

POLICE & FIRE PENSION INVESTMENT BOARD

In-person only

August 11, 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:

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
Eric Augustin – Fire Electee

Members Absent:

Greer McCurley – Mayoral/Council Appointment
Melinda Jones - Interim Finance Director
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 physically present:

Corry Walsh, CFA, CAIA - 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: May 12, 2022
RVK invoice summary
US Bank invoice summary
RVK 2022Q2 Performance Report
RVK Investment Policy Statement update

RVK Private Credit Pacing Analysis
RVK Private Equity Pacing Analysis & Co-investment explanation

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

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

Steve Hubka calls agenda item 1, approve or amend minutes of the May 12, 2022 meeting.

Guy Pinkman makes a motion to approve the minutes.

Becky Ferguson 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.

Steve Hubka calls for agenda item 4, the 2022Q2 Performance Report presentation.

Corry Walsh directs members to the 2022Q1 Performance Report document.

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

Continued rising inflation, accelerated tightening of global monetary policy, and falling economic growth estimates led to most major indices ending negative in Q2. Inflation continued to rise in the US as the Consumer Price Index (CPI) rose to 9.1% at the end of June, spurred on by supply chain disruptions tied with the war in Ukraine and China's zero-COVID policy. Forecasts for global inflation are to end the year near 9%. The Federal Reserve wants to avoid the perception of run-away inflation because it encourages buying goods now to avoid higher prices in the future, thereby creating a self-fulfilling dynamic.

A chart of historical equity and fixed income returns is interpreted as during times of high inflation bonds are a poor hedge to lower equity returns and their returns move together. We are in such a time now. Alternative asset returns are valuable, particularly in times of high inflation, as returns are not as highly correlated. The yellow dots indicate a low inflation environment where bonds can be seen as a useful hedge to equities.

US equity markets were down with declines affecting all sectors. Outperformance of value stocks over growth stocks. Active management performed well in Q2, with the exception of large-cap growth managers. Small- and mid-cap core and value managers had an exceptionally strong Q2.

Fixed income yields rose. The Federal Reserve hiked the Federal Funds rate by 75 basis points over the quarter, the largest single increase since 1994. The Bloomberg US Aggregate ended the quarter down with an overall return of -4.7%. US Investment Grade credit down -6.9%, and High Yield down -9.8%. Foreign fixed income was down from the Russia-Ukraine war, about 11%.

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.

It was noted that Public Equity is 3.5% under the target allocation and real estate is 4.6% over the target. Both these are because of performance.

Also noted was that performance relative to peers (\$250-500M) has been incredible. Over a 3 year time period, top 1%. Over a 5 year period, top 2%. Last quarter top 10%.

The Asset Allocation & Performance table shows 2022Q2 return was -7.67%. FYTD return was -5.63%. In both cases the portfolio has outperformed its allocation index and peers. Asset class allocations and returns as well as individual manager performance is discussed relative to benchmarks. For private equity and private credit returns are expected to be lower in the beginning and improve over time, known as the "J" curve effect. A better measure for these investments is IRR (internal rate of return). An exception is Bain Capital Senior Loan.

Private equity and private credit commitments and performance are discussed.

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.

Additional report sections provide details for Private Equity, Fixed Rate Debt, and Investment Manager Profiles. A dedicated profile page was added for Prudential PRISA.

Steve Hubka call for the next agenda item, a presentation regarding suggested updates to the Investment Policy Statements.

Corry Walsh refers to the RVK red-line version of the Investment policy.

The recommendations were discussed and are summarized below:

The “Overview’ was changed to indicate the existing Investment Policy Statement (IPS) and Investment Strategy Document would be consolidated (asset allocation targets formerly contained in the Investment Strategy Document will be contained in an Appendix A.).

Section ‘I. Investment Objectives’ was changed to eliminate reference to the Actuarial Assumed Rate of Return to separate it from the process of setting the investment strategy.

Section ‘II. Responsibilities’ continues the reference to Appendix B as containing Investment Managers and their corresponding strategy benchmarks.

Section ‘III. Asset Allocation” added language indicating min and max asset allocation ranges are in Appendix A and will be periodically reviewed. (Within Appendix A, the asset allocation min and max ranges were tightened from those originally in this section.) Rebalancing to upper or lower limits was updated to allow for when it is practically possible subject to reasonable transaction costs.

Section ‘IV. Investment Guidelines’ was updated to replace the Prudent Investor Rule with the Exclusive Benefit Rule per a reflect a recent change voted into effect by the City Council, and to include reference to the Board’s Conflict of Interest Policy. These items were presented by Keith Peters.

Section “V. Investment Manager Selection Guidelines’ had no changes.

Section ‘VI. Review Standards’ had language added stating the portfolio return will be compared to two benchmarks; A) the actuarial rate of return measured over a 5 year period per Appendix C, and B) Investment Metrics Public Defined Benefit Pension Plans (\$250 - \$500 million) Peer Group Median. Language was deleted regarding manager termination or review that was found to be unnecessary.

The Board discusses the suggested changes with some focus on the elimination of the criteria indicating a formal manager review should occur. Since the existing language did not mandate termination or a review it was decided the language could be removed as manager performance is done by RVK on a quarterly basis.

Steve Hubka calls for a motion.

Guy Pinkman moves to approve all of RVK’s IPS recommendations.

Steve Hubka seconds the motion.

All members vote to approve.

Motion passes.

