



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

Tuesday, January 21, 2025

3:30 P.M. – 5:15 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 25, 2025 at 3:30 P.M.

Financial Investment and Advisory Committee

Eric “Brian” Smith Jr., Chair

Greg Ealey

Steve Glenn

Kendall Park

Excused

Brian Chappell, Secretary

Fund Staff

*Timothy H. Johnson, Executive Director – Plan Administrator

Steve Lundy, Deputy Director

Kevin Grant, Finance Manager

Guests

Jordan Cipriani, RVK, Investment Consultant

*Spencer Hunter, RVK, Investment Consultant

*Reed Harmon, RVK, Investment Consultant

*Matt Sturdivan, RVK, Investment Consultant

Andrei Bolshakov, WEDGE Capital Management

Richard Wells, WEDGE Capital Management

*Kevin Balaod, With Intelligence

*Gregory Gosch

John Keane

Capt. Michael Lynch, Board of Trustees Secretary

Randy Wyse

*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.

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.

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.

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Summary

I. Public Comment

None.

II. Election of Officers

- a. *FIAC Chair – action requested*
- b. *FIAC Secretary – action requested*

Steve Glenn moved to retain the existing slate of officers (Brian Smith as Chair and Brian Chappell as Secretary), seconded by Greg Ealey. The vote passed unanimously.

III. Meeting Summaries – *action requested*

- a. *November 20, 2024 FIAC Meeting*

Kendall Park moved to approve the November 20, 2024 FIAC Meeting Summary, seconded by Steve Glenn. The vote passed unanimously.

IV. Executive Director's Report

Timothy Johnson presented the Police and Fire Pension Fund 2025 Board of Trustees Work Plan, summarizing key activities planned for the first and second quarters of Calendar Year 2025:

First Quarter:

- Chair and Secretary Elections
- Interview SMID Cap Manager: WEDGE
- Re-Up Victory Park Investment
- Interview Churchill
- Private Asset Pricing Review
- Draft Actuarial Valuation
- Conduct LCC, LCG, and LCV Manager Searches
- Rules and Policies Review
- Investment Policy Statement (IPS) Review
- Auditor's Report

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Second Quarter:

- Virtual Annual Members’ Meeting
- Fiduciary Training Session
- Mid-Year Review with Staff and the Personnel Committee
- Preparation of Fiscal Year 2026 Operating Budget
- Conduct Experience Study

V. Investment Consultant Reports

a. WEDGE Capital Management – SMID Cap Value – action requested

Spencer Hunter initiated the discussion on WEDGE Capital Management’s SMID Cap Value product, explaining a slight deviation from the typical manager selection process. Since WEDGE is already managing the PFPF’s Small Cap Value allocation, offers a SMID Cap Value product, and is positively viewed by RVK, the Board of Trustees directed RVK to interview WEDGE as the sole finalist for the SMID Cap Value allocation.

Hunter noted that, in the previous month, RVK presented WEDGE along with other options to the Board of Trustees for consideration. However, WEDGE’s position as an existing manager, coupled with the suitability of their SMID product for the portfolio, made them an ideal candidate. Given these factors, and assuming a successful outcome, there might be no need to interview additional finalists. Hunter emphasized that the FIAC could rely on RVK’s thorough due diligence.

Brian Smith inquired about the size of the PFPF’s SMID Cap Value allocation. Jordan Cipriani responded that it would be approximately \$80 million. Hunter added that while there could be minor adjustments to the dollar amount, the plan is to transfer the entire Small Cap Value allocation into the SMID Cap Value allocation.

Richard Wells and Andrei Bolshakov of WEDGE Capital Management delivered a presentation on the WEDGE Capital Management’s SMID Cap Value product, covering the following key points:

Overview:

- WEDGE has \$7.7 billion in assets under management (AUM).
- Founded in 1984, the firm specializes in three strategies: Quantitative Equity, Traditional Equity, and Fixed Income.

QVM Small-Mid Cap Value Performance Update:

- WEDGE’s SMID Cap Value product demonstrated outperformance against the Russell 2500 Value benchmark across 1-, 3-, 5-, and 10-year periods, as well as since inception.

Performance vs. eVestment US Small-Mid Cap Value Equity Peers:

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- The product ranked in the top quartile in all measured periods, gross or net of fees, and in the top decile for most periods compared to peers.

Consistency Across Time and Environments:

- For every possible year-end starting point in QVM-SMID's history, the product outperformed its benchmark, net of fees, through 12/31/2024.

QVM Small-Mid Cap Value Highlights (Net of Fees):

- Aims to deliver consistent and superior performance versus the benchmark.
- Achieves a 59.3% batting average against peers.
- Exhibits an up-market capture of 116% and a down-market capture of 95%, driving consistent outperformance.

Performance and Risk Statistics:

- Over the past 5 years, WEDGE's SMID Cap Value product delivered excess returns ranking in the top 11% compared to peers.

