



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

Tuesday, August 20, 2024

3:30 P.M. – 5:02 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, September 24, 2024 at 3:30 P.M.

Financial Investment and Advisory Committee

Eric “Brian” Smith Jr., Chair
Brian Chappell, Secretary
Greg Ealey
Steve Glenn
Kendall Park

Guests

*Jordan Cipriani, RVK, Investment Consultant
*Spencer Hunter, RVK, Investment Consultant
*Joe Ebisa, with.Intelligence

Fund Staff

Timothy H. Johnson, Executive Director – Plan Administrator
Steve Lundy, Deputy Director
Kevin Grant, Finance Manager

*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.

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Summary

I. Public Comment

None.

II. Meeting Summaries – *action requested*

a. *May 21, 2024 FIAC Meeting*

Steve Glenn moved to approve the May 21, 2024 FIAC Meeting Summary, seconded by Brian Chappell. The vote passed unanimously.

III. Officer Election – FIAC Secretary – *action requested*

Brian Smith informed the FIAC that former FIAC member Erwin Lax previously served as the FIAC Secretary. As today marks the first meeting without him, the FIAC needs to elect a new Secretary.

Timothy Johnson outlined the two primary responsibilities of the FIAC Secretary: signing the approved meeting minutes each month and officiating meetings in the absence of the FIAC Chair.

Steve Glenn moved to nominate Brian Chappell as the FIAC Secretary, seconded by Kendall Park. Discussion:

During the discussion, Brian Chappell stated that he would be willing to take on the role if needed.

The vote passed unanimously.

IV. Executive Director's Report

a. *Investment Consultant RFP – action requested*

Kevin Grant reviewed the Investment Consultant Request for Proposal (RFP) process and timeline, beginning with the history of the previous RFP in 2019, when RVK, Inc. was selected as the PFPF's Investment Consultant. In 2019, eight firms responded to the RFP. The PFPF Staff initially scored the responses and then presented their top three choices to the FIAC and Board of Trustees. However, due to the close scoring, the FIAC and Board decided to review the top four responses and ultimately selected RVK.

Kevin Grant then highlighted the 'Consultant RFP Summary' slide from the presentation. In 2019, the PFPF Staff used 10 criteria to score the RFP responses; this year, the criteria have been reduced to four: Experience (35%), Financial

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Responsibility (10%), Work Plan (35%), and Fees (20%). The emerging businesses criteria were eliminated due to Florida House Bill 3, which prohibits consideration of non-pecuniary factors like ESG and DEI.

Next, Kevin Grant reviewed the 'Consultant RFP Timeline' slide, noting that the PFPF Staff aims to publish the RFP this Monday, contingent on FIAC and Board of Trustees approval.

Brian Chappell, who was not on the FIAC during the 2019 RFP, asked about the distribution method for the current RFP. Kevin responded that the RFP would be published, posted on the PFPF website, and sent to previous respondents.

Steve Glenn inquired about the top four finalists from the 2019 RFP. Timothy Johnson and Kevin confirmed that the top four were Wilshire Associates, RVK Inc., Segal Marco, and AndCo.

Brian Smith provided a brief history of the PFPF's Investment Consultants during his tenure on the FIAC. Initially, Summit Strategies served as the consultant, but they voluntarily left after being acquired and ceasing business with public funds. The PFPF then entered into a one-year contract with Wilshire Associates before conducting an RFP that resulted in RVK's selection.

Brian emphasized that while the upcoming RFP is not a negative reflection on RVK, it will be challenging to find a better consultant, as RVK has been the best among the three he's worked with. He urged the FIAC to take the process seriously, expressing full confidence in the committee's ability to make a great selection.

Brian Chappell then asked whether the RFP is specific to the PFPF or also includes the City of Jacksonville, as RVK is the City's investment consultant. Timothy Johnson clarified that the RFP is for the PFPF only.