Steve Hubka calls for the next agenda item, the RVK Private Credit Pacing Analysis.

Corry directs members to the RVK Private Credit Pacing Analysis document. He states the analysis was done of March 31, 2022, the private credit target allocation was 10% with 3.2% currently allocated. Recommendation is for \$12M in 2022 and 2023, decreasing to \$10M 2024, 2025 and 2026. An allocation analysis is presented graphically showing the estimated valuation by vintage year, a line graph estimating the portfolio allocation percentage and a bar chart estimating the value contributed to the portfolio from private credit. An appendix contains assumptions, methods and a glossary.

The Board discusses the suggested changes. The pension has a Floating Rate Debt target of 10% with the majority in Bain Capital Senior Loans (~6.5%). The rest of Floating Rate Debt is private credit (~3.5%). The Private Credit (PC) Pacing Study is to consider replacing the Floating Rate Debt allocation with a true Private Credit allocation. Private Credit is more illiquid than Floating Rate Debt but will have higher risk adjusted returns. If adopted, any PC cap calls would be funded by redeeming from Bain Capital Senior Loans that has monthly liquidity.

The Board members discuss and determine the change from 10% Floating Rate Debt to a true 10% Private Credit allocation is agreeable.

Steve Hubka calls for the next agenda item, the RVK Private Equity Pacing Analysis and Co-investment explanation.

Corry directs members to the RVK Private Equity (PE) Pacing Analysis document. He states the analysis was done on March 31, 2022, the private credit target allocation was 10% with 7.3% currently allocated. Recommendation is for \$7M in 2022, 2024, 2026, 2028 and 2030. Every other year is recommended to allow a larger investment with a single manager. An allocation analysis is presented graphically showing the estimated valuation by vintage year, a line graph estimating the portfolio allocation percentage and a bar chart estimating the value contributed to the portfolio from private equity. An appendix contains assumptions, methods and a glossary.

If agreeable, to the Board, the next question regards how to implement the PE investment. Corry directs members to the RVK Co-investment section of the document. He explains PE co-investment is a hybrid fund of funds and direct fund investment strategy with different benefits and risks. He refers to the document to reviews the strategy, benefit and risks in detail. He explains the co-investment fund invests alongside the private equity fund, owning a small portion of the portfolio company and may contribute industry specific expertise or add value in other ways. A structure comparison of FoF, Co-invest, and Direct is presented. If agreeable to the Board details of specific co-invest fund options will be provided at a later meeting.

The Board members discuss and determine the co-invest method is agreeable.

Steve Hubka calls for the next Agenda item, Legal Update by Keith Peters

Keith Peters states Secure Act 2.0 passed the House and is being negotiated in Senate. The act pertains to DC plan retirement plan rules, but will be monitored for applicability.

The Department of Labor issued a Compliance Assistance Release for 401(k) plans regarding crypto currencies. A crypto currency group filed a lawsuit to stop the release from becoming a regulation.

Steve Hubka calls for the next agenda item, Vote for Chair of the Investment Board. He states the term is two years and asks Keith for clarification on when the term for an elected Chair would begin.

Keith answers that the term would start when elected.

Steve calls for nominations.

Eric Augustin nominates Guy Pinkman for Chair of the Investment Board.

Guy accepts.

Steve Hubka calls for a second.

Derek Dittman seconds the motion.

Steve Hubka asks for a show of hands, stating five members are required to pass the motion. All those in favor?

Vote in favor by show of hands:

Eric Augustin

Steve Hubka

Guy Pinkman

Derek Dittman

Becky Ferguson

Barb McIntyre

The motion passes.

Guy Pinkman asks Paul who provides IT services and how much is paid?

Paul answers that the City provide the pension's IT. He states the pension pays a 'central services' fee that includes IT and a separate IT payment and approximates the annual fee at about \$70,000.

Steve Hubka asks if the central services fee includes issuance of 1099-R forms.

Paul answers it does not as US Bank issues those forms.

Guy Pinkman asks if Milliman and US Bank send a document annually describing their security services.

Paul answers no, but will contact the providers. He states US Bank offered the option for pensioned members to access their own payment records to view them, change address, bank account, or tax withholding. We declined as we understand other pension systems have had hackers steal the identity of pensioners and divert their pension payments. *(after meeting note: Milliman is the DROP provider. Employed DROP members can access their DROP account to change their investments, but cannot receive funds via their website until they retire. Logon is multi-factor. If a retired DROP member enters bank account info, a 10 day waiting period is enforced while a letter is mailed to their residence notifying them of the bank account update asking them to contact Milliman if they did not enter the account data.)*

Guy Pinkman asks what security measures are being employed by US Bank on the pension's behalf.

Paul answers that US Bank has two systems. Both use multi-factor authentication. Both require pre-authorization. For the portfolio system a User ID and then a pre-asked/answered security question are required. A security image is displayed and password entry is required. *(after meeting note: The system*

is read-only display of account statements, transactions and values. Any transaction directions need to be sent via reply to a US Bank secured email with password by one of three authorized users.)

The second system is the benefit payment system. A pre-authorized user ID and password are needed for logon, then a code is emailed to the user's pre-authorized email. The codes must be entered to proceed. *(after meeting note: Any benefit changes must be approved by a different one of five authorized 'change' users. Final payroll requires a specific report to be run and sent by reply to US Bank secured email by one of three pre-authorized 'final' users.)*

Guy Pinkman adjourns the meeting at 3:30

DRAFT