
JACKSONVILLE POLICE AND FIRE PENSION FUND
FINANCIAL INVESTMENT AND ADVISORY COMMITTEE
MEETING SUMMARY – FEBRUARY 15, 2019 – 3:30PM

FIAC

Eric "Brian" Smith Jr., Chair
Craig Lewis Sr., Secretary – via Webex
Rob Kowkabany
Rodney Van Pelt

STAFF

Timothy H. Johnson, Executive Director – Plan Administrator
Kevin Grant, Finance Manager
Bob Sugarman, Fund Counsel – via Webex
Robert Lemmon, Independent Auditor – via Webex
Alex Ford, Investment Consultant – via Webex

EXCUSED

Steve Lundy, Assistant Plan Administrator

Meeting Convened:

3:30PM

Meeting Adjourned:

4:45PM

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 SUMMARIES TO BE APPROVED

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

1. FIAC Meeting – January 11, 2019

Rodney Van Pelt had a question regarding Norther Trust's emerging broker policy.

Brian Smith said Northern Trust can join the next FIAC meeting by phone to answer Rodney Van Pelt's questions.

III. INVESTMENT CONSULTANT REPORTS

Alex Ford

1. **Capital Markets & Performance Update** – Handout

Alex Ford began presenting Wilshire's handout "Market Environment & Performance Update –January Flash Report". He made the following points:

- Virtually all asset classes negative for 2018 YTD (page 3).
- From the peak of the market on September 20 to the Trough on December 24, performance was -20.2% (page 4).
- Since the last Board of Trustees meeting, US Stocks are up 11%, Non-US Stocks are up 0.4%, and Core Bonds are up 1.1% (page 4).
- Inflation, Consumer Sentiment, and Manufacturing point to a fundamentally strong US economy.
- Fund performance snapped back in January, returning 6.13%, net of investment fees.

Alex Ford discussed the status of the investment of the City's Payroll Contribution. The Board of Trustees voted to invest the contribution over three months in three equal amounts. The first tranche completed in January – approximately \$38.5 million was invested. The remaining two tranches have been temporarily halted as the Fund anticipates a large cash transfer to the unions. Wilshire will provide an updated contribution allocation plan with updated amounts and allocations, considering the withdrawal.

Timothy Johnson thanked Alex Ford for a great report. He said many things have happened in the last month which affect the investing of the Payroll Contribution. The payroll contribution, approximately \$116 million, was planned to be invested over three months in three equal amounts. Then, a request was received from the unions asking for an approximately \$50 million transfer from the reserve account. This \$50 million was designated to the unions as part of from the 2017 pension reform. We are now waiting to get the final numbers on how much exactly the \$50 million transfer will be, which will allow Wilshire to revise the contribution allocation.

Alex Ford said Wilshire has worked with the PFPF staff to reconcile how much cash is needed in the account for daily working capital. Once Wilshire gets the final number of the transfer to the unions, the allocation plan will be revised, and the final dollar amounts for the final two tranches will be known. The final two months' allocations will total around \$15 million each.

Rodney Van Pelt asked if the unions' money has been accounted for appropriately in the Actuarial Valuation.

Timothy Johnson said yes, it has, and it appears on page 34 of the Actuarial Valuation. These funds are invested with all other funds (in the portfolio), but set aside in a 'reserve account'.

Brian Smith asked if the unions would administer the Christmas bonus in the future.

Timothy Johnson said the unions requested all of their money. We receive new chapter funds each August, and the unions may designate new funds for the bonus, or they may not. It is up to them.

IV. EXECUTIVE DIRECTOR'S REPORT

Timothy Johnson

1. New FIAC Member Recruitment – Update

Timothy Johnson said the PFPF published a news release to the media, highlighting the vacant FIAC position. Two potential candidates applied.

Timothy Johnson said Steve Lundy conducted preliminary interviews with the two candidates. One asked to remove his name from consideration, and the other candidate's resume is attached.

Timothy Johnson said he is not bringing this resume as a recommendation, but to show what has come out of the recruitment process so far, and to see if this is the kind of individual the FIAC is interested in. He said he would sit back and take guidance on how to proceed.

Brian Smith asked why the other candidate withdrew his name from consideration.

Timothy Johnson said he thinks the candidate wasn't entirely sure what the job entailed. He was recommended by someone else.

Rob Kowkabany said he may have one candidate to present at a later meeting.

Craig Lewis said he may know a candidate to present at a later meeting as well.

Brian Smith asked Timothy Johnson to set up a meeting with Priyesh Patel. He asked if the other FIAC members would be interested in meeting with Mr. Patel or the other candidates once ready.

Rob Kowkabany asked about noticed meetings.

Timothy Johnson said the meetings would not have more than one FIAC member present at a time, so they would not be noticed.

Brian Smith asked for any feedback on Mr. Patel's resume.

Rodney Van Pelt said his only concern was that Mr. Patel is a new Jacksonville resident, and wants to make sure he would be willing for a long-term commitment.

Brian Smith said the 'Financial Analyst' at Johnson & Johnson is good experience. He said Mr. Patel is a solid candidate and definitely worth looking in to.

Timothy Johnson discussed the Annual Members' Meeting. This will be a big outreach event – the PFPF is focusing on outreach to all of its stakeholders in 2019. Last year, we held an affidavit breakfast, a summer social, and a Christmas party. This Annual Members' Meeting will be an opportunity for

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members to meet the Board and committees, and the professional service providers such as the actuary, and the auditor. Members will get an update on the health of their plan.

V. OLD BUSINESS

1. Emerging Managers and Brokers Resolution Draft

Deferred to March.

