

**JACKSONVILLE POLICE AND FIRE PENSION FUND
FINANCIAL INVESTMENT ADVISORY COMMITTEE (FIAC)
MEETING SUMMARY – MARCH 11, 2016
RICHARD “DICK” COHEE BOARD ROOM**

PFPF MISSION:

To provide long term benefits to participants and their beneficiaries

NOTE: 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.

PRESENT

Eric “Brian” Smith Jr., Committee Chair
Craig Lewis Sr., Committee Secretary
Rob Kowkabany
Rodney Van Pelt

STAFF

Joey Greive, Fund Treasurer
Dan Holmes, Summit Strategies
Steve Lundy – Pension Benefits Specialist / Economic Research
Beth McCague, Interim Executive Director – Plan Administrator

EXCUSED

Devin Carter, Chief Financial Officer
Michael Lukaszewski

NOTE: Any person requiring a special accommodation to participate in the meeting because of disability shall contact the Executive Assistant at (904) 255-7373, at least five business days in advance of the meeting to make appropriate arrangements.

CHAIRMAN BRIAN SMITH CALLED THE MEETING TO ORDER @ 3:36PM

CHAIRMAN SMITH ASKED FOR DISCUSSION REGARDING APPROVAL OF THE FEBRUARY 12, 2016 MEETING SUMMARY.

A MOTION WAS MADE BY ROB KOWKABANY TO APPROVE THE FEBRUARY 12, 2016 FIAC MEETING SUMMARY. SECONDED BY CRAIG LEWIS. VOTE WAS UNANIMOUS.

FUND TREASURER JOEY GREIVE UPDATED THE FIAC ON THE STATUS OF MAYOR CURRY'S PENSION REFORM LEGISLATION: THE GOVERNOR WILL LIKELY SIGN THE BILL WITHIN 7-14 DAYS. THE REFORM WILL "HELP SOLVE THE BIGGEST FINANCIAL PROBLEM IN THE CITY OF JACKSONVILLE". THE BILL MUST GO TO REFERENDUM, THEN UNIONS, THEN THE 'OLD PLAN' IS CLOSED TO NEW MEMBERS, AND A 'NEW PLAN' CREATED FOR NEW HIRES.

CHAIRMAN SMITH TURNED THE MEETING OVER TO DAN HOLMES WITH SUMMIT STRATEGIES.

ACTIVE VS. PASSIVE DISCUSSION BY DAN HOLMES

DAN HOLMES STARTED THE DISCUSSION BY NOTING THAT HE WILL PROVIDE A DETAILED REVIEW OF MANAGER PERFORMANCE, A WALKTHROUGH OF ACTIVE VS. PASSIVE MANAGEMENT, AND BY INFORMING THE FIAC THAT A BOARD OF TRUSTEES MEMBER HAS PROPOSED A SPECIFIC NEW MONEY MANAGER FOR CONSIDERATION.

ACTIVE VS. PASSIVE MANAGEMENT IN DOMESTIC EQUITY WAS DISCUSSED IN THE CATEGORIES OF LARGE CAP AND SMALL CAP.

ROB KOWKABANY ASKED DAN HOLMES, "IN WHAT TIMES DOES ACTIVE MANAGEMENT BEAT PASSIVE MANAGEMENT?"

DAN HOLMES STATED THAT IT DEPENDS ON LARGE VS. SMALL CAP IN VARYING SCENARIOS. DAN HOLMES SHOWED THAT SINCE 1980, TOP QUARTILE ACTIVE MANAGEMENT BEATS PASSIVE MANAGEMENT IN LARGE CAP. "HOWEVER, AT THE MEDIAN, THE LEVEL OF OUTPERFORMANCE IS SIGNIFICANTLY LESS. HISTORICALLY, LARGE CAP DOMESTIC EQUITIES IS THE MOST CHALLENGING AREA FOR ACTIVE MANAGEMENT TO CONSISTENTLY OUTPERFORM PASSIVE INDICES ON A NET OF FEES BASIS AS THE COST OF PASSIVE INVESTMENT IS LESS EXPENSIVE. IN THE DOMESTIC SMALL CAP AND INTERNATIONAL EQUITY AREAS, THE REVERSE IS TRUE: EVEN AT THE MEDIAN PEER LEVEL, ACTIVE MANAGEMENT TENDS TO OUTPERFORM PASSIVE MANAGEMENT NET OF FEES OVER TIME."

