Annual Report
Jacksonville Police and Fire Pension Fund

For the Fiscal Year Ending September 30, 2016

Published June 2017

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Chairman's Report

Dear Members:

As the new Chairman of the Police and Fire Pension Fund (PFPF) Board of Trustees, I'm pleased to share with you the Fund's 2016 Annual Report. The report identifies the Fund's financial status as of September 30, 2016, along with numerous activities conducted by the Fund throughout the year on your behalf.

I want to recognize outgoing Chairman, Chief Larry Schmitt, who successfully facilitated the transition of our long-time administrator John Keane to interim leadership under Beth McCague and new leadership under Tim Johnson, who assumed responsibility August 1, 2016. The PFPF also lost the significant contribution of Board Trustee Nat Glover, who was replaced by Willard Payne. Rick Patsy was reappointed to the Board and Lt. Chris Brown was elected by his fellow police officers to replace Larry Schmitt.

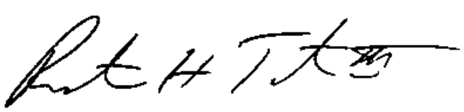
New leadership arrived when the Financial Investment and Advisory Committee (FIAC) was established as part of the 2015 reform to assist the Board in financial, investment, and actuarial matters. FIAC members include Chairman Brian Smith Jr., Rob Kowkabany, Craig Lewis, and Rodney Van Pelt as of September 30, 2016.

After what our Investment Consultant describes as a "tumultuous 2015 fiscal year", the PFPF returned 10.5%, net of fees for the fiscal year ending September 30, 2016. Contributing to the superior fiscal year results were actions taken by the Board of Trustees. These actions included: reduction in manager fees through fee negotiation and consolidation combined with greater use of passive management; streamlining of the Investment Policy Statement and updating the target asset allocation, further diversifying the fixed income portfolio by hiring core-plus managers, replacement of underperforming managers, and maintaining a long term perspective allowing recovery of certain asset classes.

Jacksonville City Council approved Ordinance 300, which was sent to Tallahassee, approved by the Florida Legislature then returned to Jacksonville and approved by the voters via referendum. This reform effectively defers payment of the unfunded liability to 2030 and creates a surtax dedicated to paying it down. More will come relative to implementing this reform.

I encourage you to read this annual report, the first of its kind published in several years. Its transparency will allow you to learn more and appreciate the PFPF. We intend to publish this report annually in the future, as part of our ongoing effort to keep each of our members well informed on matters relating to their retirement.

Sincerely,



Lt. Richard Tuten III
Chairman, Board of Trustees

Note: Due to the timing of this published report, please see page 9 for the updated actuarial impact statement reflecting changes to the Plan due to 2017 Pension Reforms.

City of Jacksonville, Florida
Police and Fire Pension Fund
Unaudited Statement of Fiduciary Net Position
September 30, 2016

ASSETS		
Cash and short-term investments	$	3,263,098
Due from the City		5,651,397
Other receivables		10,761,896
Interest and dividends receivable		1,782,528
Recoverable taxes		78
Prepaid assets		81,675
Short-term investments		28,252,353
Long-term investments		
Fixed income securities		326,147,367
Domestic and international equities		1,053,394,238
Real estate		195,943,522
Property, plant, furniture and equipment, net		6,751
Securities lending collateral		92,760,152
Total assets		1,718,045,055
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pension, net		112,110
LIABILITIES		
Due to the City		7,000,000
Accounts payable		1,533,688
Accrued pension pay and wages payable		3,045,699
Compensated absences – current		21,278
Compensated absences - long-term		45,174
Net pension liability		582,196
Other post employment benefits		60,348
Other liabilities		64,806
Securities lending obligations		92,760,152
Total liabilities		105,113,341
Fiduciary net position available for pension benefits	$	1,613,043,824

City of Jacksonville, Florida
Police and Fire Pension Fund
Unaudited Statement of Changes in Fiduciary Net Position
For the Year Ended September 30, 2016

