



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

Friday, October 16, 2020

3:32 P.M. – 4:56 P.M.

City of Jacksonville Police and Fire Pension Fund
1 West Adams Street Suite 100, Jacksonville, FL 32202
ZOOM ONLINE MEETING – NO PHYSICAL LOCATION

The next Financial Investment and Advisory Committee (F.I.A.C.) meeting will be held November 13, 2020 at 3:30 P.M.

Financial Investment and Advisory Committee

Eric “Brian” Smith Jr., Chair
Rodney Van Pelt, Secretary
Rob Kowkabany

Excused

Erwin Lax
Kendall Park

Guests

Gar Chung, Fin News

Staff

Timothy H. Johnson, Executive Director – Plan Administrator
Steve Lundy, Deputy Director
Kevin Grant, Finance Manager
Jordan Cipriani, RVK, Investment Consultant
Kevin Schmidt, RVK, Investment Consultant
Matt Sturdivan, RVK, Investment Consultant
Jim Voytko, RVK, Investment Consultant
Lawsikia Hodges, Office of General Counsel
Bob Sugarman, Fund Counsel

Notice

Meeting Agendas and Summaries are available on our website at jaxppf.coj.net. For additional meeting documents, please contact Maria Young, Custodian of Public Records for the City of Jacksonville Police and Fire Pension Fund at 904-255-7373 or MariaY@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.

Summary

Brian Smith convened the meeting at 3:32 P.M.

I. Public Speaking

None.

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II. Meeting Summaries

a. *September 11, 2020 FIAC Meeting Summary*

Rodney Van Pelt made a motion to approve the September 11, 2020 FIAC Meeting Summary. Seconded by Rob Kowkabany. The vote passed unanimously.

III. Director's Report

a. *Governor's Emergency Order Extension & PFPF Social Distancing Plan*

Timothy Johnson said that the governor is not expected to extend his emergency order allowing virtual meetings past October 31. The PFPF is ready to hold in-person public meetings in November, and will accommodate full social distancing.

Timothy Johnson said that he is planning the Fiscal Year 2021 Strategic Initiatives for the PFPF, and will hold a meeting with the Chairs – Chris Brown, James Holderfield, and Brian Smith prior to the PFPF Staff Retreat on October 30.

Brian Smith asked for an update on the new Asset Allocation.

Timothy Johnson updated the FIAC on the historical progression of the new Asset Allocation recommended by the FIAC to the Board of Trustees. The Board has not yet approved the new Asset Allocation – however it is on the October meeting agenda.

IV. Investment Consultant Reports

a. *Monthly Investment Performance Analysis – September 30, 2020 – Preliminary*

Kevin Schmidt covered the Fund's Monthly Investment Performance Analysis as of September 30, 2020 and provided the General Market Commentary:

- Equity markets posted negative returns in September as the S&P 500 (Cap Wtd) Index returned -3.80% and the MSCI EAFE (Net) Index returned -2.60%. Emerging markets returned -1.60% as measured by the MSCI EM (Net) Index.
- The Bloomberg US Aggregate Bond Index returned -0.05% in September, underperforming the 0.07% return by the Bloomberg US Treasury Intermediate Term Index. International fixed income markets returned -0.42%, 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 -3.26% in September and 3.95% over the trailing five-year period.
- The Total Fund fell 2.53% month-to-date, outperforming the index by 9 basis points.
- The Fund outperformed the Actuarial Rate of Return of 7% for the Fiscal Year, posting a positive 8.17%.

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b. Large Cap Growth Manager Performance

Matt Sturdivan of RVK presented the ‘US Large Cap and Emerging Markets Equity Analysis’ presentation as attached to the FIAC meeting book. He covered the following pages and made the following points:

- **Page 1: Current Cycle Overview: Growth / Value**
 - Despite the long-term outperformance of value over multiple market cycles, since 2007 we have seen a trend of growth outperformance. Within this particular growth cycle, historically strong stock attributes such as low volatility, stable earnings and low P/E have not been rewarded. Instead, we have seen a price surge in the stocks of companies with little to no profitability. This environment has made it difficult for active managers using a relative value approach to stock selection, whereby they evaluate the attractiveness of a stock measured in terms of risk, liquidity and return.
- **Page 2: Calendar Year Returns: PFPF Large Cap Growth Managers**
 - Additionally, the last five years have been a challenging environment for active US large cap growth managers due to the performance of a very small handful of stocks whose concentration within the index and excessive valuations have made them difficult to own.
 - PFPF’s two US large cap growth managers, Sawgrass and Loomis Sayles, have not been exempt from this occurrence and have struggled to keep pace with the index as largely a result of either being underweight or not owning these names altogether.
- **Page 3: R1000 Growth Concentration: Top 5 Performance**
 - The past five years has seen investors continue to push up the stocks of Facebook, Amazon, Apple, Microsoft and Google despite increasingly stretched valuations.
- **Page 4: R1000 Growth Concentration: Comparative Weights**
 - Any level of underweight to the “top 5” securities over the past five years has been a contributor to underperformance for active managers in the large cap growth space.
- **Page 5: R1000 Growth Concentration: Top 5 Weighting Within the Index**
 - As a result of the strong performance of the “top five” stocks, the magnitude of their concentration within the index has accelerated in recent years to levels never before seen.

