

POLICE & FIRE PENSION INVESTMENT BOARD

August 11, 2023
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:

Guy Pinkman – Fire Electee (Board Chairman)
Steve Hubka – Mayoral/Council Appointment (Board Secretary)
Derek Dittman – Police Electee
Eric Augustin – Fire Electee
Matt Franken – Police Electee
Barb McIntyre – Human Resources Director
Becky Ferguson – Mayoral/Council Appointment

Members Absent:

Vacant position – Mayoral/Council Appointment (vacant as of 11/17/2022)
Lyn Heaton – Finance Director

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:

2023Q2 Performance Report
Public Equity Search (overview)
Investment Policy Statement draft Red-line and draft Clean

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

Guy Pinkman calls for agenda item 1, approve or amend minutes of meetings dated; May 10, 2023, July 18, 2023, and July 20, 2023.

Paul Lutomski states Steve Hubka read and had some corrections to the minutes, that the corrected minutes were distributed to Board members.

All members vote to approve.

Guy Pinkman calls for 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, election of a Board Secretary. The term is two years. He recognizes and thanks current Board Secretary, Steve Hubka, for his work on the Board. He states Steve has agreed to continue service and Board Secretary and asks for a motion nominating a Board Member for the Secretary position.

Eric Augustin moves to nominate Steve Hubka as Board Secretary.
Beck Ferguson seconds the motion.
All members (7) vote in favor.

Corry Walsh announces he is leaving RVK, on good terms, to accept a position with a firm that manages money for celebrities and athletes. He thanks the Board and assures the Board that RVK's services will continue seamlessly.

Tony Johnson, Director of Midwest Consulting, Senior Consultant, Principal states he will continue to provide the services they have come to expect and states that Ian Bray, Senior Consultant, Principal, will join him as consultant to the pension.

Corry Walsh and Tony Johnson directs members to the 2023Q2 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

2023 Q2 was a strong quarter for equities. At the start of 2023, rate hikes and quantitative tightening kept expectations for a near-term US recession in many market forecasts. The economy was resilient due to consumer spending and job growth. Recession and other forecasts were complicated by the US debt ceiling debate and bank failures. The Fed took action to mitigate damage. Moody's has downgraded some banks. The June Consumer Price Index (CPI) slowed to a 3.0% year-over year rate, its

lowest since March 2021. US equity markets delivered strong results in Q2, primarily driven by the largest growth-oriented companies. US fixed income markets broadly posted negative returns in Q2, as the yield curve inverted further. Economic stress is becoming evident.

The Board discusses the actuarially expected rate of return for FY 2023-24 as 7.25%. It is stated the Plan expects to complete an actuarial experience study shortly, wherein actuarial assumptions including returns will be evaluated and potentially reset. RVK will work with the plan actuary and the City regarding the long term assumed rate of return.

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 Public Equity is 4% under its target allocation, Private Equity is 3% under and offset by Fixed Rate debt 3% over and Cash 4% over. The plan was awaiting finalization of the equity plan managers before implementing back to target allocations.

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.

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

The Asset Allocation & Performance table shows Total Fund 20232Q1 return was +2.42%. FYTD +3.86%. Median peer FYTD return was +6.22%. The 5-year return was 7.18% versus peer return of 6.45%. 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.

Private Equity and Private Credit commitments and performance are discussed.

Alternative Investments data including remaining unfunded commitments totaling \$10.6 (largely due to \$6M additional to GCM) is reviewed.

A Fee schedule containing each manager with total estimated annual fee of 0.42% is reviewed and deemed appropriate for the asset mix.

Corry Walsh recaps:

July 18, 2023 meeting 2 managers were selected:

1. Pzena Invest Mgt International Value
 2. Walter Scott International Growth
- Each for 9% of equity, or approx. \$12.5M.

At the July 20, 2023 meeting a quorum was not attained. The 4 members physically present, with Guy Pinkman attending virtually, came to a consensus for GQG Partners Emerging Markets Equity to fill the Emerging Markets allocation for 14% of equity, approx. \$20M. He refers to the Public Equity Search document and provides a recap of Emerging Markets candidates Acadian and GQG stating both are excellent. He mentions the Board's consensus for GQG in the July 20, 2023 meeting.

Guy Pinkman calls for a motion.

Becky Ferguson moves to approve GQG.

Derek Dittman seconds the motion.

All members (7) vote in favor.

Guy Pinkman calls for the next agenda item, ACWI ex-US small cap manager selection.

Corry refers to the Public Equity Search document and review details of ACWI ex-US small cap candidates Acadian ex-US SC and Harding Loevner Int'l SC. The amount is 4% of Equity, or ~ \$5M.

The Board discusses. The RVK recommendation is for Acadian.

Guy Pinkman calls for a motion.

Steve Hubka moves to approve Acadian.

Matt Franken seconds the motion.

All members (7) vote in favor.

Guy Pinkman calls for the next agenda item, Investment Policy Statement review and update.

Corry Walsh refers members to the IPS draft Redline document with red underlined font indicating changes. The changes refer to adoption of the asset allocation and therefore corresponding manager and benchmarks changes previously approved in the May 10, 2023 meeting, July 18, 2023 meeting, and earlier in this meeting. He explains it also includes a change anticipating adoption of a Russell 1000 passive index and therefore vote on the IPS could wait until after that discussion and/or the IPS changes.

Guy Pinkman tables the vote on the IPS and calls for presentation of the next agenda item, the Russell 1000 space.

Corry Walsh states RVK endorses a passive approach to this space as it is an efficient market space where consistent active manager outperformance is rare. He reviews the three candidates comparing fees, tracking error and performance. He explains the Northern Trust Russell 1000 index uses securities lending and therefore has a lesser fee. He recommends the Northern Trust Russell 1000 index fund.

Guy Pinkman asks for more information why this allocation should be passive when the other allocations were active. He expresses interest in the defensive capabilities of active management to protect against downside market risk.

Corry Walsh explains active management has a greater potential to outperform passive indexes in less efficient markets. The Russell 1000 is the 1000 largest market cap companies in the US, timely and accurate information is available, and therefore many analysts study these firms thereby making this market segment efficient. To outperform, active managers in this space must be very good and investors must be willing to hold the active managers long term through market cycles to increase the probability of outperformance materializing. Timing of entry and exit with active managers is relevant. The current market cycle may not be the best time to start with an active manager in this space.

The Board discusses.

Guy Pinkman asks that more information and discussion of active vs. passive regarding the Russell 1000 allocation be provided in the next meeting.

Guy Pinkman suggests approving the IPS changes with the exception of changes pertaining to the Russell 1000 allocation.

Becky Ferguson makes a motion to approve the IPS changes with the exception of changes pertaining to the Russell 1000 allocation.

Eric Augustin seconds the motion.

All members vote in favor.

Corry Walsh states he will update the IPS document accordingly. He states Hedge Fund and Private Credit will be addressed in November, and that considering the Ares Pathfinder Extending Partner Election Form will be part of the Private Credit discussion, since approving that may take the place of a new Private Credit manager.

The Ares Pathfinder Extending Partner Election Form 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 thanks everyone, recognizing that the Board and RVK covered a lot of material over the last few months. He specifically thanks RVK, and Corry for all his excellent work.

Guy Pinkman adjourns the meeting at 3:30