highlighting that additional return can only be achieved by taking on additional risk. Additionally, she mentioned that RVK plotted the Current and Target Portfolios, along with several Potential Sample Portfolios, for discussion.

Moving to page 15, Jordan explained the relationship between risk and return, depicted by the efficient frontier. The efficient frontier represents all the optimal portfolios subject to given constraints, and it shows the upward slope indicating the direct relationship between return and risk. The target portfolio was found to be closely aligned with the efficient frontier.

On page 16, Jordan discussed the Analysis: Efficient Frontier 2. She presented a table showing the possible optimal allocation for a "new" frontier that includes Private Core Infrastructure and Commodities Strategies. In addition, she plotted several Potential Sample Portfolios for further discussion.

Page 18 covered the Analysis: Monte Carlo Simulation. Jordan explained that the Monte Carlo simulation utilizes random sampling of asset class returns to estimate portfolio performance. This simulation helps test the assumptions and asset allocation recommendations by examining thousands of randomly sampled return outcomes. She mentioned that RVK's simulation model assumes a non-normal distribution of returns, which provides a more realistic representation of historical market experience. The simulation results provide insights into the real-world probability of achieving various return targets over time.

Moving to page 23, Jordan summarized the Analysis: Summary. She noted that long-term return expectations for the Target Portfolio have increased year over year, in line with RVK's updated Capital Market Assumptions. She emphasized that RVK's modeling does not consider the possibility of additional alpha through active management. Alternative portfolios were also considered, including Core + to Core Fixed Income, US to International Equity, Infrastructure, and Commodities. The analysis suggested that maintaining the current target asset allocation would be reasonable, as the potential changes had marginal impacts with added complexity, illiquidity, and fees.

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On page 24, Jordan discussed the next steps. RVK will refine the potential portfolios based on the analysis and discussion for consideration at the next Board and Committee meetings. If any changes in asset allocation are desired, consensus and approval will be sought from the Committee. RVK is supportive of additional meetings if necessary to further refine recommendations. Following an asset allocation decision, RVK will collaborate with PFPF staff to develop an implementation strategy and update the Investment Policy Statement for review and approval.

Jim Voytko reaffirmed the statements made by Spencer Hunter and Jordan Cipriani regarding the PFPF's portfolio. He emphasized that the current portfolio of the PFPF is positioned near the efficient frontier. This indicates that among all the possible tradeoffs and alternatives considered by the model, there are limited options that offer significant improvements compared to the PFPF's existing portfolio.

IV. Executive Director's Report

a. Fiscal Year 2024 Budget – action requested

Timothy Johnson said the Fiscal Year 2024 PFPF Budget will be presented to the City budget committee in June. He asked Kevin Grant to cover the budget.

Kevin Grant presented the budget memorandum, providing an overview of the proposed operating budget for Fiscal Year 2024, which amounts to \$15,011,090.

He began by discussing the projected revenues:

- Trust Fund Revenues are expected to reach \$14,243,538 for FY24.
- Building Rental Revenues are projected to be \$584,192 for FY24, with anticipated increases offsetting the rent loss during the market and buildout period for new tenants.
- Parking Revenues are estimated at \$183,360, reflecting a slight decrease due to the expiration of tenant contracts resulting from relocations or alternative parking arrangements.
- In total, the projected revenues amount to \$15,011,090.

Next, Kevin Grant addressed the expenditures:

- Personnel expenses are set at \$1,410,611, reflecting an increase due to proposed maximum salary increases averaging 4.5%.
- Operating Expenses are budgeted at \$921,458, representing a reduction in internal service costs.
- Professional Services expenses amount to \$445,522, indicating a decrease resulting from the reduction of several proposed contracted services.
- Investments are projected to reach \$11,800,000, reflecting an increase based on the growth in portfolio holdings and alternative management costs.
- Capital Outlay is set at \$152,000, earmarked for anticipated buildout or significant equipment replacement costs.
- Building Operations expenses amount to \$233,900, reflecting a slight decrease in miscellaneous costs.
- Parking Operations expenses are budgeted at \$47,600, indicating a slight increase in utility and insurance costs.