Fee Schedule:

- Small Cap Value Fee:
 - 0.80% on the first \$50 million.
 - 0.70% on the remainder.
- SMID Cap Value Fee:
 - 0.60% on the first \$25 million.
 - 0.50% on the next \$75 million.
 - 0.40% on all amounts over \$100 million.

The FIAC discussed various aspects of WEDGE's SMID Cap Value product, including performance, quantitative strategy, number of holdings, benchmarks, buy-sell triggers, relationship with PFPF staff, transition costs, and allocation size.

Spencer Hunter reaffirmed RVK's confidence in WEDGE, citing their thorough due diligence in evaluating multiple options for the PFPF's SMID allocation. Jordan Cipriani noted that if the Board of Trustees, following their upcoming interview with WEDGE, was dissatisfied with the SMID product, they could revisit RVK's other recommended managers. However, WEDGE was prioritized as the incumbent and preferred first option. Spencer Hunter emphasized that WEDGE was either the best or among the best compared to other managers under consideration.

Kendall Park moved to hire WEDGE to manage the PFPF's SMID Cap Value allocation, seconded by Steve Glenn. The vote passed unanimously.

Brian Smith requested guidance from the FIAC to present to the Board, explaining the rationale for their decision.

Brian Smith cited WEDGE's reasonable fee structure, the positive existing relationship between WEDGE and the PFPF, and RVK's strong recommendation.

Greg Ealey highlighted WEDGE's outstanding track record.

Kendall Park emphasized WEDGE's consistent outperformance of the benchmark.

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John Keane, speaking as a guest, congratulated the FIAC on its prudent decision to recommend WEDGE to the Board of Trustees, noting the cost savings on fees and transition expenses. He commended the FIAC for their efforts in safeguarding the interests of pensioners.

Brian Smith thanked John Keane for his remarks and acknowledged that John Keane held Timothy Johnson's position when he joined the FIAC. John Keane expressed his appreciation for the FIAC's work.

Kendall Park moved to hire WEDGE to handle the PFPF's SMID Cap Value space, seconded by Steve Glenn. The vote passed unanimously.

a. Large Cap Core Manager List

Jordan Cipriani, Spencer Hunter, and Matt Sturdivan presented the US Large Cap Core Equity Search Process memorandum to the FIAC, covering its background, objectives, and next steps. The memorandum provides an overview of investment strategies within the US Large Cap Core asset class, driven by discussions about the significant concentration risk in US large cap equity indexes and ways to mitigate its impact on the US Equity composite.

Within the composite, Northern Trust currently manages a passive S&P 500 Index strategy, with no active management strategies in place. However, Eagle Capital Management has the flexibility to shift between core and value styles. The search explores options including actively managed quantitative and fundamental strategies and a passively managed equal-weighted approach to diversify and address concentration risk. The goal is to employ active management in the US Large Cap Core asset class to increase excess return potential of the US Equity composite and to mitigate concentration risks inherent in US equity markets.

RVK reviewed differentiated managers with diverse structures and scales, evaluating factors such as: Absolute and risk-adjusted performance (trailing and rolling periods), firm structure, team experience, investment philosophy, and process.

The process identified four active candidates and two passive strategies (one incumbent and one alternative equal-weighted option):

- Aristotle Core Equity (Aristotle)
- Jacobs Levy Russell 1000 (Jacobs Levy)
- JPMorgan Large Cap Core (JPM)
- Waycross Core Equity (Waycross)
- Northern Trust S&P 500 Equal Weighted (NT Equal Weighted)
- Northern Trust S&P 500 Index (NT Cap Weighted, Incumbent)

The selected managers demonstrated consistent value addition in an efficient asset class without taking excessive style or volatility risks. All final fee proposals were below the peer group median, reflecting competitive pricing.

The finalists will be reviewed at the upcoming FIAC and Board meetings on January 21 and 24, 2025. RVK will present each candidate and seek direction from the Board on the preferred next steps in the selection process.

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Matt Sturdivan presented the Performance and Risk Comparison (Gross of Fees) from Appendix I: Candidate Performance, Risk, and Fee Comparison as of September 30, 2024. This was followed by an FIAC discussion with RVK regarding the candidate managers.

Brian Smith noted the volume of information presented and emphasized the need to distill it. He inquired about the origin of the selected managers, asking RVK if these firms were solely chosen based on RVK's research or if they were recommended by the Board of Trustees, FIAC members, or PFPF staff.

Matt Sturdivan clarified that RVK independently selected these managers based on extensive research and due diligence. These firms have been previously vetted and included in other searches as top ideas for the Large Cap Core space.

Brian Smith asked if RVK selected these firms without any outside recommendations.

Matt Sturdivan said that RVK has put forward these selected managers in other searches, and RVK would put them forward as top ideas in Large Cap Core, yes.