DAN HOLMES DESCRIBED THE UNIQUE DEFENSIVE MANAGEMENT STRATEGY OF THE COMPANY PARAMETRIC CLIFTON, WHICH IS USED BY SUMMIT STRATEGIES. THIS COMPANY SELLS INSURANCE RISK PREMIUMS, AND THEIR RETURNS EQUAL INDEX AVERAGES OVER THE LONG RUN WITH MUCH LOWER VOLATILITY.

RODNEY VAN PELT – NOTING THAT THIS STRATEGY IS BASICALLY A PROTECTION AGAINST VOLATILITY – ASKED DAN HOLMES WHETHER HE WOULD INCREASE OR DECREASE THE EXECUTION OF THIS STRATEGY IN A VOLATILE MARKET.

DAN HOLMES REPLIED THAT THE LEVEL WOULD BE INCREASED OR DECREASED BASED ON THE OUTLOOK FOR THE EQUITY RISK PREMIUM.

BETH MCCAGUE NOTED THAT ONE HALF OF OUR ACTIVE MANAGERS ARE BEATING THEIR BENCHMARKS, AND ONE HALF- ARE NOT.

GENERAL DISCUSSION ENSUED REGARDING REASONS TO RETAIN A LOWER PERFORMING MANAGER.

DAN HOLMES REFERENCED MANAGER BROWN ADVISORY. EVEN THOUGH QUANTITATIVE EASING BY THE FED MADE THEIR STRATEGY DIFFICULT, THIS STRATEGY IS STILL VALID IN THE LONG RUN. "IN ADDITION, THEIR CORRELATION TO THE LARGE CAP MANAGERS IN THE PORTFOLIO, ESPECIALLY EAGLE, IS LOW MAKING THEM A GOOD DIVERSIFIER FOR THE OVERALL LARGE CAP PART OF THE PORTFOLIO."

ACTIVE VS. PASSIVE MANAGEMENT IN INTERNATIONAL EQUITY WAS DISCUSSED IN THE CATEGORIES OF DEVELOPED INTERNATIONAL AND EMERGING MARKETS.

RODNEY VAN PELT ASKED DAN HOLMES IF MANY SPONSOR CLIENT PORTFOLIOS SPLIT EUROPE VS. ASIA WHEN DEALING WITH 'DEVELOPED INTERNATIONAL VS. EMERGING MARKETS'.

DAN HOLMES SAID THAT MOST SPONSOR CLIENT PORTFOLIOS DON'T BIFURCATE IN THAT MANNER, INSTEAD THE MANAGERS DIVERSIFY BY COUNTRY, ECONOMIC SECTOR AND INDUSTRY SECTOR BASED ON THEIR UNDERLYING STRATEGY, AND THAT VALUE MANAGERS TEND TO BE MORE UNITED KINGDOM-CENTRIC, OR OVERWEIGHTED AREAS THAT THEY PERCEIVE AS INEXPENSIVE. SILCHESTER IS OVERWEIGHTED IN JAPAN.

DAN HOLMES DESCRIBED CORE FIXED MANAGEMENT AS PRIMARILY INVESTMENT GRADE DOMESTIC, AND CORE-PLUS FIXED AS PRIMARILY DOMESTIC, WITH SOME HIGH YIELD AND INTERNATIONAL INVESTMENTS. DAN HOLMES SAID THAT OVER TIME, ACTIVE MANAGEMENT PAYS OFF IN CORE-PLUS FIXED.

PFPF PERFORMANCE SUMMARY IN DOMESTIC EQUITY AS OF DECEMBER 31, 2015 WAS THEN DISCUSSED.

DAN HOLMES SHOWED THAT LAST YEAR'S PERFORMANCE IN THIS SEGMENT LAGGED, AS THE PFPF WAS IN THE LOWEST QUARTILE.

DAN HOLMES SAID THAT HE WOULD LIKE TO LOWER NORTHERN TRUST'S BASIS POINTS FEES.

DAN HOLMES SHOWED THAT EAGLE CAPITAL IS OUR MOST EXPENSIVE MANAGER. HOWEVER, THEY HAVE 'PAID FOR THEMSELVES', NET OF FEES, THROUGH PERFORMANCE ABOVE THE BENCHMARK.

