



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

Tuesday, November 15, 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, January 17, 2023 at 3:30 P.M.

Financial Investment and Advisory Committee

Eric "Brian" Smith Jr., Chair

*Erwin Lax, Secretary

*Brian Chappell

Steve Glenn

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

*Austin Head-Jones, RVK, Investment Consultant

Kevin Schmidt, RVK, Investment Consultant

*Bob Sugarman, Fund Counsel

*Kevin Balaod, With.Intelligence

*Joe Cannon, Bell Partners

*Gar Chung, FIN-News

*Doug Logigian, Kennedy Lewis

*Darren Richman, Kennedy Lewis

*Ben Schryber, Kennedy Lewis

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, November 15, 2022
3:30 P.M. – 5:35 P.M.

Summary

I. Public Speaking

None.

II. Meeting Summaries – action requested

a. *October 24, 2022 FIAC Meeting Summary*

Steve Glenn moved to approve the October 24, 2022 Meeting Summary, seconded by Kendall Park. The vote passed unanimously.

III. Investment Consultant Reports

Jordan Cipriani said that the first recommendation is to commit \$20 million to Bell Partners Value-Add Fund VIII, and the second recommendation is to commit \$30 million to Kennedy Lewis Capital Partners Master Fund III, both of which keeps the Fund on target with its pacing plan.

Brian Smith asked how RVK's presentation on the two funds was received by the Board of Trustees.

Timothy Johnson said the presentation was very good, and that Steve Lundy sent the video to the FIAC.

Steve Glenn said Steve Lundy did send the video and it was very good.

a. *Non-Core Real Estate Recommendation (Bell Partners Value-Add Fund VIII) – action requested*

Joe Cannon of Bell Partners introduced himself, and the Bell Partners Value-Add Fund VIII. He covered the following slides from his presentation:

- We Care. We Deliver. (page 4)
 - Our Purpose: To create communities our residents are proud to call home.
 - Our Mission: To be the apartment company of choice by creating value and honoring commitments to our residents, Partners and associates.
 - Our Core Values
 - Do the Right Thing Every Time
 - Put the Team First
 - Serve Somebody!
 - Outperform

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- Prepare for the Future Today
- The Bell Advantage (page 5)
 - People: 26 Years average senior management industry experience
 - Platform: ~75,000 Units under management (including third-party management)
 - Performance: 2.1x Realized net results across multiple cycles
- Bell Partners Senior Leadership (page 6)
- 45+ Year Operating History (page 7)
 - Tenured multifamily investment fund manager & direct operator with experience navigating multiple market cycles
- Market Selection (page 8)
 - Comprehensive data-driven approach to market selection
- Vertically Integrated Operating Platform (page 9)
 - Centralized leadership with decentralized execution, supported by extensive corporate infrastructure
- A Culture of Inclusivity (page 10)
 - Bell embraces diversity, equity and inclusion by creating a work environment that allows associates to feel like they belong, can contribute to their fullest potential and are inspired to make a difference
- Integrity, Transparency & Performance (page 11)
- Customer Experience, Data Analytics & Technology (page 12)
- Investment Performance (page 13)
- Strong Performer Through Multiple Cycles (page 14)
 - Bell has consistently delivered top quartile performance
- Market Opportunity (page 16)
 - Apartments continue to be a compelling long-term investment opportunity
- Acquisition Criteria (page 17)
- Key Value Add Strategies (page 18)
- Case Study: Bell Salem Station (Realized) (page 20)

Steve Glenn mentioned a mixed-use property in the Brooklyn neighborhood in Jacksonville, noting the high residential occupancy rate and the increasing store front occupancy.

Joe Cannon said that this property was Bell Partners' first acquisition in the Jacksonville market. He mentioned that this specific property is one that Bell Partners manages for another company. COVID was difficult, but leasing has seen a recent uptick.

Steve Glenn said that although he has not entered the property, it appears to be first class and in high demand.

Timothy Johnson asked about the difference between the Value Add and Core strategies.

Joe Cannon said that Bell has two investment strategies, Value Add and Core. Value Add seeks to improve lower quality properties and sell. Core is the acquisition of new properties without significant needed changes, with a longer term hold. Both strategies are complimentary, and are helpful from pricing and operating perspectives.

Brian Smith thanked Joe Cannon for his presentation.