Brian Smith asked about the ‘Top 5’, noting that this was previously called ‘FANG’ stocks, for Facebook, Amazon, Netflix, and Google. He asked if Netflix is no longer in the ‘Top 5’.

Matt Sturdivan said that yes, the acronym has changed over time. We do not want managers putting too much money in certain stocks, as this changes over time and is very volatile.

Brian Smith said there is concern over so much concentration in a small number of stocks as this relates to future market downturns and volatility.

Matt Sturdivan agreed and said volatility from concentration is concerning, and introduces a high level of company-specific risk. If you buy the index, you buy a lot of these 5 companies. If one of them has a big issue, you will see volatility increase. Normally, you want diversification. The benchmark itself is more concentrated than active manager approaches.

Rodney Van Pelt asked about the cumulative performance of Sawgrass and Loomis over the past 5 years.

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Matt Sturdivan said that managers performed better than the Russell 1000 over the past 5 years.

- **Page 6: Performance in Past Cycles: PFPF Large Cap Growth Managers**
 - In looking at past growth cycles, we can see that historically Sawgrass has struggled, whereas Loomis has been able to add excess returns.
 - In value cycles, both managers have been able to add meaningful excess returns.
- **Page 7: Performance in Periods of Equity Market Stress: PFPF Large Cap Growth Managers**
 - Both Sawgrass and Loomis have provided superior protection vs. the index during historically stressed equity market events.

Rodney Van Pelt asked Matt Sturdivan how he would characterize Loomis and Eagle.

Matt Sturdivan said that Loomis is a traditional growth manager. He began to discuss Eagle on the next slide.

- **Page 8: Performance in Past Style Cycles: PFPF Large Cap Value Manager**
 - PFPF's US large cap value manager, Eagle Capital, tends to outperform its stated benchmark (R1000 Value) in growth cycles, which helps produce alpha and improve the excess return pattern of the large cap equity composite.
- **Page 9: Performance in Periods of Equity Market Stress: PFPF Large Cap Value Manager**
 - Similar to PFPF's US large cap growth managers, Eagle Capital has been able to provide downside protection vs the index during periods of equity market stress.

Rodney Van Pelt asked how Eagle changes their portfolio when companies become overvalued.

Matt Sturdivan said that Eagle has a concentrated portfolio with low turnover. They diversify across sectors well.

Brian Smith asked how many positions Eagle had in their concentrated portfolio.

Matt Sturdivan said that there were about 24 names, and Eagle consistently stays between 20-30 names.

Rodney Van Pelt asked how will this analysis on these 3 managers affect the recommended distribution of cash in the first part of the year.

Matt Sturdivan said that it is hard to predict where the capital will go, but RVK will run through the same analysis to leave no blind spots. This may lead to re-weighting of managers. He said he predicts no wholesale changes.

- **Page 10: Calendar Year Returns: PFPF Emerging Markets Equity Manager**
 - Similar to its US large cap growth managers, PFPF's emerging markets equity manager, Acadian, utilizes a relative value approach in its portfolio management philosophy. Emerging Markets have also experienced a growth/value disparity in recent years and just as in the US, there exists a small number of large cap growth stocks in the emerging markets that have been driving market returns. Managers with a valuation discipline, such as Acadian, have been underweight these names which has in turn negatively impacted returns.
 - Additionally, like many quantitative managers, Acadian tends to have a bias towards small capitalization stocks, where historically there has been a premium. However, the aforementioned outperformance of

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a few, large growth stocks has resulted in a less favorable investing environment for active, valuation driven, managers like Acadian.

- **Page 11: Performance in Past Style Cycles: PFPF Emerging Markets Equity Manager**
 - In looking at past growth cycles, we can see that historically Acadian has kept very close to the index, whereas in value cycles they have added significant excess returns.
- **Page 12: Performance in Periods of Equity Market Stress: PFPF Emerging Markets Equity Manager**
 - Acadian's performance in periods of equity market stress has been mixed, with it's geographic diversification being a value-add during events that have been more US-centric.

Brian Smith asked if Acadian owned Alibaba stock.

