

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

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

**May 13, 2021  
2:00 – 4:10 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  
Derek Dittman – Police Electee  
Steve Hubka – Mayoral/Council Appointment  
Guy Pinkman – Fire Electee  
Becky Ferguson – Mayoral/Council Appointment  
Matt Franken – Police Electee  
Eric Augustin – Fire Electee

#### Members present via Zoom:

Members Absent: Greer McCurley – Mayoral/Council Appointment

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: February 11, 2021  
Ellwood invoice summary  
US Bank invoice summary  
Ellwood 1Q2021 Performance Report

Preliminary Performance Report for April 2021  
Asset Allocation Study Follow-Up  
Fixed Income Manager Review

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. Eight member's attend, so a quorum exists.

Doug McDaniel states Steve Niemeyer is retiring and therefore has resigned his Board position and expresses appreciation for Mr. Niemeyer's service. Derek Dittman, was elected by the Police Department to complete Mr. Niemeyer's term, is introduced to the Board.

Doug McDaniel calls for agenda item 1 asking for edits or a motion to accept the minutes of the February 11, 2021 meeting.

David Young moves to approve the minutes.

Matt Franken seconds the motion.

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

Doug McDaniel calls agenda item 2 and 3, US Bank and Ellwood fees.

Paul Lutomski reviews the quarterly invoice amounts paid and that amounts are as expected according to agreements with each.

Doug McDaniel calls agenda item 4, the 1Q2021 Performance Report and Preliminary Performance Report for April 2021.

Andy Fiegel and Dale Connors present the Capital Market Exhibits.

There was a general consensus that economic growth will be robust in 2021 due to reduced economic restrictions, COVID-19 vaccinations, and fiscal stimulus. Economic optimism spurred what was referred to as the "reflation trade" as capital markets priced in higher growth and inflation expectations.

Bond yields, especially at the long-end of the yield curve, rose sharply. The 10-Year U.S. Treasury yield increased from 0.93% to 1.74% during the quarter. Rising inflation expectations caused a significant portion of the yield increase. The five-year breakeven inflation rate increased 0.59 percentage points. The increase in interest rates led to the worst quarter for the Bloomberg Barclays U.S. Aggregate Bond Index (-3.4% since the third quarter of 1981).

The market reversal in equity markets was pronounced. Small cap and value stocks significantly outperformed large cap, growth, and momentum stocks. The financials and energy sectors experienced sizeable gains during the quarter. Non-U.S. stocks underperformed U.S. stocks as the dollar appreciated and large Chinese technology stocks stalled.

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; private equity (p42), floating rate debt (p49)
- Benchmarks
- Manager roster and fees (p57)

Board discussion includes when private equity metrics will be available (May 1, 2021); if JP Morgan has a core plus debt product (yes); the components of the custom real estate index (2/3 core index and 1/3 value added index).

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

Dale Connors introduces the study follow-up objective as the long term investing of plan assets. 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.

The current asset allocation target is expected to generate a 6% return at a standard deviation of 11.7% over the next ten years. The modeling suggests that the assumed return of 7.45% is potentially not achievable over the next 10 years.

A re-cap of the February meeting is provided:

- Based on the 10 year outlook, the Board voted to eliminate the low volatility hedge fund allocation. Proceeds of approx. \$13 million are expected in mid-July.
- There was not consensus on increasing the equity target allocation. An alternative decision was posed and approved to restructure the public equity to increase the emerging markets allocation. It was approved to initiate a 5% position in the Vanguard Emerging Markets Equity fund with funding coming from a 5% reduction in the Vanguard Total Stock Market Index fund position. This trade has been implemented.
- A request was made to provide education to the Board regarding real estate investments. Ellwood's alternatives research group is still working on a comprehensive update in this area and plans to present this at the August meeting.

10 year and 20 year assumptions are presented. The 20 year expected return with current targets was determined to be 7.46%.

The ten year modeling assumptions imply it will be difficult for the Plan to meet the assumed rate of return targets. As such, and at the request of Plan Administration, Ellwood ran a longer term (20-year) modeling analysis on the Plan’s current asset allocation. The results indicate the actuarial assumed rates of return are reasonable over a longer, 20-year timeframe, and the Plan does not need to increase the risk posture of the investments, though performance results in the near term may not meet the assumed return level.

Ellwood recommends investing the proceeds (~ \$13M ) from the hedge fund liquidation into the public equity allocation, between the two active global managers, New Perspective fund and Dodge & Cox Global Stock fund, in such amounts as to re-balance to targets. They explain that accepting this recommendation will diversity assets and that active management within this class of investment offers the potential for outperformance above an comparable index fund (alpha).

Based on the longer-term outlook, Ellwood is comfortable with no reduction in the Plan’s debt/fixed income allocation. Given the probability of increasing interest rates and inflation, Ellwood recommends diversifying the fixed rate debt allocation with the addition of an active core-plus manager.

The resulting allocation shifts are highlighted in the table on the following page.

