

## **POLICE & FIRE PENSION INVESTMENT BOARD**

**In-person only**

**November 10, 2022**

**2:00 – 4:00 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  
Matt Franken – Police Electee  
Lyn Heaton – Finance Director  
Guy Pinkman – Fire Electee (Board Chairman)  
Eric Augustin – Fire Electee  
Becky Ferguson – Mayoral/Council Appointment  
Steve Hubka – Mayoral/Council Appointment (Board Secretary)  
Derek Dittman – Police Electee

#### Members Absent:

Greer McCurley – Mayoral/Council Appointment (resigned 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

#### Others physically present:

Corry Walsh, CFA, CAIA - RVK Investment Advisors  
Keith Peters, attorney at Cline Williams law firm

#### Tele-conference

Tricia Lyn, RVK Investment Consultant – Private Credit  
Kirby Francis, RVK Investment Consultant – Private Equity

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: August 11, 2022  
RVK invoice summary

US Bank invoice summary  
RVK 2022Q3 Performance Report  
RVK Private Credit and Private Equity Recommendation

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

Guy Pinkman calls agenda item 1, approve or amend minutes of the August 11, 2022 meeting.

Eric Augustin makes a motion to approve the minutes.

Becky Ferguson 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 2022Q3 Performance Report presentation.

Corry Walsh directs members to the 2022Q3 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

Investor sentiment and the market continued to be driven by inflation and a corresponding tightening of monetary policy by most global central banks. Strong consumer demand, combined with supply chain disruptions and energy supply constraints caused by the war in Ukraine, exacerbated the difficulties for policymakers aiming to respond to inflation.

Inflation forecasts remain elevated compared to historical levels despite actions by global central banks, including the FOMC. In September, the FOMC increased the federal funds rate to a range of 3.00%-3.25%, which represented a third consecutive 0.75 percentage point hike.

Global GDP growth forecasts continued to moderate during the quarter. The OECD (Organization for Economic Cooperation and Development is a forum of 37 democracies with market-based economies collaborating to develop policy standards to promote sustainable economic growth) forecasted real global GDP growth of 3.0% in 2022 and 2.2% in 2023, representing sharp declines from its December 2021 forecasts of 4.5% and 3.2%, respectively.

Overall, economic and inflation forecasts are being impacted by multiple factors, including war in Ukraine, that could lead to global economic impacts.

A chart for stock and bonds of Market Drawdown Performance from Peak to Trough for prior periods: Tech Bubble, GFC(2008-9 crisis), Taper Tantrum (2013 unexpected slowdown of Fed bond purchases) COVID-19 (Feb-Apr 2020), and 2022 YTD, showing that the return hedge bonds provide has decreased over time.

A chart of the rolling 3 year correlations of the S&P 500 and Barclays US Agg Bond from 1978 to current is presented that displays increased correlation.

More detailed data on US Equity, Non-US Equity, Fixed Income, and Alternatives is presented. A heat map of asset class performance is presented.

#### Total Fund

All investments 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.

It was noted that Public Equity is 5% under the target allocation and real estate is 5.3% over the target. Both these are because of performance.

RVK rebalance plan Phase I is sale of \$8M Bain when needed for PE and PC cap calls if purchases approved, and Phase II would be reinvestment of real estate proceeds in equity and fixed debt. Since real estate sales are processed in a queue RVK recommends entering redemption queue now: RREEF American REIT II for \$10 M and PRISA II for \$5 M.

The Board discusses and agrees informally.

Also noted was that performance relative to peers (\$250-500M) has been favorable as shown in several pages of metrics. Over a 3 year time period, top 2%. Over a 5 year period, top 5%. Last quarter top 18%. A scatter graph plot of risk vs. return for CLPF and peers is favorable.

The Asset Allocation & Performance table shows Total Fund 2022Q3 return was -3.69%. FYTD -5.10%, CYTD -13.32%. Median peer CYTD return was -18%. 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 \$5.3 M is reviewed.

Fee schedule for each manager is displayed with total estimated annual fee as 0.52%.

