

POLICE & FIRE PENSION INVESTMENT BOARD

May 11, 2023
2:00 – 4:30 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:

Guy Pinkman – Fire Electee (Board Chairman)
Steve Hubka – Mayoral/Council Appointment (Board Secretary)
Derek Dittman – Police Electee (leaves at 4:15)
Eric Augustin – Fire Electee
Matt Franken – Police Electee
Barb McIntyre – Human Resources Director
Lyn Heaton – Finance Director (arrives at 2:30)
Becky Ferguson – Mayoral/Council Appointment

Members Absent:

Vacant position – Mayoral/Council Appointment (vacant as of 11/17/2022)

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
Nicole Gross – Total Rewards Division Leader
Angela Pearson – HR Benefits Specialist

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:

2023Q1 Performance Report
Asset Allocation Study
Asset Allocation Transition Plan
Public Equity Search (overview)
Documents for these Zoom manager interviews.

1. Kennedy SmallCap Value
2. Westwood SmallCap Value
3. Artisan SmallCap Growth
4. William Blair SmallCap Growth

Guy Pinkman calls the meeting to order at 2:00 p.m.

Guy Pinkman calls agenda item 1, approve or amend minutes of the February 9, 2023 meeting.

All members vote to approve.

Motion passes.

Guy Pinkman 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 calls for agenda item 4, the 2023Q1 Performance Report presentation.

Tony Johnson directs members to the 2023Q1 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

During Q1, defensive and risk assets generally provided positive returns, following a difficult 2022 of geopolitical risk and rising interest rates. Despite volatility, broad equity market indexes finished Q1 positive. Market participants changed expectations on future interest rate moves among rate hikes, cuts and pauses. Internationally, moderate temperatures helped to ease energy price inflation in Europe, but the uncertainty around supply shortages persisted due to the war in Ukraine. The FOMC decided to increase the federal funds rate in Q1 to a target range between 4.75% - 5.00%. The FOMC's actions demonstrated continued focus on combating inflation. Headline CPI was slightly below average expectations, at 5.00%. Recessionary risks remained a concern, and recent FOMC members thought it was increasingly likely that the US will enter a recession later in 2023 due to banking sector stresses. The IMF revised its global GDP growth down from 2.9% to 2.8%.

Total Fund

All investment market values and allocation percentages are listed. Allocation compared to targets are graphed and listed. Asset 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.

Asset Allocation by Manager, compared to asset class targets, and relative to peers was reviewed. It was noted that Private Equity is 2% under the target allocation and real estate is 2% over the target - which is closer than last quarter. The plan is awaiting RE redemption proceeds and PE capital calls.

Also noted was that performance relative to peers (\$250-500M) has been favorable as shown in several pages of metrics. Returns over 3, 5 10 years displayed. The higher allocation to PE and PC with their lag in valuation contributed to the lower than average, compared to peers, return.

A scatter graph plot of risk vs. return for CLPF versus peers is favorable.

The Asset Allocation & Performance table shows Total Fund 20232Q1 return was +3.41%. FYTD +1.8%, CYTD +3.41%. Median peer FYTD return was +3.44%. 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).

Private equity and private credit commitments and performance are discussed.

Alternative Investments data including remaining unfunded commitments totaling \$4.9 M is reviewed.

Remaining commitments are reviewed.

Fee schedule for each manager is displayed with total estimated annual fee as 0.48%.

Corry Walsh states Ares Pathfinder has an Extending Partner Election Form that needs to be submitted prior to the 18-month Anniversary of the Final Closing Date, or 3/31/24 +18Mo. If selected, the investment period will be effectively extended 2 years by automatically participating in subsequent fund series, and will continue to be extended for two-year periods unless the pension elects to be a Liquidating Partner. RVK will monitor the investment and advise the Board regarding this option before the deadline.

Guy Pinkman calls for the next agenda item, Asset Allocation Study.

Lyn Heaton joins the Board meeting.

Corry directs members to the Asset Allocation document. He explains the Asset Allocation Study reviews the current asset allocation targets, considering RVK Capital Market Assumptions, 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.

The Current portfolio expectation are compared to portfolio Option 1 and 2. **Option 1** decreases equity allocation, while increasing fixed rate debt to capitalize on higher yields and reduce the risk profile of the portfolio.

