



## SUMMARY TO THE REGULAR F.I.A.C. COMMITTEE MEETING

Tuesday, January 18, 2022

3:30 P.M. – 4:52 P.M.

City of Jacksonville Police and Fire Pension Fund  
1 West Adams Street Suite 100, Jacksonville, FL 32202

The next Financial Investment and Advisory Committee (F.I.A.C.) meeting will be held Tuesday, March 15, 2022 at 3:30 P.M.

### Financial Investment and Advisory Committee

\*Eric "Brian" Smith Jr., Chair  
Erwin Lax, Secretary  
Steve Glenn  
Kendall Park

### Excused

Jim Mattera

### Guests

Richard Patsy, Trustee  
\*Renzer Bell  
Michael Lynch, Trustee  
Marty LaPrade, Sawgrass Asset Management  
\*Gar Chung, FIN News  
\*Gregg Gosch, Sawgrass Asset Management

### Staff

Timothy H. Johnson, Executive Director – Plan Administrator  
Steve Lundy, Deputy Director  
Kevin Grant, Finance Manager  
\*Pete Strong, GRS, Fund Actuary  
\*Piotr Krekora, GRS, Fund Actuary  
\*Jordan Cipriani, RVK, Investment Consultant  
\*Kevin Schmidt, RVK, Investment Consultant  
\*Jim Voytko, RVK, Investment Consultant  
\*Ken Harrison, SSB&H, Fund Counsel

\*Asterisk denotes virtual meeting attendance via the ZOOM application.

### Notice

Meeting Agendas and Summaries are available on our website at [jaxpfpf.coj.net](http://jaxpfpf.coj.net). For additional meeting documents, please contact Steve Lundy, Custodian of Public Records for the City of Jacksonville Police and Fire Pension Fund at 904-255-7373 or [SLundy@coj.net](mailto:SLundy@coj.net) to file a public records request.

Pursuant to the American with Disabilities Act, accommodations for persons with disabilities are available upon request. Please allow 1-2 business days notification to process; last minute requests will be accepted, but may not be possible to fulfill. Please contact Disabled Services Division at: V(904) 630-4940, TTY-(904) 630-4933, or email your request to [KLMcDan@coj.net](mailto:KLMcDan@coj.net). 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.

City of Jacksonville Police and Fire Pension Fund  
Summary to the Regular F.I.A.C. Meeting of  
Tuesday, January 18, 2022  
3:30 P.M. – 4:52 P.M.

Summary

I. Public Speaking

None.

II. Election of Officers

*a. Chair*

Brian Smith said he was willing to serve again as Chair, however someone would need to step forward to serve as Secretary to replace Rodney Van Pelt.

Erwin Lax moved to nominate Brian Smith as Chair of the FIAC, seconded by Steve Glenn. The vote passed unanimously.

*b. Secretary*

Erwin Lax nominated himself as Secretary, seconded by Kendall Park. There was no discussion or other nominations. The vote passed unanimously.

III. Meeting Summaries

*a. November 15, 2021 FIAC Meeting Summary*

Kendall Park moved to approve the November 15, 2021 FIAC Meeting Summary, seconded by Steve Glenn. The vote passed unanimously.

IV. Fund Actuary's Report – Pete Strong

*a. Fiscal Year 2021 Actuarial Valuation Report*

Pete Strong, Fund Actuary, presented his Fiscal Year 2021 Draft Actuarial Valuation Report. He began by covering the revisions in actuarial assumptions and methods. He noted that the amortization period for new amortization bases is reduced from 27 to 26 years this year, and will be continued to be reduced by one year annually until reaching 15 years. The assumed investment return assumption has been reduced by 0.275% from 6.9% per annum to 6.625% per annum, compounded annually. This assumption change caused the required City contribution for FY 2023 to increase by \$10,172,810.

City of Jacksonville Police and Fire Pension Fund  
Summary to the Regular F.I.A.C. Meeting of  
Tuesday, January 18, 2022  
3:30 P.M. – 4:52 P.M.

Pete Strong covered the actuarial experience, beginning on page 2. “There were net actuarial experience gains totaling approximately \$155.1 million during the past year, which means that actual experience was more favorable than expected. The majority of the experience gains was due to changes in the projected Pension Liability Surtax proceeds (of approximately \$94.3 million) caused by a 14.36% increase in actual surtax revenue from FY 2020 to FY 2021. The surtax revenue is assumed to increase by 4.25% per year.”

Pete Strong covered investment experience: “Investment experience (on the Actuarial Value of Assets) resulted in an experience gain (net of reserves) of about \$56.8 million. The investment return on the smoothed Actuarial Value of Assets was 9.72% compared to the assumed annual investment return of 6.90%. (The net money-weighted investment return on the Market Value of Assets was 23.15%, as reported by the Plan’s investment consultant.) Investment gains and losses are spread over a five-year smoothing period, with gains and losses from prior years being smoothed into the current year.”