ADDITIONS		
Contributions:		
Plan member $	$	11,633,724
Plan member buybacks and pension transfers		1,197,137
Employer		149,499,492
Employer pension transfers		2,994,879
Total contributions		165,325,232
Other additions:		
Court fines and other penalties		832,536
State insurance contributions		10,680,624
Supplemental payment		5,000,000
Miscellaneous		122,888
Total other additions		16,636,048
Investment income:		
Rental and parking revenue		704,536
Net appreciation in fair value of investments		131,355,243
Interest and dividends		29,406,337
Investment expenses		(7,297,110)
Rental expenses		(289,357)
Net investment income		153,879,649
Securities lending activities:		
Lending revenue		577,398
Lending expense		(143,905)
Total securities lending activities		433,493
Total additions to fiduciary net position		336,274,422
DEDUCTIONS		
Pension benefits remitted		129,091,476
DROP benefits remitted		30,249,696
Refunds of contributions		384,837
Administrative expenses:		
Personnel services		757,311
Professional services - non investment		1,242,822
Building rent - office space		258,000
Central services		265,713
Supplies		9,582
Depreciation		10,932
Judgements and settlements		570,200
Other services and charges		404,660
Total administrative expenses		3,519,220
Total deductions to fiduciary net position		163,245,229
Change in fiduciary net position		173,029,193
Fiduciary net position available for benefits - beginning of year, previously reported		1,437,776,631
Prior period adjustment		2,238,000
Fiduciary net position available for benefits - beginning of year, restated		1,440,014,631
Fiduciary net position available for benefits - end of year	$	1,613,043,824

Actuarial Certification

January 18, 2017

Board of Trustees
Jacksonville Police and Fire Pension Fund
One West Adams Street, Suite 100
Jacksonville, Florida 32202-3616

Actuarial Valuation as of October 1, 2016

Gentlemen:

We are pleased to forward our report on the 2016 Actuarial Valuation of the Jacksonville Police and Fire Pension Fund. The minimum required City contribution for the Plan Year beginning October 1, 2017 is 149.74% of covered payroll.

The valuation results were based on participant data as of July 1, 2016, provided by the City. Fund assets and the Plan as of September 30, 2016, were reported by the Plan Administrator. Valuation Pay is the annualized sum of reported rate of pay, upgrade pay, and shift pay as of July 1st. All of this data has been reviewed for consistency with prior data and for general reasonableness.

Per Part VII, Chapter 112.64(5)(a) of Florida Statutes, the payroll growth assumption used for amortization of the unfunded liability is not allowed to exceed the average annual payroll growth for the preceding ten years. As a result this was lowered to 0.067% in this valuation (see page 5).

Statement by Actuary:

This actuarial valuation and/or cost determination was prepared and completed by me or under my direct supervision, and I acknowledge responsibility for the results. To the best of my knowledge, the results are complete and accurate, and in my opinion, the techniques and assumptions used are reasonable and meet the requirements and intent of Part VII, Chapter 112, Florida Statutes. There is no benefit or expense to be provided by the Plan and/or paid from the Plan's assets for which liabilities or current costs have not been established or otherwise taken into account in the valuation. All known events or trends that may require material increases in Plan costs or required contribution rates have been taken into account in the valuation.

I am a member of the American Academy of Actuaries and meet its Qualification Standards to render the actuarial opinion contained herein.

Jarmon Welch

Jarmon Welch, A.S.A.
PENSION BOARD CONSULTANTS, INC.
Enrollment Number 14-1108

Jacksonville Police and Fire Pension Fund
Derivation of City Minimum Required Contribution as of October 1, 2016

	10/1/2015 with Asset Revisions	10/1/2016 with FRS Mortality
Covered October 1 Payroll	$132,735,243	$135,599,741
1. Actuarial Accrued Liabilities		
a. Active Participants	$732,810,115	$768,461,161
b. Inactive Participants	$2,409,418,097	$2,577,054,098
c. Total (a. + b.)	$3,142,228,212	$3,345,515,259
2. Market Value of Assets		
a. Gross Market Value	$1,437,907,379	$1,613,043,823
b. Reserve Accounts	$79,499,720	$95,543,156
c. Sr. Staff Plan Assets	$4,002,294	$4,102,201
d. Net Market Value (a. - b. - c.)	$1,354,405,365	$1,513,398,466
3. Unfunded Actuarial Accrued Liability (1.c. - 2.d.)	$1,787,822,847	$1,832,116,793
4. Costs		
a. UAAL Amortization Payment	$122,360,258	$164,417,818
b. Normal Cost (Individual EA)	$44,087,089	$45,257,077
c. Annual Expense	$9,926,208	$11,180,135
d. Total Cost BOY (a. + b. + c.)	$176,373,555	$220,855,030
5. Contributions		
a. Members (including DROPs)	$11,410,245	$11,633,724
b. Chapter Funds Allocation	$5,288,927	$5,340,312
c. Court Fines	$920,774	$832,536
d. City Minimum (4.d. - (5.a. + 5.b. + 5.c.))		
1. Dollars on October 1	$158,753,609	$203,048,458
2. % Covered Payroll on October 1	119.60%	149.74%
3. Dollars on December 1 next year = d.1. x payroll growth x $1.07^{2/12}$	$165,771,919	$205,488,666