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Tuesday, November 15, 2022
3:30 P.M. – 5:35 P.M.

Steve Glenn moved to accept RVK's recommendation to invest up to \$20 million in the Bell Partners Value Add Fund VIII, seconded by Kendall Park. The vote passed unanimously.

b. Private Credit Recommendation (Kennedy Lewis Capital Partners Master Fund III) – action requested

Jordan Cipriani said that the recommendation is to commit up to \$30 million to the Kennedy Lewis Capital Partners Master Fund III. The presentation is shorter because Kennedy Lewis restricts distribution of its proprietary information to the public.

Austin Head-Jones said that RVK received full transparency through the research process, and RVK has high confidence in Kennedy Lewis.

Jordan Cipriani said that this is bound to happen from time to time. Other RVK clients can hold closed sessions to evaluate managers, but because of the Sunshine Law in Florida, this meeting must be public.

Timothy Johnson said that the Police and Fire Pension Fund is committed to transparency.

Darren Richman introduced himself, Doug Logigian and Ben Schryber of Kennedy Lewis. He noted that all three are Floridians and aware of the unique public records laws in the state. He introduced the firm and the Kennedy Lewis Capital Partners Master Fund III.

Darren Richman began his presentation on page 4, the Executive Summary:

- Firm
 - Founded in 2017, Kennedy Lewis Investment Management (“Kennedy Lewis” or the “Firm”) is an opportunistic credit manager with over \$10.5bn of assets under management
 - 24-person opportunistic credit investment team with credit investment experience across economic cycles, asset classes, industries, and geographies
 - Positioned to take advantage of dislocation across the credit markets
- Senior Management
 - David K. Chene (Co-Founder, Co-Portfolio Manager & Co-Managing Partner) – former Managing Director with CarVal Investors
 - Darren L. Richman (Co-Founder, Co-Portfolio Manager & Co-Managing Partner) – former Senior Managing Director with Blackstone
 - Doug Logigian (Co-Managing Partner & President) – former Senior Managing Director with Blackstone
- Raising Fund III
 - Raising \$3bn for Kennedy Lewis Capital Partners Master Fund III LP (“Fund III”), the Firm’s third opportunistic credit fund
 - Fund III pursues the same strategy as its predecessors, incl. Fund I (2017 vintage, \$516.5mm) & Fund II (2020 vintage, \$2.1bn)
- Strategy
 - All-weather strategy focused on delivering attractive absolute returns
 - Target opportunities in sectors that we believe:
 - Exhibit uncorrelated or countercyclical characteristics to the broader credit markets

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- Are experiencing disruption or going through transition, whether it be cyclical, secular, regulatory related or sparked by innovation
- Proprietary sourcing through scalable industry verticals has allowed Kennedy Lewis to repeatedly exploit identified themes in sectors that are experiencing disruption or going through transition
- Focus primarily on providing first lien loans that are secured by the assets of the business. Often negotiate equity upside (e.g., equity interest, convert feature, warrants, profit share, etc.)
- Flexibility to invest in private and public markets, primarily targeting performing credit opportunities in the US and Europe
- A focus on capital structure seniority (primarily first lien) with strong collateral and covenant packages
- Partnership approach: seek to work closely with management teams to provide structural accommodations that fit the needs of businesses while allowing Kennedy Lewis to earn its target return

Doug Logigian discussed prior vintage funds and how they were invested, especially during the COVID saga. He said the Kennedy Lewis team is excited about the market environment for Fund III. He noted that most of the team's time is spent on directly originated loans, although occasionally Kennedy Lewis will invest in syndicate markets only when there is an acute stress in the market. One example of this was during COVID.

Darren Richman covered Kennedy Lewis' Opportunistic Credit Team on page 5 of the presentation.

Steve Glenn asked for a layman's explanation of the "European Waterfall Distribution".

Ben Schryber said that Kennedy Lewis' portfolio does not get deal-by-deal carry, so the GP does not receive carry in the fund until all investors receive their preferred return. Then, the GP gets distribution in the form of carried interest payments. In the European Waterfall Distribution, the IRR is calculated on the entire portfolio performance versus specific deals.

Timothy Johnson asked how Kennedy Lewis evaluates recession risk.

