



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

Tuesday, January 17, 2023

3:30 P.M. – 4:50 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, March 14, 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

Guests

*Jordan Cipriani, RVK, Investment Consultant

*Spencer Hunter, RVK, Investment Consultant

*Pete Strong, GRS, Fund Actuary

*Pedro Herrera, Fund Counsel

*Joe Ebisa, with.Intelligence

Fund Staff

Steve Lundy, Deputy Director

Kevin Grant, Finance Manager

*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. Election of Officers – *action requested*

a. *FIAC Chair*

b. *FIAC Secretary*

Brian Smith said he is willing to serve as Chair for another year, but if someone else wanted to serve, he would be willing to step aside.

Erwin Lax said he would be willing to serve as Secretary, but would be willing to step aside as well.

Steve Glenn moved to nominate Brian Smith as Chair, and Erwin Lax as Secretary of the FIAC for 2023, seconded by Brian Chappell. The vote passed unanimously.

III. Meeting Summaries – *action requested*

a. *November 15, 2022 FIAC Meeting Summary*

Erwin Lax moved to approve the November 15, 2022 FIAC Meeting Summary, seconded by Steve Glenn. The vote passed unanimously.

IV. Reappointment of Kendall Park to FIAC – *action requested*

Steve Glenn moved on to reappoint Kendall Park to the FIAC for a second term, seconded by Erwin Lax. The vote passed unanimously.

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V. Investment Consultant Reports

a. Monthly Investment Performance Analysis – December 31, 2022

Jordan Cipriani informed the FIAC of Kevin Schmidt's departure from RVK. Jim Voytko will continue to be the senior advisor, and the behind-the-scenes staff at RVK remains the same as well. She introduced Spencer Hunter, who will be filling Kevin Schmidt's role.

Spencer Hunter introduced himself to the FIAC. He discussed his experience working with public pension funds, many of which are public safety pension funds like the PFPF.

Jordan Cipriani covered the General Market Commentary on page 2:

- US equity markets declined in December, with most US equity indices posting mid-single digit losses during the month. Developed international equity markets finished the month relatively flat, although emerging markets lagged developed international markets and finished slightly negative.
- Equity markets pulled back primarily due to recession fears and declining economic forecasts, with most experts predicting muted GDP growth in Q4 2022 extending into 2023. Persistent high inflation and geopolitical tension also contributed to the poor equity performance in December.
- At the December 2022 meeting, the Federal Reserve raised interest rates 50 basis point rate to combat the heightened inflation, although the magnitude of this increase was less than the prior four consecutive increases of 75 basis points. The Fed signaled that they expect to keep rates high through 2023 with additional rate hikes, and interest rate reductions are not expected to occur until 2024.
- Equity markets posted mixed returns in December as the S&P 500 (Cap Wtd) Index returned -5.76% and the MSCI EAFE (Net) Index returned 0.08%. Emerging markets returned -1.41%, as measured by the MSCI EM (Net) Index.
- The Bloomberg US Aggregate Bond Index returned -0.45% in December, underperforming the -0.24% return by the Bloomberg US Treasury Intermediate Term Index. International fixed income markets returned 0.25%, as measured by the FTSE Non-US World Gov't Bond Index.
- Public real estate returned -5.14% in December and 3.68% over the trailing five-year period, as measured by the FTSE NAREIT Eq REITs Index (TR).
- The Cambridge US Private Equity Index returned 8.53% for the trailing one-year period and 17.99% for the trailing five-year period ending June 2022.
- Absolute return strategies returned 0.93% for the month and -4.65% over the trailing one-year period, as measured by the HFRI FOF Comp Index.
- Crude oil's price fell by 0.36% during the month but has increased by 6.71% YoY.

Jordan Cipriani said that on a month-to-date basis through January 13, the Fund is up 4%, and up over 10% on a Fiscal Year-to-Date basis.

Steve Glenn complimented RVK on navigating the Fund through recent tumultuous times.

Jordan Cipriani said that the good performance speaks to the Fund's diversification over time, which reduces volatility. Non-Core Real Estate and Private Credit have been a buoy.

Brian Smith asked about Eagle's rough performance.

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Jordan Cipriani said that Eagle is an interesting value manager, and does not tend to be the ‘deepest’ value, as they are more balanced in their approach. They keep pace well in a balanced market. They buy and hold stocks – they will buy value stocks and continue to hold them after they become growth stocks. Amazon is a good example. Eagle has benefitted from this over time, but Amazon was recently down over 25%.

Brian Smith asked if Eagle’s portfolio is concentrated, and if the Russell is an accurate benchmark.

Jordan Cipriani said yes, Eagle has typically between 25-35 stocks, which can lead to a more volatile portfolio. Some clients benchmark Eagle against a core benchmark.

Brian Chappell said that the trailing returns are shown, but would like to see more analysis on a 3-year basis.

Jordan Cipriani said she would be glad to take a deeper dive in the quarterly performance report, on rolling returns and peer performance.

Brian Chappell asked about the benchmark used for the Private Credit portfolio, given that it is a publicly traded benchmark.

Jordan Cipriani said that there is not a great benchmark for the private credit space. RVK thinks this benchmark, plus a premium, is fair. The goal is to not have private credit behave like the benchmark, but to achieve a greater return in the long run.