Reconciliation

The October 1 City minimum contribution increased $44,294,849 due to:

1. Increase of $3,976,708 for 3.25% increase in prior year amortization payment.
2. Expense increase of $1,073,792.
3. Actual earnings (10.0%) were $45 million higher than expected, decreasing costs $2,400,156
4. Lowering 3.25% payroll growth assumption to 2.50% based on experience study increased costs $8,000,000. The current unfunded amortization costs increased $25,676,758 as a result of State required lowering of 2.50% to 0.067% (actual 10 year average).
5. State required use of FRS special risk mortality tables increased costs $8,517,200.
6. The initial base established in 1987 is fully amortized decreasing costs $494,479.
7. Experience deviations (primarily salary) from expected decreased costs $54,974.

Jacksonville Police and Fire Pension Fund
Amortization of the Unfunded Actuarial Accrued Liability

October 1	UAAL	Amortization Payment	7% Interest	Supplemental Payments*	Accumulation with 7% Interest
2016	$1,832,116,793	$164,912,297	$116,704,315	$10,000,000	$10,000,000
2017	1,783,908,811	164,527,978	113,356,658	20,000,000	30,700,000
2018	1,732,737,491	161,672,761	109,974,531	30,000,000	62,849,000
2019	1,681,039,261	158,498,473	106,577,855	40,000,000	107,248,430
2020	1,629,118,644	158,517,811	102,942,058	40,000,000	154,755,820
2021	1,573,542,891	158,624,018	99,044,321	40,000,000	205,588,728
2022	1,513,963,194	159,275,441	94,828,143	40,000,000	259,979,938
2023	1,449,515,895	159,382,156	90,309,362	40,000,000	318,178,534
2024	1,380,443,101	159,488,942	85,466,791	40,000,000	380,451,032
2025	1,306,420,950	159,595,800	80,277,761	40,000,000	447,082,604
2026	1,227,102,911	141,079,228	76,021,658	40,000,000	518,378,386
2027	1,162,045,341	134,853,414	71,903,435	40,000,000	594,664,873
2028	1,099,095,362	135,678,418	67,439,186	40,000,000	676,291,414
2029	1,030,856,130	135,769,322	62,656,077	0	723,631,813
2030	957,742,885	135,860,288	57,531,782	0	774,286,040
2031	879,414,379	135,156,103	52,098,079	0	828,486,063
2032	796,356,356	135,246,657	46,277,679	0	886,480,087
2033	707,387,377	116,743,459	41,345,074		
2034	631,988,993	116,821,677	36,061,712		
2035	551,229,028	116,899,947	30,403,036		
2036	464,732,116	105,330,720	25,158,098		
2037	384,559,494	105,401,291	19,541,074		
2038	298,699,277	83,137,607	15,089,317		
2039	230,650,987	83,193,309	10,322,037		
2040	157,779,716	83,249,048	5,217,147		
2041	79,747,814	35,765,752	3,078,744		
2042	47,060,807	12,314,655	2,432,231		
2043	37,178,382	15,398,266	1,524,608		
2044	23,304,725	19,583,150	260,510		
2045	3,982,085	3,982,085	0		
2046	0				

As of 2032, the payments enclosed in the box above are covered by the $886,480,087 accumulation of supplemental payments.

