

**JACKSONVILLE POLICE AND FIRE PENSION FUND  
BOARD OF TRUSTEES  
MEETING AGENDA – FEBRUARY 17, 2017 @ 9:00AM  
RICHARD “DICK” COHEE BOARD ROOM**

**PFPF MISSION STATEMENT:**

*To provide long term benefits to participants and their beneficiaries*

**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.

**PRESENT**

Lt. Richard Tuten III, Board Chair  
Richard Patsy, Board Secretary  
Lt. Chris Brown, Trustee  
Willard Payne, Trustee  
William Scheu, Trustee – *via webex*

**STAFF**

Timothy H. Johnson, Executive Director – Plan Administrator  
Bob Sugarman, Fund Attorney  
Dan Holmes, Summit Strategies  
Pete Strong, Fund Actuary – *via webex*  
Devin Carter, Chief Financial Officer  
Steve Lundy, Pension Benefit Specialist  
Debbie Manning Executive Assistant  
Denice Taylor, AAA Reporters

**EXCUSED**

**CITY REPRESENTATIVES INVITED**

Anna Brosche, City Council Liaison  
Joey Greive, Fund Treasurer  
Steve Durden, Office of General Counsel  
Lawsikia Hodges, Office of General Counsel

**GUESTS**

Linda Dufresne, KBLD – *via webex*

**I. CALL TO ORDER**

**II. PLEDGE OF ALLEGIANCE**

**III. A MOMENT OF SILENCE WILL BE OBSERVED FOR THE FOLLOWING DECEASED MEMBERS:**

Donald O. Kreitzman, Retired Fire Lieutenant  
Michael D. Castle, Retired Police Lieutenant

**IV. PUBLIC SPEAKING PERIOD**

**V. CONSENT AGENDA - ITEMS 2017-02-(1-12)CA**

**2017-02-01CA MEETING SUMMARY AND FINAL TRANSCRIPT APPROVED**

1. Meeting Summary and Final Transcript of the Board of Trustee & FIAC Special Meeting held on January 18, 2017, and the Meeting Summary and Final Transcript of the Board of Trustee Meeting held on January 20, 2017. Copies held in the meeting files.

**2017-02-02CA DISBURSEMENTS**

The listed expenditures in DISBURSEMENTS A have been reviewed and deemed payable. The Police and Fire Pension Fund Chief Financial Officer certifies that they are proper and in compliance with the appropriated budget.

**DISBURSEMENTS A - 1/1/2017 thru 1/31/2017**

1. Baker Gilmour Cardiovascular	\$ 5,100.00
2. Klausner, Kaufman	\$ 14,755.63
3. Northern Trust	\$ 43,647.99
4. Pension Board Consultants	\$ 16,400.00
5. ACCESS	\$ 2,699.00
6. J.P. Morgan	\$ 290,297.51
7. Sawgrass Asset Management	\$ 43,579.21
8. Acadian Asset Management LLC	\$ 132,203.00
9. Eagle Capital Management	\$ 350,118.91
10. Harvest Fund Advisors	\$ 189,543.26

11. Brown Advisory	\$ 82,721.53
12. Tortoise Capital Advisors	\$ 96,833.02
13. Thompson, Siegel & Walmsley LLC	\$ 68,724.35
14. ACCESS	\$ 9,098.39
<b>TOTAL</b>	<b>\$1,345,721.80</b>

The listed expenditures in DISBURSEMENTS B have been reviewed and deemed payable. The Police and Fire Pension Fund Chief Financial Officer certifies that they are proper and in compliance with the appropriated budget.

**DISBURSEMENTS B**

Transaction list of Accounts Payable distributions **\$ 15,743.66**  
1/1/2017 thru 1/31/2017

**2017-02-03CA PENSION DISTRIBUTIONS**

<b>A. January 13, 2017</b>	Regular Gross	\$5,261,330.57
	Regular Lumpsum	\$64,059.86
	Regular Rollover	\$2,109.09
	Regular DROP Gross	\$1,049,103.31
	DROP Lumpsum	\$356,813.72
	DROP Rollover	\$135,072.59
	<b>TOTAL</b>	<b>\$6,868,489.14</b>

<b>B. January 27, 2017</b>	Regular Gross	\$5,262,358.18
	Regular Lumpsum	\$0.00
	Regular Rollover	\$0.00
	Regular DROP Gross	\$1,048,383.21
	DROP Lumpsum	\$0.00
	DROP Rollover	\$30,150.07
	<b>TOTAL</b>	<b>\$6,340,891.46</b>

**ALL CALCULATIONS AND DOLLAR AMOUNTS HAVE BEEN REVIEWED AND CALCULATED IN ACCORDANCE WITH ACCEPTED PROCEDURES.**

*The following Consent Agenda items 2017-02-(4-6) were verified with supporting documentation and approved at the Advisory Committee meeting held on February 8, 2017. Vote was unanimous.*

**2017-02-04CA APPLICATION FOR MEMBERSHIP**

**2017-02-05CA APPLICATION FOR SURVIVOR BENEFITS**

**2017-02-06CA APPLICATION FOR VESTED RETIREMENT**

*The following Consent Agenda items 2017-02-(7-11) were verified with supporting documentation and received as information at the Advisory Committee meeting held on February 8, 2017.*

**2017-02-07CA APPLICATION FOR TIME SERVICE CONNECTIONS**

**ADDED TO CONSENT AGENDA:**

9. **WILLIAMS, Ronald D.**, Prior Duval Service (21 days), \$362.04. Fire Lieutenant

**2017-02-08CA REFUND OF PENSION CONTRIBUTIONS**

**2017-02-09CA DROP PARTICIPANT TERMINATION OF EMPLOYMENT**

**2017-02-10CA DROP DISTRIBUTIONS**

**2017-02-11CA DROP DISTRIBUTIONS FOR SURVIVORS**

**2017-02-12CA – EDUCATIONAL OPPORTUNITIES**

**May 1-2, 2017** - 2017 New Leadership Summit Class XV – White Oak  
Conference Center – Jacksonville, FL

**May 20–21, 2017** – NCPERS Accredited Fiduciary Program – Hollywood, FL

**May 20-21, 2017** – NCPERS Trustee Educational Seminar – Hollywood, FL

**May 21-24, 2017** – NCPERS Annual Conference & Exhibition – Hollywood, FL

**V. EXECUTIVE DIRECTOR’S REPORTS – Timothy H. Johnson**

- Monthly Status Report

**VI. COUNSEL REPORTS**

- Legal Reports – *Steve Durden / Lawsikia Hodges & Bob Sugarman*

**VII. INVESTMENT CONSULTANT REPORTS – *Dan Holmes w Summit***

- Executive Summary of Investment Performance Review – 4Q
- Monthly Economic & Capital Market Update – January, 2017
- Flash Report – January 31, 2017
- FIAC Recommendation Regarding Eagle
- FIAC Recommendation Regarding Brown

**VIII. OLD BUSINESS – *Devin Carter***

- Commission Recapture – Memorandum of Law – *Paul Daragjati*
- Abel/Noser, L.L.C.
  - Commission Recapture Agreement Information Request
  - Commission Recapture Agreement

**IX. NEW BUSINESS**

- DRAFT of 2016 KBLD Financial Audit – *Linda Dufresne*

**X. ADJOURNMENT**

**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.

**ADDITIONAL ITEMS MAY BE ADDED/CHANGED PRIOR TO MEETING**



**JACKSONVILLE POLICE AND FIRE PENSION FUND  
BOARD OF TRUSTEES & FIAC  
SPECIAL MEETING SUMMARY – JANUARY 18, 2017  
RICHARD “DICK” COHEE BOARD ROOM**

**PFPF MISSION STATEMENT:**

*To provide long term benefits to participants and their beneficiaries*

**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.

**BOARD OF TRUSTEES**

Lt. Richard Tuten III, Board Chairman  
Richard Patsy, Board Secretary  
Lt. Chris Brown, Trustee  
William E. Scheu, Trustee

**FINANCIAL INVESTMENT AND ADVISORY COMMITTEE (FIAC)**

Brian Smith, FIAC Chairman – *arrived @ 2:30pm*  
Rob Kowkabany  
Rodney VanPelt

**STAFF**

Timothy H. Johnson, Executive Director – Plan Administrator  
Jarmon Welch, Pension Board Consultants  
Bob Sugarman, Sugarman & Susskind – *via phone*  
Pete Strong, GRS  
Devin Carter, Controller  
Debbie Manning, Executive Assistant  
Denice Taylor, AAA Reporters

**EXCUSED**

Willard Payne, Trustee  
Craig Lewis, FIAC Secretary  
Tracey Devine, *pending City Council approval*

**CITY REPRESENTATIVES INVITED**

Mayor Lenny Curry, City of Jacksonville – *did not attend*  
Mike Weinstein, Director of Finance, City of Jacksonville – *did not attend*  
Anna Brosche, City Council Liaison, City of Jacksonville – *did not attend*  
Joey Greive, Treasurer, City of Jacksonville – *did not attend*