JOEY GREIVE ADDED THAT THE GENERAL EMPLOYEES PENSION FUND CUT FOUR OUT OF THEIR TEN MANAGERS, BUT THAT THEY KEPT EAGLE CAPITAL.

DAN HOLMES SAID THAT EAGLE CAPITAL IS PERFORMING WELL, AND IS CLOSED TO NEW BUSINESS, AND THEREFORE IT WOULD BE DIFFICULT TO NEGOTIATE REDUCED FEES. HE ALSO NOTED THAT SUMMIT HAD NEGOTIATED AN AGGREGATED FEE SCHEDULE BETWEEN PFPF AND GENERAL EMPLOYEES.

DAN HOLMES RECOMMENDED THAT WE TERMINATE GAMCO. CHAIRMAN BRIAN SMITH, CRAIG LEWIS, AND ROB KOWKABANY INDICATED THEIR AGREEMENT.

BETH MCCAGUE ASKED DAN HOLMES WHERE WE WOULD MOVE THE MONEY IF GAMCO WAS TERMINATED.

DAN HOLMES REPLIED THAT WE MAY CONSIDER PARAMETRIC CLIFTON AS DISCUSSED EARLIER OR TO THE INDEX FUND.

ROB KOWKABANY ASKED WHAT THE DOWNSIDE OF MOVING THE MONEY FROM A TERMINATED MANAGER TO AN INDEX FUND FIRST, THEN TO ANOTHER MANAGER.

DAN HOLMES SAID THAT DOWNSIDE WOULD BE THE TRANSACTION COSTS, AND THAT MANAGER TO MANAGER TRANSFERS ARE BETTER TO ELIMINATE THE POSSIBILITY OF SELLING AND BUYING THE SAME SECURITIES.

CHAIRMAN SMITH ASKED WHAT THE MAIN DIFFERENCE WAS BETWEEN GAMCO AND EAGLE.

DAN HOLMES SAID THAT GAMCO IS MORE AN ALL-CAP, DEEP-VALUE APPROACH.

DAN HOLMES SAID THAT BROWN WAS ALSO BELOW BENCHMARKS, BUT HISTORICALLY, THEY HAVE PERFORMED VERY WELL.

CRAIG LEWIS ASKED WHY BROWN HAS BEEN UNDERPERFORMING RECENTLY.

DAN HOLMES REPLIED THAT IN 2014, BROWN'S INVESTMENTS IN PHARMACEUTICALS AND SURGICAL ROBOTICS PULLED THEIR RETURNS DOWN.

CHAIRMAN SMITH ASKED DAN HOLMES FOR HIS RECOMMENDATION FOR MANAGERS HE RECOMMENDS WE TERMINATE DUE TO POOR PERFORMANCE. DAN HOLMES RECOMMENDED THAT THE FUND TERMINATE GAMCO, SAWGRASS, AND DePRINCE, RACE & ZOLLO. IT WAS NOTED THAT SAWGRASS HAS RECENTLY ENJOYED IMPROVED PERFORMANCE BUT HAD HIGHER CORRELATION WITH EAGLE.

CHAIRMAN SMITH ASKED WHAT PROCESS DID THE BOARD OF TRUSTEES USE TO TERMINATE AND HIRE MANAGERS.

BETH MCCAGUE SAID THAT MANAGERS PRESENT TO THE BOARD, AND THAT THE BOARD RELIES ON DAN HOLMES FOR HIS RECOMMENDATION AND THE FIAC, BUT THE BOARD MAKES THE FINAL DECISION.

CHAIRMAN SMITH SAID THAT THIS IS A GREAT OPPORTUNITY FOR THE FIAC TO REVIEW MANAGERS AND PRESENT THEIR RECOMMENDATIONS TO THE BOARD OF TRUSTEES TO SAVE TIME.

BETH MCCAGUE SAID THAT THE FIAC MAY BEGIN PROCESS OF SUGGESTING TO THE BOARD REPLACEMENTS FOR GAMCO.

CHAIRMAN SMITH SAID THAT HE DOESN'T WANT TO MAKE ANY DECISIONS WITHOUT A DEFINED PROCESS. CHAIRMAN SMITH ASKED IF THE FIAC COULD MAKE A DECISION ON PAPER AND DATA, THEN RECOMMEND THE SELECTED MANAGER FOR BOARD APPROVAL.