Brian Smith asked RVK for specific guidance regarding the objective of this search and the expectations of the Board of Trustees for the Large Cap Core allocation.

Jordan Cipriani explained that the Board of Trustees would review the same memorandum and search materials during their Friday meeting to narrow down the list of managers to interview. She advised that the FIAC provide parallel guidance to the Board.

The FIAC deliberated on the balance between active and passive management, market timing, and the potential for active strategies to outperform passive benchmarks.

Manager-Specific Feedback and Guidance

- Waycross Core Equity: The FIAC reached a negative consensus on this manager due to high volatility, extremely concentrated holdings, and high fees.
- Jacobs Levy and JPMorgan: Both managers received positive feedback from the FIAC. The committee expressed interest in reviewing more detailed information on these candidates.

b. Churchill Introduction

Spencer Hunter presented the Private Credit opportunity for the Churchill Middle Market Senior Loan Fund V to the FIAC, summarizing key details. The potential PFPF commitment is yet to be determined, with the fund targeting a \$5 billion size across three vehicles: Levered and Unlevered Evergreen funds and an Unlevered Closed-End Fund. This represents a new commitment opportunity for PFPF, not a re-up. The evergreen vehicles offer semi-annual subscriptions in June and December, while the Closed-End Fund will have its final close in May 2025, with the next close scheduled for March 2025. The fund's investment style focuses on direct lending and private credit, targeting senior secured, floating-rate loans across approximately 100 U.S.-based companies. These companies operate in diverse industries and typically have EBITDA ranging from \$10 million to \$100 million. The six-member investment committee, averaging 30+ years of experience, leads a team of 35+ professionals with senior leaders averaging 21 years of expertise.

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Churchill's target returns vary by fund type: 6-8% net distribution yield for the Unlevered Evergreen fund, 7-8% for the Unlevered Closed-End Fund, and 10-12% for the Levered Evergreen fund. As of September 30, 2024, IRR performance for prior vintage years ranged from 7% to 14%, with a low loss rate of 0.9%. The structure includes perpetually offered evergreen funds with limited liquidity and a seven-year Closed-End Fund, comprising a four-year investment period and a three-year harvest phase. The evergreen funds impose a two-year hard lockup, with redemptions allowed annually after the lockup, subject to notice and NAV adjustments. Quarterly income distributions are offered across all vehicles, and leverage options include a 2.0x target for the Levered Evergreen fund. Fee structures vary, with management fees ranging from 0.50% to 0.75% and incentive fees of 10% over hurdles of 5-7%.

Spencer highlighted Churchill's merits and considerations. The firm has significant industry experience, managing over \$21 billion in senior secured loans, with more than 350 senior loan investments and 190 junior capital investments. Churchill benefits from differentiated sourcing, leveraging TIAA's relationships with over 400 private equity sponsors to access transactions. Additionally, the organization's scale, with TIAA as a substantial investor (accounting for 25% of senior secured investments), ensures alignment of interests and resource support. However, there are concerns. TIAA's potential to divest non-core businesses, as seen with EverBank in 2023, could impact Churchill's sourcing advantages. Churchill's origination fees, around 1.00%, are lower than peers' 2.00%, potentially reducing portfolio yields. There is some overlap with Blue Owl, although Churchill focuses on smaller borrowers, mitigating direct competition. The fund-level leverage strategy offers flexibility for LPs to choose risk-return profiles, but operational risks exist for evergreen funds, particularly for managers with less experience in administering them.

The FIAC's consensus on Churchill was negative. Concerns included TIAA and Nuveen ownership, overlap with Blue Owl, a perceived lack of commensurate reward for the associated risk, and operational risks tied to Churchill's limited experience with evergreen vehicles. These factors led to a recommendation against proceeding with the investment.

c. Quarterly Investment Performance Analysis – September 30, 2024

Jordan Cipriani provided a brief overview of the Fund's strong performance, emphasizing a notable 20.43% total return for Fiscal Year 2024. This figure reflects a robust year for the Fund, driven by favorable market conditions and effective asset management across the portfolio.

VI. Old Business

None.

VII. New Business

None.

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VIII. Upcoming Meetings

- a. Manager Update Workshop – JP Morgan – Thursday, January 30, 2025 at 12:00PM*
- b. Manager Update Workshop – Neuberger Berman – Tuesday, February 11, 2025 at 12:00PM*
- c. FIAC Meeting – Tuesday, March 25, 2025 at 3:30PM*

Brian Smith requested a motion scheduling an FIAC meeting for February.

Steve Glenn moved to schedule a regular FIAC meeting for Tuesday, February 25, 2025 at 3:30 P.M., seconded by Greg Ealey. The vote passed unanimously.

IX. Adjournment
5:15 P.M.

Brian Chappell, FIAC Secretary

Summary Prepared By:

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

Posted: 01/28/2025

To be Approved: 02/25/2025