Pete Strong covered demographic experience: “Overall demographic experience resulted in a net experience gain of about \$4.0 million. There were demographic experience gains due to lower salary increases than expected (2.3% actual versus 4.8% assumed) and higher turnover experience than expected (32 actual employment terminations versus 22 expected). There were also some offsetting demographic experience losses due to higher retirement experience than expected (145 actual retirements versus 115 expected) and lower inactive mortality experience than expected (46 actual retiree deaths versus 59 expected).”

“Overall, the net actuarial experience gain caused the required City contribution to decrease by \$11,095,509.”

Pete Strong covered the funded ratio and employer contribution on page 3: This year’s funded ratio is 48.24% compared to 47.98% last year. Prior to reflecting the assumption changes, the funded ratio would have been 50.02%. The required contribution payable by December 1, 2022 is \$156,411,432.

Pete Strong covered the actuarial value of benefits and assets on page 12, noting the Actuarial Accrued (Past Service) Liability total for all members is \$4.57 billion after assumption changes versus \$4.41 billion before changes. The Net Unfunded Actuarial Accrued Liability decreased from \$1.3 billion in 2020 to \$1.2 billion in 2021.

Pete Strong covered the 40-Year Projection of Pension Liability Surtax Proceeds and Required City Contributions graphic on page 56. As we get closer to hitting the \$110 million required contribution floor, the contribution is expected to decline. In 2031, the surtax proceeds are expected to begin. The surtax proceeds will cease when the Plan reaches full funding.

Pete Strong covered the 40-Year Projection of Unfunded Actuarial Accrued Liability on page 57, and the 40-Year Projection of Funded Ratio on page 58.

Brian Smith asked Pete Strong if he would have recommended lowering the rate of return even more, knowing what we know now regarding the actual high rate of return.

Pete Strong said he believes 6.625% is a good rate – this large gain is being phased in over 5 years. Inflation and interest rates over the next few years may require a reevaluation of the assumed rate.

The FIAC discussed the impact of inflation and rising interest rates on the Plan with Pete Strong and RVK.

Michael Lynch asked if the FIAC could look at capping or smoothing the surtax growth rate assumption.

City of Jacksonville Police and Fire Pension Fund  
Summary to the Regular F.I.A.C. Meeting of  
Tuesday, January 18, 2022  
3:30 P.M. – 4:52 P.M.

Pete Strong said that the City wanted all three pension plans to use the same base regarding the surtax revenue. Wild fluctuations in the rate was not expected in 2015 when the surtax was crafted. This may be something to revisit with the three plans' actuaries.

Pete Strong said that the court fines and fees will be treated as additional revenue in next year's report.

Michael Lynch asked about the bargained salary increases of 13%.

Pete Strong said that a 13% salary increase over 3 years would fall within the scope of the salary increase assumption.

**Erwin Lax moved to approve the actuarial valuation report as presented, seconded by Steve Glenn. The vote passed unanimously.**

## V. Investment Consultant Reports

### a. *Rebalancing Recommendation*

Kevin Schmidt covered the Sawgrass Asset Management Diversified Large Cap Growth Recommendation memo from RVK:

"RVK recommends that PFPF terminate Sawgrass from its current large cap growth mandate. The rationale for this recommendation includes concerns specific to Sawgrass, in addition to considerations related to the structure of the US equity composite.

Regarding Sawgrass, we observe negative trends associated with the firm, investment team and performance of the strategy.

- At the end of 2017, the firm had assets of \$4.0 billion and the Diversified Large Cap Growth strategy had composite assets of \$2.0 billion. Despite the positive absolute performance of the strategy, the relative performance has led to outflows with firm and strategy assets declining to, approximately, \$2.9 billion and \$797 million, respectively, as of December 31, 2021.
- A key role of Sawgrass, within the US equity composite, is to provide downside protection, which it has continued to accomplish, but its performance in up markets has been more detrimental than in past market cycles leading to a track record that trails the Russell 1000 Growth by more than 3%, annualized, since inception of the PFPF account.
- Active large cap growth managers have had difficulty outpacing the Russell 1000 Growth over the past decade, primarily due to the strong performance of the largest companies within the index, however the performance of Sawgrass has failed to keep pace with the lackluster results of its peer group. Sawgrass has consistently ranked in the bottom quartile of its peer group for the 1, 3, 5, 7 and since inception annualized time periods, as well as in recent 5 year rolling periods.
- Nick Petriello, Portfolio Manager, who had been with the firm for seven years, departed Sawgrass in September 2021. Mr. Petriello had been developed at the firm and was promoted to portfolio manager prior to his departure. The firm communicated that it has been conducting a search over the past year and that it's identified a small number of finalists under consideration to be additions to the team. While a single departure

City of Jacksonville Police and Fire Pension Fund  
Summary to the Regular F.I.A.C. Meeting of  
Tuesday, January 18, 2022  
3:30 P.M. – 4:52 P.M.

does not necessitate termination, it is notable that a member of a relatively small team (four remaining equity portfolio managers), who was developed to be the next generation, chose to depart.

Should this recommendation be adopted, RVK views a reallocation that aims to place the proceeds equally between the passive S&P 500 strategy managed by Northern Trust and the Loomis Large Cap Growth Strategy, as an appropriate immediate option. This approach would achieve a portfolio that most closely resembles the current style profile of the composite.”

