

## **POLICE & FIRE PENSION INVESTMENT BOARD**

### **In-person and Zoom video conference**

**February 11, 2021**

**2:00 – 3:20 pm**

### **Summary Minutes**

The information in these meeting minutes is intended to assist Police and Fire Pension members in understanding the activities of the Investment Board. The information is not intended to provide investment or financial advice to any individual or organization and should not be relied upon for that purpose. While we attempt to keep the content accurate we cannot guarantee that all information is current, accurate or complete.

#### Members present physically:

Doug McDaniel – Human Resources Director (Board Chairman)  
David Young – Interim Finance Director  
Steve Niemeyer – Police Electee  
Steve Hubka – Mayoral/Council Appointment  
Guy Pinkman – Fire Electee

#### Members present via Zoom:

Becky Ferguson – Mayoral/Council Appointment  
Greer McCurley – Mayoral/Council Appointment

#### Members Absent:

Matt Franken – Police Electee  
Eric Augustin – Fire Electee

A quorum is any five physically present Board members.

#### Human Resources Staff physically present:

Paul Lutomski – Police and Fire Pension Officer

#### Others present via Zoom:

Dale Connors, CFA – Ellwood Associates  
Andy Fiegel, CFA – Ellwood Associates

Unless otherwise noted, meeting materials were provided to Investment Board members in electronic format, or printed format, a few days preceding the meeting for their advance consideration.

#### Documents:

Minutes of meetings: November 12, 2020  
Ellwood invoice summary  
US Bank invoice summary (received after the meeting)  
Ellwood 4Q2020 Performance Report  
Asset Allocation Study 2021

Doug McDaniel calls the meeting to order at 2:00 pm. He states only the members physical present may vote, but everyone is encouraged to share their knowledge and opinion. Five member's attend, so a quorum exists.

Doug McDaniel calls agenda item 1 asking for edits or a motion to accept the minutes of the November 12, 2020 meeting.

Steve Hubka moves to approve the minutes without edits.

Guy Pinkman seconds the motion.

All members vote to approve, with David Young abstaining as he became a member after that meeting.

Doug McDaniel calls agenda item 2 asking for a discussion regarding continuation or discontinuation of the practice of forwarding all investment manager emails to Board members.

The Board discusses with consensus to discontinue the practice.

Doug McDaniel calls agenda items 3 and 4, US Bank and Ellwood fees.

Paul Lutomski reviews the quarterly invoice amount paid to the plan's investment advisor, Ellwood Associates. The amount is as expected according to the agreement. He states the plan has not received the US Bank quarterly invoice.

Doug McDaniel calls agenda item 5, the 4Q2020 Performance Report.

Andy Fiegel and Dale Connors present the Capital Market Exhibits.

In response to the COVID-19 pandemic, both Congress and the Federal Reserve were highly accommodative in 2020. Investors responded favorably, boosting asset prices across equity, credit and Treasury markets.

The approval of two vaccines in November were a catalyst to higher equity returns in the quarter and initiated a rotation from large cap growth stocks to small cap value stocks. With this rotation, the Russell 2000 Index saw a much sharper recovery and ended up outpacing its large cap counterpart, the S&P 500 Index, for the year.

Earnings estimates for the S&P 500 Index in 2021 are expected to increase by 58% compared to 2020, signaling continued optimism. A historical fiscal and monetary response brings the U.S. government's budget deficit in to focus as inflation becomes more of a consideration to investors.

He presents more details regarding Market Overview by asset class, S&P 500 sector returns, Global equity factor performance, equity valuations, Fixed income rates and spreads, real assets performance, and world markets heat map from 2011-2020.

Andy Fiegel and Dale Connors present the fund specific exhibits.

Presentations include:

- Asset allocation vs. Target indicating percentages within target range
- Cash flow summary/details for CYTD and FYTD
- Return summary for Fund, Policy Index and Actual Allocation index for various time periods
- Attribution effects
- Return comparison of Fund vs. other Public Plans for various time periods
- Risk and return comparison of Fund vs. other Public Plans
- Performance Summary by Asset Allocation with details for each asset class and specific managers, including remaining commitments (p44)
- Benchmarks
- Manager roster and fees (p53)

Doug McDaniel calls agenda item 6, the Asset Allocation Study.

Dale Connors introduces the study objective as the long term investing of plan assets at an average rate that together with contributions equals expenses. The rate is expected to provide a competitive return relative to other investments available that would meet the asset allocation strategy while not incurring undo risk. For fiscal year 2020-21 the actuarially assumed return rate is 7.4%. It is scheduled to decrease by 0.05% each year until 7.25% for fiscal year 2023-24.

He presents current strategic asset class targets and ranges and 10 year capital market assumptions. Over the next 10 years, the current asset allocation is expected to earn a 6% average return. The highest expected return within current allocation constraints is expected to earn a 6.55% return over the next 10 years. He presents a table with asset allocations for current, 6.25% 6.5% and Max Return Target (+6.55%). This 10-year allocation study suggests the actuarially assumed return rates are unachievable over the next 10 years.

Recommendations include

1. Elimination of the low volatility hedge fund exposure (a 5% allocation). This requires advance notice to the investment manager and therefore if approved now, funds are expected in July 2021.
2. Increase the public equity allocation from a 45% target to 55% by reducing the fixed rate debt/bond allocation.

The Board discusses both recommendations in depth. An alternative to recommendation #2 forms by the Board and investment advisor and staff based on the understanding that US public equity is relatively more overvalued than emerging market public equity and therefore a potential expectation of a relatively higher return exists for emerging markets if it reverts to the mean. Details regarding amounts and managers are discussed.

Guy Pinkman moves to sell \$14 million (approx. 5% of the portfolio) of the Vanguard Total Stock Market Index and reinvest the proceeds in the Vanguard Emerging Markets Index. (This would leave the public

equity allocation target at 45%, but would decrease the sub-target for Global Developed Equity from 42% to 37% and increase the Emerging Markets Equity from 3% to 8%.

Doug calls for discussion.

The Board discusses.

Doug calls for a vote;

Aye: Doug McDaniel, Steve Niemeyer, Guy Pinkman

Abstain: David Young

Nay: Steve Hubka

Doug ask if the Board would like to make a motion or discuss recommendation #1.

Guy Pinkman moves to eliminate the low volatility hedge fund exposure.

Steve Hubka seconds the motion.

Doug McDaniel calls for discussion.

The Board discusses.

Doug McDaniel calls for a vote.

Aye: All

Abstain: David Young

Doug McDaniel ask if there is any new business.

Guy Pinkman asks for Ellwood investment advisors to provide A Real Estate education presentation in May. The Board agrees.

Doug McDaniel adjourns the meeting at 3:20.