



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

Friday, August 13, 2021

3:30 P.M. – 5:01 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 September 10, 2021 at 3:30 P.M.

Financial Investment and Advisory Committee

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

Guests

Steve Glenn – via ZOOM
Renzer Bell
Bill Kincaid – via ZOOM
Lauren Albanese, FIN News – via ZOOM

Staff

Timothy H. Johnson, Executive Director – Plan Administrator
Steve Lundy, Deputy Director
Kevin Grant, Finance Manager
Jordan Cipriani, RVK, Investment Consultant – via ZOOM
Kevin Schmidt, RVK, Investment Consultant – via ZOOM
Pete Strong, GRS, Fund Actuary – via ZOOM
Matt Tranowski, Northern Trust, Fund Custodian – via ZOOM
Bob Sugarman, Fund Counsel – via ZOOM

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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Agenda

I. Public Speaking

Renzer Bell questioned the Public Speaking period's placement at the beginning of the agenda, noting it is before the presentations.

Steve Lundy said that the Police and Fire Pension Fund – like the other Boards and Commissions of the City of Jacksonville – places the Public Speaking period at the beginning of the agenda so that the public may comment and provide input on agenda items prior to action.

Brian Smith said the public would complain if not allowed to speak before action is taken. He gave Mr. Bell 3 minutes of public comment time.

Renzer Bell spoke to the topics of manager fees, risk management, unfunded liability, and manager incentives. He said that focusing too much on cutting manager fees, managers could be disincentivized to outperform.

II. Meeting Summaries

a. June 11, 2021 FIAC Meeting Summary

Kendall Park moved to approve the June 11, 2021 FIAC Meeting Summary, seconded by Erwin Lax. The vote passed unanimously.

III. Fund Actuary Reports, Pete Strong, GRS

a. Analysis of Cash Flow Consolidation Recommendation

Kevin Grant discussed his handout, "Annual Contribution Rebalancing Analysis". He said he and Pete Strong analyzed this issue and shared their recommendations with the City. Discussions with the City continued, focusing on changes to be made to the process.

Kevin Grant covered the definitions on page 1, and the process timeline on page 2. He covered the Historical COJ Contributions and PFPF Repayments on page 3. On page 4, he discussed the Contribution and Beneficiary Payroll Amounts.

Pete Strong covered his "Analysis of Cash Flow Consolidation Recommendation" memo, which contains two recommendations for consolidating the process for efficiency. The first recommendation was to take out the expected City Contribution, and net it out against the September reimbursement. The net amount would be about \$30-40 million, instead of \$170 million.

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Pete Strong covered his alternative recommendation, which is to pay retirees' benefit payments and treat it as the City's Contributions to the PFPF, until the total amount equals the City Contribution for the year. The remaining benefit payments would be repaid, which will be much lower than the \$170 million. The City preferred this recommendation over the first. There would be interest during the year.

Timothy Johnson said he would like a recommendation to bring to the Board of Trustees.

Rodney Van Pelt asked what interest rate the City would pay.

Pete Strong said that would currently be 6.9%, but in light of recent excellent market returns, the capital market forecasts are predicting a reversion to the mean. He said his recommendation is to continue lowering the assumed rate below the current 6.9% number.

Rodney Van Pelt moved to recommend the Board of Trustees accept Pete Strong's second recommendation, which was accepted by the City of Jacksonville, to begin in October 2022 (calendar year), seconded by Erwin Lax.

Discussion:

Brian Smith asked if the PFPF and City could come back to the drawing board later to further discuss the process, considering originally the first recommendation was preferred by the PFPF.

Kevin Grant said that we tried to leave it on the table, and to have options open, but the City was reluctant. We let them know we would leave it on the table.

Rodney Van Pelt said that even with recommendation number two, considering the interest rate, it is like a super bond fund – earning 6.9% on \$100 million – maybe it's not a bad idea.

The vote passed unanimously.

Kevin Schmidt started discussion on the RVK Memo, "Proposed Rebalance – Annual Payroll Reimbursement",

"The purpose of this memo is to discuss a plan to raise approximately \$175 million for the PFPF's annual payroll reimbursement due at the end of September 2021. Please note this figure reflects Staff's best estimate at this time, but it is possible the final amount may fluctuate modestly. In turn, any recommendations below would be adjusted accordingly by Staff, in conjunction with RVK, prior to execution. [...] based on preliminary data as of July 31, 2021, the portfolio is currently 8.4% overweight its target (37%) to US Equity, and notably 3.4% overweight the high end of its allowable policy range (42%). Given this large relative overweight, coupled with the relative ease of obtaining liquidity within the asset class, RVK recommends the US Equity allocation be used as the primary source of cash for the upcoming raise. Doing so will both reduce the overweight to the asset class and bring the allocation back within its allowable policy range. More specifically, within US Equity, both Large Cap Equity and Small-Mid Cap Equity are overweight their respective sub-asset class targets. Accordingly, our approach has sought to bring both sub-asset classes closer to their long-term targets, while maintaining fairly style neutral positioning within each sub-asset class composite."