Brian Chappell asked if the FIAC's next involvement in the process would be after the PFPF Staff reviews all responses and presents the top picks. Kevin confirmed this, noting that in the last process, some Trustees and FIAC members requested to see the remaining responses as well.

Brian Smith recalled that reviewing four responses was extensive last time and that the scoring clearly indicated a top three, with the fourth just slightly behind. Brian Chappell expressed interest in seeing a summary of all respondents' scores.

Greg Ealey inquired about the possibility of a five-year contract. Brian Smith responded that it would be up to the committee to decide, noting that a one-year contract like Wilshire's would be too short.

Timothy Johnson reminded the FIAC that due to Florida House Bill 3, non-pecuniary factors like DEI or ESG could not be considered, which had set RVK apart five years ago. Additionally, respondents are asked to discuss OCIO services, and the selected consultant will need skills in alternative investments, as the PFPF is four years into a plan to meet allocation targets in these areas.

Brian Smith added that some firms might self-eliminate due to a lack of expertise in these areas and asked if incomplete responses would be rejected. Kevin confirmed that they would.

Timothy Johnson summarized the FIAC's preferences for the RFP: a five-year contract and visibility of all scoring. Brian Smith indicated he did not need to see proposals eliminated by the PFPF Staff but believed the FIAC would like to see the top three again.

Greg Ealey asked if revisions could be made after the RFP is published. Kevin explained that respondents have a period to ask questions, during which changes can still be made before September 11.

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Kevin Grant also informed the FIAC that the RFP had been sent to the OGC and City Procurement Office for review and was about 95% complete. The current version includes revisions from the OGC and has been forwarded to the City Procurement Office.

Brian Smith asked if there were any further questions. Steve Glenn noted that the RFP process seemed largely pro forma, while Brian Chappell and Kendall Park indicated their agreement to move forward.

Brian Smith concluded by affirming that Timothy Johnson had accurately summarized the feedback: the RFP would involve a five-year contract.

Greg Ealey moved to approve the Investment Consultant RFP as submitted, seconded by Brian Chappell. The vote passed unanimously.

b. PFPF Staff Authorization to Rebalance Based on RVK's Memo – action requested

Kevin Grant presented the 'Annual Contribution & Rebalancing' slide, which outlines key financial elements for the PFPF. This includes the 'COJ Advanced Payments' covering Beneficiary Payroll (retirement pension benefits) and 'Administration Expenses' (PFPF Staff salaries, benefits, and operational expenses). It also defines the 'PFPF Revenue Offsets,' which consist of 'Trust Fund Revenues' (active police and fire employee pension contributions), 'Assets/Revenues' (beginning cash, cash equivalents, and other revenues received by COJ during the fiscal year), and the 'Contribution Amount' (the City's annual contribution to the PFPF based on the annual actuarial analysis, to be received in the next fiscal year).

Kevin then reviewed the 'City of Jacksonville's Year-End Cash Reimbursement Calculation' slide. He explained that the COJ Advanced Payments total \$225 million, while the PFPF Revenue Offsets amount to -\$178,068,316, resulting in a net amount of \$46,931,684, rounded up to \$47 million.

Kevin discussed the previous strategy where the City advances pension payments and administrative expenses to the PFPF for the year, and the PFPF reimburses the City at the end of the Fiscal Year in September. This reimbursement requires rebalancing PFPF assets to raise cash for the payment. Then, in December, the City pays its annual contribution to the PFPF, necessitating another rebalancing to allocate the funds. The new method of Annual Contribution & Rebalancing simplifies this process by netting these two transactions into one smaller transaction, reducing the amount of rebalancing required.

Jordan Cipriani added that this annual exercise is seen as an opportunity to rebalance the portfolio. Currently, the PFPF is most overweight in US Equities, so the plan is likely to draw the \$47 million in cash from US Equities.