Option 2 decreases equity allocation even more in addition to a reduction in real estate, offset by an increase to fixed income and the addition of hedge funds. This portfolio would likely be the best positioned for a recessionary environment in which inflation moderates.

The Board and RVK discuss assumptions, pros, cons, metrics, diversifiers, risk and return expectations of the current and optional portfolios. Hedge fund slides and discussion mentions various HF strategies and performance expectations in different market environments. (CTA =Commodity Trading Advisor). RVK recommends portfolio option 2.

Beck Ferguson makes a motion to adopt option 2.

Steve Hubka seconds the motion.

Guy Pinkman calls for discussion.

Guy Pinkman calls for a vote to adopt the asset allocation described by RVK as option 2.

All members (8) vote in favor

Corry directs members to the Asset Allocation Transition Plan document. He explains it lays out a plan to transition assets to either option 1 or option 2 to accommodate either Board decision. He explains that today the plan is to interview mangers for the US Small Cap Value and US Small Cap Growth asset classes, that implementation of option 2 could occur more quickly if all seven (7) asset class managers were selected, that RVK is prepared to recommend regarding all seven (7) asset class managers as using information in the Public Equity Search document if the Board desires or if the Board desires that the other five (5) asset class managers be selected at a later date a transition plan can be crafted, but that plan will have interim allocations out of line with target allocations. He asks for direction on this issue.

The Board discusses and arrives at a consensus to select the other five (5) asset class managers at a later date.

Corry directs members to the Public Equity Search document. It contains data on the seven (7) public equity asset sub-classes, the six (6) active manager slots will be reviewed for potential new investment managers.

Pct of Equity
portion of
portfolio

56%	US Large Cap-passive
4%	US Small Cap Value-active
4%	US Small Cap Growth-active
9%	Non-US Developed Value-active
9%	Non-US Developed Growth-active
14%	Emerging Markets-active

4%

All Country ex-US Small Cap-active

The document contains descriptions of manager candidates for each asset class, except hedge funds, with metrics and comparisons.

Corry and Matt Sturdian (via video teleconference) present detailed data on US Small Cap Active managers candidates.

3:00 to 3:15 pm

A video conference presentation/interview for asset class, US Small Cap Value-active. Kennedy Capital Small Cap Value representatives presented detailed information on the fund. Guy Pinkman thanks the representatives for their presentation and the interview ends.

3:15 to 3:30 pm

A video conference presentation/interview for asset class, US Small Cap Value-active. Westwood Small Cap Value representatives presented detailed information on the fund. Guy Pinkman thanks the representatives for their presentation and the interview ends.

3:30 to 3:45 pm

A video conference presentation/interview for asset class, US Small Cap Growth-active. Artisan Small Cap Growth representatives presented detailed information on the fund. Guy Pinkman thanks the representatives for their presentation and the interview ends.

3:45 to 4:00 pm

A video conference presentation/interview for asset class, US Small Cap Growth-active. William Blair Small Cap Growth representatives presented detailed information on the fund. Guy Pinkman thanks representatives for their presentation and interview ends.

Tony Johnson of RVK leaves the meeting to catch a flight.

The Board, Corry Walsh and Matt Sturdivan of RVK, discuss US Small Cap Value and Growth asset classes and investment managers candidates. The discussion includes metrics in the RVK Equity Search document as well as information provided by each manager such as return and risk over various time periods, portfolio diversification, staff, volatility, performance in different market environments, benchmark tracking error, capitalization (micro, small, mid) of companies in the manager portfolios.

4:15 Derek Dittman leaves for a commitment. It is advised that a Board member cannot authorize another Board member to vote for them.

The Board and RVK representative continue discussion, including fees, up/down market performance, and which Value and Growth manager pairing would work well together, in various market environments.

Matt Franken moves to invest the recommended allocation to Kennedy (value) and William Blair (growth).

Steve Hubka seconds the motion.

Guy Pinkman ask if there is further discussion. There being none he calls for a vote.

All members (7) vote in favor.

Guy Pinkman calls for new business.

Paul Lutomski states Steve Hubka's 2 year term as Board Secretary will 8/11/2023, (his board term expires 9/1/2026) and he asks members to be prepared to vote on this issues in the August meeting .

Paul Lutomski states he will email members to complete their Annual Conflict of Interest Disclosure.

Guy Pinkman adjourns the meeting at 4:30.

DRAFT