## **GUESTS**

Randy Wyse, Jax. Assoc. of Fire Fighters  
Steve Zona, FOP President  
John Winkler  
Joe Arnall  
Doreszell Cohen  
Bill Gassett  
Curtis Lee

### **I. CALL TO ORDER**

**CHAIRMAN TUTEN CALLED THE MEETING TO ORDER AT 2:00PM**

### **II. PLEDGE OF ALLEGIANCE**

### **III. PUBLIC SPEAKING PERIOD**

**THE CHAIRMAN RECEIVED TWO SPEAKER REQUEST FORMS. THE FIRST TO ADDRESS THE BOARD WAS JOHN WINKLER. THE SECOND SPEAKER WAS CURTIS LEE. WITH NO OTHER REQUESTS, THE PUBLIC SPEAKING PERIOD WAS CLOSED**

**CHAIRMAN TUTEN ASKED TIM JOHNSON IF MAYOR CURRY OR OTHER CITY OFFICIALS WOULD BE ATTENDING.**

**TIM JOHNSON SAID THEY WERE INVITED TO THE MEETING BUT THEY ARE UNABLE TO ATTEND.**

**CHAIRMAN TUTEN POINTED OUT THAT WE HAD A MEETING LAST JANUARY, 2016 REGARDING THE ACTUARIAL VALUATION WHICH THEY ATTENDED.**

### **IV. EXECUTIVE DIRECTOR'S INTRODUCTION** – *Timothy Johnson*

- Correspondence with Florida Division of Retirement



**TIM REFERRED THE BOARD TO THE EXECUTIVE DIRECTOR'S TAB IN THE BOARD BOOK WHICH INCLUDED THE CORRESPONDENCE TO DOUG BECKENDORF WITH THE FLORIDA DIVISION OF RETIREMENT.**

**SEVERAL OPTIONS ARE AVAILABLE BASED ON HIS RESPONSE.**

**THE MEETING WAS THEN TURNED OVER TO JARMON WELCH TO DISCUSS THE DRAFT OF THE ACTUARIAL VALUATION AS OF OCTOBER 1, 2016.**

**IV. NEW BUSINESS – *Jarmon Welch***

- Draft of Actuarial Valuation as of October 1, 2016

**JARMON WELCH BEGAN THE DISCUSSION WITH AN OVERVIEW OF HIS YEARS OF SERVICE WITH THE POLICE AND FIRE PENSION FUND.**

**AS THE DISCUSSION BEGAN, THE CONVERSATION SEEMED TO FOCUS MORE ON THE DROP PROGRAM.**

**TRUSTEE BROWN STATED THE DROP IS AN IMPORTANT TOPIC, HOWEVER, THE DISCUSSION TODAY SHOULD BE FOCUSED ON THE PURPOSE OF THIS MEETING WHICH WAS TO DISCUSS THE INCREASED PAYMENT MAYOR CURRY REFERRED TO WITH THE MEDIA, THE EXTRA \$44 MILLION. WHAT CAN WE DO?**

**THE FLORIDA DIVISION OF RETIREMENT DICTATES WHAT GOES HAPPENS.**

**WHAT ARE THE OPTIONS FOR THE BOARD? CAN WE PHASE IN OVER THREE YEARS? ARE THERE OTHER ASSUMPTIONS TO BE CONSIDERED? CAN WE PHASE IN GROWTH RATE?**

**PER BOB SUGARMAN ON CONFERENCE CALL, THE GUIDANCE IS BY THE STATE ACTUARY, NOT BY LAW.**

**BOB SUGARMAN AND JARMON WELCH WILL GET TOGETHER ON THE LANGUAGE TO BE SUBMITTED TO THE STATE ACTUARY FOR REVIEW. AN IMPACT STATEMENT BY JARMON WELCH WILL BE REQUIRED ALONG WITH FAVORABLE EXPLANATION TO BACK THIS UP FOR THE STATE ACTUARY. THE INFORMATION WILL PROBABLY NOT BE READY FOR BOARD OF TRUSTEE MEETING THIS FRIDAY.**

**A MORE DETAILED SUMMARY WILL BE PROVIDED VIA THE FINAL TRANSCRIPT.**

**V. ADJOURNMENT**

**CHAIRMAN TUTEN ADJOURNED THE MEETING AT 3:45PM**

**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.

**TO BE APPROVED AT THE FIAC MEETING  
TO BE HELD ON FEBRUARY 10, 2017**

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Brian Smith, FIAC Chairman

**TO BE APPROVED AT THE BOARD OF  
TRUSTEE MEETING HELD ON FEBRUARY 17, 2017**

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Richard Patsy, Board Secretary

**JACKSONVILLE POLICE AND FIRE PENSION FUND  
BOARD OF TRUSTEES  
MEETING SUMMARY – JANUARY 20, 2017 @ 9:00AM  
RICHARD “DICK” COHEE BOARD ROOM**

**PFPF MISSION STATEMENT:**

*To provide long term benefits to participants and their beneficiaries*

**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.

**PRESENT**

Lt. Richard Tuten III, Board Chair  
Richard Patsy, Board Secretary  
Lt. Chris Brown, Trustee  
William Scheu, Trustee

**STAFF**

Timothy H. Johnson, Executive Director – Plan Administrator  
Bob Sugarman, Fund Attorney  
Dan Holmes, Summit Strategies – *via conference call*  
Pete Strong, GRS Consulting – *via conference call*  
Jarmon Welch, Pension Board Consultants – *via conference call*  
Devin Carter, Chief Financial Officer  
Debbie Manning, Executive Assistant  
Denice Taylor, AAA Reporters

**EXCUSED**

Willard Payne, Trustee

**CITY REPRESENTATIVES INVITED**

Joey Greive, Fund Treasurer  
Lawsikia Hodges, Office of General Counsel

**GUESTS**

Anna Brosche, City Council Liaison

Steve Durden, Office of General Counsel  
Randy Wyse, Jax. Assoc. of Fire Fighters  
Rick Muchowitz  
David Bauerlein, Times Union  
Bill Gassett

**I. CALL TO ORDER**

**CHAIRMAN TUTEN CALLED THE MEETING TO ORDER AT 9:10AM.**

**II. PLEDGE OF ALLEGIANCE**

**III. A MOMENT OF SILENCE WAS OBSERVED FOR THE FOLLOWING DECEASED MEMBERS:**

James E. Stevenson, Retired Fire Fighter Engineer  
Henry T. Lindsey, Retired Police Officer  
Doyle F. Hall, Retired Police Officer  
David J. Addison, Retired Fire Captain  
Claude C. Springs Jr., Retired Fire Captain

**IV. PUBLIC SPEAKING PERIOD**

**WE HAD ONE REQUEST FOR PUBLIC SPEAKING FROM BILL GASSETT. HE PROVIDED THE BOARD WITH A HANDOUT.**

**THERE WERE NO ADDITIONAL REQUESTS FOR PUBLIC SPEAKING. PUBLIC SPEAKING PERIOD CLOSED.**

**V. CONSENT AGENDA - ITEMS 2017-01-(1-10)CA**

**2017-01-01CA FINAL TRANSCRIPT APPROVED**

**2017-01-02CA DISBURSEMENTS**

**DISBURSEMENTS A**

**DISBURSEMENTS B**

**2017-01-03CA PENSION DISTRIBUTIONS**

**2017-01-04CA APPLICATION FOR TIME SERVICE CONNECTIONS**

**2017-01-05CA APPLICATION FOR TIME SERVICE RETIREMENT**

**2017-01-06CA APPLICATION FOR VESTED RETIREMENT**

**2017-01-07CA REFUND OF PENSION CONTRIBUTIONS**

**2017-01-08CA SHARE PLAN DISTRIBUTION**

**2017-01-09CA DROP PARTICIPANT TERMINATION OF EMPLOYMENT**

**2017-01-10CA DROP DISTRIBUTIONS**

**A MOTION WAS MADE BY TRUSTEE BROWN TO APPROVE CONSENT AGENDA ITEMS 2017-01(1-10)CA. SECONDED BY TRUSTEE PATSY. VOTE WAS UNANIMOUS.**

**V. EXECUTIVE DIRECTOR'S REPORTS – *Timothy H. Johnson***

- Monthly Status Report

**TIM JOHNSON REFERRED TO HIS EXECUTIVE DIRECTOR REPORT IN THE BOARD BOOK. THE CHART SHOWN IS A CUMULATIVE TALLY OF THE PRODUCTIVITY OF THE STAFF DURING THE MONTH, TO BE APPROVED BY THE BOARD.**

