



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

Friday, May 14, 2021

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 June 11, 2021 at 3:30 P.M.

Financial Investment and Advisory Committee

Eric "Brian" Smith Jr., Chair via ZOOM
Rodney Van Pelt, Secretary
Erwin Lax
Jim Mattera
Kendall Park

Staff

Timothy H. Johnson, Executive Director – Plan Administrator
Steve Lundy, Deputy Director
Kevin Grant, Finance Manager
Kevin Schmidt, RVK, Investment Consultant
Jim Voytko, RVK, Investment Consultant
Austin Head-Jones, RVK, Investment Consultant
Pedro Herrera, Fund Counsel

Guests

Keith Ashton, Ares Management Corporation
Josh Jobs, Ares Management Corporation
Will Lee, Ares Management Corporation

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
Friday, May 14, 2021
3:30 P.M. – 5:09 P.M.

Agenda

I. Public Speaking

None.

II. Meeting Summaries

- a. *March 12, 2020 FIAC Meeting Summary*
- b. *April 30, 2020 Board of Trustees and FIAC Joint Meeting*

Rodney Van Pelt made a motion to approve the meeting summaries. Seconded by Erwin Lax. The vote passed unanimously.

III. Investment Consultant Reports

- a. *Investment Policy Statement Updates*

Kevin Schmidt discussed the updates to the Investment Policy Statement, which will make the Non-Core Real Estate and Private Credit buildout easier to track and monitor going forward. Also, 0% floors have been added to those allocations to provide flexibility in the buildout.

Rodney Van Pelt made a motion to recommend that the Board of Trustees adopt the changes to the Investment Policy Statement. Seconded by Erwin Lax. The vote passed unanimously.

- b. *Ares Pathfinder Core Fund & Recommendation Memo*

Recommendation Memo

The FIAC discussed whether they could vote to recommend Ares to be approved by the Board, even though RVK has not been approved as the Non-Discretionary Consultant yet.

Brian Smith said that in the interest of time, we are going to assume it would be OK to vote on Ares. He asked RVK to review their recommendation.

Austin Head-Jones reviewed RVK's recommendation to hire Ares Management Corporation and to commit \$100 million to their Pathfinder Core Fund. This is an evergreen fund run by a top-tier team, and avoids certain layer fees. Also, Ares offers a competitive management fee – including a founder's fee discount – and a fee holiday. A commitment of \$100

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Friday, May 14, 2021
3:30 P.M. – 5:09 P.M.

million to the Ares Pathfinder Core Fund would let the PFPF achieve its capital commitment goals for the year based on RVK's pacing plan.

a. Monthly Investment Performance Analysis – April 30, 2021 – Preliminary

Kevin Schmidt covered the General Market Commentary on page 2 of the Monthly Investment Performance Analysis:

- Global equity markets experienced another positive month, logging a third consecutive monthly gain. All major indices posted low to mid-single digit returns, with large cap and growth indices generally outperforming their small cap and value counterparts.
- Despite the upward trend in lockdown measures and COVID-19 cases worldwide, strong private sector activity and an improvement in labor market conditions led to market optimism and a positive economic outlook.
- Even while acknowledging an improving economy and rising inflation, the Federal Reserve once again confirmed it will keep short term interest rates anchored near zero, and will continue with its current pace of bond purchases, stating that the US economic recovery is far from complete.
- Equity markets posted positive returns in April as the S&P 500 (Cap Wtd) Index returned 5.34% and the MSCI EAFE (Net) Index returned 3.01%. Emerging markets returned 2.49% as measured by the MSCI EM (Net) Index.
- The Bloomberg US Aggregate Bond Index returned 0.79% in April, outperforming the 0.38% return by the Bloomberg US Treasury Intermediate Term Index. International fixed income markets returned 1.36%, as measured by the FTSE Non-US World Gov't Bond Index.
- Public real estate, as measured by the FTSE NAREIT Eq REITs Index (TR), returned 8.06% in April and 7.50% over the trailing five-year period.
- The Cambridge US Private Equity Index returned 22.93% for the trailing one-year period and 15.59% for the trailing five-year period ending December 2020.
- Absolute return strategies, as measured by the HFRI FOF Comp Index, returned 2.31% for the month and 22.54% over the trailing one-year period.
- Crude oil's price increased by 7.47% during the month, and has increased by 237.47% YoY.

Ares Pathfinder Core Fund

Austin Head-Jones introduced Ares Management Corporation. Keith Ashton, Josh Jobs, and Will Lee of Ares were present for the call.

Keith Ashton, Josh Jobs, and Will Lee covered the following slides and topics in their presentation:

- Overview of Ares Management (page 4)
 - With approximately \$207 billion in assets under management, Ares Management Corporation is a global alternative investment manager operating integrated businesses across Credit, Private Equity, Real Estate and Strategic Initiatives
- Driving Investing & Organizational Excellence Through ESG Integration (page 5)

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
Friday, May 14, 2021
3:30 P.M. – 5:09 P.M.

