

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

**In-person only**

**February 10, 2022**

**2:00 – 3:30 p.m.**

### **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 Hubka – Mayoral/Council Appointment (Board Secretary)  
Guy Pinkman – Fire Electee  
Matt Franken – Police Electee  
Eric Augustin – Fire Electee

#### Members Absent:

Greer McCurley – Mayoral/Council Appointment  
Derek Dittman – Police Electee  
Becky Ferguson – Mayoral/Council Appointment

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 physically present:

Corry Walsh, CFA, CAIA - RVK Investment Advisors  
Tony Johnson, Director of Midwest Consulting, Principal – RVK Investment Advisors  
Keith Peters, attorney at Cline Williams law firm

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 16, 2021

Ellwood invoice summary

US Bank invoice summary

RVK Workplan

RVK 4Q2021 Performance Report

RVK Capital Markets Assumptions Summary

Doug McDaniel calls the meeting to order at 2:00 p.m.

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

Doug McDaniel calls agenda item 1, approve or amend minutes of the November 16, 2021 meeting.

Guy Pinkman makes a motion to approve the minutes.

Steve Hubka seconds the motion.

All members vote to approve.

Motion passes.

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

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

(David Young joins the meeting.)

Doug McDaniel states agenda item 4 as introduction of Corry Walsh CFA, CAIA, Consultant at RVK and Tony Johnson, Director of Midwest Consulting, Principal at RVK.

The board greets Mr. Walsh and Mr. Johnson.

Corry Walsh states it is a pleasure to meet the board and explains that Tony Johnson is a senior advisor and resource to the Board, but will not be attending all the meetings. He provides a brief background on himself. Previously to RVK he worked at another financial institution from 2014 to 2018 as director of an educational programs for clients. He has a MBA from the University of Chicago with emphasis in Analytic Finance, Economics and Statistics. He is a CFA (Chartered Financial Analyst) and CAIA (Chartered Alternative Investment Analyst).

He has been an RVK Consultant since 2019 and worked on a variety of areas at RVK, including asset allocation studies, fee studies, asset class structure optimizations, client transitions, client education presentations, capital market assumptions, reports on investment portfolios and making recommendations as needed, detailing performance information and current market trends, preparing and presenting investment-related material to boards, committees.

Tony Johnson states he has 28 years of industry experience, and an RVK tenure of almost 14 years. His current responsibilities are to provide investment consulting advice and expertise in the areas of public and corporate defined benefit and defined contribution plans, endowment and foundations, and other asset management plans. Previously he was CIO for City of Philadelphia where he came to know RVK because of RVK's industry survey. He states the Board may be familiar with RVK through the RFP process, but is glad offer information of RVK if desired.

Guy Pinkman asks them to speak about RVK as not all Board members were involved with the RFP.

Tony Johnson states RVK has been providing investment consulting services to public pension clients since the inception of the firm in 1985. A small sample of our current public pension clients includes: Kansas City Police Employees' Retirement Systems; Los Angeles Fire and Police Pension System; and New York State Common Retirement Fund.

RVK has been providing investment consulting services to public pension clients since it's inception in 1985. RVK has over 35 years of experience working with public clients that have similar goals to that of the City. Although RVK serves a diversified client base, they consider their primary client base to be public fund entities.

As evidence of RVK's dedication in this space, RVK has long conducted public fund research as a core service offering to it's clients. Part of this includes producing a unique comprehensive analysis of public pension funds. The analysis provides a comparison of asset allocation, performance, fees, funded status, and actuarial data for more than 70 U.S. public pension funds. This analysis enables RVK and participants to stay abreast of governance and regulations in the public fund space as it includes aggregated participant responses to survey questions, focusing on topics such as market trends, actuarial rates of return, rebalancing, active versus passive management, and the use of a risk management software system.

Doug McDaniel calls for agenda item 5, the RVK presentation.

Corry reviews the RVK workplan and asks the Board if they have any questions, comments and would like any adjustments.

Guy Pinkman asks if the Asset Allocation study will be presented at the May meeting?

Corry Walsh answers that it will.

Steve Hubka asks how financial markets would be affected if Russia invades Ukraine?

Corry Walsh answers that there could be many possible and unexpected impacts that may have temporary or longer influences. Many believe commodities could be impacted as Russia is a major commodities producer. The oil and gas sectors have performed strongly in the past months, and they can serve as a hedge to other markets that may decline. We typically rely on active investment managers in the portfolio to study these types of issues and position their portfolios accordingly.

Corry Walsh refers to the 2021 Q4 performance report. He states not all alternative investment managers reported 2021Q4 data, so 2021Q3 data was carried forward.

