PRESENTATION TO THE JACKSONVILLE RETIREMENT TASK FORCE BY THE JACKSONVILLE POLICE AND FIRE PENSION FUND

NOVEMBER 5, 2013

POLICE AND FIRE PENSION FUND

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John Keane
Executive Director -
Administrator

November 5, 2013

Mr. William Scheu, Esquire
Chairman, and Members of the
Retirement Reform Task Force
117 W. Duval Street
Jacksonville, Florida 32202

Dear Mr. Chairman and Retirement Reform Task Force Members:

Thank you for the opportunity to speak with the Retirement Reform Task Force tonight.

The Police and Fire Pension Board previously adopted resolutions supporting comprehensive pension reform. The Restated Settlement Agreement with the City spells out the method of amending the Contract between the City and the Board. We look forward to productively working together on this important issue.

I received the revised report from Jonathan Trichter on Friday night, November 1st, 2013. Following a quick review of the revised report, I would like share some thoughts with you tonight:

I will not comment further on the pension obligation bond analysis. I don't know all of the many fiscal assumptions that went into the analysis, but on its face the subject seems to be treated fairly, using the assumptions presented.

However, the first analysis on Page 4, and at other points, used the actual returns over 13 years. I don't know why the analysis used this particular time period, as that appears to be an odd period, and takes into effect a number of significant drawdowns in the equity market. What if they had used returns for 1993-2013 the previous 20 fiscal years or returns for the 80's, 90's and 2000's? How would the analysis change using the following S&P Index returns for the last 40 years?

***Data in table below from Dimensional Matrix Book 2012 and 2013 from Standard & Poor's.**

Historical S&P 500 Index Stock Market Returns			
Year	Return	Year	Return
1973	-14.7%	1993	10.0%
1974	-26.5%	1994	1.3%
1975	37.2%	1995	37.4%
1976	23.8%	1996	23.1%
1977	-7.2%	1997	33.4%
1978	6.6%	1998	28.6%
1979	18.4%	1999	21.0%
1980	32.4%	2000	-9.1%
1981	-4.9%	2001	-11.90%
1982	21.4%	2002	-22.1%
1983	22.5	2003	28.7%
1984	6.3%	2004	10.9%
1985	32.2%	2005	4.9%
1986	18.5%	2006	15.9%
1987	5.2%	2007	5.5%
1988	16.8%	2008	-37.0%
1989	31.5%	2009	26.5%
1990	-3.2%	2010	15.1%
1991	30.5%	2011	2.1%
1992	7.7%	2012	16.0%

The assumed returns for stocks and bonds on Page 5, is reasonable, given the Federal Reserve program of maintaining very low interest rates, but ignores diversified real estate as a permissible asset class.

The chart on Page 15, purports to be a simple comparison of the two Systems, but ignores the range of permissible asset classes available to each. The JRS System invested in high yield bonds and international bonds and has a different mix of Active managers than P&F. The JRS also have <u>less passive exposure than P&F</u>.

Beginning on Page 16 and on the following pages, the comparisons to the selected pension systems shown is not an apples-to-apples comparison. Most, if not all, of these systems have the ability to invest in private equity, private debt, hedge funds, private natural resource funds, etc. P&F does not. Legislation is pending before the City Council to provide expanded investment authority to the Board.

In addition, the volatility of returns, i.e. risk taken to achieve these returns is not shown. Any one of them may have taken substantial risks to achieve the returns.

Over the last 5 years, returns for the P&F have improved; the Board has been replacing underperforming managers and diversifying into other asset classes, such as MLPs, and when possible and practical, utilizing Investment Managers already under Contract to the JRS, to secure reduction of management fees to both Funds, due to increased level of assets. The JRS utilizes the same program in partnering with the P&F for the same fiscal reasons.

On Page 19, the report cites the fact that in 2012, P&F was two-thirds active and one-third passive in large cap equities. For calendar year 2012, the plan's large cap portfolio outperformed the passive S&P 500 index by 1.3%, and was above the index over the trailing 3, 5, and 10 year periods.

Yes, passive should play a role in the portfolio and at times it will play a larger role. But there are times when active management is better. For example, for calendar years 2007 and 2008, the P&F large cap portfolio returned 8.1 % and -35.8%, respectively, and outperformed the respective returns for the S&P 500 of 5.5% and -37%.

Finally, comparison of passive exposure in our portfolio to that of CALPERS is very, very misleading. It may be for FRS as well. Those systems are so big, they have to index a substantial portion (and they do so with internal management) plus, they have lots of other sources of alpha available to them, i.e. all the asset classes P&F cannot invest in.

If P&F could invest in those asset classes, especially private equity, we would probably have less in public equities, perhaps more in passive management, and less expected volatility of returns.

Thank you for your time tonight.

Sincerely,

John Keane

John Keane
Executive Director – Administrator

CC: Mayor Alvin Brown
Council President William Gulliford and Council Members, Kirk Sherman, CPA, Council Auditor, C. Ronnie Belton, Chief Financial Officer