



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

Friday, August 16, 2019

Convened 3:33 P.M. – Adjourned 5:03 P.M.

City of Jacksonville Police and Fire Pension Fund
1 West Adams Street Suite 100, Jacksonville, FL 32202
Richard “Dick” Cohee Board Room

The next Financial Investment and Advisory Committee (F.I.A.C.) meeting will be held September 18, 2019 at 3:30 P.M.

Financial Investment and Advisory Committee

Eric “Brian” Smith Jr., Chair (via Webex)

Rob Kowkabany

Rodney Van Pelt

Excused

Craig Lewis Sr., Secretary

Priyesh Patel

Lawsikia Hodges, Office of General Counsel

Staff

Timothy H. Johnson, Executive Director – Plan Administrator

Steve Lundy, Deputy Director

Kevin Grant, Finance Manager

Bob Sugarman, Fund Counsel (via Webex)

David Lindberg, Wilshire, Investment Consultant

Alex Ford, Wilshire, Investment Consultant

Guests

Renzer Bell

Notice

Meeting Agendas and Summaries are available on our website at jaxpfpf.coj.net. For additional meeting documents, please contact Maria Young, Custodian of Public Records for the City of Jacksonville Police and Fire Pension Fund at 904-255-7373 or MariaY@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. 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.

Summary

Only two members of the FIAC were physically present in the Board Room. There was no physical quorum, and no votes were taken during this meeting.

Timothy Johnson said Mr. Renzer Bell, a member of the public, said he would attend this FIAC meeting, and wished to address the FIAC on the fixed income discussion as public speaking. Mr. Bell has not yet arrived to the meeting, so the Public Speaking period will be moved to the end of the agenda.

David Lindberg said he recalled having a conversation with Mr. Bell at the Annual Members’ Meeting.

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I. Investment Consultant Reports

a. *FY2019 3Q Capital Market Review*

David Lindberg and Alex Ford presented the Investment Consultant Reports (HANDOUT). They covered the following pages and made the following comments:

- Page 4: Market Update as of August 9, 2019 – Wilshire 5000 is up 17.77% Year-To-Date. This chart is through last Friday. There is a lot of volatility going on throughout the past two weeks. Large Cap stocks are driving returns, especially in Big Tech companies. Growth stocks outperform value stocks, however growth is ‘cooling off’ economically.
- Page 6: Market Commentary: FY 2019 3Q – There is a big fear of recession in the market today, especially considering interest rates. Recession is certainly possible – it happens on average every 7 years. We don’t believe we can call when recessions will begin or end, although they usually last no longer than 12 months before growth kicks in again. There is a lot of hype around a possible recession – the biggest red flag is the inverted yield curve. However, consumer spending and employment are very strong. The U.S. economy is still very strong. A recession could happen, but other things have to happen first.

Rob Kowkabany asked about corporations’ earnings.

David Lindberg said some fall above and below expectations. Walmart just released earnings numbers above expectations, for example. This is a mixed bag.

David Lindberg said the PFPF needs to consider upcoming cash flows – the payment to the City in September, then the City contribution in December. We need to be creative on how to meet this withdrawal.

Timothy Johnson said that Summit Strategies gave a recommendation in September 2018 regarding the cash flows – the FIAC and Board approved it.

David Lindberg discussed other options to manage these cash flows as a long-term solution, which will need to be discussed with the City. He mentioned the possible use of futures contracts, and rebalancing within target asset allocation ranges as examples.

Rob Kowkabany asked about how to position the FIAC from a timing standpoint regarding the cash flows.

Timothy Johnson said these cash flows are large, and the idea of liquidating assets may be a ‘weird idea’. He suggested financing our own payroll, or to borrow short term, and manage our own cash flow.

David Lindberg said he has thought about all of these ideas. The best approach is to even out as much as possible throughout the year. The best scenario is to divide by 12 and smooth out the flows monthly. This is a longer-term strategy. We should get everyone together to discuss flexibility.

Timothy Johnson said this is a good idea for next year.

Rodney Van Pelt said there are issues with moving large sums of money. We get the money at zero coupon. We are still losing 1.5-2% a year by using our own money.

David Lindberg asked if the City pays benefits in advance.

Timothy Johnson said yes, financing with no interest throughout the year.

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David Lindberg suggested an idea of withdrawing money throughout the year on a monthly basis, building up cash to pay back the City.

Rodney Van Pelt said this would be like financing throughout the Fund.

Alex Ford said this would be like a reserve fund.