Asset Class	Current Target	Allowable Range	Alternative Asset Class Description	Current Allocation
Public Equities	50% <del>45%</del>	35% - 60% <del>30% - 55%</del>	Global Developed Equity	42.5% <del>42%</del>
			Emerging Markets Equity	7.5% <del>3%</del>
Private Equities	10%	0% - 15%	Private Equity	10%
<b>Total Equities</b>	<b>60% <del>55%</del></b>	<b>35% - 70% <del>30% - 65%</del></b>	<b>Total Equities</b>	<b>60% <del>55%</del></b>
Fixed Rate Debt	15%	10% - 20%	Fixed Rate Debt (Core)	7.5% <del>15%</del>
			Fixed Rate Debt (Core Plus)	7.5%
Floating Rate Debt	10%	0% - 15%	Floating Rate Public Debt	5%
			Private Credit	5%
<b>Total Debt</b>	<b>25%</b>	<b>20% - 35%</b>	<b>Total Debt</b>	<b>25%</b>
Low Volatility	0% <del>5%</del>	5% - 20%	Low Volatility Hedge Funds	0% <del>5%</del>
Equity Real Estate	15%	5% - 20%	Core Equity Real Estate	10%
			Value-Add Equity Real Estate	5%
<b>Total Alternatives</b>	<b>15% <del>20%</del></b>	<b>5% - 20% <del>30%</del></b>	<b>Total Alternatives</b>	<b>15% <del>20%</del></b>

The Board discusses the asset allocation recommendations and investment of \$13M hedge fund proceeds in depth. Understanding the recommendations are interdependent, the Board ask for Ellwood to present their Fixed Income Manager Review.

Ellwood explains the Fixed Income search process as starting with 148 candidates and narrows to 3 candidates: PIMCO, TCW and Western. The recommendation is to move ½ of the existing core bond allocation to a core plus allocation, so details of the existing core bond manager (JP Morgan) are presented, in advance of details for each of the core plus manager candidates. In general terms the Board understands Western to be the most aggressively managed, then PIMCO, then TCW.

The Board discusses.

David Young moves to retain the current Debt asset allocation (thereby to not accept the Ellwood's debt recommendation).

Matt Franken seconds the motion.

Doug McDaniel calls for discussion.

The Board discusses.

Doug McDaniel call for a vote.

All members vote in favor.

The Board returns to the remaining action items: reinvestment of the approx. \$13M hedge fund proceeds expected in July and Ellwood's recommendation regarding the Equity allocation. They review the investment advisor's recommendation for the hedge fund reinvestments and discuss several options for reinvestment. Discussion includes that a decision to reinvest the proceeds also addresses agenda item 5.a. thereby approving Ellwood's Public Equity asset allocation recommendation.

David Young moves to invest the hedge fund proceeds in Public Equity: 50% of proceeds into the Vanguard Total Stock Market Index fund; 25% of proceeds into Vanguard Total International Stock Market Index fund; 25% of proceeds into Vanguard Emerging Markets Index fund (thereby to not accept Ellwood's recommendation for reinvestment of hedge fund proceeds, but to accept Ellwood's 50% Public Equity asset allocation recommendation).

Guy Pinkman seconds the motion.

Doug McDaniel calls for discussion.

Doug McDaniel call for a vote.

Eric Augustin votes no.

Derek Dittman abstains.

Doug McDaniel abstains.

Other members vote in favor.

The motion passes. 5 in favor, 1 against, 2 abstain.

Doug McDaniel calls for the next agenda item, New Business, Guy Pinkman's proposals about investment managers he would like to be researched.

Guy states he would like to talk about why he is on the Board and states the Investment Advisor's attendance is not needed.

Doug McDaniel thanks Ellwood and indicates they can sign off the Zoom meeting.

Guy Pinkman shares his motivation to be a Board member. He states Ellwood agreed to provide a real estate educational piece at this meeting and did not do so. He states Plan administration does not agree that he be allowed to query Ellwood directly regarding managers that he would like to know more about. Plan administration agrees to Board members emailing Ellwood directly if copied on the email and if requests remain within the contractual expectations the Pension has with Ellwood. Any further research beyond the contract would require Ellwood to quote a fee for the research. The allowable questions within contractual expectations would be such as:

- Is the product a type that is currently under consideration for use as an investment for the Plan's assets based on an active/current search?
- If yes, is Ellwood aware of the proposed investment manager product?
- If yes, is the manager's product considered qualified for client use by Ellwood?

Guy Pinkman states the Board is overdue to vote on a Board chairman and asks for the Board to vote during this meeting to elect a new chairman.

Doug McDaniel states that will have to be an agenda item for a future meeting.

Guy Pinkman states the Board was not involved with the last investment advisor Request For Proposal (RFP) and asks when the investment advisor contract expires. Plan administration replies the expiration is 12/31/2021. Plan administration agrees to work with the Board to perform an RFP for an investment advisor.

Guy Pinkman presents regarding Advent Capital, Beach Point Capital, Elm Tree real estate, and Rustegar real estate.

Doug McDaniel calls for the next agenda item, New Business, Matt Franken's proposal.

Matt Franken states he believes the City would benefit from higher investment returns and thinks it is prudent to research the market for investment advisors periodically and therefore also proposes the pension issue an RFP for an investment advisor.

Doug McDaniel adjourns the meeting at 4:10.