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Target Asset Allocation Review

**City of Jacksonville
Police & Fire Pension Fund**

June 20, 2015

EXECUTIVE SUMMARY

During the First Quarter of 2015, Summit presented to the Board Summit's updated Capital Markets Assumptions, the expected return using the current Target Asset Allocation, and an illustration of the effect of changing the target asset allocation of the City of Jacksonville Police & Fire Pension Fund.

Based on its long-term capital market assumptions, Summit concluded that adding Private Equity or Private Real Assets/Natural Resources raises the expected return to approximately 7.0% with an associated increase in expected volatility.

It is Summit's understanding that on June 10, 2015, the City of Jacksonville City Council Finance Committee approved inclusion of investments in private equity through an ordinance change.

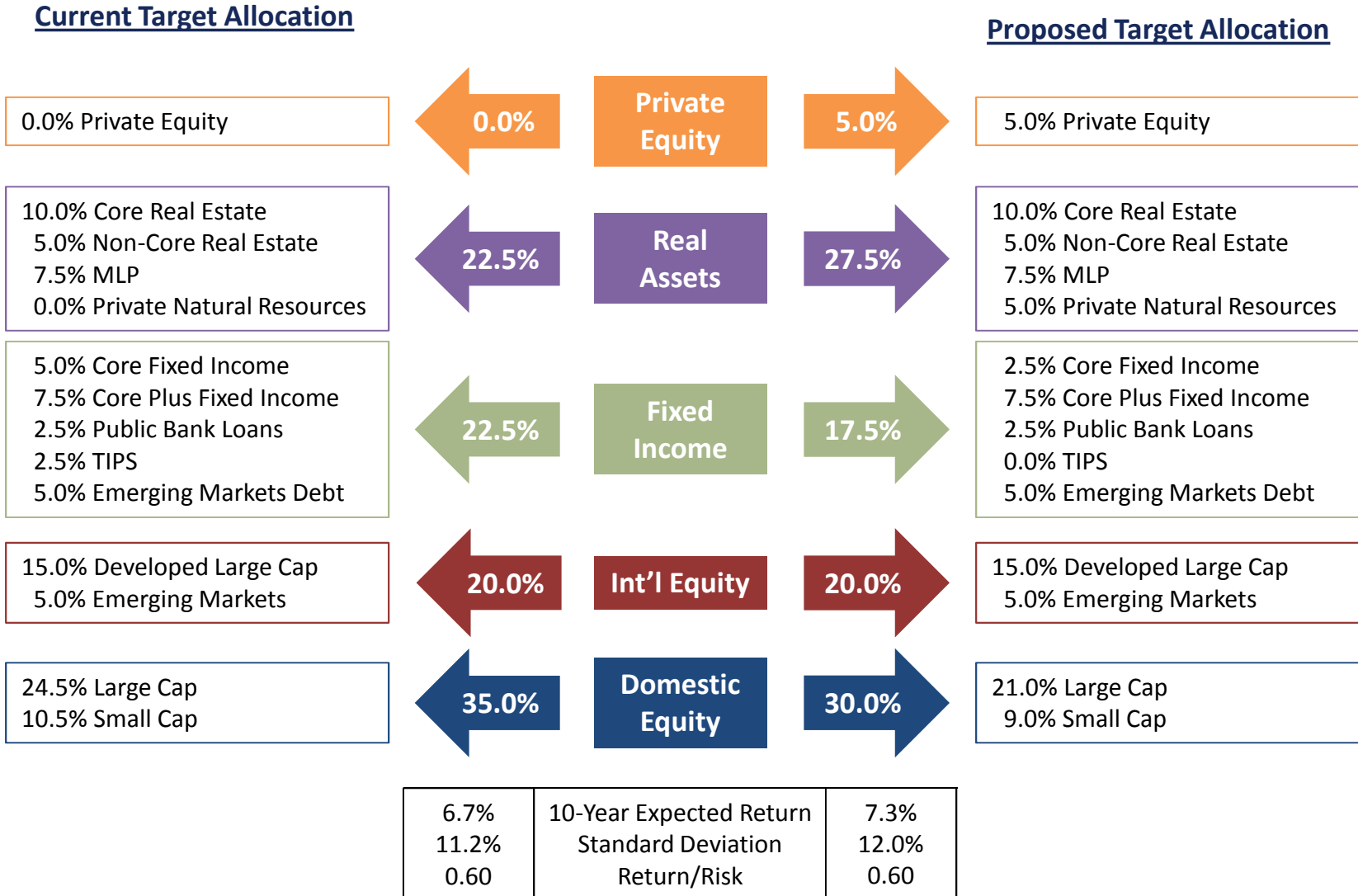
Summit recommends allocating 5% to Private Equity and 5% to Private Real Assets/Natural Resources.

