



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

Friday, June 11, 2021

3:30 P.M. – 5:10 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 August 13, 2021 at 3:30 P.M.

### Financial Investment and Advisory Committee

Eric “Brian” Smith Jr., Chair  
Jim Mattera  
Kendall Park

### Excused

Rodney Van Pelt, Secretary  
Erwin Lax

### Staff

Timothy H. Johnson, Executive Director – Plan Administrator  
Steve Lundy, Deputy Director  
Kevin Grant, Finance Manager  
Jordan Cipriani, RVK, Investment Consultant (via ZOOM)  
Jim Voytko, RVK, Investment Consultant (via ZOOM)  
Bob Sugarman, Fund Counsel (via ZOOM)

### Notice

Meeting Agendas and Summaries are available on our website at [jaxpfpf.coj.net](http://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](mailto: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](mailto: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.

### Summary

#### I. Public Speaking

None.

#### II. Meeting Summaries

*a. May 14, 2021 FIAC Meeting Summary*

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Timothy Johnson said that all of the FIAC's recommendations were presented to the Board of Trustees and accepted as proposed in May. He added that since RVK gave a professional recommendation for investment in the Ares Pathfinder Core Fund, an RFP was unnecessary.

**Kendall Park made a motion to approve the May 14, 2021 FIAC Meeting Summary. Seconded by Jim Mattera. The vote passed unanimously.**

III. Investment Consultant Reports

*a. Monthly Investment Performance Analysis – May 31, 2021 – Preliminary*

Jordan Cipriani covered the General Market Commentary from the Monthly Investment Performance Analysis:

- US equity markets yielded mixed results in May, experiencing a sell-off mid-month before rallying in the second half of the month to finish relatively flat. Value indices significantly outpaced their growth counterparts as technology stocks did not fare well during the month, finishing with a negative return for May. Inflation concerns combined with disappointing job growth contributed to the mid-month sell-off. Per the Department of Labor, only 266,000 new jobs were added in April compared to expectations of over 1 million, and the unemployment rate was little changed at 6.1%.
- The Federal Open Market Committee's minutes from their April meeting were released on May 19th, which aided the US equity market's rally late in the month. The Fed continued to project interest rates remaining low for years to come, but there has been some discussion regarding tapering the pace of asset purchases to keep inflation from rising too rapidly. The Fed also noted that they believe the current rise in inflation is transitory, though the 3.1% increase in PCE and 4.2% jump in CPI on a year-over-year basis led many investors to believe near-term inflation may be higher than initially projected by the Fed.
- International equity markets recorded their 4th consecutive monthly gain, finishing with low single digit returns. Strong economic data and accommodative monetary policy contributed to the strong performance for the month. COVID-19 cases have begun falling globally and countries have begun to reopen for tourism, adding to optimism for the international equity market going forward.
- Equity markets posted positive returns in May as the S&P 500 (Cap Wtd) Index returned 0.70% and the MSCI EAFE (Net) Index returned 3.26%. Emerging markets returned 2.32% as measured by the MSCI EM (Net) Index.
- The Bloomberg US Aggregate Bond Index returned 0.33% in May, outperforming the 0.32% return by the Bloomberg US Treasury Intermediate Term Index. International fixed income markets returned 1.23%, 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 1.02% in May and 7.20% 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 0.48% for the month and 20.39% over the trailing one-year period.
- Crude oil's price increased by 4.31% during the month, and has increased by 86.87% YoY.

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Jordan Cipriani covered the Asset Allocation by Asset Class, and the Asset Allocation vs. Legacy and Current Target Allocations on pages 3-4. She also discussed the Asset Allocation & Performance (Net of Fees) on pages 6-7. The Fund earned a very strong 22.25% Fiscal Year-to-Date return as of May 31.

Brian Smith asked about Baillie Gifford's underperformance for the month of May.

Jordan Cipriani said that Baillie Gifford has really benefitted from the recent market conditions that favored a heavy orientation to tech and 'user experience' stocks like Uber Eats. In May, there was a pullback in these names. Baillie Gifford runs a concentrated portfolio, and it is not unusual to see this kind of swing on a monthly basis. Their strong trailing 1-year return is 50.96%, outperforming the benchmark by 11.04%.

*b. Active Management Fee Discussion*

Jordan Cipriani said there has always been concern among clients for paying high fees for active management, when the active manager may appear to be managing 'passively'. She introduced the 'Eagle Capital Large Cap Value Analysis'.