Darren Richman said that Kennedy Lewis has been writing about higher inflation over the past year and a half. Kennedy Lewis considers disruptions in the economy and the need for capital often. Quarterly, if not weekly, the Chief Risk Officer combs through many macro data points and synthesizes them into a contemporary point of view on the portfolio construction. Kennedy Lewis called inflation early, and morphed the portfolio from a fixed to floating rate exposure.

Brian Smith asked how many and which 'verticals' Kennedy Lewis engages in.

Doug Logigian said the seven verticals are Life Sciences, Power, TMT, Specialty Finance, Homebuilder Finance, Opportunistic Cyclical, and Europe.

Brian Smith asked about disruption.

Darren Richman said there are three types of disruption, cyclical, regulatory, and secular. He gave an example of Kodak, and a highly structured deal Kennedy Lewis made with Kodak as the company was dealing with secular disruption.

Brian Smith asked how Kennedy Lewis partners with companies other than structuring the loan.

Darren Richman said Kodak asked him to join their Board, which is the style of investing Kennedy Lewis engages in. Kennedy Lewis doesn't just give the companies the money, then calls them back in 5 years. Kennedy Lewis partners with the companies.

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Kendall Park asked if Kennedy Lewis has a cap on how much they loan to any one company.

Darren Richman said no one investment would be more than 10% of capital for the fund, or any industry more than 25%. More likely, the investments will be much smaller.

Brian Smith asked for an example in the fitness vertical.

Darren Richman described a deal with F45 Fitness, a high growth franchise that was impacted by the COVID saga, when no one was going to a physical gym. He said that eventually when the company went public, and he joined the board as well.

Doug Logigian said that through the IPO, Kennedy Lewis was fully repaid, and that capital helped F45 through a difficult period.

Doug Logigian gave an example in the bio systems market, and how Kennedy Lewis structured a deal with a company that brought a device to the market which streamlined the bio lab decontamination process.

Steve Glenn asked what percentage or number of loans are in default, where Kennedy Lewis has to recapture collateral.

Darren Richman said that there were two companies in Fund I, but no companies are on the watch list now. Kennedy Lewis got the money back on one deal, and twice the money on the second.

Brian Smith thanked the Kennedy Lewis team for their presentation.

The FIAC discussed public records and the Sunshine Law regarding Kennedy Lewis' individual deals with RVK and Bob Sugarman.

Jordan Cipriani noted that Kennedy Lewis has partnered with other public pension plans in the State of Florida.

Steve Glenn moved to approve RVK's recommendation to allocate up to \$30 million to the Kennedy Lewis Capital Partners Master Fund III, seconded by Kendall Park. The vote passed unanimously (Brian Smith, Steve Glenn, and Kendall Park voted 'aye', Brian Chappell and Erwin Lax had left the meeting by this time of the meeting).

c. Rebalancing Recommendation – action requested

Jordan Cipriani presented RVK's plan for allocating approximately \$157M the PFPF is set to receive at the end of 2022 from the City of Jacksonville as part of the annual advance payroll contribution.

Kendall Park moved to accept the Proposed Rebalance – Annual Payroll Contribution recommendation, seconded by Steve Glenn. The vote passed unanimously.

IV. Executive Director's Report

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V. Counsel Reports

a. Smoothing the Pension Liability Surtax Revenue

Bob Sugarman updated the FIAC on the prospect of smoothing the Pension Liability Surtax Revenue rate. He said his office has researched the Florida Statutes and has not found any prohibitions. OGC is researching Chapter 121, and other sections from the City Code to ensure there are no prohibitions. This actuarial practice is likely legal.

Timothy Johnson said that this is still under review, and the FIAC should see this again next month.

Bob Sugarman said that a lot of his clients are invested in private equity, and today's presentation was the most thorough he has seen, and the managers were well prepared. He said he was particularly impressed by Austin Head-Jones, and is waiting to hear a question she does not have an answer to. RVK is a shining example, and the FIAC is making very informed decisions.

Brian Smith thanked Bob Sugarman for those comments. He noted there is no December FIAC meeting.

VI. Old Business

VII. New Business

VIII. Upcoming Meetings

a. FIAC Meeting – Tuesday, January 17, 2023 at 3:30PM

IX. Adjournment

5:35 P.M.

Erwin Lax, FIAC Secretary

Summary Prepared By:

Steve Lundy, Deputy Director

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Posted: 11/17/2022

To be Approved: 01/17/2023