

**MINUTES**  
**INVESTMENT COMMITTEE MEETING**  
**FIRE AND POLICE PENSION FUND, SAN ANTONIO**  
**WEDNESDAY, MAY 22, 2024**  
**PENSION FUND OFFICE**  
**9:30 A.M.**

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| <b>Roll Call</b>                 | Mr. Smith called the meeting to order at 9:31 A.M.  |
| <b>Committee Members Present</b> | Jim Smith, Police Representative; Larry Reed, Fire/Retiree Representative; Amanda Viera, Police Representative; Harry Griffin, Police/Retiree Representative  |
| <b>Committee Members Absent</b>  | None  |
| <b>Others Present</b>            | Justin Rodriguez, Mayoral Designee; Warren Schott, Executive Director; Cary Hally, Chief Investment Officer; Giovanni Nunez, Investment Analyst; Wes Levanduski, Investment Analyst; Gail Jensen, General Counsel |

**Approval of Minutes of April 24, 2024**

- Mr. Griffin requested an update on the Minute Entries regarding the public market reallocations and the private market commitments. Staff reported that the Pension Fund would complete reallocating funds to the six existing managers by June 1, 2024, and the legal negotiations for the private market commitments had been completed without issue.
- Ms. Viera made a motion to approve the minutes of the April 24, 2024, Investment Committee meeting. The motion carried unanimously.

**Covenant Apartment Fund XII Re-Up Commitment**

- The Committee discussed a potential re-up commitment with Covenant Apartment Fund XII. The Fund will continue its value-add investment strategy through the acquisition of 35-40 undervalued apartment communities in the Sun Belt region of the United States and reposition each asset through renovations and re-leasing strategies. The Pension Fund has invested in Funds VII through XI. The Pension Fund's investments in Funds VII and VIII are completely realized with first and second quartile IRR returns of 18.2% and 17.9%, respectively. As of December 31, 2023, the Pension Fund's investments in Fund IX, X, and XI have IRRs of 21.4%, 16.7%, and 6.3% respectively. Representatives from Townsend noted that their firm had not underwritten Covenant Apartment Fund XII but they support the re-up commitment.
- After discussions, Mr. Griffin made a motion to recommend that the Board commit \$25 million to Covenant Apartment Fund XII. The motion carried unanimously.

**IDR Update**

- Chief Investment Officer Cary Hally provided a brief update to the Committee with regard to the pending \$25 million IDR commitment. Mr. Hally noted that based upon the ongoing concerns regarding real estate open-end core funds and the overall state of the real estate market, staff recommends continuing to delay the funding of the commitment until the index had at least two consecutive quarters of positive performance. Staff will continue to update the Committee as positive signs in the core real estate market emerge. No action was taken.

## **NEPC Quarterly Performance Update and Appropriate Follow-up Action Including Possible Reallocations, Rebalancing and/or Terminations**

- NEPC presented a quarterly performance review of the Pension Fund's portfolio. As of March 31, 2024, the portfolio's market value was approximately \$4.0 billion, and the total portfolio returned 3.5% for the quarter. The portfolio is positioned at or near its policy allocation targets, and within approved ranges. In the quarter, U.S. equities returned 8.8%, non-U.S. equities returned 5.1%, and total fixed income returned 0.9%.
- NEPC noted that the majority of the underlying investment managers are performing well relative to their peers and benchmarks, but highlighted two underperforming managers, The London Company, and Barrow Hanley. NEPC noted that the Pension Fund's three-year return outperformed the policy index while taking on less risk. During the presentation, Mr. Griffin highlighted the performance of the Pension Fund's two-year laddered Treasury strategy and suggested contributing additional funds.
- After discussions, Mr. Griffin made a motion to recommend that the Board liquidate \$50 million from the Northern Trust TIPs Index Fund and add those proceeds to the MacKay Shields Treasury Portfolio. The motion carried unanimously.

*Ms. Viera left the meeting at 11:02 A.M.*

### **Private Debt Search**

- The Committee discussed initiating a private debt search to reach the Pension Fund's annual pacing target. NEPC and staff recommended the Pension Fund make a \$25 million private debt commitment outside of re-up opportunities by year-end and suggested the Committee initiate a private debt search focused on Funds with stressed and special situations corporate strategies.
- After discussions, Mr. Griffin made a motion to recommend that the Board launch a private debt search focused on stressed and special situations corporate strategies. The motion carried unanimously.

### **Hayfin Direct Lending Fund V Re-Up Commitment**

- The Committee discussed a potential re-up commitment with Hayfin Direct Lending Fund V. Fund V will continue to focus on providing conservative, first lien senior secured investments to European mid-market companies. The Fund will originate loans to both sponsored and non-sponsor-backed companies, and purchase loans in the secondary market. The Pension Fund has invested in Funds I through IV. Funds I through III targeted net IRRs of 6%-7.5%, and Fund IV targeted 10%-12%. As of December 31, 2023, the Pension Fund's investments in Fund I-IV have returned 6.7%, 6.4%, 9.1%, and 10.1%, respectively. While the investments are within Hayfin's range of expected return targets, in terms of IRR, Funds I through IV are below median.
- After discussions, Mr. Griffin made a motion to recommend that the Board commit \$25 million to Hayfin Direct Lending Fund V. The motion passed 2 to 1, with Mr. Smith opposing.

### **Bloomfield Capital Presentation**

- Representatives of Bloomfield Capital provided an update on the Pension Fund's investments. The Pension Fund has committed to Bloomfield Capital Income Fund III and Fund V-Series A. Fund III is in its wind-down phase and has a net IRR of 10.4%, as of March 31, 2024. Fund V utilizes a Series LLC legal structure, with funds automatically rolling over from one series to the next. In addition to the automatic rollover, General Counsel Gail Jensen had identified a variety of unique legal challenges posed by the Fund V legal documents and its series structure. As a result, before the formation of Series B in the Fund, the Board elected to withdraw from Fund V, although some funds had already been automatically rolled over into Series B and are currently in the "lock-up" phase of that series.

- Bloomfield representatives informed the Committee that Series D of Fund V is scheduled to launch later this year and their team has drafted new legal documents intended to make the Fund structure more acceptable to the Pension Fund. It was noted that Bloomfield representatives had made the same offer to the Pension Fund at the August 2022 Investment Committee, which the Committee discussed at length at its February 2023 meeting, ultimately deciding to take no action.
- Following Bloomfield's presentation, Ms. Jensen noted that while Bloomfield's changes to the legal documents would exempt the Pension Fund from the automatic rollover provision, the other unique legal challenges related to Fund V remained. The Committee instructed staff and Counsel to re-review Bloomfield's proposal and report back to the Committee at a later meeting. No action was taken.

### **Real Estate Consultant Search Update**

- As a follow-on from the February 2024 Committee meeting, Mr. Hally provided an overview of each of the five firms that responded and discussed their proposed fees. A lengthy discussion ensued regarding which, if any, firms should be visited as part of the Pension Fund's due diligence. It was noted that past practice in Searches was to conduct on-site due diligence visits with firms on the "short list". The Committee discussed whether site visits should be done with this search, and the possibility of combining such visits with on-site visits to current managers in the same cities. No action was taken.

**Adjournment:** Mr. Griffin made a motion to adjourn at 1:06 P.M. The motion carried unanimously.

Approved this \_\_\_\_ day of \_\_\_\_\_, 2024.

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Jim Smith, Investment Committee Chairman