Timothy Johnson said he would like to table this resolution for now. Following the January FIAC meeting, the PFPF staff put together this resolution to address the FIAC's commitment to emerging managers and brokers. We did not have the opportunity to talk this over with the attorneys, but will bring it back next month.

Brian Smith said he had a chance to look at the resolution. He said the resolution looked good. He asked if the FIAC did not want to codify the sentiment in the Investment Policy Statement (IPS), what is the difference by putting it in writing as a resolution.

Timothy Johnson said his interpretation of the guidance given from the Board and attorneys was based on targets. Attorneys did not want specific, explicit demographic language defining minorities in the IPS. The idea is we can get to the same place by a different way. We worked with Northern Trust to piggyback on their success concerning emerging brokers. We would encourage our other managers to use these emerging brokers. Also, when we do a manager search, we would employ the Rooney Rule – one of the three managers brought in to interview should be emerging.

Brian Smith asked if the resolution came from the Board to the FIAC, or if it was from the FIAC to the Board.

Timothy Johnson said the Board of Trustees has handed off the responsibility to execute its diversity and inclusion policy. This is the FIAC's resolution for how it will accomplish that.

Timothy Johnson said the other way to accomplish this task is to outline the policy in the Investment Policy Statement.

Brian Smith thanked Timothy Johnson for putting the resolution together.

Rodney Van Pelt had some legal questions relating to the resolution.

Timothy Johnson said there has been no legal vetting of the resolution yet, and this will be discussed at next month's meeting.

Rob Kowkabany asked for clarification about section 3, page 2. He said he is concerned about the quality of managers included in interviews, and wants all firms invited to be commensurate in quality.

Rodney Van Pelt said instead of listing the firms used by Northern Trust today, to just say "firms used by Northern Trust" because the firms may change over time.

Timothy Johnson said there are two example reports attached to the resolution which will update the FIAC on progress.

Brian Smith asked when Northern Trust's contract expires.

Timothy Johnson said that Kevin Grant has been in the process of 'Evergreening' contracts. Northern Trust's contract has not yet been evergreened. Last year, the Board wanted to wait one more year before considering an RFI for custodian services.

Timothy Johnson said that Kevin Grant will inform the FIAC 6 months before Northern Trust's contract expires and then the FIAC will have to decide whether to recommend a contract renewal to the Board of Trustees, or to conduct an RFI.

VI. AUDITOR'S REPORT

Rob Lemmon

1. Fiscal Year 2018 Independent Audit – Handout

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

Rob Lemmon began presenting Carr, Riggs & Ingram's Independent Auditors' Report handout. He highlighted the following parts of the report:

- This was a clean audit overall;
- This is an unmodified opinion – the highest level of assurance an audit can give (page 1).
- Management Discussion & Analysis – a high level summary of results (page 3).
- Detailed Assets and Liabilities (page 8). Primarily consists of cash and investments.
- Changes in Fiduciary Net Position (page 9). Contributions received, investments earned, and benefits paid out are presented.
- Notes to financial statements – qualitative information supplementing the numbers.
- Notes 6-7 give additional numbers on investments.
- Note 7 (page 22) discloses fair value of investments.
- Note 9 presents the net pension liability of the City.
- Required Supplementary Information (page 26).

Timothy Johnson asked Rob Lemmon to give the FIAC a high-level overview of what testing benefit payments to retirees entails.

Rob Lemmon said CRI tests a large volume of payments in different processes – first, verifying approved payments to the original approval of benefit, and affidavits. A large sample of 60 members was used this year.

Rob Lemmon said that the total amount of money leaving the bank to all retirees is tested against historical information – making sure it is recorded properly in the general ledger system.

Rob Kowkabany asked if any deficiencies were noted.

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Rob Lemmon said this audit resulted in nothing but clean news.

Rob Lemmon emphasized how clean this audit was. He said he is required to mention:

- CRI did not have any disagreements with management;
- CRI did not find any inappropriate policies or application of accounting rules;
- CRI did not find any errors in the original numbers received;
- CRI did not need to clean up or fix any numbers to arrive at final numbers.

Rob Lemmon said everything came through very cleanly.

Craig Lewis asked if there were any level 3 assets CRI had to test for valuation purposes, specifically real estate properties in the JP Morgan account.

Rob Lemmon said Level 1 totals \$423 million, Level 2 totals \$887 million, and Level 3 totals \$436 million. CRI delegates the Level 2-3 investment valuations to an independent team due to its complexity.

Brian Smith asked for a definition of 'Inactive, nonretired members' as shown on page 10.

Timothy Johnson said that these members are terminated employees who are vested, and do not collect the benefit until the anniversary of their 20th employment anniversary.

Rodney Van Pelt made a motion to approve the FY2018 Independent Audit, seconded by Rob Kowkabany. The vote passed unanimously.

Rodney Van Pelt said the FIAC should commend the PFPF staff.

Rob Kowkabany said the PFPF staff is exceptional.

Rodney Van Pelt said last year, the PFPF had a few weaknesses, and those have been addressed. We appreciate all the effort and work by the PFPF staff.

Brian Smith thanked the PFPF staff for a good job. It is great to have no deficiencies.

Bob Sugarman commended the FIAC. Many other pension boards take 4-6 hours to get through audits. He said the PFPF is a well-working operation, and it was a pleasure to hear the results of this audit. Good work.

VII. ADJOURNMENT

Chair Brian Smith adjourned the meeting at 4:45PM.

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Revised 03/08/2019

Craig Lewis Sr., Secretary
To be approved at the FIAC Meeting on March 15, 2019.

The next regular FIAC meeting will be held Friday, March 15, 2019 at 3:30PM.