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

Guy Pinkman calls for the next agenda item.

Corry Walsh states in August 2022, RVK presented a pacing analysis for Private Credit and Private Equity which recommended approximately \$12 million in annual commitments to Private Credit and \$7 million in biennial commitments to Private Equity. The purpose of the multiple presentations today is to bring forward RVK's private credit and private equity recommendations to the City of Lincoln Police and Fire Pension. He refers to the RVK document on Private Credit and Private Equity (Confidential as it contains proprietary fund information)

RVK's Private Credit recommendation is to commit \$12 million to Ares Pathfinder II, a closed end fund that seeks to deliver attractive risk-adjusted returns through specialty finance investments in North America that fall outside of traditional, well-defined markets.

RVK is recommending two Private Equity Co-Investment Funds for the City of Lincoln's consideration. RVK recommends selecting one of these managers for the \$7 million commitment.

- Grosvenor Co-Investment Opportunities Fund III: The goal of the fund is to create a single point of access to a diversified portfolio of high-quality co-investments by investing in 20-30 investments diversified across geographies, industries, sponsors, and years. The fund will focus on the middle market buyout space.
- Neuberger Berman Co-Investment Partners Fund V: The fund seeks to build a portfolio of co-investments primarily in leveraged buyouts and growth equity transactions on a global basis across multiple industries and transaction sizes.

Corry Walsh introduces Tricia Lyn of RVK.

Tricia Lyn provides a private credit overview and recommends Ares.

Ares representatives presented detailed information on the on Ares Pathfinder Fund II (confidential – not for publication).

Guy Pinkman thanks Ares for their presentation and the teleconference with Ares ends.

The Board discusses private credit, Ares and the Ares Pathfinder II Fund. The discussion includes Corry Walsh and Tricia Lyn.

Guy Pinkman calls for a motion.

Steve Hubka moves to approve the RVK recommendation to invest \$12 million with Ares in the Ares Pathfinder II Fund.

Matt Franken seconds the motion.  
All members vote to approve.

Motion passes.

Corry Walsh introduces Kirby Francis of RVK.

Kirby Francis provides a private equity overview including a discussion on co-investing and states that the entire \$7M, if approved, would need to be invested with one manager due to minimum investment constraints.

GCM Grosvenor representatives present detailed information on GCM Grosvenor and the GCM Grosvenor Co-Investment Opportunities Fund III (confidential – not for publication).

Guy Pinkman thanks GCM for their presentation and the teleconference with GCM ends.

Neuberger Berman representatives present detailed information on NB and the NB Strategic Co-Investment Funds II-IV and upcoming Fund V (confidential – not for publication).

Guy Pinkman thanks NB for their presentation and the teleconference with NB ends.

The Board discusses private equity, GCM Grosvenor, the GCM Grosvenor Co-investment Opportunities Fund III, Neuberger Berman, the NB Strategic Co-Investment Funds V. The discussion includes Corry Walsh and Kirby Francis. Similarities and differences are discussed. Similar performance. Many differentiating factors are discussed, including GCM only charges fees on invested capital vs. NB charges fees on committed capital, GCM expected to call capital sooner. The Board and RVK agree that GCM Grosvenor is a better fit for the pension plan.

Guy Pinkman calls for a motion.

Steve Hubka moves to approve the RVK recommendation to invest \$7M in private equity and to invest \$7M with GCM Grosvenor Co-investment Opportunities Fund III.

Eric Augustin seconds the motion.

All members vote to approve.

Motion passes.

Guy Pinkman calls for the next agenda item.

Keith Peters provides a legal update regarding the Board's prior inquiry on cybersecurity. While the Department of Labor (DOL) guidance does not directly apply to the City because its plans are governmental plans exempt from ERISA, the DOL Employee Benefits Security Administration practices are recommended. Both US Bank and Milliman (DROP) require advance user registration, multi-factor security, Secured File Transfer Protocol (SFTP) for data uploads and secured encrypted email Guy

Guy Pinkman adjourns the meeting at 4:03 p.m.