David Lindberg said the money would sit and earn cash rates. He said these are all good ideas to think about.

b. July 2019 Fiscal YTD Performance Update

Alex Ford discussed the Summary on page 24 of the handout. FYTD performance through July 2019 is a positive 2.9%. The policy is up 3.5%. Market value has pushed towards all-time highs, but has recently dipped.

- Page 25: PFPF Performance Update – Some months have outperformed the policy index, but the drawdowns have been larger.

Rodney Van Pelt asked what drives the downward movement.

Alex Ford said this is an elastic environment. Managers have a long-term horizon, but the short term can move against them very quickly. In May, many active equity managers have suffered against the benchmark. Over longer periods, this should even out to the benefit of the portfolio. In any down-market, the portfolio struggles to add value.

Rodney Van Pelt said the Fund has a large percentage of active managers. It seems they hurt more in the down-market than they can make up in the up-market.

Alex Ford said most managers, but not all the Fund's managers. U.S. equity is a tough space to consistently add value. Increasing allocation to passive management would be a good move.

David Lindberg said the last 10 years have been the worst ever for active management, fueled by quantitative easing.

- Page 27: Asset Allocation & Performance – The Fund is ahead of the benchmark by 1.03% on a FYTD basis. Sawgrass has really started to add value. Eagle is nicely ahead of the benchmark as well.

Alex Ford said Sawgrass is a good example of a manager that is adding value during the down-markets.

David Lindberg agreed – they have added value when the markets have sold off. U.S. equity as a total has outperformed.

- Page 29: Asset Allocation & Performance – Baillie Gifford is a little behind, but Wilshire has no concerns. Acadian has contributed in the emerging market space.
- Page 30: Asset Allocation & Performance – Loomis Sayles and Neuberger Berman's performance was discussed.
- Page 31: Asset Allocation & Performance – MLP and Real Estate performance was discussed.

c. FY 2019 3Q Executive Summary Report

David Lindberg discussed the Total Fund Composite Performance Comparison on page 40 of the handout. This chart ranks the Fund on a gross of fees return basis, in the universe of other funds.

Rodney Van Pelt asked about the chart on page 41. He asked if the Fund is risky because of its relative allocation to equity.

David Lindberg said it is because of its moderate weights to riskier asset classes over the past 5 years.

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Rodney Van Pelt asked if this charts shows that the Fund's risk exposure has not yielded that much more in returns.

David Lindberg said it has not. There is slightly more return, but a lot more risk. For the past year and a half, volatility has been low. A normal market cycle would be between 10-11% volatility.

d. Fixed Income Analysis

Alex Ford discussed the Fixed Income Portfolio analysis on page 79 of the handout. Wilshire has an idea of optimizing the Fixed Income exposure of the Fund. Is there too much credit risk? What role do we want this piece to play? He said we should look deeper into the holdings of the Fund's fixed income managers.

David Lindberg said this is based on Wilshire's fixed income model. Trustee Richard Patsy asked at the last Board Meeting for a profile of the Fund's Fixed Income portfolio. The Fund has many core-plus strategies, but it does not mean everything is high-yield. There is a lot of investment grade exposure.

Alex Ford said we tend to look at dollars allocated to managers, but another method is to look at risk allocation. Although the Fund's three fixed income managers have a lot of dollars, one stands out as a driver of risk. This is Loomis. Although Loomis has just one-third of the Fund's dollars allocated to fixed income, it contributes to over half the risk.

David Lindberg said this analysis is a snapshot of the fixed income managers' holdings today, not a historical analysis.

Rob Kowkabany asked if the turnover of these assets is low.

Alex Ford said the turnover should not change drastically over time. We need to know the risk, and where it is coming from.

Alex Ford moved to page 81, and said Loomis is taking a lot of risk.

David Lindberg said this does not mean Loomis is a bad manager. Loomis is one of Wilshire's highest scored managers. In a selloff, the Fund would have a large credit selloff. Also, there are a lot of investment grade securities in this portfolio. We are just getting under the hood to see what is there.

Timothy Johnson asked if Loomis is taking on more risky investments, and if this is a continuing trend.

David Lindberg said it might be the same story in 6 months, because it is reflective of Loomis's strategy as a manager. Loomis is very good at taking these risks. Wilshire rates them highly.

Timothy Johnson asked if we would have allocated the same amount of money to Loomis had we performed this analysis beforehand.

Alex Ford said perhaps. Loomis's risk lies in quality ratings. They do very well with this. However, they are not as diversified as Neuberger Berman.

David Lindberg said Loomis and Neuberger Berman are complimentary managers, and make a good pair for the portfolio.

