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JACKSONVILLE POLICE AND FIRE PENSION FUND  
FINANCIAL INVESTMENT AND ADVISORY COMMITTEE  
MEETING SUMMARY – JULY 16, 2018 – 3:30PM

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**PRESENT**

Eric "Brian" Smith Jr., Chair  
Tracey Devine – via Webex  
Rob Kowkabany  
Rodney Van Pelt

**STAFF**

Timothy H. Johnson, Executive Director – Plan Administrator  
Steve Lundy, Assistant Plan Administrator  
Kevin Grant, Finance Manager  
Dan Holmes, Summit Strategies – via Webex  
Craig Coleman, Summit Strategies – via Webex

**EXCUSED**

Craig Lewis Sr., Secretary  
Joey Greive, Fund Treasurer

**Meeting Convened:**

3:30PM

**Meeting Adjourned:**

5:14PM

NOTICE: Any person requiring a special accommodation to participate in the meeting because of disability shall contact Steve Lundy, Assistant Plan Administrator at (904) 255-7373, at least five business days in advance of the meeting to make appropriate arrangements. If any person decides to appeal any decision made with respect to any matter considered at this public meeting such person will need a record of proceedings, and for such purpose such person may need to ensure that a verbatim record of the proceedings is made at their own expense and that such record includes the testimony and evidence on which the appeal is based. The public meeting may be continued to a date, time, and place to be specified on the record at the meeting. Additional items may be added / changed prior to meeting.

**I. PUBLIC SPEAKING PERIOD**

*None.*

**II. MEETING SUMMARY TO BE APPROVED**

***Motion to approve: KOWKABANY; Second: VAN PELT; APPROVED UNANIMOUSLY.***

1. **FIAC Meeting** – June 8, 2018

**III. EXECUTIVE DIRECTOR'S REPORT**

*Timothy Johnson*

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**1. Budget to Actual** – June 30, 2018

*Kevin Grant described his budget to actual analysis, showing the dollar and percentage difference between the budget and actual amounts spent to date. Building revenue is on target, and parking garage revenue is above target due to the maximization of parking rents.*

*Kevin Grant discussed the negotiation of a new contract for the tenant HERTZ, because they defaulted on the terms of their old contract.*

*Timothy Johnson said he is proud of Kevin Grant for recognizing HERTZ's default, and seizing the opportunity to renegotiate better terms on a new contract.*

*Kevin Grant added that HERTZ's rates will be brought up to market levels.*

*Kevin Grant continued his discussion of the budget to actual. Expenses are lagging due to regular invoice lag. Investment expenses are on target. There will be an accrual at year-end due to the month lag. Altogether, the PFPF is under budget.*

*Rodney Van Pelt asked why not accrue at the end of each month.*

*Kevin Grant said that year-end accruals are past practice, and this method gives the best indication of when funds hit.*

*Timothy Johnson said the PFPF is invoiced quarterly, not monthly – which creates some ambiguity.*

*Kevin Grant said it takes Northern Trust some time to true-up their actuals as well.*

*Timothy Johnson said personnel services is under budget because of the records specialist vacancy, and the finance manager position was vacant for a month and a half.*

*Kevin Grant discussed the budget process involving the Mayor's Budget Review Committee. There will be some minor changes to the budget due to indirect applied services from the City such as ITD and Legal.*

*Timothy Johnson said that the PFPF is captive to these charges – the City bills the PFPF and we have no control over the cost.*

*Rodney Van Pelt asked where those items show up on the budget.*

*Kevin Grant said they are operating expenses.*

*Kevin Grant discussed the progress of the Chapter Funds. The State has reviewed the statistical portion of the PFPF's report submission, and is currently reviewing the financial portion. They are approving the final dollar amount of this year's Chapter Funds. The first round of checks should go out in the beginning of August.*

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*Timothy Johnson said the PFPF usually receives around \$10 million annually through these premium insurance tax dollars (the Chapter Funds). Following pension reform, the PFPF disburses this money at the unions' direction. Some questions remain regarding the administration of the PFPF holding the money in the meantime.*

*Brian Smith asked what the unions did with the money last year.*

*Timothy Johnson said the control of the 2015 monies is in dispute between the unions and the City. He said the City, PFPF, and unions came to an agreement regarding the Christmas bonus – everyone signed a memorandum of understanding allowing the PFPF to pay the bonus. The share plan portion of the 2015 chapter funds has not yet been distributed.*

*Brian Smith asked what would happen should the funds incur a loss or return while sitting as part of the PFPF's investments.*

*Timothy Johnson said another memorandum of understanding may be needed with the unions on that question. Any new memo would be taken to the FIAC for review first.*

*Brian Smith suggested putting the money in a money market account separate from the Fund's other investments – there would be problems otherwise considering a market downturn.*

*Timothy Johnson said this should be coming back to the FIAC in the next few months.*

