

POLICE & FIRE PENSION INVESTMENT BOARD

In-person only

**May 12, 2022
2:00 – 3:50 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:

Barb McIntyre – Human Resources Director
Steve Hubka – Mayoral/Council Appointment (Board Secretary, acting Chair)
Becky Ferguson – Mayoral/Council Appointment
Guy Pinkman – Fire Electee
Derek Dittman – Police Electee

Members Absent:

Greer McCurley – Mayoral/Council Appointment
Melinda Jones - Interim Finance Director
Matt Franken – Police Electee
Eric Augustin – Fire 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 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: February 10, 2022
RVK invoice summary
US Bank invoice summary
RVK Investment Policy Review

RVK Benchmark Review
RVK Asset Allocation Study
RVK 2022Q1 Performance Report

Steve Hubka calls the meeting to order at 2:00 p.m.

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

Steve Hubka states Barb McIntyre is the new Human Resources Director and Board members introduce themselves. Barb introduces herself, provides a brief summary of her past Human Resources positions and experiences, and expresses she is looking forward to working with the City and the Investment Board.

Steve Hubka calls agenda item 1, approve or amend minutes of the February 10, 2022 meeting.

Becky Ferguson makes a motion to approve the minutes.

Guy Pinkman seconds the motion.

All members vote to approve.

Motion passes.

Steve Hubka calls agenda items 2 and 3, US Bank and RVK fees.

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

Guy Pinkman asks for details of the \$180 of transaction fees.

Paul Lutomski states he will email all Board members the detailed invoice.

Steve Hubka calls for agenda item 4, the RVK presentation by Corry Walsh CFA, CAIA, Consultant at RVK and Tony Johnson, Director of Midwest Consulting, Principal at RVK.

Tony Johnson directs members to the Investment Policy Statement (IPS) document. He states the Plan has an IPS and it is scheduled for annual review. Detailed recommendations for change will be presented at the August meeting. For now, six high-level change recommendations are discussed and summarized below:

1. Consolidate the IPS and Strategy document, placing asset allocation targets in an Appendix.
2. Replace Long Term and Short Term Asset Allocations with one asset allocation set and review/update it annually.
3. Tighten asset allocation ranges and rebalance as needed.
4. Replace criteria for Manager Termination with a statement that the Board may terminate an Investment Manager for any reason subject to the terms of the agreement between the two parties.
5. Update benchmarks per the RVK Benchmark Review.
6. Soften the IPS reference to Actuarial Assumed Rate of Return to separate it from the process of setting the investment strategy.

Steve Hubka gives an opportunity for more discussion.

Tony Johnson states a red-line version will be provided for discussion at the August meeting.

Corry Walsh directs members to the Benchmark Review document. He explains that Portfolio decisions are made with objectives in mind, rather than asset class characteristics and that benchmarks should be selected, or designed, to be helpful to determine how well those objectives have been met. Some asset classes may not have an investible index. Therefore, it may be appropriate to design a custom index that tracks an implementation objective. Furthermore, the objectives of composites, such as Equity, Debt, and Alternatives may change over time, requiring a custom benchmark that evolves in line with the asset class objective.

He reviews current benchmarks for each fund/composite, noting if the current benchmark is the most appropriate. In cases where other benchmarks are more appropriate, they are specified. Explanations are provided and the Board discusses.

Guy Pinkman moves to approve all of RVK's benchmark change recommendations.

Becky Ferguson seconds the motion.

All members vote to approve.

Motion passes.

Corry direct members to the Asset Allocation document. He explains the Asset Allocation Study reviews the current asset allocation targets, considering Capital Market Assumptions presented in the last meeting, to understand potential current risk/ return of the current portfolio and to inform of potential alternative portfolios. He explains the RVK Mean Variance Optimization model works to produce a set of optimal (efficient frontier) portfolios providing the highest level of expected return for a given level of risk. They also use Monte Carlo Analysis to ascertain the probability of achieving various return targets over time and associated risks.

RVK believes the existing asset allocation is an appropriate mix of capital appreciation, preservation, and inflation (protection) assets. Pros and cons of a global equity strategy vs. regional equity allocations are discussed. RVK recommends a hybrid structure utilizing both strategies.

For the Current portfolio and alternative portfolios 1 and 2, metrics for regional equity tilt, efficient frontier, Monte Carol simulation, risk/reward are presented. RVK's recommendation is only to the current portfolios' regional equity allocations as displayed in a comparison table. They recommend changing asset allocation from the current portfolio to portfolio 1.

The Board and RVK discuss.

Barb McIntyre moves to approve changing the asset allocation to Portfolio 1 as recommended by RVK.

Guy Pinkman seconds the motion.

All members vote to approve.

Motion passes.

Tony Johnson directs members to the 2022Q1 Performance Report document. He states his appreciation for all of RVK's clients. The first page of the report displays a 2021 Greenwich Quality Leader Award and is intended as thanks to RVK clients for trusting RVK and rating their services so highly. RVK is 1 of 3 large US consultants to receive the award and the only large consultant to receive the award for 5 consecutive years.