**ALSO UNDER UPDATES, IN THE DAILY E-MAIL'S SENT TO THE COMMITTEES AND BOARD OF TRUSTEES ON THE MARKET VALUE OF ASSETS, WE ARE INCLUDING A LINK TO THE MORNING PULSE, A DAILY SNAPSHOT OF NEWS, ARTICLES, ETC. WHICH ARE INFORMATIVE FOR YOUR CHOICE OF READING.**

**VI. COUNSEL REPORTS**

- Update regarding Keane vs. Board of Trustees – *Steve Durden*

**JOHN KEANE OFFICIALLY SERVED THE BOARD OF TRUSTEES ON JANUARY 5, 2017. AN ANSWER IS DUE BY THE 26<sup>TH</sup>. RITA MAIRS AND LOREE FRENCH WITH OFFICE OF GENERAL COUNCIL ARE THE LAWYERS ASSIGNED TO THE LITIGATION.**

- Lee case update (*Dec & Jan report*) – *Jacob Payne*

**STEVE DURDEN GAVE AN OVERVIEW OF THE LEE PUBLIC RECORDS CASE WITH INFORMATION PROVIDED IN THE UPDATES FROM JACOB PAYNE IN THE BOARD**

**BOOK. SINCE THEN, THE ORIGINAL JUDGE HAS RECUSED HERSELF; A NEW JUDGE HAS BEEN APPOINTED; AND SEVERAL MOTIONS HAVE BEEN FILED. THE PFPF IS NOT A SEPARATE ENTITY.**

**BOB SUGARMAN GAVE A VERBAL REPORT TO THE BOARD. HE ADVISED THAT THE TRANSITION IS RUNNING SMOOTHLY FROM KLAUSNER TO HIS FIRM. BOB HAS BEEN WORKING WITH TIM JOHNSON ON VARIOUS NOVEL ISSUES. THEY ARE ON STANDBY AS A TEAM WITH OFFICE OF GENERAL COUNSEL TO ASSIST US.**

**BOB SUGARMAN WILL HAVE A DROP OPINION FOR THE BOARD WITHIN THE NEXT WEEK. THEY ARE OFF AND RUNNING.**

**WE SKIPPED AHEAD TO OLD BUSINESS AS JARMON WELCH, PENSION BOARD CONSULTANTS, WAS ON THE CONFERENCE LINE TO FURTHER DISCUSS HIS LETTER WRITTEN ON BEHALF OF THE BOARD TO THE DIVISION OF RETIREMENT CONCERNING THE ACTUARIAL VALUATION OF OCTOBER 1, 2016. COPY OF THE DRAFT WAS HANDED OUT TO THE BOARD.**

#### **VIII. OLD BUSINESS**

- Actuarial Valuation as of October 1, 2016

**BASED ON THE DISCUSSION AT THE PREVIOUS SPECIAL MEETING HELD ON JANUARY 18<sup>th</sup>, THERE ARE THREE ARGUMENTS STATED IN JARMON'S LETTER:**

- 1. CONSISTENT WITH PAST PRACTICE PUT IN OVER SEVERAL YEARS.**
- 2. THE STATE IS REQUIRED TO MAKE SURE THE MINIMUM CONTRIBUTION IS PAID INTO THE FUND. SET AT STAGGERED LEVEL. (MAIN ARGUMENT)**
- 3. GOING FORWARD THERE WILL BE PAY INCREASES.**

**JARMON STATED HE ALSO SPOKE TO DOUG WITH THE DIVISION OF RETIREMENT ON THE PHONE AND ADVISED THAT THE BOARD NEEDED TO HAVE PROMPT ACTION. JARMON ASKED HIM TO PLEASE GET BACK TO US IN A FEW WEEKS. JARMON WAS ENCOURAGED BY THE CONVERSATION.**

**DOUG SAID HE WOULD TAKE UNDER ADVISEMENT TO APPROVE STAGGER.**

**IF THE DIVISION OF RETIREMENT OK'S THE RECOMMENDATION, WE HAVE TWO MOTIONS TO BE MADE BY THE BOARD.**

**A MOTION WAS MADE BY TRUSTEE SCHEU TO APPROVE THE ACTUARIAL VALUATION AS OF OCTOBER 1, 2016 AS PRESENTED, BUT SUBJECT TO REVISIONS IF NEEDED,**

**BASED ON REVISIONS PENDING FROM DIVISION OF RETIREMENT AND OTHER SUBSEQUENT REVISIONS. SECONDED BY TRUSTEE BROWN. VOTE WAS UNANIMOUS.**

**A MOTION WAS MADE BY TRUSTEE BROWN TO DRAFT A SHORT LETTER TO THE CITY STATING THAT IN ORDER TO MEET THE JANUARY 31<sup>ST</sup> DEADLINE FOR THE ACTUARIAL VALUATION, WE ARE SUBMITTING SUBJECT TO REVISIONS. SECONDED BY TRUSTEE SCHEU. VOTE WAS UNANIMOUS.**

**DAN HOLMES WAS NOW ON THE LINE TO DISCUSS HIS REPORTS**

**VII. INVESTMENT CONSULTANT REPORTS – *Dan Holmes w Summit***

- Economic & Capital Market Review – December, 2016
- Flash Report – December 31, 2016

**ECONOMIC & CAPITAL MARKET REVIEW AND FLASH REPORT WERE REVIEWED WITH THE BOARD AND QUESTIONS ANSWERED.**

- Neuberger Berman Funding Update

**NEUBERGER BERMAN FUNDING IS COMPLETE**

- Discussion on Loomis Sayles Funding

**PER DAN HOLMES, LOOMIS WILL BE FUNDED NEXT WEEK. ALREADY APPROVED BY THE BOARD. \$35 MILLION FROM BOND, \$74 MILLION TO THOMPSON, SIEGEL & WALMSLEY EQUALS \$109 MILLION. \$1 MILLION TO CASH AND THE REST TO LOOMIS.**

- Review of Capital Market Risk and Opportunities

**TRUSTEE PATSY COMPLIMENTED DAN'S REPORT. IT WAS GREAT! COMPLICATED BUT NOT TOO COMPLICATED.**

**DAN'S REVIEW BY THE NEXT MEETING AND HIS GOALS ARE:**

- 1. BRING MORE MACRO INFORMATION**
- 2. SHORTER PRESENTATIONS**

**AT THE FEBRUARY BOARD OF TRUSTEE MEETING DAN WILL HAVE THE INVESTMENT PERFORMANCE QUARTERLY REPORT.**

**DAN WILL ALSO HAVE A REPORT ON BROWN IN FEBRUARY – AN OVERVIEW OF THEIR PERFORMANCE.**

**DAN STATED AN ACTIVE MANAGER IN LARGE CAP IS DIFFICULT. BROWN IS UNDER PRESSURE. THEY RUN A MORE CONCENTRATED PORTFOLIO. IN THE END THAT'S WHY THEY HAVE BEEN WORSE.**

**THE QUESTION IS, SHOULD THE BOARD CONTINUE WITH REPLACEMENT; GET RID OF BROWN; OR CHOOSE ANOTHER.**

**IX. NEW BUSINESS – Devin Carter / Linda Dufresne**

- DRAFT of 2016 KBLD Audit - *handout*

**PER DEVIN CARTER, LINDA DUFRESNE WITH KBLD WAS UNABLE TO ATTEND THE MEETING TODAY. THE DRAFT OF THE 2016 KBLD AUDIT HAS BEEN DEFERRED WAITING ON INFORMATION REGARDING THE ACTUARIAL VALUATION AND THE KEANE LAWSUIT THAT IS PENDING.**

**WE SHOULD HAVE THE DRAFT OF THE 2016 KBLD AUDIT FOR THE FEBRUARY 17<sup>TH</sup> BOARD OF TRUSTEE MEETING.**

**X. ADJOURNMENT**

**CHAIRMAN TUTEN ADJOURNED THE MEETING AT 10:45AM**

**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.

**TO BE APPROVED AT THE BOARD OF  
TRUSTEE MEETING ON FEBRUARY 17, 2017**

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Richard Patsy, Board Secretary



BAKER GILMOUR CARDIOVASCULAR 3550 UNIVERSITY BLVD STE 302 JACKSONVILLE, FL 32216	\$5,100.00	MEDICALS
KLAUSNER, KAUFMAN, JENSON & LEVINSON 10059 NORTHWEST 1ST COURT PLANTATION, FL 33324	\$14,755.63	#19360
NORTHERN TRUST 50 S LASALLE ST CHICAGO, ILL 60675	\$43,647.99	#01568858 & 01576287
PENSION BOARD CONSULTANTS 195 FOURTEENTH STREET, N.E. SUITE 2307 ATLANTA, GA 30309	\$16,400.00	ACTUARIAL
ACCESS PO BOX 101048 ATLANTA, GA 30392-1048	\$2,699.00	#1800202
J.P. MORGAN PO BOX 27169 NEW YORK, NY 10087	\$290,297.51	INV#20160930-804-A