## **2. Ordinances 2018-395 & 396 (In Committee)**

*Timothy Johnson said these ordinances have been sent to the rules committee – and that Rob Kowkabany and Tracey Devine are still official FIAC members until replaced. The reappointment bills are moving through committee and will appear on the Council's agenda soon.*

## **3. Summit Strategies RFI**

*Timothy Johnson said he and Tracey Devine published this RFI a month ago and gave Summit Strategies 30 days to respond – they responded Friday. He said he would review their responses to this new RFI along with their responses to the original submission in 2007. Since 2007, compliance has not been verified in a formal manner – it has been verified in minutes, but not in report form. He said he would review the responses with PFPF staff and bring the report back to the FIAC. The FIAC should then be in a position to recommend a new contract with Summit Strategies before the current expiration.*

*Timothy Johnson also discussed the FIAC Annual Report handout – law requires the FIAC to produce this report showing the last year's activities. He said Steve Lundy has done a great job putting the report together and listing everything that the FIAC has acted on in the 2017-2018 period.*

## **IV. INVESTMENT CONSULTANT REPORTS**

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*Dan Holmes*

1. **Flash Report – June 30, 2018**  
*Received as information.*
2. **Economic & Capital Market Update – June 30, 2018**  
*Received as information.*
4. **Statement of Investment Policy – Draft**

*Dan Holmes walked the FIAC through the changes made to the draft Statement of Investment Policy since the last version. Language has been inserted describing the pension reform changes to the plan, including it being closed to new entrants, the present value of future surtax proceeds being valued as an asset, and the minimum required liquidity ratio of 5:1 assets to benefit payments.*

*Tracey Devine said she thought the wording describing the City's minimum contribution of \$110 million was interesting.*

*Dan Holmes said the wording was taken directly from the ordinance.*

*Timothy Johnson noted that the Fund is currently at about a 7.5:1 ratio of assets to benefit payments.*

*Dan Holmes highlighted a section on page 4 regarding treasury's responsibility for wire payments. He wanted to clarify this.*

*Kevin Grant said the ordinance reads that the Treasurer is responsible for the Fund itself.*

*Rodney Van Pelt suggested wording referring to the Finance Manager and his role in verifying proper wire payments.*

*Brian Smith suggested inserting a new section titled "Duties of the Controller (Finance Manager)".*

*Timothy Johnson agreed.*

*Brian Smith said Timothy Johnson, Kevin Grant, and Dan Holmes would work on inserting this language into the Statement of Investment Policy.*

*Dan Holmes discussed the target allocation and permissible ranges on pages 10-11. This was updated to include the new targets approved by the Board in June.*

*Rodney Van Pelt suggested referring this table to the appendix instead of in the body of the policy – any subsequent changes would be easier to make if it was an appendix – Council wouldn't have to review and approve the Policy as a whole.*

*Dan Holmes said he could move it to an appendix.*

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Brian Smith asked for a motion to incorporate this change.

**Rodney Van Pelt made a motion to move the target asset allocation in section VII (B) to an appendix, therefore it could be subsequently amended in the future, if necessary. Seconded by Rob Kowkabany.**  
**Discussion:**

Tracey Devine said there would be practicality of separating the table for future updates.

Brian Smith said this would make the Fund more nimble. He said he does not foresee any changes in the next 5 years, but as new opportunities arise, this change would be helpful.

Kevin Grant suggested including a reference to the Asset/Liability Study because it impacted the changes to the table.

Brian Smith agreed.

Tracey Devine said there could be other reasons to change the table – the Asset/Liability Study was just one reason.

Brian Smith said declining tax dollars before the surtax proceeds roll in could also necessitate a change.

**The vote passed unanimously.**

Dan Holmes continued his discussion of edits to the Statement of Investment Policy. He outlined changes to pages 18-19 which discuss benchmarking in private investments.

Tracey Devine asked about the policy index on page 11, number 2.

Dan Holmes said the first couple of years of private returns are not as meaningful as later years – he continued to discuss benchmarking for private investments.

Dan Homes discussed the new “Emerging Investment Manager and Brokerage Firm Policies” starting on page 22, which would replace the PFPF’s old version. He said the new policy calls for an investment of at least 10% in minority, women, or disabled veteran-owned investment and brokerage firms.

Timothy Johnson thanked Dan Holmes for a good job on this section. He asked about ‘disabled veterans’ and whether that category could be replaced with just ‘veterans’. He said that might make the pool bigger.

Dan Holmes said he agreed – although most plans use the term ‘disabled veteran’. He said he sees no problem with striking the ‘disabled’ term.

Brian Smith shared his concern that allocating to small management firms could easily double or triple their managed assets.