Brian Chappell inquired whether RVK's process considers the concentration of asset managers' underlying holdings, especially when concentrated in a few stock names. Jordan Cipriani responded that RVK doesn't necessarily focus on underlying holdings but rather on established targets. She mentioned that the recommendation would likely involve taking a significant portion of the \$47 million from the highly concentrated index.

Spencer Hunter noted that rebalancing at the manager level addresses the concentration issue without requiring managers to deviate from their processes.

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Brian Smith summarized that the FIAC is being asked to authorize rebalancing, with RVK providing guidance on how to proceed, without delving into the minutiae. He suggested that, based on RVK's upcoming memo, they would move forward with the plan.

Timothy Johnson acknowledged that the FIAC had provided general feedback on manager concentration.

Kevin Grant mentioned that the timing should be smoother next year, especially with the new City administration going through this process for the first time.

Kendall Park concluded by stating that the new approach simplifies the decision-making process, reducing the decision from a \$225 million to a \$47 million one, and expressed his support for moving forward.

Kendall Park moved to approve RVK's proposal to liquidate roughly \$47 million, seconded by Greg Ealey. The vote passed unanimously.

V. Investment Consultant Reports

a. FIAC direction regarding re-ups of private asset managers vs. manager count

Jordan Cipriani mentioned that RVK is seeking feedback from the FIAC on the investment process, particularly now that some of the early alternative investment managers are returning to the market with new funds.

Spencer Hunter posed two high-level questions to the FIAC. First, is there general agreement to re-invest with existing managers, assuming their new funds meet all criteria? He noted that there has been feedback suggesting a preference to limit the total number of manager relationships, while others have expressed interest in exploring a broader set of investment options. The second question is, if the preference is to re-invest with existing managers, what should that process look like? Spencer explained that RVK's due diligence remains thorough, treating new funds as if they were new opportunities, even if the strategy is largely unchanged. Many clients prefer not to conduct a full manager interview again, opting instead for a manager update to assess ongoing comfort with the manager.

Kendall Park asked whether RVK has sufficient data to benchmark the PFPF's alternative investments against the general market to evaluate performance. Spencer responded that the PFPF's portfolio has performed well and in line with expectations so far, with private investment managers showing attractive performance to date.

Jordan Cipriani provided an update on specific managers, mentioning that HIG Capital, whose fund the PFPF invested in, is currently in the top quartile of peers for the 2021 vintage year. For newer investments, such as with ARES, peer data won't be available for another year, but ARES is not yet back in the market.

Brian Smith acknowledged similar feedback about the potential challenge of managing too many relationships. While some suggest consolidating managers, Brian believes the focus should remain on securing the best investments. He shared that the PFPF Staff feels equipped to manage the number of managers, and he personally does not see consolidation as necessary.

Spencer Hunter emphasized that if RVK believes re-investing with an existing manager's new fund is the best option, they will recommend it. If new ideas are preferred, RVK will pursue those as well.

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Brian Smith reiterated that his priority is to pursue the most successful ideas. If re-investing with an existing manager is the best option, he supports it, but he wants RVK's due diligence to ensure the best ideas are brought forward.

Brian Chappell asked if RVK believes the PFPF is prudently diversified in its current investment philosophy and strategy. Spencer Hunter responded that introducing new managers and strategies could complicate matters, but the PFPF is currently well-diversified when combined with core exposure. He advised that while the PFPF doesn't need more managers for diversity of style, it should continue to make new commitments based on vintage year considerations.

Brian Smith suggested that if the PFPF decides to re-invest with an existing manager, the FIAC should still interview them again to understand any changes or continuities in their approach.

Brian Chappell agreed, adding that new managers or teams should undergo a more thorough review.

Spencer Hunter proposed that if the new investment is with an existing manager, the traditional two-meeting interview and approval process could be condensed to one meeting, including an RVK memo and manager presentation. However, for new managers, the two-meeting process should remain unchanged.

Brian Smith pointed out that the FIAC has the flexibility to adjust the process as needed.

Jordan Cipriani agreed, emphasizing the importance of ensuring the process is effective going forward.