\$372,900.13

PLEASE PROCESS CHECKS WITHIN 24 HOURS OF RECEIPT

APPROVALS:TIM JOHNSON



DEVIN CARTER



**BOARD OF TRUSTEES MEETING****1/30/2017**

SAWGRASS ASSET MANAGEMENT 1579 GREENS WAY, SUITE 20 JACKSONVILLE BEACH, 32250	\$43,579.21	12/31/2016
ACADIAN ASSET MANAGEMENT LLC DEPARTMENT 100 PO BOX 4106 WOBBURN, MA 01888-4106	\$132,203.00	INV#127037
EAGLE CAPITAL MANAGEMENT 499 PARK AVENUE NEW YORK, NY 10022	\$350,118.91	December 31, 2016
HARVEST FUND ADVISORS 100 WEST LANCASTER AVENUE 2ND FLOOR WAYNE, PA 19087	\$189,543.26	9/30/2016-1231/2016
BROWN ADVISORY 901 SOUTH BOND ST, SUITE 400 BALTIMORE, MD 21231	\$82,721.53	20161231-1510-25420-A
TORTOISE CAPITAL ADVISORS 11550 ASH STREET STE 300 LEAWOOD, KS 66211 WINTER PARK, FL 32789	\$96,833.02	12/31/2016
THOMPSON, SEIGEL & WALMSLEY LLC 6806 PARAGON PLACE, SUITE 300 RICHMOND, VA 23230	\$68,724.35	#3256-20170119
ACCESS PO BOX 101048 ATLANTA, GA 30392-1048	\$9,098.39	#1686595
	<hr/> \$972,821.67	

**PLEASE PROCESS CHECKS WITHIN 24 HOURS OF RECEIPT**

APPROVALS: TIN JOHNSON



DEVIN CARTER



Transactions by Category  
FY04-08AP

1/1/2017 Through 1/31/2017

Num	Date Payee	Category	Amount
Opening Balance as of 1/1/2017			
<b>Expense Categories</b>			
Sales Tax	1/13/2017 FLORIDA DEPT OF REVENUE	Sales Tax	(680.56) ¢ (680.56)
Total Sales Tax			
5402 Member,dues,subs			
9954			
Total 5402 Member,dues,subs	1/17/2017 WALL ST JOURNAL	5402 Member,dues...	(770.41) ¢ (770.41)
5101 Office Supplies			
9963	1/26/2017 OFFICE DEPOT	5101 Office Supplies	(305.24) ¢
9960	1/26/2017 HOLMES STAMP COMPANY	5101 Office Supplies	(20.00) ¢ (325.24)
Total 5101 Office Supplies			
4938b Garage Exp			
9959	1/26/2017 DYNAMIC SECURITY PRO	4938b Garage Exp	0.00 ¢
9952	1/17/2017 SCHINDLER ELEVATOR CORP	4938b Garage Exp	(742.84) ¢ (742.84)
Total 4938b Garage Exp			
4938a Building exp			
9962	1/26/2017 HD SUPPLY FACILITIES MAINTENANCE	4938a Building exp	(1,568.76) ¢
9956	1/17/2017 ISS	4938a Building exp	(200.00) ¢
9955	1/17/2017 PENINSULAR PEST CONTROL SERVICE	4938a Building exp	(300.00) ¢
9952	1/17/2017 SCHINDLER ELEVATOR CORP	4938a Building exp	(1,485.68) ¢ (3,554.44)
Total 4938a Building exp			
4938 Miscellaneous			
9961	1/26/2017 AAA REPORTERS	4938 Miscellaneous	(460.95) ¢
9958	1/26/2017 ORAM DISTRIBUTORS, INC	4938 Miscellaneous	(1,004.00) ¢ (1,464.95)
Total 4938 Miscellaneous			
4603a BMaintenance & Repair			
9959	1/26/2017 DYNAMIC SECURITY PRO	4603a BMaintenanc...	(325.00) ¢
9951	1/17/2017 TRANE COMPANY	4603a BMaintenanc...	(698.25) ¢ (1,023.25)
Total 4603a BMaintenance & Repair			

Transactions by Category  
FY04-08AP

1/1/2017 Through 1/31/2017

	Num	Date Payee	( Category	Amount
4304g Water	9957	1/17/2017 JEA	4304g Water	(33.75) ‡ (33.75)
Total 4304g Water				
4304 Water	9957	1/17/2017 JEA	4304 Water	(606.03) ‡ (606.03)
Total 4304 Water				
4301g Elec	9957	1/17/2017 JEA	4301g Elec	(385.44) ‡ (385.44)
Total 4301g Elec				
4301 Elec	9957	1/17/2017 JEA	4301 Elec	(5,936.41) ‡ (5,936.41)
Total 4301 Elec				
4101 Postage	9953	1/17/2017 FEDERAL EXPRESS	4101 Postage	(220.34) ‡ (220.34)
Total 4101 Postage				
Total Expense Categories				(15,743.66)
Grand Total				(15,743.66) ‡

# *Jax*Pension POLICE AND FIRE PAYROLL REGISTER

PAY DATE 01/13/2017

2017-02-03CA  
attachment

Name	SSN	Marital Status	Tax Exem	Days	Rate	Index	Gross Pay	Tax	Net Pay	Check #
SUMMARY REPORT FOR PAY DATE : 01/13/2017										
REGULAR PENSION GROSS						TOTAL :	5,261,330.57			
REGULAR LUMP SUM						TOTAL :	64,059.86			
REGULAR ROLLOVER						TOTAL :	2,109.09			
REGULAR DROP GROSS						TOTAL :	1,049,103.31			
DROP LUMP SUM						TOTAL :	356,813.72			
DROP ROLLOVER						TOTAL :	135,072.59			
LEAVE LUMP SUM						TOTAL :	0.00			
LEAVE ROLLOVER						TOTAL :	0.00			
GROSS						TOTAL :	6,868,489.14			
WITHHOLDING TAX						TOTAL :	1,025,676.31			
AFTER TAX DEDUCTIONS						TOTAL :	539,994.92			
PRE TAX DEDUCTION						TOTAL :	232,438.75			
NET PAY						TOTAL :	5,070,379.16			
DROP/RLA/REF CHECKS						TOTAL :	464,661.46			
CORRECTED CHECK						TOTAL :	0.00			
RETURN CHECK						TOTAL :	0.00			
NET PAY FOR REGULAR PEN & DROP						TOTAL :	4,605,717.70			
PENSIONERS						COUNT :	2476			

# *Jax*Pension POLICE AND FIRE PAYROLL REGISTER

PAY DATE 01/27/2017

Name	SSN	Marital Status	Tax Exem	Days	Rate	Index	Gross Pay	Tax	Net Pay	Check #
SUMMARY REPORT FOR PAY DATE : 01/27/2017										
REGULAR PENSION GROSS						TOTAL :	5,262,358.18			
REGULAR LUMP SUM						TOTAL :	0.00			
REGULAR ROLLOVER						TOTAL :	0.00			
REGULAR DROP GROSS						TOTAL :	1,048,383.21			
DROP LUMP SUM						TOTAL :	0.00			
DROP ROLLOVER						TOTAL :	30,150.07			
LEAVE LUMP SUM						TOTAL :	0.00			
LEAVE ROLLOVER						TOTAL :	0.00			
GROSS						TOTAL :	6,340,891.46			
WITHHOLDING TAX						TOTAL :	928,227.13			
AFTER TAX DEDUCTIONS						TOTAL :	537,900.19			
PRE TAX DEDUCTION						TOTAL :	244,349.78			
NET PAY						TOTAL :	4,630,414.36			
DROP/RLA/REF CHECKS						TOTAL :	30,150.07			
CORRECTED CHECK						TOTAL :	724.50			
RETURN CHECK						TOTAL :	724.50			
NET PAY FOR REGULAR PEN & DROP						TOTAL :	4,600,264.29			
PENSIONERS						COUNT :	2479			

✕ □ I







Phone: (904) 255-7373  
Fax: (904) 353-8837

**POLICE AND FIRE PENSION FUND**  
**ONE WEST ADAMS STREET, SUITE 100**  
**JACKSONVILLE, FLORIDA 32202-3616**

*"We Serve. . .and We Protect"*

Date: February 10, 2017  
To: PFPF Board of Trustees  
From: Timothy H. Johnson, Executive Director  
RE: Executive Director's Monthly Status Report

**DASHBOARDS**

<b>BENEFITS</b>		
<i>Type</i>	<i>Prior Month</i>	<i>FYTD</i>
Retiree Payroll (\$)	\$ 10,523,688.75	\$ 45,277,321.31
Refunds (\$)	\$ 180,515.19	\$ 1,005,858.30
Refunds (#)	5	47
New Members	40	82
New Medicals	40	115
Disability Applications	0	0
Disability Appeals	0	0
Deaths	2	8
Pension Estimates	57	190
Buyback Applications	6	12
Reclamations (\$)	\$ -	\$ 569.38
Reclamations (#)	0	1
DROP Revocations	0	0