Matt Sturdivan said he believes they do, and it would be surprising if they did not because it is such a large part of the index.

c. FY2021 Strategic Initiatives Overview

Jordan Cipriani covered the Fiscal Year 2021 Strategic Initiatives Overview, which reviews initiatives which were accomplished so far, and which sets the agenda for FY2021.

Jordan Cipriani briefly covered each item completed on page 1:

- Create & Establish Ongoing Reporting Structure & Continuous Data Feed
- Create & Establish Ongoing ADA Accessible Performance Report Format
- Initial Investment Policy Review
- Total Fund & Manager Benchmarking Review
- Liquidity Review (Total Fund, Asset Class & Manager)
- Capital Market Assumptions Review & Education
- Private Investments General Education
- Private Investments Implementation Education
- Asset Allocation Study
- Approval of New Target Asset Allocation1
- Initial Pacing Studies (Non Core Real Estate & Private Credit)

Jordan Cipriani covered page 2, which is forward looking. Page 2 shows the next 12 months of strategic initiatives:

- Flash and Quarterly Performance Reports (including ADA compliant reports)
- Semi-Annual Public Fund Report
 - This is a proprietary report RVK completes twice a year. In this report, we routinely examine asset allocation, performance, risk, active vs. passive implementation, as well as assumed rate of return, liability growth factors, and other important information for approximately 80 public defined benefit plans across the US. RVK will be customizing this report for PFPF's needs.
- Should new asset allocation be approved:
 - Investment Policy Statement Updates

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- Near-term Rebalancing of Liquid Asset Classes
- Additional Education & Implementation of Private Investments
 - Inclusive of Pacing Analysis
 - Inclusive of Manager Searches
- Asset Class Structure Studies (in order of proposed priority below).
 - RVK and Staff will conduct a comprehensive structure review of these existing asset classes to evaluate the structure across sub-asset classes, sectors, geography, active vs. passive implementation, and varying strategy implementation options. The results of these reviews may lead to a restructuring recommendation and/or a recommendation for a new manager search(es), which RVK and Staff would collaborate on and bring forth to the FIAC and Board accordingly.
 - Domestic Equity
 - International Equity
 - Fixed Income
 - Consideration Around Lowering of the Assumed Rate of Return
 - Consideration Around Optimal Payroll Funding and Cash Sizing
 - Continued Focus on Emerging Investment Managers and Brokerage

Jordan Cipriani concluded that it is RVK's perspective that these are reasonable and proactive strategic initiatives, and in-line with industry practices. This will evolve over time, but it gives an overall framework for the next fiscal year.

Rodney Van Pelt said he thinks RVK has been outstanding, considering the changes we have planned for the Fund's investments. He asked for the source document from page 1, where the goals were originally set forth. He also asked if it was fair to assume, based on the presentation today, that RVK has confidence in the Fund's equity managers.

Jordan Cipriani said that is absolutely fair. RVK has confidence in these managers, and the Fund's composition of US Equity. We may want additional analyses in the future, but we have no recommendations today. We will share the source document. RVK hit the vast majority of the items originally set out to accomplish. She said she appreciates Rodney Van Pelt's remarks. This has been a great first three quarters working with the PFPF.

Rob Kowkabany said this was a great format, and that he echoes Rodney Van Pelt's comments. It has been edifying working with RVK, and he said he is grateful for this partnership.

Brian Smith said he appreciates the hard work, and it is nice to have RVK as the investment consultant who drives, pushes, and helps us through these big decisions. He thanked Matt Sturdivan for attending today, and he looks forward to hearing from Matt again in the future.

Timothy Johnson said it is amazing what we have been able to accomplish with RVK. We set a pace on accomplishments a year ago. We get better each year, and accomplish 90-plus percent of our goals each year. He said he would bring the FY2021 Strategic Plan to the FIAC next month.

Bob Sugarman said that his firm represents 100 public funds, and the amount of work, and pace the PFPF sets is breathtaking. The PFPF moves quickly, efficiently, and with great guidance. He said he hasn't seen this happen so quickly and with such deliberation anywhere else. The pension reform which created the FIAC was a tremendous gift.

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V. Old Business

None.

VI. New Business

None.

VII. Next Meeting – November 13, 2020 at 3:30 P.M.

a. *Rebalancing Employer Contribution and Reimbursement*

Brian Smith said the next FIAC meeting is November 13th at 3:30 P.M. and will be held at the PFPF building in person, if the governor does not extend his emergency order.

VIII. Adjournment

4:56 P.M.

Rodney Van Pelt, FIAC Secretary

Summary Prepared By:

Steve Lundy, Deputy Director

City of Jacksonville Police and Fire Pension Fund

Posted: 10/20/2020

To be Approved: 11/13/2020