

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

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

**August 12, 2021**

**2:00 – 3:47 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

Eric Augustin – Fire Electee

#### Members present via Zoom:

Greer McCurley – Mayoral/Council Appointment

#### Members Absent:

Matt Franken – Police Electee

A quorum is any five physically present Board members. Action can be taken when 5 members approve.

#### 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: May 13, 2021

Ellwood invoice summary

US Bank invoice summary

Ellwood 2Q2021 Performance Report  
Preliminary Performance Report for July 2021  
Real Estate Market Overview

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. Seven member's attend in person, so a quorum exists.

Doug McDaniel calls for agenda item 1 asking for edits or a motion to accept the minutes of the May 13, 2021 meeting.

Guy Pinkman moves to approve the minutes.

Becky Ferguson seconds the motion.

All members vote to approve.

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 and asks Paul to provide a summary.

Paul Lutomski states the Investment Advisor RFP is underway. The RFP questions from 2013 were updated to the current Purchasing format and more questions were added. The RFP section committee will be Paul Lutomski, Doug McDaniel, Steve Hubka as Board representation, City Treasurer Tammy Wissing and Don Taute from the Law Department. The RFP was advertised in Pension and Investment magazine print and online. Responses are due August 25.

Doug McDaniel states due to the extended length of this meeting he would like to move agenda items 9 and 10 up to be handled next in case anyone attending needs to leave and asks if there are any objections to do so. There were no objections.

Doug McDaniel calls agenda item 9, vote for a Chair of the Investment Board and asks for nominations.

Steve Hubka moves to nominate Doug McDaniel for Chair.

Becky Ferguson seconds the nomination.

Doug McDaniel asks if there are any other nominations.

Eric Augustin moves to nominate Guy Pinkman for Chair.

Becky Ferguson seconds the nomination.

Doug McDaniel calls for a vote from those wishing to approve Doug McDaniel as Chair.

Steve Hubka, Becky Ferguson and Doug McDaniel vote to approve Doug McDaniel as Chair.

Doug McDaniel calls for a vote from those wishing to approve Guy Pinkman as Chair.

Eric Augustin, Derek Dittman and Guy Pinkman vote approve Guy Pinkman as Chair.

David Young abstains.

Since 5 votes are needed for action, and there being 3 votes for each nominee, the vote for Chair will need to be deferred to the next meeting.

Doug McDaniel calls agenda item 1, vote for a Secretary of the Investment Board and asks for nominations.

Becky Ferguson moves to nominate Steve Hubka for Secretary.

Eric Augustin seconds the nomination.

Doug McDaniel asks if there are any other nominations. There being none he calls for a vote.

All member vote in favor of Steve Hubka as Secretary.

Doug McDaniel calls for the next agenda item 5, updates to the Investment Policy Statement and Investment Strategy Document, asking Paul Lutomski to explain.

Paul Lutomski explains that the Investment Policy Statement is not updated frequently. It had not been updated since 2017. It was updated in two areas, the first was addition of a sentence "The IPS is long term in nature." The second update is indicated as underlined on the following sentence "The Board is responsible for establishing and maintaining this IPS, the Investment Strategy Document, as well as managing, monitoring and evaluating the investments of the Fund on an ongoing basis."

The Investment Strategy Document is potentially updated annually to reflect asset class allocation and manager changes as a result of the annual asset allocation review. This review took place in the February and May meetings. The document was changed as follows:

#### Asset Class

Low Volatility target decreased from 5% to 0%

Public Equity target increased from 45% to 50%, range changed from 30-55%, to 35% to 60%.

#### Plan Benchmarks

Updated.

#### Investment Product Information and Benchmarks

Updated regarding managers included, fees, benchmark index, and target allocation.

Doug McDaniel calls for the next agenda item #6, 2Q2021 Performance Report and July update.

Andy Fiegel and Dale Connors present the Capital Market Exhibits.

The economy continued to rebound from the severe pandemic-induced contraction in early 2020. Inflation spiked during the second quarter. The market's inflation and economic growth expectations moderated amid shifting views on the path of future monetary and fiscal policies. A graph of Major Market asset classes showed positive YTD returns in all classes except bonds. Returns discussed included S&P 500 15.3% YTD and Aggregate Bond at 1.6%. Yields on longer U.S. Treasury bonds fell during the quarter reflecting moderating inflation and growth expectations, while shorter maturity yields rose reflecting the prospect of Federal Reserve interest rate increases occurring sooner than anticipated. The lower yield environment led to a shift in equity leadership towards large cap growth stocks and away from value and smaller caps.

Economic recovery charts included historical and projected GDP growth, unemployment and job growth and CPI components. The outlook for GDP growth for 2021 was increased from 4.2% to 7%. U.S. unemployment rate fell from a peak of 14.8% in April 2020 to 5.9% in June 2021. Over 9 million people remain unemployed, but there are over 9 million job openings – the most openings since the BLS began tracking this data in 2001.