<b>RETIREMENTS</b>		
<i>Type</i>	<i>Prior Month</i>	<i>FYTD</i>
Total	41	109
Full Retirement	0	3
Vested Retirement	1	4
Enter DROP	31	53
Exit DROP	1	35

[Type text]

Disability	0	0
Survivor	8	11
Children	0	3

Retirement Appointments	5	47
DROP Appointments	4	47

### ***PUBLIC RECORD REQUESTS***

<i>Type</i>	<i>Prior Month</i>	<i># FYTD</i>
Requests (#)	4	33
Completed (#)	8	35
Response Pages Produced (#)	1416	1866

### ***RECORDS RETENTION***

<i>Type</i>	<i>Prior Month</i>	<i># FYTD</i>
Access Records Scanned (#)	0	2000
In House Records Scanned (#)	1020	1866

<i>Description</i>	<i>Budget</i>	<i>Actual</i>	<i>\$ Variance</i>	<i>% Variance</i>
Administration	\$ 1,200,069	\$ 318,835	\$ 881,234	73.4%
Operating	\$ 563,237	\$ 150,477	\$ 412,760	73.3%
Professional Services	\$ 9,416,829	\$ 1,130,610	\$ 8,286,219	88.0%
Building	\$ 196,120	\$ 53,405	\$ 142,715	72.8%
Total	\$ 11,376,255	\$ 1,653,327	\$ 9,722,928	85.5%

### **UPDATES**

Payroll Growth Assumption: Pete Strong had a conversation Doug Beckendorf regarding the transition from Pension Board Consultants to GRS for future actuarial services. They also talked about the payroll growth assumption. Pete mentioned the language in Florida Statutes Chapter 112.64(5)(b), and asked if, based on this language, the fund was required to use the 10-year historical payroll growth rate. Mr. Beckendorf said, technically we can use a forward-looking assumption, but it would be the State's preference to use the 10-year historical average. When asked if the State would

[Type text]

approve the recent letter requesting a phase-in of the payroll growth assumption from 3.25% to 0.067% over 3 years, starting with 2.5% as of 10/1/2016; the response was it is a reasonable request that will be considered when everything together (including the valuation report) is reviewed.

Tracey Devine: Legislation (2017-0077) to appoint Tracey Devine to the FIAC was introduced at the January 24th Council meeting. She received her Appointment Packet and is preparing to attend the Rules Committee Meeting on Wednesday, February 22, 2017 at 1:00pm.

Transition of Actuarial Services: A data request has been sent to Jarmon Welch in order to setup the GRS our valuation system and replicate the October 1, 2016 actuarial valuation. The transition process is expected to take 60-90 days. Anticipate an update in the April Directors Report.

Internal Audit: Report #736A, a follow-up to the Police and Fire Pension Fund Audit, was released on February 9, 2017. The report is available, in PDF format, at <http://www.coj.net/City-Council/Council-Auditor/Reports.aspx>

Workshop to discuss Ordinances 300 & 304: There have been recent comments in the media that the City wants to eliminate these payments. Some members of the PFPF Board believe that the commitment to make supplemental payments is between the City and the Board, not the City and the Unions. And, that the commitment to make supplemental payments is required by this law.

Additionally, based on the progress of labor negotiations this past Friday; it may make sense to hold a special workshop to clarify the provisions of both ordinance 304 and the surtax ordinance 300 in advance of the March meeting.

The PFPF board need to understand its authority under the law along with procedures to amend these laws well in advance of any action it may be called to consider.

## **NEWS & EVENTS**

The First Amendment Foundation is pleased to announce it has awarded the **2016 James C. Adkins/Sunshine Litigation Award to Mr. Curtis Lee** of Jacksonville.

Mr. Lee was nominated for the James C. Adkins/Sunshine Litigation Award for his role in Board of Trustees, Jacksonville Police & Fire Pension Fund v. Lee and his continuing commitment to ensuring that Florida government remains open and accessible to its

[Type text]

people. The James C. Adkins/Sunshine Litigation Award was created to recognize the importance and continuing value of Justice Adkins' open government opinions while on the Florida Supreme Court and is given to attorneys or citizens who have made a significant contribution to the cause of furthering open government through litigation.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "T. H. Johnson", with a stylized flourish at the end.

Timothy H. Johnson



# SUGARMAN & SUSSKIND

PROFESSIONAL ASSOCIATION  
ATTORNEYS AT LAW

Robert A. Sugarman ♦  
Howard S. Susskind  
Kenneth R. Harrison, Sr.  
D. Marcus Braswell, Jr.  
Pedro A. Herrera  
Noah Scott Warman ♦  
Ivelisse Berio LeBeau  
Dustin L. Watkins

♦ Board Certified Labor  
& Employment Lawyer

100 Miracle Mile  
Suite 300  
Coral Gables, Florida 33134  
(305) 529-2801  
Broward 327-2878  
Toll Free 1-800-329-2122  
Facsimile (305) 447-8115

## Jacksonville Police and Fire Pension Board

February 17, 2017

### Summary of Legal Opinions

**DROP Monthly Distributions:** The method and procedure for determining the maximum number of months over which a DROP balance may be paid as set forth in the Standard Procedures Manual complies with both the Jacksonville Code and the Internal Revenue Code.

**Mileage Reimbursement for Travel to and From Pension Meetings:** Trustees travelling to and from pension board meetings and other necessary pension fund business in their personal vehicles may be reimbursed for mileage expenses at the IRS rate (currently 53.5 cents per mile) only for those miles that exceed the trustee's scheduled work commuting distance for that day.

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Facsimile (305) 447-8115

♦Board Certified Labor  
& Employment Lawyer

February 6, 2017

Board of Trustees  
City of Jacksonville Police & Fire Pension Fund  
1 West Adams Street, Suite 100  
Jacksonville, FL 32202

*Re: Monthly Distribution Form of DROP Benefits*

Dear Trustees:

You have requested our opinion as to whether the Board's procedures with regard to monthly distribution DROP benefits under Section 121.209(c)(3)(ii)(d) of the City of Jacksonville Code of Ordinances comply with the City Code and Sections 72(t) and 401(a)(9) of the Internal Revenue Code (hereinafter "IRC"). For the reasons, and based upon the understandings set forth below, it is our opinion that the Board's procedures comply with the Code of Ordinances and the aforementioned sections of the IRC.

Section 121.209(c)(3)(ii)(d) of the Code of Ordinances provides:

*Monthly distribution. The account balance shall be distributed in a monthly amount paid biweekly of substantially equal amounts, until the DROP account is depleted, over a stipulated number of bi-weekly periods to be selected by the Participant or the surviving spouse, less withholding taxes remitted to the Internal Revenue Service. Such selection once made, cannot be changed, unless changed to Option (a) or (b), above. For Members with less than 20 years of service as of the effective date of Ordinance 2015-304-E, the annual rate of interest to be factored into the biweekly distributions and credited as the rate earned on the account balance will change each January and shall be the money-weighted rate of return as presented in the plan's most recent audited financial statements as required by Statement 67 of GASB; provided however, that the minimum interest shall be 2.0 percent and the maximum interest shall be 14.4 percent. For Members with 20 or more years of service as of the effective date of Ordinance 2015-304-E, the annual rate of interest to be factored into such distribution period shall be 8.4 percent. Notwithstanding the foregoing, in the event that the*

*Participant selected a payout period over the Participant's life expectancy or over the joint life expectancies of the Participant and the Participant's spouse in order to avoid the application of the ten percent additional tax on early distributions reflected in Section 72(t) of the Internal Revenue Code, such Participant may shorten the number of biweekly payout periods originally selected by the Participant, provided that the timing of such modification conforms to the standards described in Section 72(t)(4) of the Internal Revenue Code.*

In addition, Section 121.209(c)(3)(iii) of the Code provides:

*The form of payment selected by the DROP participant or surviving spouse shall comply with the minimum distribution requirements per Section 401(a)(9) of the Internal Revenue Code.*

A question has arisen as to whether the Code of Ordinances and/or the IRC limit the “stipulated number of bi-weekly periods” over which a DROP member or survivor may choose to receive the payment of DROP benefits, and if so, whether the Board’s procedures are consistent with that limit.

As set forth below, the Code of Ordinances limits the duration of DROP payouts only to the extent required under Section 401(a)(9) of the IRC, and the Board’s procedures are consistent with the applicable limits.