- RVK was tasked by the Executive Director and a member of the Board to produce an analysis which seeks to explore varying characteristics of the PFPF's current active equity managers in order to evaluate elements such as desired holding periods, differences in holding weight between a fund and its stated benchmark, and ultimately the value add on a net of fee basis.
  - Using the Eagle Capital Large Cap Value portfolio as an agreed upon example, RVK has, on the following slides, calculated the below data points which seek to address those areas of request:
  - Average Number of Holdings
  - Annual Turnover
  - Active Share
  - Fees
  - Performance vs. the Benchmark
- Average Number of Holdings
  - Historically, Eagle Capital has consistently held between 25 and 35 names, placing them at the low end of the active Large Cap manager peer group (e.g. the strategy is more concentrated than many of its peers).
- Annual Turnover
  - Over the long term, Eagle turnover has averaged between 20% and 25%. Said another way, the average historical holding period for any name in the portfolio is between four and five years.
    - Generally, value funds tend to have lower turnover rates as a result of the investment philosophy. Managers seek securities that are undervalued relative to the market and hold them until they appreciate to a targeted stock price.
    - Additionally, we expect portfolios with a lower number of holdings to have lower turnover, as managers rely more on long-term fundamental research which focuses on trends that don't change significantly over time (the highest quality companies typically stay high quality for quite a while).
- Active Share

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- Active share is a measure of the percentage of stock holdings in a managers portfolio that differs from the benchmark (higher is better).
  - Typically, within large cap, an active share of below 60% is considered low (closet indexers), 60-75% is average, and above 75% is high.
- Eagle has historically had an active share in line with the highest quartile in the universe.
- PFPF Active Equity Managers
  - Compared to the PFPF's seven other active equity managers, Eagle ranks as having:
    - The lowest average number of holdings
    - Fourth lowest average annual turnover
    - Fifth highest active share

Timothy Johnson added that a member of the Board of Trustees had asked Kevin Grant to analyze Eagle's holdings, and asked if we were paying too much in fees for stocks we could have just bought and held passively.

Jim Voytko said that RVK has had many conversations with this Trustee. We have to consider if the manager has produced excess returns. Managers who ask for high fees must produce excess returns and have a high active share. Eagle passes these tests.

- Fees
  - Eagle Capital ranks in the 95th percentile of the Large Cap Value Manager Fee peer group.
  - Up until recently, the strategy was closed, and historically the manager has not offered any fee breaks after the first \$5 million in invested assets. Following discussions with the Jacksonville PFPF ED and the ERS Board, RVK plans to begin conversations with the manager to explore options to potentially reduce or evolve the structure of current fees paid.

Jordan Cipriani added that there has been discussion at the General Employees' Pension Plan regarding exploring options to lower fees, or to evolve the fee structure, perhaps in concert with the PFPF. We would bring any options back to the FIAC and Board of Trustees.

Kendall Park asked if 'active share' is similar to 'alpha'.

Jim Voytko said that alpha is different – alpha considers volatility risk, and is a measure of performance versus the benchmark. Active share is a measure of how different the portfolio is structured versus the benchmark – this is an opportunity for excess return, but no guarantee.

Jim Mattera asked if this fee discussion has happened regularly.

Tim Johnson said this is the first time it has happened.

Brian Smith said he recalled when RVK was interviewing to become the PFPF's investment consultant, they said they would always be willing to work on lowering fees. This is one reason RVK was selected. He thanked RVK for looking into this.

*c. Transition Management Discussion*

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Jordan Cipriani introduced the 'Discussion of Transition Objectives/Challenges' with the FIAC. As a result of dialogue with the FIAC and Board of Trustees last month, RVK was tasked with analyzing transition management bids for the liquidation of the PFPF's MLP assets, which will fund the Ares Pathfinder Core Fund. The first close will happen at the beginning of July. This does not mean capital will be called at this same time. Ares has indicated the initial capital call will be in September, and for between 5-15% of the \$100 million commitment for \$5-15 million. The remainder will be called over the remaining 12 months.

- RVK assessed the bids using both a quantitative/economic standpoint and a qualitative overlay based on review of the bids.
- Bids were from Loop Capital, State Street, and Northern Trust.
- Northern Trust provided a strong bid that outlined an effective project management approach while evidencing capable and strong trading abilities and competitive explicit cost/commission pricing. Northern Trust's mean cost estimate is marginally higher than the lowest estimate provided, although with a somewhat wider one standard deviation opportunity cost range, which RVK views as reasonable given the trading strategy involved. Northern Trust put forward a high-quality proposal responsive to the specific factors being reviewed. We believe that the firm and proposed team are capable of effective project management and interaction with the legacy investment managers for this transition. Additionally, Northern Trust has increased integration as it is also the custodian bank, and ultimately the cash proceeds raised are to be invested in a Northern Trust Index Fund. Finally, Northern Trust already has a transition management contract with PFPF and would be able to execute the transition with the least amount of expected time requirements for contract negotiation and execution.
- RVK scored Northern Trust at 5 and recommend their retention for this event.