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- The total projected expenditures amount to \$15,011,090. However, the final budget may be subject to adjustments by the City of Jacksonville for benefit costs and internal service charges.

Brian Smith inquired about the Capital Outlays, and Kevin Grant directed him to the last page of the budget, which provides details of projected Capital Outlays from Fiscal Year 2022 through Fiscal Year 2028, including associated projects. The projected Capital Outlays for Fiscal Year 2024 amount to \$152,000.

Regarding other improvements, such as LED lighting for the office and parking garage, Kevin Grant mentioned that the PFPF had already upgraded all the lighting to LEDs seven years ago under the guidance of the former executive director, John Keane.

Steve Glenn inquired about the investment of trust fund revenues. Timothy Johnson explained that the trust fund revenues are commingled with the rest of the fund and not invested separately.

Brian Smith expressed his satisfaction with the PFPF's proactive approach to maintaining the building and parking garage, emphasizing the importance of preventing disrepair.

Steve Glenn asked about the value of the building and parking garage. Kevin Grant disclosed that their combined value is \$7 million. He mentioned that the PFPF had considered selling the assets in the past, but the Board of Trustees decided against it. The central location of the PFPF office in the City of Jacksonville, along with the convenience provided by the parking garage, made it counterintuitive to sell and relocate. The Board values the current space and intends to maintain it as is.

Steve Glenn moved to recommend approval of the PFPF Fiscal Year 2024 budget to the Board of Trustees, seconded by Brian Chappell. The vote passed unanimously.

V. Counsel Reports

a. *H.B. 3 Update*

Fund Counsel Pedro Herrera provided an overview of House Bill 3, which was recently passed by the Florida Legislature and signed into law by the governor.

The bill is set to take effect on July 1, 2023, and it primarily amends the definition of 'fiduciary'. The amendment specifies that fiduciaries can only consider pecuniary factors when making investment decisions and places limitations on trustees' consideration of ESG (Environmental, Social, and Governance) factors. Additionally, the bill clarifies that pecuniary factors exclude political, social, or ideological interests.

Pedro Herrera emphasized that this bill does not alter the approach followed by the PFPF's investment consultant. The PFPF has always made decisions based on risk and return, aligning with the pecuniary factor principle outlined in the legislation. Essentially, the bill addresses a matter that did not pose an issue in the first place.

Pedro Herrera said the state would provide guidance on the implementation of the bill. Moreover, the legislation requires trustees to file a biannual report demonstrating compliance with the new statutory requirements.

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Although the practical impact on the PFPF's operations is expected to be minimal, Pedro Herrera stated that the Investment Policy Statement will be amended to incorporate any relevant language stemming from the bill.

During the discussion, Kendall Park inquired about the implications of the bill on the use of ESG scores for selecting investment managers. Pedro Herrera responded that, at present, the discussion of ESG factors should no longer be included as part of the decision-making process.

Brian Smith then raised a question regarding Diversity, Equity, and Inclusion (DEI) and whether it falls under the 'S' in ESG, concerning the bill. Pedro Herrera affirmed that he would consider DEI to be encompassed within the 'S' category of ESG.

In response, Brian Smith commented that his understanding is that this bill does not fall within the scope of the FIAC. He clarified that the Board of Trustees holds decision-making authority and provides instructions to RVK. The role of the FIAC is to offer recommendations.

Pedro Herrera agreed with Brian's perspective, stating that he believes the FIAC's role is primarily advisory. The Board of Trustees is the entity responsible for taking formal action. However, he recommended that the FIAC still adhere to the rules outlined in the new bill regarding fiduciaries.

VI. Old Business

VII. New Business

VIII. Upcoming Meetings

- a. Neuberger Berman Manager Update Workshop – Tuesday, May 23, 2023 at 12:00PM*
- b. FIAC Meeting – Tuesday, August 15, 2023 at 3:30PM*

IX. Adjournment
5:00 P.M.

Erwin Lax, FIAC Secretary

Summary Prepared By:

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

Posted: 05/17/2022

To be Approved: 09/15/2023