Our opinion is based upon the following understanding of your procedures, and is subject to change if any part of the procedures is not as stated. A member (or surviving spouse in the case of a deceased member) electing to receive monthly distribution of his/her DROP benefits under Section 121.209(c)(3)(ii)(d) of the Code of Ordinances, informs the fund’s pension office of the number of bi-weekly pay periods over which the member or survivor wishes to receive his/her benefit. The pension staff apply the procedures set forth in Section 2(f) of the Jacksonville Police and Fire Pension Fund Standard Procedures Manual (PFPF Standard Procedures Manual) and the flow chart appended to that Section, in order to determine whether the requested number of bi-weekly payments complies with Section 401(a)(9) of the IRC. Furthermore, in the case of a member who will not have attained the age of 50 by the end of the calendar year in which the member separates from service, and who does not wish to pay the 10% tax on early distributions under Section 72(t) of the IRC, the pension staff will determine in accordance with Section 2(f) of the PFPF Standard Procedures Manual whether the requested distribution schedule satisfies the exemption from the tax provided in Section 72(t)(2)(A)(iv) of the Code, or whether any other exemption under Section 72(t) applies. The tables and methodologies that the pension staff use to test the benefit request are those set forth in Section 2(f) of the Jacksonville Police and Fire Pension Fund Standard Procedures Manual. If the requested number of payments is consistent with the applicable tables, the requested distribution schedule is approved. If the requested number of payments is inconsistent with the tables, the



staff so informs the applicant, and a revised amount that is consistent with the tables is agreed upon.

1. The Code of Ordinances

As set forth above, Section 121.209(c)(3)(ii)(d) provides in pertinent part:

*The account balance shall be distributed in a monthly amount paid biweekly of substantially equal amounts, until the DROP account is depleted, over a stipulated number of bi-weekly periods to be selected by the Participant or the surviving spouse*

This section clearly permits the member (or surviving spouse) to choose the number of bi-weekly periods over which he/she wishes to spread the distribution of his benefit, and does not set any limit in that regard.

Section 121.209(c)(3)(iii) (referenced above), however, applies to all forms of DROP payments, and requires that such payments comply with Section 401(a)(9) the IRC.

Accordingly, the member (or surviving spouse) may choose to receive his/her benefits over any number of bi-weekly periods, so long as that duration is consistent with Section 401(a)(9).

Since, as discussed further below, the pension staff test all benefit requests under Section 121.209(c)(3)(ii)(d) for compliance with Section 401(a)(9) of the IRC, it is our opinion that your procedures comply with the relevant provisions of the Code of Ordinances.

2. How does the Internal Revenue Code impact the number of payments ? Sections 72(t) and 401(a)(9).

a. §72(t)

Section 72(t) IRC imposes a 10% tax on early distributions (payments) from qualified plans. The Section does not define the term “early distributions,” but enumerates several exceptions to the tax, generally related to the age of the recipient. Among those exceptions, two are relevant here.

Section 72(t)(10) provides an exception for payments to qualified public safety employees in governmental plans, who separate from service after attainment of age 50. Subparagraph 10(B)(1) defines qualified public safety employees as, “*Any employee of a State or political subdivision of a State who provides police protection, firefighting services...for any area within the jurisdiction of such State or political subdivision.*” Generally, under that provision, any payment from the DROP to a participant of the plan who separates from service for the City after age 50 is exempt from the early distribution tax.

Section 72(t)(2)(A)(iv) also provides an exemption for payments that are part of a series of substantially equal periodic payments made for the life of the employee or the joint lives of the employee and his/her designated beneficiary. Internal Revenue Service Revenue Ruling 2002-62 provides guidance for determining whether a distribution qualifies as a series of substantially equal periodic payments. In particular, Revenue Ruling 2002-62 sets forth three methods for calculating substantially equal payments, and designates three life expectancy tables that can be used for determining the life expectancy of the employee and the joint life expectancies of the employee and his/her designated beneficiary.

We understand that the pension staff use the Required Minimum Distribution Method that is approved in Revenue Ruling 2002-62 for calculating substantially equal payments.

With regard to the life expectancy tables, we understand, in accordance with Section 2(f) of the PFPF Standard Procedures Manual, that unmarried members are permitted to choose the result obtained using either the uniform lifetime table in Appendix A of Revenue Ruling 2002-62 or the single life expectancy table in Section 1.401(a)(9)-9, Q&A-1 of the Treasury Regulations. Married members are permitted to choose the result obtained using either of the aforementioned tables, or the joint life and last survivor table in 1.401(a)(9)-9, Q&A-3.

Revenue Procedure 2002-62 specifically approves the use of the foregoing tables.

Because the calculation method and expectancy tables used by the pension staff are those provided in IRS Revenue Ruling 2002-62, your procedures for determining whether a requested benefit payment qualifies as a “series of substantially equal periodic payments made for the life of the employee or the joint lives of the employee and his/her designated beneficiary” comply with IRS guidance with regard to Section 72(t).

b. §401(a)(9)

Section 401(a)(9) IRC limits the number of years over which a benefit may be distributed. Generally, with regard to distributions that commence during the lifetime of the participant, Section 1.401(a)(9)-2, Q&A-1 of the treasury regulations provides as follows:

*In order to satisfy section 401(a)(9)(A), the entire interest of each employee must be distributed to such employee not later than the **required beginning date**, or must be distributed, beginning not later than the required beginning date, over the life of the employee or joint lives of the employee and a designated beneficiary or over a period not extending beyond the life*

expectancy of the employee or the joint life and last survivor  
expectancy of the employee and the designated beneficiary.

“Required beginning date” is defined in Section 401(a)(9) as April 1 of the calendar year following the later of the calendar year in which the employee attains age 70 ½ or the calendar year in which the employee retires from employment with the employer maintaining the plan. Under Section 1.401(a)(9)-2, Q&A-4 of the treasury regulations, distributions that occur before a participant’s required beginning date are not required to comply with the minimum distribution rules under Section 401(a)(9).

Under 1.401(a)(9)-5, Q&A-1, if an employee’s benefit is in the form of an individual account, the minimum amount required to be distributed in any applicable calendar year is determined by dividing the account balance by the “applicable distribution period,” the latter of which is based upon life expectancy.

Section 1.401(a)(9)-5, Q&A-4 specifies the life expectancy tables that are to be used in the determination of the applicable distribution period.

In the case of an unmarried participant (or a married participant whose spouse is not the sole beneficiary), the required table is the Uniform Lifetime Table in A-2 of Section 1.401(a)(9)-9 of the treasury regulations. According to Section 2(f) of the PFPF Standard Procedures Manual and the flow chart appended to that Section, that is the table that the pension staff use in such instances.

With regard to a married participant whose spouse is the sole designated beneficiary, the applicable tables are the Uniform Lifetime Table referenced above and the joint life table in A-3 Section 1.401(a)(9)-9, depending upon the difference in age between the participant and the spouse. According to Section 2(f) of the PFPF Standard Procedures Manual and the flow chart appended to that Section, those are the tables that the pension staff use in the case of a married participant whose spouse is the sole beneficiary.

Since you have informed us that the pension staff use the life expectancy tables that are provided in the regulations, it is our opinion that your procedures comply with Section 401(a)(9) IRC.

### **Conclusion**

For all of the foregoing reasons, and based upon your Standard Procedures Manual and our above understandings, it is our opinion:

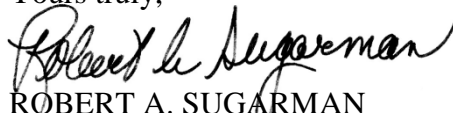
- 1) That the Board’s procedures with regard to the implementation of the monthly payment DROP benefit under Code Section 121.209(c)(3)(ii)(d) comply with the Code of Ordinances;

- 2) That the Board's procedures with regard to the implementation of the monthly distribution of DROP benefits under Code Section 121.209(c)(3)(ii)(d) comply with Sections 72(t) and 401(a)(9) of the IRC.

This opinion relates only to the procedures of the Board as communicated to us. We have not undertaken to review or confirm any DROP benefit payments under the plan, since that is beyond both your query to us and our expertise. Therefore no opinion is rendered as to the conformity of any individual benefit calculations or payment periods.

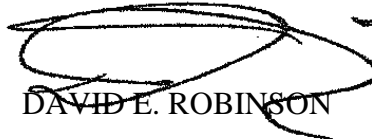
We look forward to discussing this matter with you during your next meeting.