Brian Smith said that the performance of Sawgrass has been a topic of discussion of the FIAC’s for some time, even when Summit Strategies was the Fund Investment Consultant. He said this should not be a surprise for anyone.

Steve Glenn said that looking at the empirical data, Sawgrass is underperforming.

Richard Patsy said he has nothing to add at this point.

Jim Voytko added that performance is not the only metric considered when making a termination recommendation. There are also qualitative factors. There is reason for concern when quantitative and qualitative factors all trend downward.

**Steve Glenn moved to accept RVK’s recommendation to terminate Sawgrass Asset Management, seconded by Erwin Lax. The vote passed unanimously.**

RVK briefly discussed the next steps, should the Board of Trustees accept the FIAC’s recommendation, including hiring a transition manager and reallocating Sawgrass’ allocation between the S&P 500 index fund and Loomis Sayles equally.

**Kendall Park moved to accept RVK’s recommendation to take the Sawgrass proceeds and split them between the S&P 500 index fund and Loomis Sayles Large Cap Growth, seconded by Erwin Lax. The vote passed unanimously.**

*b. Monthly Investment Performance Analysis – December 31, 2021 – Preliminary*

Jordan Cipriani covered the General Market Commentary portion of the Monthly Investment Performance Analysis as of December 31, 2021:

- “Global equity markets rebounded in December, with all major indices finishing in positive territory. Both domestic and international indices posted low-to-mid single digit returns, with value stocks outperforming their growth counterparts.
- Despite headwinds due to the continued spread of the Omicron variant of COVID-19, persistent high inflation, and supply chain bottlenecks, stocks traded higher due to strong corporate earnings and generally positive economic data.
- Following its final meeting of 2021, the Federal Open Market Committee (FOMC) stated it will end its bondbuying program earlier than anticipated in order to reduce inflationary pressures on the economy. It is estimated that the bond-buying program could end as soon as March 2022. Additionally, recent projections show that the FOMC is expected to increase the federal funds rate as many as three times in 2022 in an effort to stem continued inflationary pressures.

City of Jacksonville Police and Fire Pension Fund  
Summary to the Regular F.I.A.C. Meeting of  
Tuesday, January 18, 2022  
3:30 P.M. – 4:52 P.M.

- Equity markets posted positive returns in December as the S&P 500 (Cap Wtd) Index returned 4.48% and the MSCI EAFE (Net) Index returned 5.12%. Emerging markets returned 1.88% as measured by the MSCI EM (Net) Index.
- The Bloomberg US Aggregate Bond Index returned -0.26% in December, underperforming the -0.26% return by the Bloomberg US Treasury Intermediate Term Index. International fixed income markets returned -0.67%, as measured by the FTSE Non-US World Gov't Bond Index.
- Public real estate, as measured by the FTSE NAREIT Eq REITs Index (TR), returned 8.83% in December and 10.75% over the trailing five-year period.
- The Cambridge US Private Equity Index returned 52.33% for the trailing one-year period and 19.87% for the trailing five-year period ending September 2021.
- Absolute return strategies, as measured by the HFRI FOF Comp Index, returned 0.76% for the month and 6.53% over the trailing one-year period.
- Crude oil's price increased by 13.64% during the month, and has increased by 55.01% YoY.”

Brian Smith asked if there would be any more Non-Core Real Estate or Private Credit manager recommendations in the near future.

Jordan Cipriani said yes, RVK has this on its near-term to-do list. RVK is working on an updated pacing analysis, and will provide an updated analysis annually as the Fund deploys dollars into its private investment allocation. RVK will likely bring forward another recommendation in the spring.

## VI. Executive Director's Report

### *a. Jim Mattera Leave of Absence*

Timothy Johnson said that Jim Mattera said he needed to take a leave of absence, which has evolved into a full resignation from the FIAC. He asked the FIAC to consider any colleagues who may be willing to fill Jim Mattera's position on the committee.

Timothy Johnson said that Erwin Lax's reappointment and Steve Glenn's appointment to the FIAC were both approved by the City Council.

Timothy Johnson said that he could give a more formal report to the FIAC on the site visit to an ARES property at the next FIAC meeting.

Brian Smith briefly discussed the visit, noting that he, Timothy Johnson, Steve Lundy, Kevin Grant, and Richard Patsy visited a warehouse in ARES' private credit strategy.

Brian Smith reminded the FIAC of the Ethics Training which would be available in person or via ZOOM on February 11<sup>th</sup> at 12:00PM.

## VII. Counsel Reports

City of Jacksonville Police and Fire Pension Fund  
Summary to the Regular F.I.A.C. Meeting of  
Tuesday, January 18, 2022  
3:30 P.M. – 4:52 P.M.

None.

VIII. Old Business

None.

IX. New Business

None.

X. Adjournment  
4:52 P.M.

Erwin Lax, FIAC Secretary

**Summary Prepared By:**

Steve Lundy, Deputy Director  
City of Jacksonville Police and Fire Pension Fund

**Posted:** 01/24/2022

**To be Approved:** 03/15/2022