* Ordinance 2015-304E Supplemental Payments

Fiscal Year	CITY	UALPA
2016	$5,000,000	$5,000,000
2017	$10,000,000	$10,000,000
2018	$15,000,000	$15,000,000
2019-2028	$32,000,000	$8,000,000
TOTAL	$350,000,000	$110,000,000

JACKSONVILLE POLICE AND FIRE PENSION FUND
ACTUARIAL IMPACT STATEMENT

Valuation Date: October 1, 2016
Changes in Plan Provisions

Plan Provisions Before Changes

Employees hired before June 19, 2015 are classified as Group I members. Employees hired on or after June 19, 2015, the effective date of Ordinance 2015-304-E, are classified as Group II Members and are eligible for the following benefit provisions:

- Average salary is computed as the average of the final 5 years.
- Members are eligible for a time service retirement upon reaching 30 years of credited service with a benefit equal to 75% of FAE and a dollar maximum of $99,999.99.
- Members are eligible for a reduced early retirement benefit with at least 25 years of credited service.
- Members are eligible for a disability retirement with benefit equal to the greater of 50% of average salary, or benefit eligible from a time service retirement.
- Members that terminate employment with at least 10 years of credited service, but less than 25, are eligible to receive a deferred retirement benefit of 2.0% per year of credited service of average salary, commencing at age 62.
- The Cost of Living Adjustment (COLA) is equal to the Social Security COLA for the same plan year, not to exceed 1.5%, beginning in the third January following commencement of benefits.
- Members are not eligible to participate in the Deferred Retirement Option Program (DROP). Members can participate in the BACKDROP at retirement eligibility with interest accrued based on the plan's actual rate of return, with the minimum interest at 0% and maximum at 10%.
- Members contribute at a rate of 10% of pay.

As a result of Ordinance 2015-304-E, the following benefit changes were made for Group I members:

- For Group I members with less than 5 years of service as of June 19, 2015, the average salary period was increased to the final four years, with the average salary no less than the 2-year average salary as of June 19, 2015.
- For Group I members with less than 20 years of service as of June 19, 2015, the COLA is 3% annually for service accrued as of June 19, 2015 and the Social Security COLA (not to exceed 6.0%) for service accrued after June 19, 2015.
- For Group I members with less than 20 years of service as of June 19, 2015, members that elect to enter the DROP will receive interest accrued based on the plan's actual rate of return, with the minimum interest at 2% and maximum at 14.4%.

Plan Provisions After Changes

Effective October 1, 2017, the Jacksonville Police and Fire Pension Fund is closed to new entrants.

For all members of the Fund, the member contribution rate is 10% of pay.

All members of the Fund are eligible for benefits that were changed as a result of Ordinance 2015-304-E. In particular, all members hired prior to October 1, 2017 are eligible for the following benefit provisions:

- Average salary is computed as the average of the final 2 years.
- Members are eligible for a time service retirement upon reaching 20 years of credited service with benefit accrual at a rate of 3% for the first 20 years of service plus 2% after 20 years of service, maximum 80% of average salary.
- Members are eligible for a disability retirement with benefit equal to the greater of 60% of average salary, or benefit eligible from a time service retirement.
- Members that terminate employment with 5 or more years of credited service, but less than 20, are eligible to receive a deferred retirement benefit of 3.0% per year of credited service of average salary, with benefit commencing at the date the member would have been eligible to receive a time service retirement.
- The COLA is 3% annually, beginning with the first January following the commencement of benefits.
- All members are eligible to participate in the DROP with interest accrued at an annual rate of return of 8.4%.

Changes in Actuarial Assumptions and Methods

Assumed salary increases for the years 2017-2019 include the negotiated across-the-board salary increases of 6.5% in 2017 and 2018 and 7.0% in 2019. These temporary additional salary increases have been added to the current salary increase assumption of 3.5% per year, including inflation, for total projected salary increases of 10.0% in 2017 and 2018 and 10.5% in 2019 (reducing to 3.5% per year for 2020 and subsequent years). This was done to include the impact of promotions and longevity/step increases.

A share of 63% of the total proceeds from the City of Jacksonville's pension liability surtax is assumed to be allocated to the Jacksonville Police and Fire Pension Fund beginning with calendar year 2031. Sales tax revenue is projected to increase by 4.25% annually from the year 2016. The total unfunded actuarial accrued liability (UAAL), net of the present value of the pension liability surtax, is amortized over 30 years in accordance to Florida Statute 112.64(6).