Equity sector leadership table shows 1Q2021 shift from value to growth.

Charts for U.S. 10 year Treasury yields and Yield curves for 4Q20, 1Q21 and 2Q21: Interest rates reversed course in 2Q2021. Yields for mid and long bonds declined and rose slightly for a short time. Upward sloping yield curve implies investors expect continued economic growth but optimism has decreased in 2Q2021.

Commodities have generated strong returns of 21.1% year-to-date recovering from the pandemic swoon, but have lagged equities measured by the S&P 500 over the full pandemic cycle (12/31/19 to 6/30/21).

The FOMC probability of least one Fed Funds rate increase in 2022 is 74%.

A summary graphic of Market YTD returns shows US Equity up 15.1%, EAFE up 8.8%, emerging up 7.4%, fixed income down 1.6%, and commodities up 21%.

Presentation on the Plan's portfolio include:

- Asset allocation vs. Target indicating percentages within target range
  - Assets were \$312 Million
  - Proceeds from Low Vol asset Blackstone received in July other than final 5% that will be paid when they complete their annual audit per standard operations.
  - Appearance of over-weight to public equity is offset with under-weight to private equity as we await capital calls.
- Cash flow summary/details for CYTD and FYTD
  - Negative \$2.5M cash outflow for first 6 months

- Return summary for Total Fund, Policy Index and Actual Allocation Index for QTD, YTD, FYTD, 1, 3, 5, 10 years are reviewed
  - FYTD was 18.7%
  - 5 year was 10.9%
- Attribution effects
  - Manager selection effect was greater than allocation effect
- Return and Risk comparison of Fund vs. other Public Plans \$250M - \$1B for various time periods: table and scatter graphs
  - For 3 and 5 years, return is above average and risk is below average
- Performance Summary by Asset Allocation with details for each asset class and specific managers, compared to benchmark returns.
  - Public equity 1 year 44.8%
  - Private equity 1 year 37%, remaining commitments page 43
  - Fixed rate debt 1 year 3.2%
  - Floating debt 1 year 13.2%, remaining commitments page 50
  - Real Estate 1 year 9.6%
- Benchmark History
- Manager roster and fees (p58 and p59)
  - Annual fee reasonable at 0.52%

Andy Fiegel reviews Preliminary Performance Report for July. In summary assets earned approx. 0.10% in July with FYTD return at 18.9%.

Doug McDaniel calls for agenda item 7, Real Estate Education.

Dale Connors refers to the July Preliminary Performance Report, listing the managers and states the plan has a 16% allocation to real estate.

He refers to the Real Estate Market Overview document.

He explains the rationale for having real estate in an investment portfolio and presents an overview with four quadrants of real estate Private/Public and Equity/Debt explaining characteristics of each. He explains common ways institutional investors access real estate as Open-end funds, REITS, and closed-end funds, providing an overview, advantages and disadvantages. Core, Value Add and Opportunistic real estate sub-classes are described with anticipated risk and return graphically displayed in relation to Fixed Income and Equities. Next, the NCREIF Property Index is described using a map and chart to display US regions and property types. Niche strategies are also noted. A heat map is used to display performance of 5 property types annually from 2006 to 2020.

Current trends in real estate are presented including the impact of Covid on different types of property due to economic changes such as the shift away from retail purchases and decrease in office demand. Capitalization rates are explained as a way to express relative historical expensiveness of real estate and a historical comparison of cap rates, Treasury yields and the spread between them is presented. Low cap rates indicate a more expensive market. Cap rates are the lowest since on data chart since 1978. Due to Covid, deal flow slowed and money has accumulated while investors await clarity.

A graph of the NCREIF Index performance since calendar year 2000 shows the index increasing from 100 to ~580 with a large dip occurring in the 2008-2010 year range and a small one in 1Q2020. NCREIF total return, income and appreciation sub-components of performance are presented annually for 2011-2021 2021, with NCREIF total return between the Russel 3000 equity index and Barclays Agg Bond Index. Private Real estate returns for 2008-2017 are presented for Value add and Opportunistic Max, Min and Median that display various ranges depending on vintage year.

The outlook is tied to containment of COVID. It is likely well capitalized managers may be able to acquire assets at attractive costs.

Doug McDaniel asks if there is new business.

Dale Connors announces that Ellwood was approached by a much larger firm, CAPTRUST. Following discussions on suitability and industry competitiveness Ellwood has decided to accept CAPTRUST's purchase/merger offer. The deal is expected to close before year end. Andy and Dale will continue as consultants to our plan. They will send us a Q&A document tomorrow.

Doug McDaniel adjourns the meeting at 3:47 p.m.