The report contains six areas:

- Capital Markets Review
- Total Fund
- Public Equity
- Fixed Rate Debt
- Investment Manager Profiles
- Custom Index Definitions, Addendum & Glossary

Capital Market Review

During Q1, public equity and fixed income markets fell sharply amid inflation, volatility, declining global economic growth forecasts, and pressures from the war in Ukraine. In one year, inflation increased from 0% to 8.5%. The Fed's response was to raise interest rates. There are factors driving inflation higher that are beyond central bank control, which limits their ability to achieve reduced inflation, including component shortages, transportation disruption and the war in Ukraine. Challenges for companies will be to pass on increased costs of raw materials and wages. Earnings will be hit, but in the long term will adjust. Asset class returns are reviewed.

Guy Pinkman asks if RVK is aware of cargo ship backlog in China.

Corry Walsh states RVK is aware, gives reason for backlog that includes covid policy, backlog being cleared out to prepare for school supply shipments, Chinese President Xi has signaled softening of policies with the goals outgrowing west.

Total Fund

All investments market values and allocation percentages are listed. Allocation compared to targets are graphed and listed. Assets allocations compared to All Public Pensions Plans (\$250M to \$500M) are displayed. Returns for various time periods are compared to All Public Pensions Plans (\$250M to \$500M) are displayed with favorable results. Risk (and return) statistics quadrant shows lower risk and higher return than peers; S.D., Sharpe ratio, excess return, downside risk, all favorable compared to peers.

Barb McIntyre asks if changed benchmarks will change the Plan's risk/return statistics, and if so what do expect the result to be.

Tony Johnson states the benchmark changes will affect the Plan's risk/return statistics, but will not be significant.

Return attribution is presented for the total fund and individual asset classes, graphically displaying components of return from Strategic, Tactical, Style and Manager Skill. RVK notes that Private Equity returns are lagging one quarter. It may make sense to present the attribution analysis excluding Private Equity.

Alternative Investments data including remaining commitments is reviewed.

Fee schedule for each manager is displayed with total estimated annual fee as 0.48% and is deemed reasonable for the portfolio mix.

RVK asks if Board members have any questions.

There were no questions.

Steve Hubka calls for Agenda item 5, Review and Vote of Education and Travel Policy.

Keith Peters states his review resulted proposed language refinements and the following substantive changes.

1. Eliminate requirement to review every three years.
2. In section 2.D., Member Orientation Program,
 - a. Addition to include Conflict of Interest Policy to the orientation handbook
 - b. Addition of Completion by the Member of the Annual Acknowledgement and Disclosure Form for the Conflict of Interest Policy
 - c. Removal of the Tour of the Plan Administration Office
3. In section 3. Attendance at Conferences
 - a. Remove requirement for members representing Police and Fire to attend a conference annually.
 - b. Remove restriction that only one member may attend any specific conference.
 - c. Addition to specify travel reimbursement to occur per City policy.
4. Change mandatory review of this policy every three years to a periodic review.

Keith Peters states members received a red-lined document detailing all the proposed changes.

Steve Hubka calls for a motion to approve the changes to the Education and Travel Policy.

Guy Pinkman moves to approve all proposed changes to the Education and Travel Policy.

Derek Dittman seconds the motion.

All members vote to approve.

Motion passes.

Keith Peters asks the Board to allow him to present a brief legal update.

Steve Hubka allows it.

Keith Peters states the Department of Labor issued a Compliance Assistance Release for 401(k) plans regarding crypto currencies. It does not apply to this plan, but they provided 5 reasons crypto currencies should not be offered as an investment option:

1. Highly speculative
2. Difficult for plan participants to make an informed decision
3. When offered as an investment option, they may be deemed appropriate by plan participants
4. Difficult to value
5. Crypto currency being used in illegal activity

Steve Hubka calls for agenda item 6, Vote for Chair of the Investment Board. He asks if there is a term for the Chairman position, and if so what it is.

Keith Peters answers the term is two years.

Steve Hubka nominates Guy Pinkman for Chair of the Investment Board.

Guy accepts.

Steve Hubka calls for a second.

Derek Dittman seconds the motion.

Steve Hubka explains need for a show of hands, stating five members are required to pass the motion, not a simple majority. All those in favor?

Vote in favor by show of hands:

Steve Hubka
Guy Pinkman
Derek Dittman
Becky Ferguson

Barb McIntyre abstains.

The motion fails.

Paul Lutomski asks for a new business item for the August meeting. If the Board desires he will present a Powerpoint created by the Plan actuary regarding the 8/31/2021 valuation report. The actuary presents to the City Council annually, usually in February. The Board will be invited to attend that presentation next February.

The Board agrees.

Steve Hubka adjourns the meeting at 3:50 p.m.