POLICE & FIRE PENSION INVESTMENT BOARD

November 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:

Barb McIntyre – Human Resources Director
Lyn Heaton – Finance Director
Steve Hubka – Mayoral/Council Appointment (Board Secretary)
Becky Ferguson – Mayoral/Council Appointment
Derek Dittman – Police Electee
Eric Augustin – Fire Electee

Members Absent:

Guy Pinkman – Fire Electee (Board Chairman)
Lisa Smith – Mayoral/Council Appointment
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:

Ian Bray - 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:

- 2023Q3 Performance Report
- Active vs Passive Study
- Passive Russell 1000 Search
- Investment Policy Statement draft Red-line
- Private Credit Discussion and Education on Distressed
- WolfPopper Portfolio Monitoring document
- Actuarial Experience Study draft

Steve Hubka calls the meeting to order at 2:00 p.m.
Agenda item one, edit or approve August 2023 minutes.

Eric Augustin
Motion to approve the minutes.

Becky Ferguson
Second.

Steve Hubka
All in favor?

All members.
Aye.

Steve Hubka
Motion approved.
Agenda item 2 and 3, US Bank and RVK advisor fees.

Paul Lutomski
Presents US Bank and RVK fees.

Steve Hubka
Agenda item 4, Ian and Tony will present the RVK Q3 performance report.

Ian Bray
Introduces himself.

Capital market Review

During Q3, investors grappled with mixed signals regarding the health of the economy and the direction of corporate profits. Factors included an uptick in inflation, a downgrade to the US debt rating, ongoing labor negotiations and strikes, and uncertainty around the funding of the US government.

There was an increasing focus on the US consumer. Wage growth exceeded expectations, rising energy costs and mortgage rates, resumption of student loan payments following a multi-year pause, raised concerns about a decline in consumer spending.

Global central banks and policymakers continued to focus on the balance between maintaining downward pressure on inflation and avoiding significant disruption to economic growth.

Fast Forward to September 30, we've seen equity markets come back a bit, S&P at about 15%, year to date. Fixed income repriced down a bit. Both markets are still in healthy territory for the year to date.

The S&P 500 is cap weighted so return is driven by the seven big tech companies.
You take those seven names out, essentially the S&P 500 is flat.

Becky Ferguson
The 30 year Treasury auction was today. 4.76%. Why is there such a buzz around it?

Ian Bray
The Treasury wants to stay short term. They are putting a lot more issuance on the T bills side. Government debt outstanding is such a huge number right now.   Hedge funds never used to be a buyer of treasuries. But there's so much action in that market now. It's been a difficult environment to navigate which has historically been an extremely safe place to be.

Tony Johnson

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. Risk (and return) statistics quadrant are presented; 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.

> The one year return, at 7.22%, is in 93rd percentile of peers, which is not where you want to be. But in a three and five years, you're doing extremely well. And why is that? Because private equity returns don't come in as frequently as public fund return and your private equity strategy is just getting started. I wouldn't put too much stock in that one year return number because updated private equity valuations haven't come in. The 5 year gives a good illustration.

A Plan Sponsor Scattergram – 5 years is presented showing risk below peers and return slightly above peers.

The Asset Allocation & Performance table AS OF SEPTEMBER 30, 2023 shows Total Fund FYTD return was -2.62% and CYTD +3.64%. Median peer FYTD return was -3.21%, CYTD 4.45%. The 5-year return was 6.16% versus peer return of 5.13%. 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.

> *Private Equity may in for a rough one or two years in terms as occurs with interest rates going up.*

Alternative Investments data including remaining unfunded commitments totaling $9.6,largely due to GCM, is reviewed.

A Fee schedule containing each manager with total estimated annual fee of 0.50% is reviewed and deemed appropriate for the asset mix.

Keith Peters
The money market fund has a 0% earnings rate. Is that right?

Ian Bray
I was going to ask Paul.

Paul Lutomski
Both the City Treasurer and US Bank money market funds earn a return.

Steve Hubka
Agenda item 5, active versus passive.

Tony Johnson
We discussed this item at the last meeting and were asked to re-visit it as relates to a Russell 1000 allocation. In the document, active and passive invested are defined, index approaches listed. The case for each and applicable markets sectors and cycles are presented. In sum, markets more closely followed are less likely for active manager outperformance of indexes. Pages 18-20 contain concise charts for various assets classes and active manager excess returns net of fees compared to relative index. The excess return for managers in the 25th percentile, the median, and in the 75th percentile are displayed. An example of US Large Cap Core Equity shows excess returns for active managers in the 25th percentile as 1.04%, for the median as -0.52% and in the 75th percentile as -2.1%. On average, within large cap active

management has not outperformed index. Now, what I'll say about this is the US equity market is in a bit of an anomaly. The government was acting to encourage investors to take on more risk and by doing so it created this wave of people to push money into equities. Overvalued companies continue to do better and better. Those seven big tech stocks. Its hard to project going forward in a normalized market if we will see that cycle start to come back around, where active actually does better than passive management.

Our question to you comes back to how do you perceive large cap equity?