Timothy Johnson added that if a manager ranks in the top quartile, that would be a primary criterion for staying with them for new investments. If not, they would consider introducing a new manager.

Steve Glenn concurred, questioning why the PFPF would retain a manager consistently performing below the median.

Spencer Hunter concluded by stating that RVK would seek similar feedback from the Board of Trustees and report back with combined feedback from both the FIAC and the Board.

b. Quarterly Investment Performance Analysis as of June 30, 2024

Jordan Cipriani presented the Quarterly Investment Performance Analysis as of June 30, 2024, beginning with an overview of the Second Quarter Economic Environment on page 4.

During Q2, broad global equity markets experienced subdued volatility and continued appreciation, while aggregate fixed income remained flat. Within equity markets, performance was again driven by mega-cap growth stocks, such as NVIDIA, which are expected to benefit from increased adoption of AI. In fixed income, the lack of movement in monetary policy and persistently tight spreads among corporate debt led to marginally positive returns for broad fixed income indexes. However, longer-duration asset prices declined modestly as long-term Treasury yields rose during the quarter. Inflationary conditions improved, as highlighted by the personal consumption expenditures (PCE) deflator, which registered at 2.6% in May—the US Federal Reserve's preferred inflation measure. The headline Consumer Price Index (CPI) also came in below expectations at 3.0% in June. The Federal Open Markets Committee (FOMC) indicated that "greater confidence" was needed regarding the downward trajectory of inflation before considering significant policy changes. The FOMC's "dot plot" showed dispersion in rate forecasts, with the median member projecting a 25 basis point decline in the Federal Funds Rate by the end of 2024. Additionally, the June outlook from the World Bank

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forecasted global GDP growth of 2.6% in 2024 and 2.7% in 2025, with global inflation levels expected to be 3.5% this year and reductions likely to occur more gradually than previously projected.

Jordan then covered the following topics in the subsequent pages:

- Investment Manager Watch List (page 12)
- Asset Allocation, Performance & Schedule of Investable Assets (page 13)

She noted that the fund began Fiscal Year 2024 with \$2.2 billion in assets. There was a net cash flow of \$143 million, investment gains of \$333 million, and a Fiscal Year-to-Date market value of \$2.7 billion, representing a 14.3% return net of fees. This is a very strong outcome for the first two-thirds of the fiscal year.

Jordan also pointed out that all asset classes remain within their allowable ranges concerning asset allocation. Additionally, she highlighted that the fund ranks in the top 12% of its peers when compared to All Public Plans with \$1-5 billion in assets.

In reviewing the Asset Allocation & Performance Gross of Fees on pages 18-20, Jordan noted that US Equities led the way both for the quarter and the trailing year, delivering outstanding performance. She also mentioned that rolling performance figures are shown on pages 27-34, and alternative investment performance figures are detailed on pages 37-38.

Brian Chappell asked for an update on the Equity Structure Study recommendation from the FIAC.

Timothy Johnson responded that the FIAC's recommendation is scheduled to be considered by the Board of Trustees in September, having been postponed three times—most recently due to the Board's hiatus in July and the Chair's excusal from the August meeting.

Brian Smith thanked Jordan Cipriani and Spencer Hunter for their thorough report.

VI. Old Business

None.

VII. New Business

None.

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VIII. Upcoming Meetings

- a. Manager Update Workshop – Victory Park Capital – Tuesday, August 27, 2024 at 12:00PM*
- b. Manager Update Workshop – Bell Partners – Monday, September 16, 2024 at 12:00PM*
- c. FIAC Meeting – Tuesday, September 24, 2024 at 3:30PM*

IX. Adjournment

5:02PM.

Brian Chappell, FIAC Secretary

Summary Prepared By:

Steve Lundy, Deputy Director

City of Jacksonville Police and Fire Pension Fund

Posted: 08/22/2024

To be Approved: 09/24/2024