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*Dan Holmes said that most of these minority or women-owned firms have over \$50 million under management. Summit Strategies recommends protecting against this by making sure its clients do not consider investing an amount greater than 10% of a small firm's total managed assets.*

*Craig Coleman discussed the structure of the managed assets in these small firms as sometimes comingled, which presents other considerations for investors.*

*Tracey Devine said this is critical to monitor whether the Fund's investment in these managers consumes more than 10% of their total assets under management.*

*Timothy Johnson discussed the definition of 'local', asking about the counties selected instead of considering the whole state of Florida as 'local'.*

*Kevin Grant said usually the City would create a matrix – closer firms are scored higher. He said most contracts for the City would have a minimum requirement for minority or women-owned firms, and if the minimum threshold of 10-15% were not met, an explanation would be required.*

*Rodney Van Pelt asked if the policy is calling for a minimum 10% investment in minority or women-owned firms.*

*Brian Smith and Dan Holmes said that the 10% is more of a goal than a mandate.*

*Tracey Devine suggested changing the language to reflect this in the policy.*

*Rodney Van Pelt said he has not seen any reporting which tracks the Fund's investment in minority or women-owned firms.*

*Brian Smith said Sawgrass is local but does not know about any other managers.*

*Dan Holmes said Sawgrass is the only firm, and it comprises about 5.5% of the Fund's investments.*

*Rodney Van Pelt asked for reporting on the Fund's investments in these categories.*

*Dan Holmes said Summit Strategies would have no problem reporting on this.*

*Rodney Van Pelt said the FIAC needs a starting point to see where the Fund is currently before it starts to consider new minority managers.*

*Brian Smith asked where the 10% threshold came from. He asked if it was the City's policy.*

*Dan Holmes said it is Summit Strategies' suggestion, based on similar policies across other public pension plans and endowment funds.*

*Brian Smith asked if the 10% goal could be changed to 5%.*

*Dan Holmes described Summit Strategies' identification and review process of minority and women-*

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owned firms. He said the bottom line is that Summit Strategies' process is open to all categories in order to avoid some firms falling through the cracks. He said there will be new opportunities to bring the Fund up to the 10% level.

Tracey Devine suggested a range of investment from 5% upwards.

Craig Coleman described Summit Strategies' method of narrowing down the list in manager searches. He said Summit Strategies is aware of which minority firms Summit likes. He said Summit Strategies doesn't force minority firms into their top-tier of recommended managers just because they're minority owned – these firms in the top-tier are the best ideas.

Brian Smith asked if the goal is lowered to 5% if it would put the Fund 'out of step' with the rest of the pension industry.

Dan Holmes said he thinks that would be a low threshold, but it would not be out of step.

Brian Smith said he does not want to restrict any minority managers from consideration. He said he wants a clear understanding of the selection process. He said he does not want to move the goal to 5% and regret it later.

Tracey Devine said that she presumes Summit Strategies is coming across these minority-owned firms organically in the selection process. She said she was unsure why the Fund was not at a 10% level currently.

Rob Kowkabany said he thinks the new policy is clear, and a 10% level is meaningful. He said the proper question to ask would be "what percentage of the universe would meet these criteria of definitions?"

Dan Holmes said the answer is that the level of minority, veteran, and women-owned firms varies across differing asset classes. Traditional asset classes are more diverse as opposed to private classes. The remaining asset classes vary in between. Domestic and International Equity, and Fixed Income management firms are diverse, and many minority firms are currently managing funds for many of Summit Strategies' clients.

Rob Kowkabany reiterated that he thinks a 10% goal is reasonable, but 5% is low and would open the Fund to criticism.

Rodney Van Pelt said he agrees with Rob Kowkabany.

Timothy Johnson said a 10% level would be reasonable and attainable, as it was the level used in Allegheny County during his previous occupation.

Dan Holmes directed attention to page 28, which discussed a checklist of issues to be reviewed periodically.

Timothy Johnson said his main takeaway was to add a new 'Finance Manager's Responsibilities' section, and to not redefine or change the Treasurer's section.

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*Brian Smith said this document is still in draft form and will be on the agenda in August for the FIAC's review and approval.*

*Brian Smith deferred the remaining items on the agenda to the August meeting in the interest of time. He said a half hour should be dedicated to the Statement of Investment Policy and the remainder of time for the quarterly Investment Performance Review. He asked the FIAC to prepare for August's meeting to go past 5PM.*

*Timothy Johnson reminded the FIAC of the Summer Social.*

4. **Asset Allocation Implementation Discussion** – Handout  
*Deferred to August.*
5. **International Small Cap Search Presentation**  
*Deferred to August.*

V. **OLD BUSINESS**  
*None.*

VI. **NEW BUSINESS**  
*None.*

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Steve Lundy, Assistant Plan Administrator  
Posted 07/18/2018

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Craig Lewis Sr., Secretary  
To be approved at the FIAC Meeting on August 10, 2018.

The next regular meeting will be held Friday, August 10, 2018 at 3:30PM.