He explains that he will go over the economics expected to effect markets for 5-10 years. Inflation is the issue of concern. Monetary policy, implemented by the Federal Reserve (FR) has two goals: to control prices so that inflation is fairly steady (at about 2%) and to achieve full employment in the U.S. To achieve these goals the FR can influence interest rates. Lower rates give companies access to lower cost loans, increasing growth and increasing employment and spending. Interest rates were reduced to stimulate the economy in the 2008 financial crisis and for the corona virus crisis. Over the last decade we have also seen dis-inflationary effects from tech driven changes that lower prices due to increased efficiency. A second dis-inflationary impact is globalization – job outsourcing to other countries with lower labor costs. Now we have inflation due to supply chains issues that are thought to be temporary; wealth redistribution policies that put money in the hands of people that will spend it rather than invest it, and the reversal of globalization. This matters because when interest rates increase profitability decreases.

If the FR lowers interest rates to increase profitability in response to economic uncertainty they would be in violation of their mandate to seek steady inflation. The result is that the way capital markets are choosing to allocate capital has shifted and will affect the way resilient portfolios are designed.

Guy Pinkman asks Corry Walsh to explain what is driving inflation and its effects on the market and what the FR may be able to do.

They discuss that the FR cannot impact the supply chain issue. The FR is signaling they will increase interest rates. Companies will therefore need to switch from competing on market share to competing on profitability. The FR is expected to keep increasing interest rates if inflation continues to rise. Fixed income performs poorly in a rising rate environment. Equity can perform poorly as well, if interest rates increase quickly and substantially. Protecting a portfolio by diversifying between bonds and equity is more challenging in an inflationary environment. The economy is not the market. The market is a function of economic developments and anticipated policy responses. Inflation may change, but it will be impactful for the foreseeable future.

Corry Walsh states real interest rates and negative and there has never been a recession when real interest rates have been negative.

He briefly discusses capital markets, including US and non-US equity, fixed income and alternatives. A 'heat map' shows asset class performance rankings from 2007- to 2021.

The portfolio allocations are displayed graphically and in table format. RVK will review asset class ranges and the plan's rebalancing policy.

The plan is compared to peer group of All Pension Plans \$250-500M:

- Allocation. Global equity is overweight, Fixed Income underweight, real estate is overweighted.
- Return: relatively strong performance.
- Total portfolio risk/return axis: Same risk, higher return.

Details of Asset allocation and performance by total, asset class, and individual investment compared to benchmarks for various time periods are displayed and reviewed. Benchmarks used by the previous advisor were carried forward. RVK plans to perform a benchmark review.

Alternative Investments data including remaining commitments is reviewed.

Fee schedule for each manager is displayed with total estimated annual fee as 0.47% and is deemed reasonable for the portfolio mix.

Comparative thematic asset class analysis shows that the portfolio is more hedged against inflation than peers.

Equity: A graph of vertical green bars shows quarterly public equity excess return relative to the market. The blue tracking error line shows that the plan has been compensated relative to risk

taken. Next pages contain top holdings snapshot list and top sectors snapshot list with associated data.

Fixed rate debt: A graph of vertical green bars shows quarterly public equity excess return relative to the market. The blue tracking error line shows that the plan has been compensated relative to risk taken. Next pages contain top holdings snapshot list and top sectors snapshot list with associated data.

Mr. Walsh reviews some individual manager profiles to familiarize members with the layout of the profile. More profiles will be added. In the future the profiles will be available for board members, but they will not all be reviewed in detail. A profile will be reviewed if a manager is of special interest good or bad.

The last section of the report contains custom index definitions, addendum and glossary.

Mr. Walsh asks if the board has any questions, or wants additional data to be included in the quarterly performance reports.

There were no questions or additional data requests.

Mr. Walsh refers to the Capital Market Assumptions document:  
He explains the forecast horizon is 10+ years and varies per asset class. That accurate estimates of risk, return and correlation are important, and that relative relationships between assets classes are even more important.

Risk, return and correlations for/between assts classes are presented showing historical ranges. The Compound Return Assumptions display return adjusted for risk so that asset classes can be compared to each other easily.

The themes are inflation, mean-reversion and higher yields.

Expected Return Methodology varies by asset class.

Details of Return Methodology for each assets class are presented and 2022 assumptions vs. 2021 assumptions are displayed in a table to see how the assumptions changed. The presentation is summarized with a Capital Market Line depicting asset classes plotted Return v. risk to illustrate more risky and higher return assets in the upper right quadrant.

Mr. Walsh states RVK will recommend an asset allocation strategy in the May meeting and asks if the board has any questions.

There were no questions.

Doug McDaniel calls for Agenda item 7, Vote for a Chair of the Investment Board.

Steve Hubka makes a motion to nominate Guy Pinkman.  
Matt Franken seconds the motion.  
Guy Pinkman accepts the nomination.  
Doug McDaniel calls for a vote

Steve Hubka votes to approve.  
Guy Pinkman votes to approve.  
Matt Franken votes to approve.  
Eric Augustin votes to approve.

David Young had left the meeting.

Doug McDaniel abstains from the vote.

Motion fails with 4 votes to approve, as 5 affirmative votes are needed to pass any motion.

Doug McDaniel adjourns the meeting at 3:30 p.m.

DRAFT