Ian Bray
Active passive doesn't have to be a binary decision, you can split the allocation. Holistically to be mindful of costs and fees. Pick the most inefficient areas to be active. Is the recommendation of passive on the table or is there a desire to take a look at active managers in the space before you make that decision?

Eric Augustin
I would like to see research on active managers.

Lyn Heaton
I'm open to the exercise, but for large cap, per Corey's recommendation passive is the better place to be.

Ian Bray
We can bring back a search.

Tony Johnson
When we bring back that search, keep the chart on page 24 in mind. Top line is the top quartile of managers, but the constituents at each point can change, you're not going to have the same manager consistently across from 2001 thru 2022. .

Ian Bray
We'll bring you names that we feel comfortable have a strong track record. Team is very smart, philosophy is good, organization is stable, fees are competitive.

Steve Hubka
Agenda item 6, we don't need to address since we did not adopt item 5.

Ian Bray
Given the outstanding allocation decision we can look at simplifying the IPS. We will come back with some suggested red line edits for next time.

Steve Hubka
Agenda item 8 is private credit, discussion and education.

Ian Bray
This is a discussion for your future consideration. For private credit pacing and to maintain the target allocation you have to continually commit capital to private capital investments. For private equity, your current pacing model is every two years for a new commitment. For private credit it's going to more consistent every year, we recommend allocating $10 to $12 million.

Tony Johnson
We are going to come back in February 2024 and bring you a more detailed discussion about two managers and possibly narrow to one manager. For now , one is Monarch Capital. The other is Marathon Dislocation Credit. Each is focused on the distressed market.

> A discussion of the rationale for distressed credit investing and each of the two managers per the document.

The document tear sheets give a summary of each private credit opportunity.

Steve Hubka
What are the factors for the distressed cycle that may emerge in 2024?

Tony Johnson
Factors are higher interest rates that the corporate loans are shorter term and variable rate. And so as interest rates go up, they have to pay out more for debt service. If they can't maintain that debt service, some default on the debt that they owe. That's going to be the opportunity we're seeing.

Ian Bray
The Fed wants the US economy to slow so that inflation comes down, or wage growth can come down, then inflation can come down. Some companies will fail as part of the normal business cycle.

Lyn Heaton
How do the distressed managers capitalize on this?

Tony Johnson
They take over the management of the company, they negotiate with the creditors, sell off the business parts that are profitable to pay off some of the debt and make this a company that could be purchased by somebody else at a discounted price. They need the assistance to come in and help them restructure and rebuild.

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Ian Bray
In February when we bring back the recommendation, we will have more detail on the market cycle.

Steve Hubka
Agenda item 9.a.
Mr. Hubka explains portfolio monitoring was presented at a conference. He states a panel of attorney's discussed portfolio monitoring, for fraud and other things. They recommend up to three firms be hired to monitor a portfolio, they should do this work for free.

Paul Lutomski
Several years ago we gave our portfolio holdings to ligation company. They said we didn't have anything that was suitable for them to monitor. So, to RVK, has anything changed in this regard?

Keith Peters
Given the fund does not have a lot of direct holdings, is there any applicability?

Tony Johnson
Correct. A mutual fund means that investors do not own securities, but own the fund. Securities litigation works best for plan sponsors, that actually have possession of the underlaying securities.

The opportunities that these firms have is to search through your securities, find if there's an anomaly, come back to you and ask to help you file court papers, see if you can take lead plaintiff status, and then they'll represent you. You get the same share of the settlement that everyone else, but the privilege of leading the charge for others in the class action. When I was at a public fund 20 years ago we did this. Without separate account, even if they are on retainer for free, they're probably going to pass.

The group discusses that most firms would not be interested in our portfolio.

Ian Bray
A separate account is not normally used until the sponsor gets to a substantial asset size.

Keith Peters
The idea is that if you were to invest say, 85 million, you could ask a manager for a break on fees and make an account just for us. In that case, you actually own securities.

Tony Johnson
Every investment is analyzed for the most cost effective way to access it and that method is used.

Ian Bray

You don't usually see separate accounts for less than $100 million for most of these managers to say that they would offer you a separate account fee that would be worth your time and effort.

Steve Hubka
Thanks RVK, recommends we do not pursue this any further. Asks if there are any other opinions.

There are none.

Steve Hubka
Agenda item 9.b. Actuarial Experience Study

Paul Lutomski
Every four years the state of Nebraska requires pensions to do an experience study, which compares actual experience to what was assumed to occur. The actuaries may recommend the City change some assumptions. RVK has mentioned, and the study recommends lowering the return assumption. Over the past years the return assumption decreased from 7.5%, by -0.5% and is now 7.3%. They propose we continue that process on an accelerated schedule to 6.9%. Another change is a new mortality table. Since we've had more turnover in Police, they recommendation to incorporate that expectation. Also, some other economic assumption changes regarding increased inflation and higher salary expectations. Lowering the return expectation means that we are expected to earn less on investments and therefore the City needs to contribute more.

The group discusses that most peer plans are moving returns downward, that it is not good to assume an unrealistically high return, increased contributions needed.

Barb McIntyre
The City has a COLA Advisory committee formed and this will be discussed.

Steve Hubka
Adjourns the meeting.