Yours truly,



ROBERT A. SUGARMAN

Board Certified Labor & Employment Lawyer



DAVID E. ROBINSON



**EXECUTIVE SUMMARY**

- The fourth quarter of 2016 was marked by the election of Donald Trump as the 45<sup>th</sup> President of the United States and the Federal Reserve's decision to increase short-term rates by 25 bps.
- Capital Market reactions to the election were generally consistent with the President's proposed economic and trade policies.
  - Domestic equities rallied with the S&P 500 gaining 3.8% in the quarter and the Russell 2000 gaining 8.8%.
  - International equities sold off with MSCI EAFE returning -0.7% and MSCI Emerging Markets returning -4.2%
  - The US Dollar reached its highest level since 2002 and remains overvalued relative to the majority of other currencies.
- The Fed's rate hike was anticipated by the financial markets but bond yields rose on increased inflation expectations and expectations of faster tightening by the Fed in 2017.
  - The Bloomberg Barclays Aggregate index returned -3.0% for the quarter, with corporate bonds outperforming Treasuries.
- Nonetheless, calendar year 2016 returns remained strong for growth-oriented assets.
- The Pension Fund returned 1.1% for the quarter (fiscal year-to-date) and ranked in the 35<sup>th</sup> percentile of the Public Plan Performance Universe.
- For the calendar year, the Pension Fund returned 8.45% (gross of fees) and 8.0% (net of fees). For the year, the Fund ranked in the top quartile (21<sup>st</sup> percentile) of the Universe.
- Longer-term performance rankings remain above median with a 29<sup>th</sup> percentile and 37<sup>th</sup> percentile rank over the trailing 5 and 10 years respectively.
- Positive drivers of performance on an absolute basis included: Energy MLPs (18.2%), emerging market equity (13.9%), domestic equity (11.1%) and real estate (8.8%).
- The only negative drag on absolute performance for the year was Brown with a -2.3% return.
- Contributors to relative performance for the year included: fixed income (due to credit exposure) and international equities (all managers outperformed benchmarks).
- Relative performance for the year was hindered by domestic equities (Eagle, Brown and Pinnacle each significantly underperformed) and MLPs (underperformance by both managers due to quality bias).
- Portfolio characteristics and style mapping remain consistent with expectations for the asset class composites and managers.
- Other notes: Brown had a 4.9% weight to cash at quarter end.



***Summit Strategies Group***

*8182 Maryland Avenue, 6th Floor*

*St. Louis, Missouri 63105*

*314.727.7211*

**Monthly Economic & Capital Market Update**

*January 2017*

# Economic Perspective

January 31, 2017

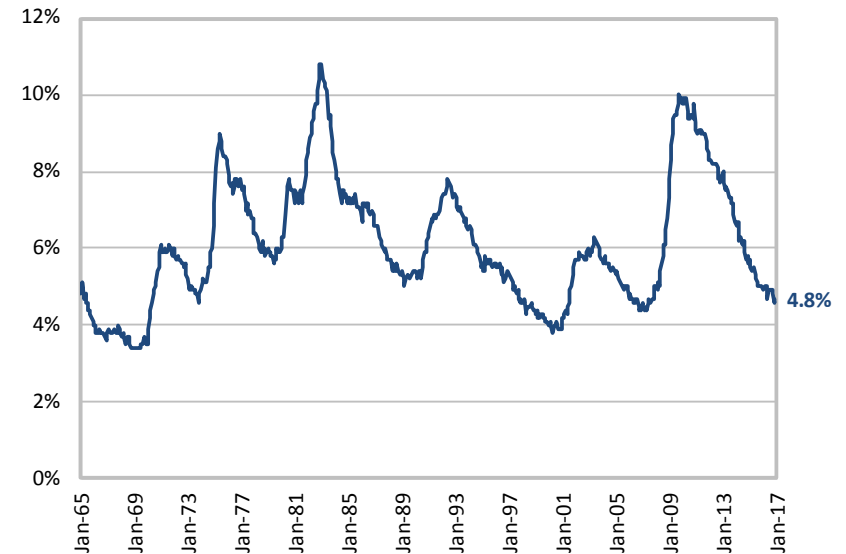
## Economy

- From the election of Donald Trump in November to his inauguration in January, surveys of future economic conditions showed significantly increased expectations for global demand. Consumers and businesses alike have showed more economic optimism, which helped boost equity markets to begin 2017. While expectations have increased, actual economic data has been mostly in line with the slow, steady growth trajectory of economies over the past several years. A theme worth following in coming months and quarters will be to see if actual economic activity matches the increase in expectations since the election.
- The US economy experienced positive job growth for the 76th consecutive month in January as employers added 227,000 jobs during the month. January's strong figure exceeded market expectations by nearly 50,000 jobs and represented a 45% increase from December's figure of 156,000 jobs. The unemployment rate rose slightly to 4.8% from December's 4.7%, and the labor force participation rate was unchanged at 62.9%; the most concentrated job gains occurred in retail trade, construction, and financial activities. Wages, as measured by average hourly earnings of private sector workers, increased 0.1% for the month and 2.5% year-over-year. Payrolls from November and December were revised downward by 39,000 total jobs.
- Real GDP grew at a 1.9% annual rate during the fourth quarter, according to the first estimate released by the Bureau of Economic Analysis. The 1.9% GDP growth overall for the US economy in 2016 matches 2015's growth rate and remains well below historical levels. The fourth quarter figure, which will be revised twice in coming months, reflected lower exports and consumer spending than the previous quarter. GDP growth during the third quarter was 3.5%.
- January marked the 85th consecutive month of expansion in the US services sector. The ISM non-manufacturing Purchasing Managers Index (PMI) came in at 56.5, slightly below last month's record high of 57.2. A reading over 50.0 indicates expansion in the services sector.

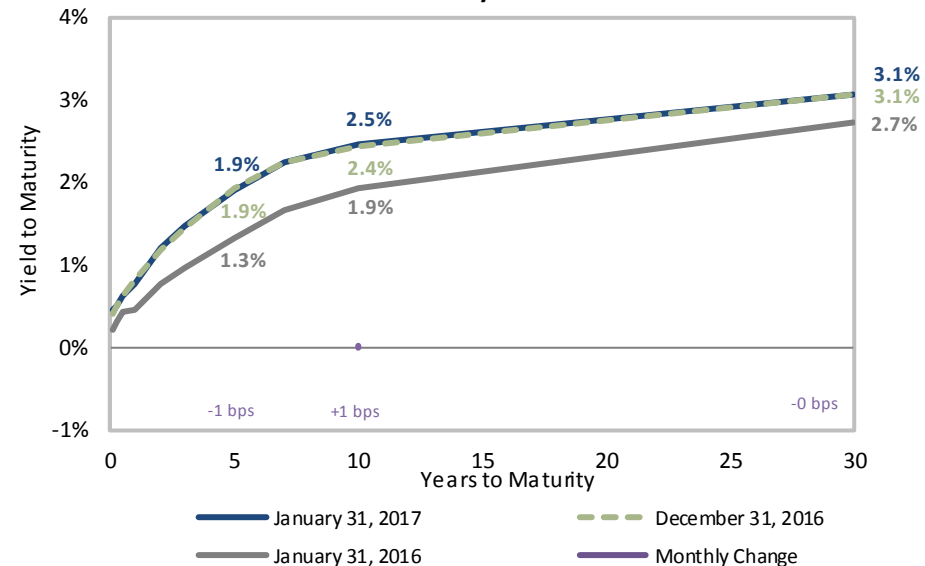
## Yield Curve

- The spread between 2-year and 30-year Treasuries contracted 2 bps to 186 bps in January. Over the past 30 years the spread between the 2- and 30-year Treasuries has averaged 167 bps.

### Unemployment Rate



### Treasury Yield Curve





# Growth Assets

January 31, 2017

## Public Equities

- Global equity markets were broadly positive in January despite intra-month volatility. The S&P 500 gained 1.9%, outpacing domestic small cap stocks, as the Russell 2000 gained 0.4%. International markets outperformed domestic with developed large cap equities gaining 2.9% and developed small cap equities rising 3.5%. Emerging markets posted the strongest returns, gaining 5.5% as the dollar declined.
- Master limited partnerships (MLPs) returned 4.9% in January. Positive returns were posted across almost all sectors, with shipping leading outperformance at 11.0%. MLPs have gained 38.9% year-to-date, with energy services being the best performer at 118.7%. Positive performance for the month can be attributed to reduction in oil reserves and potential energy policies from the new administration.

## Public Debt

- The Bloomberg Barclays High Yield Index returned 1.5% for the month of January as spreads tightened 21 bps, driving the strong performance for the month.
- Local currency-denominated emerging market debt returned 2.3% during January as the asset class continued to rebound after its 7.0% initial decline following the election.

## Private Equity

- The private equity environment proved to be robust in 2016, with over 800 funds closing globally for a total of \$345 billion. This marks the fourth consecutive year of fundraising totals exceeding \$300 billion, which remains below the nearly \$400 billion raised in both 2007 and 2008. Purchase price multiples for larger deals, as measured by S&P Leveraged Commentary and Data (S&P LCD), remain steady from 2015, while multiples in the middle market have declined by 10%. Manager sentiment suggests that the lower multiples in the middle market demonstrate that managers remain disciplined on pricing, resulting in fewer deals being completed.

