

POLICE & FIRE PENSION INVESTMENT BOARD

In-person only

February 9, 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)
Derek Dittman – Police Electee
Eric Augustin – Fire Electee
Barb McIntyre – Human Resources Director
Lyn Heaton – Finance Director

Members Absent:

Vacant position – Mayoral/Council Appointment (vacant as of 11/17/2022)
Matt Franken – Police Electee
Becky Ferguson – Mayoral/Council Appointment
Steve Hubka – Mayoral/Council Appointment (Board Secretary)

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

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 10, 2022
RVK invoice summary
US Bank invoice summary
RVK 2022Q4 Performance Report
RVK Equity Structure Study

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

Guy Pinkman calls agenda item 1, approve or amend minutes of the November 10, 2022 meeting.

Lyn Heaton makes a motion to approve the minutes.

Eric Augustin seconds the motion.

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 2022Q4 Performance Report presentation.

Corry Walsh directs members to the 2022Q4 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

In Q4, equity and fixed income markets delivered improved results while continuing to experience elevated volatility. However, positive quarterly returns came on the tail of a significantly negative year for many investors. Regarding economic conditions, the impact of tightening monetary policy and persistent inflation, combined with supply shocks and an energy crisis in Europe, are leading to increasing odds of a global recession in 2023. On a relatively positive note, recent data indicates that the inflation environment is showing signs of abating. Notably, the US Consumer Price Index declined for a sixth straight month in December with a reading of 6.5%, the lowest level since October 2021. In December, the FOMC did slow the pace of policy rate hikes with a 50 basis point increase, following a series of four straight 75 basis point increases. Internationally, the war in Ukraine caused an energy price shock and trade tensions continue to test economic and political relationships across multiple regions. Within emerging markets, investor attention is focused on China with some pointing to signs of a softening stance toward pandemic restrictions as reason to be optimistic regarding the country's outlook. However, these views are countered with concerns over indications of social unrest and the consolidation of power around President Xi Jinping. With all this considered, global GDP growth forecasts continue to moderate with the OECD forecasting growth of 3.1% in 2022 with an expected decline to 2.2% global GDP growth in 2023.

US Equity, Non-US Equity, Fixed Income and Alternative markets are briefly reviewed. The return for each are displayed with note S&P 500 down 18%, ACW Ex US down 16%, US bonds down 13%, with private RE down 5% and public REITS up 4%.

Market drivers are inflation, but also there are signs of dis-inflation, that might indicate a future recession depending on the strength of the job market and federal reserve actions.

Guy Pinkman asks Corry to explain stagflation.

In sum Corry states stagflation is a condition of no growth in an economy, but the existence of inflation. He explains inflation pressure could come from either wages growth or materials prices increases. If people believe inflation will exist in the future they tend to buy now, which self-fulfills inflationary action.

Guy states it is important to be mindful that a global perspective is needed given the interconnection of global supply and labor markets and its effect on participants. Leading indicators can be helpful in determining the direction of trends.

A Heat map of asset class returns is displayed.

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.

Page 12, Asset Allocation

It was noted that Public Equity is 3% under the target allocation and real estate is 4% over the target - which is closer than last quarter. The plan is awaiting RE redemption proceeds.

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. Last quarter 3.82% top 85%. 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 2022Q4 return was +3.82%. FYTD -1.58%, CYTD -10.22%. Median peer CYTD return was -13.23. The portfolio has outperformed its 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).

Private equity and private credit commitments and performance are discussed.

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

Fee schedule for each manager is displayed with total estimated annual fee as 0.51%.

Additional report sections provide details for Private Equity, Fixed Rate Debt, and Investment Manager Profiles.

Lyn Heaton asks how the Board would be informed if a manager was underperforming since there is no watchlist.

Corry states RVK is continually monitoring manager performance and manager organization and would notify the Board of any concerns.

Guy Pinkman states the Board did employ a watchlist method previously and decided to switch to the continual method when the Investment Policy was reviewed and updated by the prior consultant (in 2015).

Guy Pinkman calls for the next agenda item, the RVK Equity Structure Study.

Corry Walsh states the purpose of this study is to provide an overview and the pros and cons of various equity structures. An optimal equity structure will depend on the circumstances of the investor, such as governance structure, risk tolerance, asset size, and investment resources. RVK believes there is an opportunity to increase risk adjusted returns through thoughtful incorporation of active management.

He lists and discusses six equity structure decisions, pros and cons of active vs. passive investing, market cycles and excess return summary data for different asset classes 2001-21, cap size considerations, domestic vs. international and compares the current equity structure to three proposed structures, advocating for a transition from the current structure to Proposed Structure 3.

The Board discusses. They state understanding that compared to current, Structure 3 has more active manager exposure as a % of the portfolio and potentially more volatility. They clarify that year-to-year actual earnings compared to actuarially assumed earnings are smoothed over a rolling 5 year period and that year to year actuarial gains or losses are amortized over rolling 20 year periods. Therefore, while more volatility may be incurred its impact is mitigated by these methods and its advantages, over the long run, may outweigh its disadvantages.

Tables of weighted average excess returns and fees indicate Structure 3 has the highest relative potential fee-Excess Return of 0.04. $0.04 * \$300M = \$120,000$

Potential	Current	Structure 1	Structure 2	Structure 3
Excess return	0.03	0.13	0.07	0.23
fee	0.22	0.42	0.33	0.38
Fee-excess return	-0.19	-0.29	-0.26	-0.15

The attending Board members would like Board members unable to attend today's meeting the opportunity to have a Zoom/Teams tele-meeting with Corry to review the Equity Structure Study. They feel this will give those members the opportunity to learn and ask questions so that the vote on Equity Structure scheduled for the May Investment Board meeting will go more smoothly.

Guy Pinkman asks that the May meeting be extended to be from 2 to 4 pm

Guy Pinkman calls for new business.

Paul Lutomski states Keith Peters could not attend this meeting as he had a prior commitment. He thanks Keith and Cline Williams for their work on Ares and GCM and provides a brief legal update sourced from Keith that a class action lawsuit was filed against Nebraska Methodist last week. The suit alleges the plan sponsor should have picked better funds.

Guy Pinkman adjourns the meeting at 3:30.