Alex Ford said the question is, what is the appropriate level of risk?

Rodney Van Pelt asked why Loomis's yields have been low, considering they have invested in lower quality.

David Lindberg said they have just lost in some security selections.

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Alex Ford added that since inception, Loomis is up.

David Lindberg said there are different ways to address this issue. One way is to get Thompson Siegel & Walmsley to let their core exposure truly be core – they have some core plus. Thompson Siegel & Walmsley could be the ‘core anchor’. Another approach would be to reallocate. Nothing about this analysis today is saying any manager has any problems.

Rodney Van Pelt said he originally had concerns that the Fund had a bias to core-plus a few years ago.

David Lindberg said Wilshire believes in these managers’ strategies, however this risk should be considered. He said Richard Patsy made a good point when he recommended not making any major changes to the Fund’s portfolio until after the conclusion of the investment consultant RFP process.

Timothy Johnson said that David Lindberg and Alex Ford will present this same information to the Board of Trustees next week at their meeting.

e. MLP Benchmarking

Alex Ford turned to page 87 of the handout. MLP managers are benchmarked against the AMLP index, which is strictly limited to the MLP business tax structure. Many companies in this space are transitioning to the C-Corp structure. We should focus less on the tax structure and shift the benchmark to the midstream energy structure.

David Lindberg said Wilshire has stopped calling them all ‘MLPs’ – they are midstream energy companies. They are becoming taxable entities.

Alex Ford said the Fund’s MLP managers don’t really care which benchmark we use. They think both benchmarks are appropriate in different respects. Wilshire thinks of this asset class differently, and think it is appropriate to adopt a new benchmark.

Timothy Johnson said he felt that the Board of Trustees was open to this.

Rodney Van Pelt said the FIAC discussed this at its last meeting, and the members were open to the suggestion. Craig Lewis was in agreement.

Brian Smith asked about quorum requirements, and why there is no quorum because he is attending the meeting via Webex on the phone conference line.

Timothy Johnson said there is a physical quorum requirement.

Brian Smith asked where this requirement is stated.

Bob Sugarman said in Florida’s public meetings law, government in the sunshine requires a physical quorum in the same room. There are numerous attorney general opinions on this matter. The FIAC has five members, so at least three are required for a physical quorum.

II. *Executive Director’s Reports*

a. Revised Investment Consultant RFP and FIAC Meeting Schedule

Timothy Johnson discussed the amended timeline for the Investment Consultant RFP as attached to the FIAC book. This incorporates all dates, including FIAC meetings and Board meetings.

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Rodney Van Pelt said his only concern is that he will be out of the country on September 13. He said we should discuss moving that meeting date.

Brian Smith, Rob Kowkabany, and Rodney Van Pelt discussed possible meeting dates. They said they would all be available to attend if the meeting was moved to September 18 at 3:30 P.M.

Timothy Johnson said he would move September's FIAC meeting from September 13 to September 18 at 3:30 P.M.

Kevin Grant updated the FIAC on questions asked by respondents to the RFP. There were questions relating to section 4 of the RFP relating to deliverables. Attachment A to the RFP contained the actual questions, and the respondents expressed some confusion.

Rob Kowkabany agreed with Kevin Grant and said we should send the clarification to all the respondents.

Timothy Johnson asked when the clarification would be published.

Kevin Grant said it would be published Monday.

III. Public Speaking

Timothy Johnson gave Renzer Bell the floor.

Mr. Renzer Bell introduced himself as a member of the public retired from the field of finance, who now dedicates his time to philanthropic and educational work. He said he reviews the PFPF's financial documents and meeting summaries online, and jotted down some notes on Fixed Income recently.

Renzer Bell discussed his concerns with risky fixed income investments as it relates to credit quality and duration in the current 'late stages of the economic cycle'.

Renzer Bell said he believes that many people are under the erroneous assumption that the correlation between the percentage movement in price and the percentage change in yield is linear regarding fixed income securities.

Renzer Bell said there is currently a trend of investors 'chasing yield'. Liquidity has to go somewhere. Countries in Europe issue debt with negative yields. He discussed this further at length.

Renzer Bell said his bottom line was to advise increasing the cash flow stream to adjust duration.

IV. Old Business

None.

V. New Business

None.

VI. Adjournment

5:03 P.M.

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Summary Approved:

Craig Lewis Sr., Secretary
Financial Investment and Advisory Committee

Summary Prepared By:

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

Posted: 08/19/2019

To be Approved: 09/18/2019