The long-term payroll growth assumption for purposes of amortizing the UAAL and projecting the contribution amount to the contribution year (the year beginning one year after the valuation date) has been changed from 0.067% to 1.25%.

All other actuarial assumptions and methods are the same as those used in the October 1, 2016 Actuarial Valuation Report.

Amortization Period for New Changes in Actuarial Accrued Liability

30 years

Actuarial Impact of Changes

See attached page(s).

Prepared by
Gabriel, Roeder, Smith and Company
April 19, 2017

ACTUARIALLY DETERMINED CONTRIBUTION (ADC)

A. Valuation Date	October 1, 2016 *Valuation (PBC, Inc.)*	October 1, 2016 *Valuation with COLA Timing Adjustment*	October 1, 2016 *After Negotiated Salary Increases and Payroll Growth Assumption Change*	October 1, 2016 *After Assumption Changes and Ordinances 2017-257 and 2017-259*
B. ADC to Be Paid During Fiscal Year Ending	9/30/2018	9/30/2018	9/30/2018	9/30/2018
C. Assumed Date of Employer Contributions	12/1/2017	12/1/2017	12/1/2017	12/1/2017
D. Covered October 1 Payroll	$ 135,599,741	$ 135,684,787	$ 135,684,787	$ 135,684,787
E. Annual Payment to Amortize Unfunded Actuarial Liability	164,417,818	169,702,069	160,374,273	82,574,878
F. Employer Normal Cost	44,803,488	45,873,065	50,076,797	50,728,791
G. ADC if Paid on the Valuation Date: E + F	209,221,306	215,575,134	210,451,070	133,303,669
H. Chapter Funds Allocation	5,340,312	5,340,312	5,340,312	0
I. Contribution from Court Fines	832,536	832,536	832,536	832,536
J. City Contribution: G - H - I	203,048,458	209,402,286	204,278,222	132,471,133
as % of Covered Payroll	149.74 %	154.33 %	150.55 %	97.63 %
K. Actuarially Determined Contribution (ADC) in Contribution Year*	205,488,666	211,918,852	209,177,225	135,648,057
M. Change in ADC from Valuation	0	6,430,186	3,688,559	(69,840,609)

*= City Contribution (item J.) x payroll growth x 1.07 ^ (2/12)

ACTUARIAL VALUE OF BENEFITS AND ASSETS

A. Valuation Date	October 1, 2016 *Valuation (PBC, Inc.)*	October 1, 2016 *Valuation with COLA Timing Adjustment*	October 1, 2016 *After Negotiated Salary Increases and Payroll Growth Assumption Change*	October 1, 2016 *After Assumption Changes and Ordinances 2017-257 and 2017-259*
B. Actuarially Determined Contribution (ADC) to Be Paid During Fiscal Year Ending	9/30/2018	9/30/2018	9/30/2018	9/30/2018
C. Covered October 1 Payroll	$ 135,599,741	$ 135,684,787	$ 135,684,787	$ 135,684,787
D. Actuarial Present Value of All Projected Benefits for				
1. Active Members	1,146,037,063	1,165,992,261	1,342,708,627	1,407,057,704
2. Inactive Members	2,577,054,098	2,620,889,675	2,620,889,675	2,620,889,675
3. Total for All Members	3,723,091,161	3,786,881,936	3,963,598,302	4,027,947,379
E. Actuarial Accrued Liabilities				
1. Active Members	768,461,161	795,248,746	873,825,745	897,362,173
2. Inactive Members	2,577,054,098	2,620,889,675	2,620,889,675	2,620,889,675
3. Total for All Members	3,345,515,259	3,416,138,421	3,494,715,420	3,518,251,848
F. Market Value of Assets				
1. Gross Market Value	1,613,043,823	1,613,043,823	1,613,043,823	1,613,043,823
2. Reserve Accounts	(95,543,156)	(95,543,156)	(95,543,156)	(95,543,156)
3. Sr. Staff Plan Assets	(4,102,201)	(4,102,201)	(4,102,201)	(4,102,201)
4. Net Market Value	1,513,398,466	1,513,398,466	1,513,398,466	1,513,398,466
G. Net Present Value of Total Pension Liability Surtax Proceeds According to Pro Rata Share of 63%	0	0	0	761,265,474
H. Unfunded Actuarial Accrued Liability: E3 - F4 - G	1,832,116,793	1,902,739,955	1,981,316,954	1,243,587,908
I. Funded Ratio: F4 / E3	45.24 %	44.30 %	43.31 %	43.02 %
J. Percent of Actuarial Accrued Liabilitiy Covered by Assets and Total Pension Liability Surtax Proceeds: (G + F4) / E3	45.24 %	44.30 %	43.31 %	64.65 %
K. Liquidity Ratio				
1. DROP Balance as of 10/1/16	310,283,837	310,283,837	310,283,837	310,283,837
2. Net Market Value (Net of DROP): F4 - K1	1,203,114,629	1,203,114,629	1,203,114,629	1,203,114,629
3. Annual Benefit Payments in Pay Status	153,366,193	153,366,193	153,366,193	153,366,193
4. Ratio: K2 : K3	7.84 : 1	7.84 : 1	7.84 : 1	7.84 : 1