Kevin Schmidt gave an overview of Figure 2, which details RVK's proposed plan to redeem approximately \$175 million from the US Equity composite, "Post transaction, the asset class will remain overweight its respective target, but within policy limits. That said, this overweight is anticipated, given the underweights within the to-be-built out Private Credit and Non-Core asset classes. The proposed transactions seek to bring the growth and value styles back to relatively equitable weights, while also seeking to achieve an equitable split between the growth managers post rebalance. [...]"

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Upon approval by the FIAC and Board, RVK will assist Staff with finalizing the transactions figures, and Staff will execute the transactions accordingly.”

Jordan Cipriani said that all managers will have ample time to liquidate assets.

Kevin Schmidt added that with the Board’s approval of the Ares Pathfinder Core Fund, we will be drawing down more dollars in the next few months with the first capital call. Most of these dollars are held by Northern Trust in the Aggregate Bond Index, which came from the MLP termination and transition.

Rodney Van Pelt asked if there was an intent to increase the percentage of assets in passive allocations, or if this was just balancing.

Kevin Schmidt said the short answer is no, RVK has not defined a split between active and passive management styles insomuch as we have tried to balance between value and growth.

Rodney Van Pelt asked if managers become disincentivized over the years if this position is maintained – to take more from their allocations to rebalance.

Kevin Schmidt said that he is not sure they are disincentivized, but they understand pension funds need money to pay benefits, and expect money to go out the door. Ultimately, they are incentivized to grow assets. No one is penalized on performance.

Timothy Johnson thanked RVK for a quick turnaround on this memo, and getting this to the FIAC in august.

Brian Smith opened the floor for public comment since this item was not on the agenda. There was no request for public comment.

Erwin Lax moved to approve RVK’s recommendation for the Proposed Rebalance – Annual Payroll Reimbursement, seconded by Kendall Park. The vote passed unanimously.

Rodney Van Pelt asked if the current method would be used next year.

Kevin Grant said the current method would be used one more time, next year.

Rodney Van Pelt suggested getting this memo a month earlier in July, which would give the FIAC time to digest the information.

Timothy Johnson said we could give a good estimate.

Timothy Johnson and Kevin Grant thanked Pete Strong for his time, effort, and patience.

Kevin Schmidt said that a July estimate could be provided, but it would be based on June 30th numbers. If July is a strange month in the markets, RVK could come with a significantly different proposal.

Jordan Cipriani said RVK is happy to provide this information, and market values are easy to update.

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IV. Fund Custodian Reports, Matt Tranowski, Northern Trust

a. Transition Management Report

Bill Kincaid of Northern Trust covered the Transition Management Report. The last time the PFPF used Northern Trust for transition management was in 2016. He discussed the topics from the following slides:

- Transition Management Overview:
 - Transition Management Global Team (page 2)
 - The Northern Trust Difference (page 3)
- Post-Trade Summary
 - Post-Trade Summary: Event Summary & Funding Details (page 1)
 - Termination of Tortoise Capital and Harvest Fund Advisors.
 - Northern Trust Transition Management liquidated the portfolio to cash and subsequently invested the proceeds in the NTAM Agg Bond Collective Fund.
 - The transition trade began on Mon, Jul 12, 2021, and was completed on Fri, Jul 16, 2021.
 - The implementation shortfall of 1,404,424, or 174.2 basis points (bps), was outside the maximum pre-trade shortfall estimate of 783,541, or 99.0 bps.
 - As noted throughout the transition, the Energy sector was performing very poorly during the transition time period, with that sector (S&P 500 Energy Index) down 771 basis points while we were liquidating. In addition, overnight gap on the first day of trading (comparing the market open vs. the previous day's close) accounts for 84 basis points of the transition performance.
 - Portfolio: Performance (page 3)

Jordan Cipriani said that RVK expected this trade to take two days, but credit is due to Northern Trust, as they slowed pace as not to push prices and take more losses. Northern Trust navigated a challenging week in the energy sector. This was a well timed decision.

Brian Smith asked if the spread of trades through the week was in consideration of weak demand in the marketplace.

Bill Kincaid said absolutely – the issue is daily average volume. If everything was traded in one day, the result would have been disastrous. Considering the crazy week, Northern Trust feels good about the value preserved for the Fund.

Timothy Johnson said this was a great presentation, and value was added by trade execution. He asked about explicit and implicit costs.

Bill Kincaid said that page two covers the costs.

V. Investment Consultant Reports

a. MWBE & SDVOB Broker / Dealer Utilization Report

Jordan Cipriani covered the Minority/Women-owned Business Enterprises and Service-Disabled Veteran-owned Businesses Broker / Dealer Utilization Report. RVK worked with PFPF Staff earlier this year to create a process of tracking diverse brokers and dealers utilized by the Fund's money managers. RVK committed to report this semiannually.