Jordan Cipriani said that RVK would bring updated pacing analysis for Non-Core Real Estate and Private Credit commitments next month.

VI. Actuary’s Report

a. Draft Fiscal Year 2022 Actuarial Valuation Report – action requested

Pete Strong presented his Draft October 1, 2022 Actuarial Valuation Report. He covered highlights of the report to the FIAC:

- The City contribution requirement increased by about \$14.2 million, from \$157.0 million payable December 1, 2022 to \$171.2 million payable December 1, 2023. Investment and demographic experience losses caused a \$10.6 million increase (mostly from higher salary increases than expected, more retirements than expected, and a 4.8% recognized return on the smoothed actuarial value of assets versus a 6.625% expected return). A Board-approved reduction in the investment return assumption from 6.625% to 6.50% caused a \$4.95 million increase.
- The actual surtax proceeds increased 9.27% from FY 2021 to FY 2022 and the PFPF’s allocation of the surtax increased from 58.3% to 58.9%. Before any changes, this would have caused the City contribution to decrease by \$5.1 million. The Board implemented a 5-year smoothing method this year for recognizing differences between the actual surtax growth rate (+9.27% this year) and the expected surtax growth rate (+4.25%). The use of this smoothing method increased the City contribution by \$3.4 million, making the combined impact of the actual surtax growth and implementing the surtax smoothing method a City contribution decrease of \$1.7 million.

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- The present value of the surtax proceeds increased from \$1.13 billion as of October 1, 2021 to \$1.26 billion as of October 1, 2022 (\$1.28 billion before reflecting the assumption change and the new surtax smoothing method). Projections show the surtax will provide about 46% of future pension fund contributions through 2060 (with 54% coming from the City). On a present value basis (today's dollars), this split is 33% surtax / 67% City contributions.
- If the Pension Liability Surtax did not exist, the required City contribution payable December 1, 2023 would be \$259.8 million (versus the actual required amount of \$171.2 million). This is up from \$236.7 million last year.
- At October 1, 2022, the actuarial accrued liability was \$4.92 billion, the market value of assets was \$1.97 billion, and the actuarial value of assets was \$2.26 billion (vs. \$4.57 B, \$2.46 B, and \$2.20 B, respectively, last year).
- The funded ratio (based on the actuarial value of assets) is 46.0% as of October 1, 2022 (46.7% before reflecting the assumption change), which is a decrease from 48.1% as of October 1, 2021. The funded ratio based on the market value of assets is 40.1% as of October 1, 2022 (a decrease from 53.8% as of October 1, 2021).
- The net unfunded actuarial liability (net of the actuarial value of assets and the present value of the future pension liability surtax) is \$1.40 billion as of October 1, 2022, an increase from \$1.25 billion as of October 1, 2021.
- The Fund's investments earned -16.78% (net of investment expenses) during the year ended 9/30/2022. The average net return in the Fund over the past 5 and 10 years has been +4.3% and +6.5%, respectively.

Steve Glenn asked about the actuarial rate of return assumption, and the assumed sales tax growth rate.

Pete Strong explained the 6.5% return assumption and the 4.25% sales tax growth rate. The City set the sales tax growth rate assumption. He said that the average growth rate since 2016 has been 5.9% per year, so we have been ahead.

Pedro Herrera asked Pete Strong if he had any assumption change recommendations going forward.

Pete Strong said the last experience study was two years ago, and the Fund is not due for another one yet. He said the salary change assumption and the actuarial rate of return assumption are both reasonable for the time being.

Brian Smith asked for a motion to approve.

Steve Glenn moved to approve the Actuarial Valuation Report and recommend approval to the Board of Trustees, seconded by Kendall Park. The vote passed unanimously.

VII. Executive Director's Report

a. Fiscal Year 2023 Work Plan

Steve Lundy covered the Fiscal Year 2023 Work Plan, noting the 8-meeting FIAC schedule for 2023. The FIAC would be taking the months of February, June, July, and December off.

Brian Smith asked about the pacing for private investments.

Jordan Cipriani said that there would likely be 1-2 Non-Core Real Estate recommendations and 1-2 Private Credit recommendations this year, which will come up opportunistically based on fund raising. RVK will try to bring best ideas quickly in months where the FIAC and Board of Trustees both meet.

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Steve Lundy informed the FIAC of the FPPTA conference on October 1-4, and that the Fund would enroll any FIAC members in the conference if they were interested.

b. Investment Policy Review

Brian Smith asked Jordan Cipriani about the Investment Policy Review.

Jordan Cipriani said this is a hygiene update on the IPS to make sure it is current and up to date. This would be a proactive review RVK would lead.

Steve Lundy said he would email the current IPS to the FIAC.

VIII. Counsel Reports

Pedro Herrera said he has nothing to report, other than the Bell mandate was completed at the end of 2022, and that he is working on the Kennedy Lewis private credit mandate and should be ready in the next few weeks.

IX. Old Business

X. New Business

XI. Upcoming Meetings

a. FIAC Meeting – Tuesday, March 14, 2023 at 3:30PM

XII. Adjournment

4:50 P.M.

Erwin Lax, FIAC Secretary

Summary Prepared By:

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

Posted: 01/23/2022

To be Approved: 03/14/2023