Consultant's Annual Report

To the Board of Trustees of the
City of Jacksonville Police & Fire Pension Fund

Introduction

Summit Strategies Group ("Summit") prepares this report for the City of Jacksonville Police & Fire Pension Fund ("PFPF") based on the information supplied by PFPF's custodian, The Northern Trust Company ("Northern"). Northern holds assets in safe-keeping for PFPF, regularly values the assets for PFPF, and provides Summit with beginning and ending market values, cash flows, securities transactions and positions for PFPF as well as each manager monthly. Northern audits the information contained in its monthly accounting reports. Summit uses Northern's monthly reports to calculate performance returns for PFPF and PFPF's Board of Trustees (the "Trustees").

Distinction of Responsibilities

The Trustees, with support from Financial Investment Advisory Committee, are responsible for the investment and administration of PFPF's assets. This includes establishing the strategic asset allocation that, over time, is the primary determinant of the investment return on assets. A thorough understanding of both PFPF's assets and liabilities is essential for determining an appropriate asset allocation. The key drivers of this analysis are the projections of PFPF's liabilities and expected future returns and risk for each asset class, as well as correlation between asset classes. The liabilities include all key dimensions of PFPF's pension plan including: membership, benefits, liabilities, assets, and funding requirements. In March 2016, Summit presented an Asset Allocation Review to PFPF's Trustees at which time the Trustees adopted a strategic target asset allocation. Summit annually reviews the target asset allocation and expected asset class returns and relative valuation with the Trustees and modifies the target asset mix if necessary.

Investment Policy/Structure

The target asset allocation adopted by the Trustees is included in PFPF's Statement of Investment Policy ("Investment Policy"). PFPF employs various investment managers to implement the asset allocation within the guidelines and limitations contained in the Statement of Investment Policy. PFPF's assets are invested using numerous investment managers to diversify the assets among multiple asset classes and investment strategies. Each investment manager is delegated full investment discretion for its respective portfolio including the discretion to purchase, hold, and sell individual securities or other investment positions and control industry, economic sector, and geographic exposure subject to the Investment Policy.

PFPF's Investment Policy is designed to provide broad diversification among asset classes and investment strategies in order to maximize return at a prudent level of risk as determined by the Trustees, and to minimize the risk of large losses to PFPF. In addition, asset allocation ranges, target allocations, and a process of periodic rebalancing are used to maintain compliance with the Investment Policy and to increase the likelihood that PFPF will achieve its long-term risk and return objectives.

Within each asset class, the Trustees employ several investment managers to further diversify the investment approach and to minimize style biases. The Trustees employ both active and passive investment strategies to obtain the desired asset allocation mix in a cost effective and efficient manner.

Market Overview

After a tumultuous end to the 2015 Fiscal Year (featuring the worst quarterly global equity performance since 2011), fears of a global recession and dramatic slowdown in Chinese growth subsided in the fourth quarter of 2015. With a continuing positive economic outlook and tightening US labor market, the Federal Open Market Committee (FOMC) decided to raise short-term interest rates by 25 basis points in December 2015, its first rate increase since 2006. The market reaction to the announcement was negative, but limited, as the move was largely anticipated by investors. Despite slight declines in December, global equities produced strong returns for the quarter (MSCI ACWI IMI, +4.9%). While additional rate hikes were anticipated to begin 2016, the December 2015 increase proved to be the only one during the Fiscal Year.