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Jordan Cipriani covered page 3, the Current State of MWBE & SDVOB Broker / Dealer Utilization:

- \$79,865 of trading commissions were paid to MWBE & SDVOB broker / dealers for the time period October 1, 2020 – March 31, 2021 by PFPF's Equity managers.
 - This is an increase from the \$72,730 of reported MWBE & SDVOB Equity commissions reported for FY 2020.
- Northern Trust continues to have the highest usage of MWBE & SDVOB broker / dealers, accounting for 90% of all commissions paid to those firms by PFPF's Equity managers.
- Equity commissions paid to MWBE & SDVOB broker / dealers were split fairly evenly between the US Equity composite (47%) and International Equity composite (53%).
- Currently, only two firms (Northern Trust and Pinnacle), have a stated target for a % of total commissions to be paid to MWBE & SDVOB firms.
 - Northern Trust and Pinnacle have stated targets of 15% and 30%, respectively, for MWBE & SDVOB broker / dealer utilization as a % of total commissions; this is an increase from 10% and 25%, respectively.

Brian Smith asked what Northern Trust's high usage was attributed to.

Jordan Cipriani said that Northern Trust has stated goals to commit to diverse brokers. They are sticking to their goals, and have actually increased their goals from 10% utilization to 15% utilization. Also, index funds are traded more frequently, so more total dollars may be derived from that activity.

Rodney Van Pelt said this is a nice improvement, but there is concern some managers have zero utilization.

Jordan Cipriani said we have seen nice progress, and all managers have been receptive to RVK's communication to track this. However, some managers like Silchester use a different 'blind' clearing process, and this is not necessarily uncommon.

Rodney Van Pelt said that was a great point. Firms like Silchester that use blind bids, that is not a bad process. Firms should not have to incur additional costs, and it is great to know this process is non-discriminatory.

Kevin Grant said that some of the managers' responses said exactly that. We have not heard from Loomis, but we have heard from Sawgrass, and they are starting to increase their utilization. They said we should see improvements in the next few months.

b. Monthly Investment Performance Analysis – July 31, 2021 – Preliminary

Kevin Schmidt covered the General Market Commentary of the Monthly Investment Performance Analysis as of July 31, 2021:

- Global equity markets finished July with mixed results. In the US, large cap indices outperformed small cap indices, and growth stocks outperformed their value counterparts. Internationally, developed indices finished the month relatively flat, outpacing emerging markets which experienced a moderate decline in July.

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Contributing to positive results in the domestic stock market were stronger than expected corporate earnings, as well as continued support by the Federal Reserve.

- At the July meeting, the Federal Open Market Committee (FOMC) kept interest rates near zero and stated there would be no imminent changes to the current pace of bond purchases of \$120 billion per month; though the FOMC did acknowledge that multiple indicators point to a strengthening US economy. The FOMC also stated that they maintain their view the recent rise in inflation of 5.4% YoY as transitory, pointing to outsized contributions from used car prices.
- Rising worldwide COVID-19 cases, particularly the Delta variant, weighed on investor confidence during the month as market participants worried that increasing COVID-19 cases could cause some countries to reinstate lockdown measures utilized earlier in the pandemic.
- Equity markets posted positive returns in July as the S&P 500 (Cap Wtd) Index returned 2.38% and the MSCI EAFE (Net) Index returned 0.75%. Emerging markets returned -6.73% as measured by the MSCI EM (Net) Index.
- The Bloomberg US Aggregate Bond Index returned 1.12% in July, outperforming the 0.78% return by the Bloomberg US Treasury Intermediate Term Index. International fixed income markets returned 1.84%, 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 4.81% in July and 6.44% over the trailing five-year period.
- The Cambridge US Private Equity Index returned 48.11% for the trailing one-year period and 17.51% for the trailing five-year period ending March 2021.
- Absolute return strategies, as measured by the HFRI FOF Comp Index, returned 0.16% for the month and 15.89% over the trailing one-year period.
- Crude oil's price increased by 0.65% during the month, and has increased by 83.64% YoY.

Kevin Schmidt said that Baillie Gifford and Acadian have experienced underperformance due to recent government regulation and crackdowns by the Chinese government on education companies, which is about a \$100 billion industry, as a part of a 5-year plan focused on monopolies. There is a lot to unravel and potentially a lot left to come.

Kevin Schmidt said that as of Wednesday's close, the total Fiscal Year-to-Date fund performance was 26%.

VI. Executive Director's Report

a. Erwin Lax Reappointment

b. Steve Glenn Appointment

Brian Smith deferred the items under the Executive Director's report until next month as they are not time sensitive.

Brian Smith thanked Steve Glenn for attending the call, and that the FIAC appreciates his attendance and for volunteering to serve on the FIAC.

Bob Sugarman congratulated the FIAC and Timothy Johnson for all the complicated issues and topics covered today in 90 minutes. This was good work.

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Brian Smith said that RVK, Pete Strong at GRS, the City of Jacksonville, and the PFPF Staff have been working together in helping the FIAC accomplish so much. Taking July off was great. He thanked everyone.

VII. Counsel Reports

VIII. Old Business

IX. New Business

X. Next Meeting – September 10, 2021 at 3:30 P.M.

XI. Adjournment
5:01 P.M.

Rodney Van Pelt, FIAC Secretary

Summary Prepared By:

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

Posted: 08/17/2021

To be Approved: 09/10/2021