DAN HOLMES SAID THAT GIVEN THE INTEREST ON THE PART OF THE BOARD, INTERVIEWING MANAGER CANDIDATES IS THE BEST COURSE OF ACTION.

BETH MCCAGUE NOTED THREE OR FOUR MANAGER CANDIDATES TO PROVIDE CORE-PLUS FIXED MANAGEMENT ARE SCHEDULED TO PRESENT TO THE BOARD AND FIAC IN A WORKSHOP ON MARCH 17th. MEMBERS ASKED THAT BOARD CHAIRMAN LARRY SCHMITT ATTEND THE NEXT FIAC MEETING TO DISCUSS BEST PROCESSES FOR MAKING RECOMMENDATIONS TO THE BOARD.

CHAIRMAN SMITH ASKED WHY DAN HOLMES SUGGESTED THE TERMINATION OF SAWGRASS AND DePRINCE, RACE & ZOLLO.

DAN HOLMES REPLIED THAT THEIR PERFORMANCE, NET OF FEES, IS LOW. DAN HOLMES SAID THAT DePRINCE, RACE & ZOLLO IS TOO DEPENDENT ON DIVIDEND-PAYING INVESTMENTS, AND THAT HE EXPECTS DEMAND FOR DIVIDEND-PAYING INVESTMENTS TO BE LOW IN THE FUTURE.

BETH MCCAGUE ASKED DAN HOLMES IF HE CAN SHOW HIS RECOMMENDED MIX OF CORE FIXED AND CORE-PLUS FIXED, AND TO INCLUDE HIS RECOMMENDED REPLACEMENTS FOR GAMCO, SAWGRASS, AND DePRINCE, RACE & ZOLLO NEXT MONTH.

DAN HOLMES STATED THAT HE WILL BRING HIS 'WISH LIST' FOR THE PFPF'S ENTIRE PORTFOLIO, INCLUDING ACTIVE VS. PASSIVE, EVERY ASSET CLASS, WHO STAYS, WHO GOES, AND CANDIDATES FOR REPLACEMENT.

CHAIRMAN SMITH SAID HE WOULD LIKE TO MAKE DECISIONS ON DATA, AND THEN INTERVIEW MANAGERS.

CRAIG LEWIS ADDED THAT INTERVIEWS ARE A MUST, AND THEY HAVE WORKED IN THE PAST IN HIS LINE OF WORK. ALTHOUGH HE WOULD LIKE TO SEE THE FIAC DRILL DOWN WITH DATA, THEN INTERVIEW MANAGERS.

BETH MCCAGUE SAID THAT SHE WILL INFORM THE BOARD OF TRUSTEES THAT THE FIAC IS REQUESTING DAN HOLMES TO ANALYZE THE FULL PFPF PORTFOLIO AND TO RECOMMEND REPLACEMENTS, AND TERMINATIONS.

RODNEY VAN PELT REQUESTED DAN HOLMES TO INCLUDE A COMPARISON OF THE PFPF PORTFOLIO'S ACTUAL ALLOCATION VS. HIS WISH LIST WITH A ROAD MAP IN HIS REVIEW.

CHAIRMAN SMITH ASKED IF THE APRIL 8, 2016 FIAC MEETING SHOULD BE MOVED UP.

CRAIG LEWIS SAID THAT HE THINKS THE FIAC SHOULD REVIEW DAN HOLMES'S ROAD MAP AND MEET AS REGULARLY SCHEDULED.

CHAIRMAN SMITH REMINDED THE FIAC OF THE WORKSHOPS ON MARCH 14th AND MARCH 17th. HE THANKED THE MEMBERS FOR THEIR ATTENDANCE AND INPUT. HE NOTED THE GROUP WAS WORKING MORE EFFECTIVELY AND TODAY'S DISCUSSION AND DIRECTION IS CREATING AN EFFECTIVE PROCESS FOR DELIVERING SOUND RECOMMENDATIONS TO THE BOARD.

CHAIRMAN SMITH ADJOURNED THE MEETING AT 5:13PM.

CHAIRMAN SMITH NOTED THE NEXT MEETING WILL BE APRIL 8th @ 3:00PM. (SUBSEQUENTLY MOVED TO APRIL 11th, @ 2:00PM)

**TO BE APPROVED AT THE NEXT FIAC
MEETING ON APRIL 11, 2016**

Craig Lewis, Secretary