As recessionary fears resurfaced at the start of 2016, equity markets declined more than 10% to begin the year, and credit spreads widened significantly as well. However, positive economic data releases during the second half of the quarter and a more accommodative stance from the Federal Reserve led a market recovery, with global equities and credit spreads ending the quarter essentially where they started. On the back of that recovery, markets broadly rallied into the Spring and through the end of the Fiscal Year. Despite a brief period of market uncertainty surrounding the United Kingdom's June referendum to exit the European Union, both equity and fixed income assets posted strong gains over the final two-quarters of the Fiscal Year. Central bank and positive economic/labor market tailwinds pushed equities higher, while continued low growth and inflation expectations kept the demand for bonds high. Crude oil prices rallied from a mid-February low to finish the Fiscal Year up 7%, and continued job growth and consumer confidence contributed to a strong real estate return of close to 10% for the Fiscal Year.

Despite significant market fluctuations and volatility during the Fiscal Year, the US economy's fundamentals remain modestly strong. The labor market continues to progress, with the unemployment rate steadily under 5%. Wage gains are up from low levels, real GDP growth has maintained a slow but steady pace, and consumer spending has remained at an above-average level over the past several years. This ongoing economic strength appears likely to lead to multiple FOMC interest rate hikes in the coming Fiscal Year. On the global front, growth expectations remain low as demographic, deleveraging, and productivity headwinds remain at the forefront of investor concerns. However, pockets of attractiveness continue to exist globally, providing significant future investment opportunities.

Investment Performance

Summit calculates and reports all returns in accordance with Global Investment Performance Standards ("GIPS"). As an investment consultant, Summit is prohibited from stating that investment performance is shown "in compliance with" or "in accordance with" GIPS, as GIPS compliance is reserved solely for use by investment management firms. Summit, however, strives to uphold and maintain the guiding principles underlying GIPS standards, both ethically and in its performance calculation methodology. Accordingly, all performance returns are calculated using a time-weighted methodology known as the Modified Dietz method. This algorithm attempts to eliminate the effects of cash flows and geometrically links period returns.

For the Fiscal Year ending September 30, 2016, the total Pension Fund returned 10.5%, net of fees. The Pension Fund also ranked in the 13th percentile (1=best; 100=worst) in the Fund's public plan peer universe. Global investment market returns were strong across asset classes: each of the Fund's sub-composites (US Equity, International Equity, Fixed Income, Real Estate, and Energy MLPs) returned greater than 5.5%, net of fees, for the Fiscal Year with some much stronger. Drivers of the attractive Fiscal Year return on an absolute basis included: emerging markets equities (16.4%), energy infrastructure MLPs (14.5%), domestic equities (13.8%) and real estate (9.8%). The overall portfolio was also helped on a relative basis by the international equity portfolio, through its overweight exposure to emerging markets and superior active manager performance, and the fixed income portfolio through its overweight to credit exposure.

Regardless of the economic or capital market climate, it is a pleasure to serve PFPF and to work with its Staff and Board of Trustees. I look forward to our continued partnership in the continuing effort to manage risk and search for competitive investment returns in this current challenging capital market environment.

Respectfully submitted,

Daniel J. Holmes
Principal, Consulting
Summit Strategies Group

Jacksonville Police and Fire Pension Fund

Jacksonville Police and Fire Pension Fund
1 West Adams Street, Suite 100
Jacksonville, Florida 32202-3616

PFPF Staff Contacts

Jacksonville Police and Fire Pension Fund
1 West Adams Street, Suite 100 • Jacksonville, FL 32202-3616
904-255-7373 (phone) • 904-353-8837 (fax) • jaxpfpf.coj.net (website)
Office Hours: 8AM – 5PM, Monday – Friday

Timothy H. Johnson
Executive Director – Plan Administrator
THJohnson@coj.net

Chuck Hayes
Pension Benefits Manager
CHayes@coj.net

Deborah Manning
Sr. Pension Benefits Specialist
DManning@coj.net

Lynn West
Pension Benefits Specialist
LynnWest@coj.net

Steve Lundy
Assistant Plan Administrator
SLundy@coj.net

Troy Scherbinski
Building Manager
TroyS@coj.net

Jessica Fields
Records Specialist
JessicaF@coj.net