- We strive to achieve better investment outcomes and leave a lasting positive impact on our companies and communities
- We believe integrating ESG factors into the investment process across strategies generates superior returns and drives positive change in our local communities and the world at large
- Ares' own corporate sustainability initiatives on material topics such as Inclusion & Diversity, Climate Change and Volunteerism & Philanthropy reflect our view that they are good for business
- Ares Alternative Credit Capabilities (page 7)
 - Ares is a leader in the Alternative Credit markets
 - Track Record: 1.3bps realized annualized loss rate across Alt Credit
- Overview of Pathfinder Core (page 8)
 - Asset-Focused, Evergreen Income Strategy;
 - \$1.5 billion+ initial target seeking to deliver 8-10% net returns with a 90%+ income distribution rate;
 - Diversified portfolio of at least 50 investments (with significant collateral diversification), with ~1-3% average position sizes
 - We invest in large, diversified portfolios of assets that generate contractual cash flows and have demonstrated stable performance throughout cycles. These asset pools generally consist of loans, leases, and receivables
- Comparing Investment Cash Flow Profiles (page 9)
 - Private Equity: Typically receives little to no cash flow until a realization event (e.g., the sale or IPO of the company);
 - Corporate Debt: Typically receives only interest coupons until a realization event (e.g., the refinancing of the debt or sale of the company).
 - Alternative Credit: Typically sees a high volume of front-loaded cash flows from the underlying assets. It does not rely on a realization event.
- Designing Investments for Stressful Times (page 11)
 - Focused on assets that generate resilient cash flows.
 - Designed to withstand an economic downturn.
 - Designed with structural features to ensure a full recovery.
- Ares Alt Credit Track Record
 - Since 2011, Ares has invested ~\$15.0 billion across 1,615+ investments with an annualized loss rate of 1.3bps
 - The Total Alt Credit track record is comprised of the "Pathfinder Core Strategy Subset" and "Liquid IG Alt Credit"
 - "Pathfinder Core Strategy Subset" consists of investments made in strategies with risk-return objectives aligned with those of Pathfinder Core
 - "Liquid IG Alt Credit" consists of investments made in strategies focused on lower risk-return objectives including investment grade rated investments
- Case Study: Healthcare Receivables Facility (page 30)
- Proposed Summary of Key Terms (page 21)
 - Target Size: \$1.5 billion
 - Target Net Returns: 8-10%
- Key Economic Terms (page 22)

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
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3:30 P.M. – 5:09 P.M.

- Founders + RVK Commitment of \$150 million:
 - Base Fee: 1.000%
 - Fee Holiday: 12 months

Brian Smith dismissed Ares from the meeting so that the FIAC could discuss.

Brian Smith asked RVK to summarize the main reasons they are recommending Ares.

Austin Head-Jones said that from RVK's perspective, Ares is a good choice because of manager skill, risk adjusted relative value, and goodness of fit.

Jim Voytko added that the founder's fee discount is an advantage.

Rodney Van Pelt asked about the timing of this decision.

Austin Head-Jones said that the commitment should be ready by the end of June or first week in July.

Kevin Schmidt said that RVK was hoping for an FIAC decision today, and a Board decision Friday. It would be doubtful that there would be sufficient time to wait until the June meetings considering the large amount of legal paperwork necessary to complete before funding.

Jim Voytko said that acting now allows you to condition the recommendation on a positive legal review.

Rodney Van Pelt asked what would be next, if the FIAC decided to not approve Ares today.

Austin Head-Jones said RVK has additional managers to present over the next year, which are not the same as Ares. There would be less of a diversification angle, and higher risk overall. Today's product is more conservative, although it would not be the only option. The fees among other funds would be higher. Founder's fee discounts such as this one are fairly rare.

Rodney Van Pelt asked about the risk profile.

Austin Head-Jones said that among other strategies, the loss rate would be closer to 50-100bps compared to the 1.3bps of the Pathfinder Core Fund.

Brian Smith entertained a motion to accept RVK's recommendation to invest in the Ares Pathfinder Core Fund at the \$100 million level.

Kendall Park so moved. Seconded by Jim Mattera. Discussion:

Rodney Van Pelt asked if there should be a contingency on the motion assuming the Board of Trustees approves the recommendation to hire RVK as the non-discretionary consultant.

Brian Smith said his thoughts would be that since the FIAC recommended the Board of Trustees to accept RVK as the non-discretionary consultant, then there is no need for contingency. The Board will accept or reject the FIAC's recommendations.

The vote passed unanimously.

City of Jacksonville Police and Fire Pension Fund
Summary to the Regular F.I.A.C. Meeting of
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b. Exiting Master Limited Partnerships Memo

IV. Executive Director's Report

Timothy Johnson said that Kevin Schmidt wrote a great memo discussing MLPs, and that the \$100 million for the Ares Pathfinder Core Fund may be funded through a liquidation of the MLP allocation.

a. Fiscal Year 2022 PFPF Budget

Kevin Grant covered the PFPF Fiscal Year 2022 budget memo. He covered the revenues and expenses, and briefly described each category of revenues and expenses. The proposed budget for FY2022 totals \$12,363,805.

b. Fiduciary Liability Insurance

Kevin Grant updated the FIAC on the process of adding the additional coverage to the current fiduciary liability insurance package. The additional coverage will bring coverage from \$1 million to \$3 million, and would add the Benefits Advisory Committee and the FIAC to the coverage plan.

V. Next Meeting – June 11, 2021 at 3:30 P.M.

VI. Adjournment
5:09 P.M.

Rodney Van Pelt, FIAC Secretary

Summary Prepared By:

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

Posted: 05/17/2021

To be Approved: 06/11/2021