The Current Target Allocation to Real Estate (Core and Non-Core) is 15%. Non-Core Real Estate is the only permissible private investment before the ordinance change but has not been filled. Currently, the allocation to Real Estate in total is approximately 10%. In order to allocate 5% of the portfolio to Private Real Assets/Natural Resources Summit recommends using the 5% "Other" statutory provision should the ordinance change cap the allocation to private investments to 5%. In order to allocate 5% to Private Real Assets and another 5% to Private Equity, Summit recommends reducing the following asset classes:

- Fixed Income by 5%
- Non-US Large Cap Equity by 1.5%
- US Large Cap by 3.5%

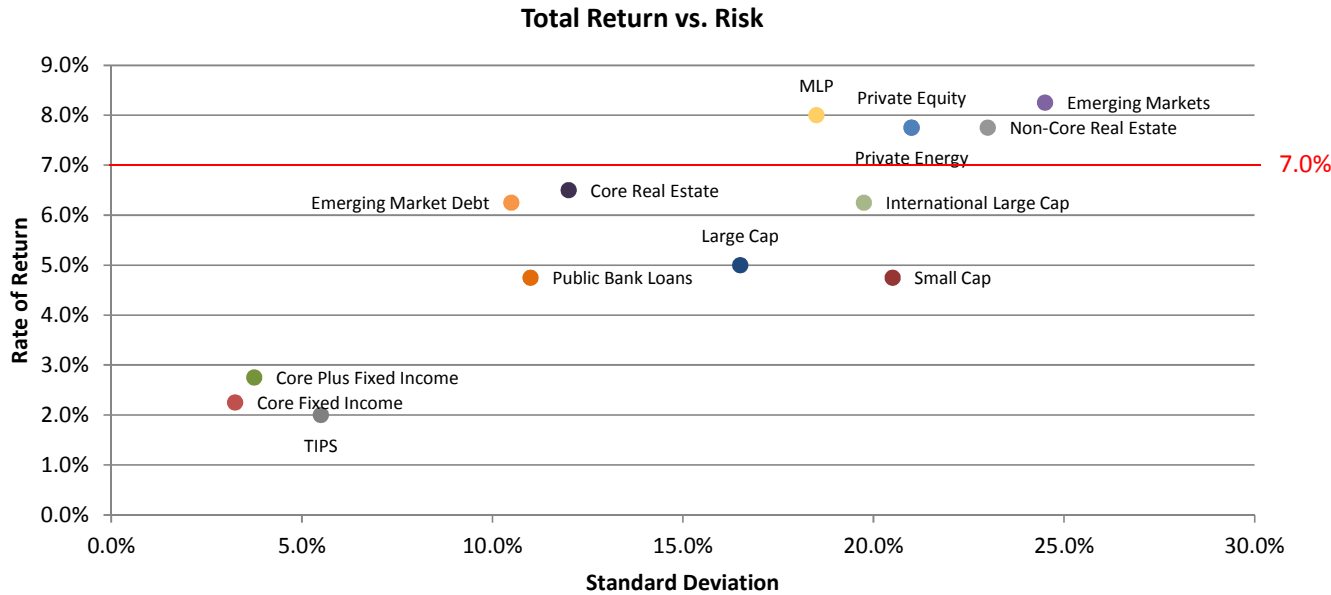
Summit recommends the Board approve the proposed target allocation, which may increase the expected 10-year return to 7.3% while maintaining the current return/risk profile of the Pension Fund.

The following page entails a detailed illustration of the proposed allocation changes.



APPENDIX

CAPITAL MARKET ASSUMPTIONS – AS OF MARCH 31, 2014



Summit’s capital market assumptions are illustrated to the left and listed below.

Asset class assumptions are geometric (net of volatility) using a 10-year investment time horizon and are net of fees.

Today, few asset classes provide an expected return in excess of 7.5%, with the exception of many of the illiquid alternative/private investments.

Asset Class	Expected Return	Expected Alpha	Standard Deviation	Comments Regarding Return Assumptions
Large Cap	5.0%	0.5%	16.5%	Long-term Expected, Fundamental Components
Small Cap	4.8%	0.8%	20.5%	Long-term Expected, Fundamental Components
International Large Cap	6.3%	0.8%	19.8%	Long-term Expected, Fundamental Components
Emerging Markets	8.3%	1.0%	24.5%	Long-term Expected, Fundamental Components
Emerging Market Debt	6.3%	0.8%	10.5%	Current Yield Curve + Sovereign Default Discount
Non-Core Real Estate	7.8%	1.0%	23.0%	Current Cap Rate + NOI Growth + Liquidity Premium + Leverage Adj
MLP	8.0%	1.0%	18.5%	Distribution Yield + NOI Growth
Private Energy	7.8%	1.0%	21.0%	Royalty Trust Yield + Liquidity Premium + Leverage Adj
Private Equity	7.8%	1.0%	21.0%	Base Return (Small Cap) + Liquidity Premium + Leverage Adj
Core Fixed Income	2.3%	0.3%	3.3%	Current Yield Curve
Core Plus Fixed Income	2.8%	0.5%	3.8%	Current Yield Curve
Core Real Estate	6.5%	0.3%	12.0%	Current Cap Rate + NOI Growth + Leverage Adj
Public Bank Loans	4.8%	0.5%	11.0%	Base Return (High Yield)
TIPS	2.0%	n/a	5.5%	Real Yield + Inflation Expectation

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