Jordan Cipriani said she hopes the transition will conclude in late June or early July. The FIAC and Board of Trustees are not meeting in July, so RVK is recommending to give the Executive Director authority to fulfill the initial capital call in September 2021 with proceeds from this liquidation.

Brian Smith asked Jordan Cipriani to simplify the description of the transition process.

Jordan Cipriani discussed the transition process as shown on page 2. There are approximately \$76 million in MLP assets to liquidate. The assets would be liquidated to cash, and invested in the Northern Trust bond fund, which has daily liquidity. Of this \$76 million, in September, Timothy Johnson would get a capital call for approximately \$5-15 million. He would direct Northern Trust to liquidate that amount same day for cash, and transferred to Ares to fulfill the capital call. This would be the first of several quarters of capital calls from Ares.

Brian Smith asked if liquidating \$76 million in MLPs would be a full exit out of the MLP asset class.

Jordan Cipriani said this would be a complete exit.

Brian Smith asked how much was in the Northern Trust bond fund currently.

Jordan Cipriani said there is approximately \$23 million in the Northern Trust bond fund.

Jim Voytko said that if there was a rally in equities, at that point, we may look at the portfolio and say we should reduce the overweight to equities when funding Ares.

**Brian Smith entertained a motion to "utilize Northern Trust for transition management to liquidate the two active MLP funds, and to go into the Northern Trust bond fund. Also, understanding that the FIAC is not meeting in July, to give the**

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Executive Director, at his discretion, the ability to fund the capital call, should one come in the interim before the August meeting.”

Jim Mattera “so moved” the entertained motion. Seconded by Kendall Park. The vote passed unanimously.

#### IV. Executive Director’s Report

Timothy Johnson said that many people are taking vacations this summer, and suggested the FIAC and Board of Trustees take a hiatus from public meetings in July. He said he would like a motion to cancel the FIAC’s meeting in July since it had already been posted.

Jim Mattera made a motion to cancel the FIAC’s July meeting. Seconded by Kendall Park. The vote passed unanimously.

Timothy Johnson informed the FIAC that Rodney Van Pelt has said that he would not likely finish his term on the FIAC – he is moving out of the state. We need a new candidate to fill his spot, and asked the FIAC to send him suggestions.

Kendall Park asked if there was somewhere to find the requirements for FIAC membership.

Timothy Johnson said that Steve Lundy would send Kendall Park the ordinance code requirements for FIAC membership.

Timothy Johnson said that Kevin Grant would bring a recommendation from the Fund Actuary in August to the FIAC regarding the method of reimbursing the City for its payment of benefits. The PFPF reimburses the City for its payment of benefits in September, and then City pays an annual contribution to the Plan in December, which is almost the same amount of money. The new method would be to net these amounts.

Brian Smith asked if this would require City Council approval.

Timothy Johnson said it would not require City Council approval, just from the City Treasurer.

Timothy Johnson said that the FIAC Work Plan and meeting schedule will be discussed in August. He said he is recommending the FIAC meet 8 times per year instead of 12, and focusing on the statutory requirements of the FIAC. These requirements are the Actuarial Valuation, Audit, Investment Policy, and quarterly performance.

Brian Smith said he would be for the lighter meeting schedule, assuming there would be no need for special meetings.

#### V. Counsel Reports

##### *a. Form 1 2020: Statement of Financial Interests*

Bob Sugarman reminded the FIAC to complete the Form 1 2020: Statement of Financial Interests. This is due by July 1 at the Supervisor of Elections.

Brian Smith said that historically, the FIAC and Board of Trustees has given the completed Form 1s to Steve Lundy to file.

Steve Lundy agreed and said he would do this again this year.

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Bob Sugarman said this is a good service the PFPF provides. He reminded the FIAC to save their receipts upon filing the Form 1s.

VI. Old Business

None.

VII. New Business

None.

VIII. Next Meeting – August 13, 2021 at 3:30 P.M.  
*(no meeting in July)*

IX. Adjournment  
5:10 P.M.

Rodney Van Pelt, FIAC Secretary

**Summary Prepared By:**

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

**Posted:** 06/15/2021

**To be Approved:** 08/13/2021