## Private Debt

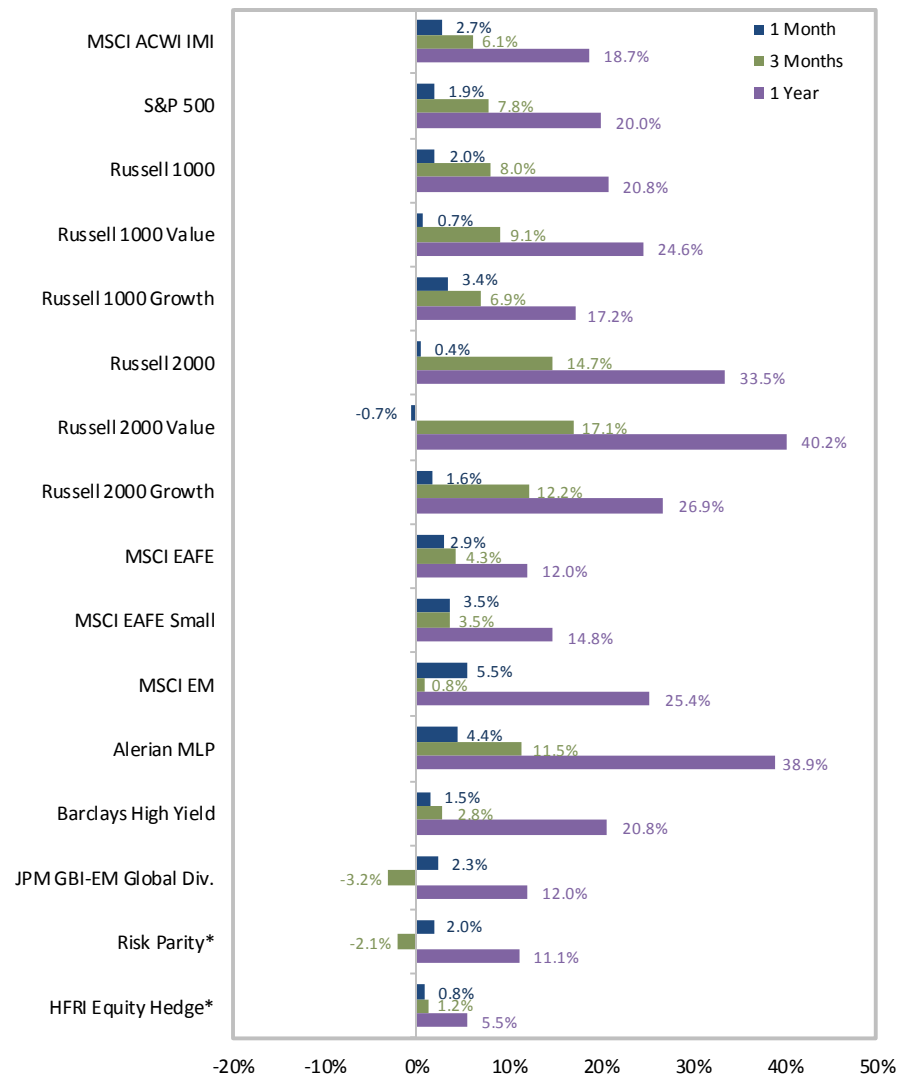
- In 2016, private debt saw 119 funds close for a combined total of \$74 billion, below the 2015 value of \$96 billion. According to Preqin, 2016 had the lowest number of fund closures since 2013, as the pace of fundraising has slowed to an average of 20 months, up from a 16-month average in 2015. Fundraising pace has slowed as capital is becoming increasingly concentrated among a small group of fund managers.

## Risk Parity

- Risk Parity strategies gained in December, with gains distributed across most asset classes.

## Growth Hedge Funds

- Growth hedge funds contributed in December, with the largest gains coming from distressed and activist strategies. Merger arbitrage and other event-driven strategies were also positive. Long/short equity funds also posted gains, especially quantitative strategies and fundamental value-driven programs.



\* Data was not available at time of publication – returns are previous month's.  
Note: Risk Parity returns are based on an internally comprised benchmark.  
All returns are USD.

## Income Assets

January 31, 2017

### Public Debt

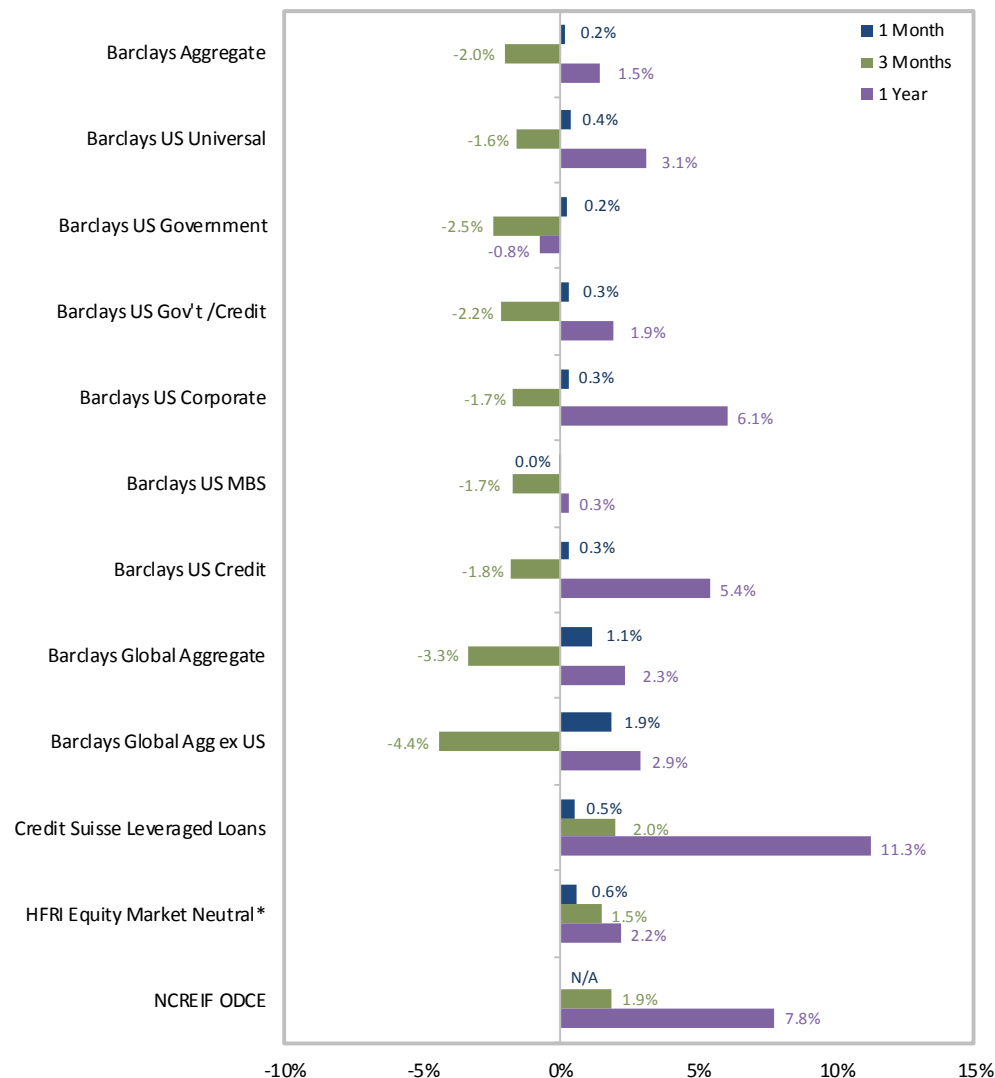
- The 10-year US Treasury yield traded within a 15 basis point band during the month before ending January at 2.4%, unchanged from the end of December.
- After the spread volatility observed to end 2016, January was a relatively calm month for core fixed income with OAS changing only one basis point during the month.
- The duration of the broad index remained stable during the month, as extensions in the securitized sector were offset by decreasing duration of the Treasury sector.
- International bonds posted a return of 1.9% during January, with gains on currency of 2.8% overwhelming a 1.1% price decline.
- Bank Loans returned 0.5% during the month of January, which is consistent with coupon-like returns for the month. A wave of refinancings within the asset class has offset the principal gains of some lower-rated issues, leaving the average price of loans in the index constant.

### Relative Value Hedge Funds

- Relative value hedge funds outperformed in December, with long/short credit strategies and fixed income arbitrage being the strongest performers. Volatility arbitrage, asset-backed paper strategies, and equity market neutral programs were all positive as well.

### Core Real Estate

- The fourth quarter return for the NCREIF ODCE Index was 2.1% gross and 1.8% net, with the majority of gains coming from income rather than price appreciation. Continued progress in the labor market and economic recovery have acted as a tailwind for real estate performance, with the asset class turning in a strong gain of 7.7% in 2016. As capitalization rates have decreased in recent years, so have core real estate returns; 2016's return was the lowest since 2009 for the asset class.



\* Data was not available at time of publication – returns are previous month's.  
Note: All returns are USD.

# Diversification Assets

January 31, 2017

## Inflation

- Inflation expectations continued to increase during January, ending the month with 10-year breakeven inflation expectations above 2.0%.

## Deflation

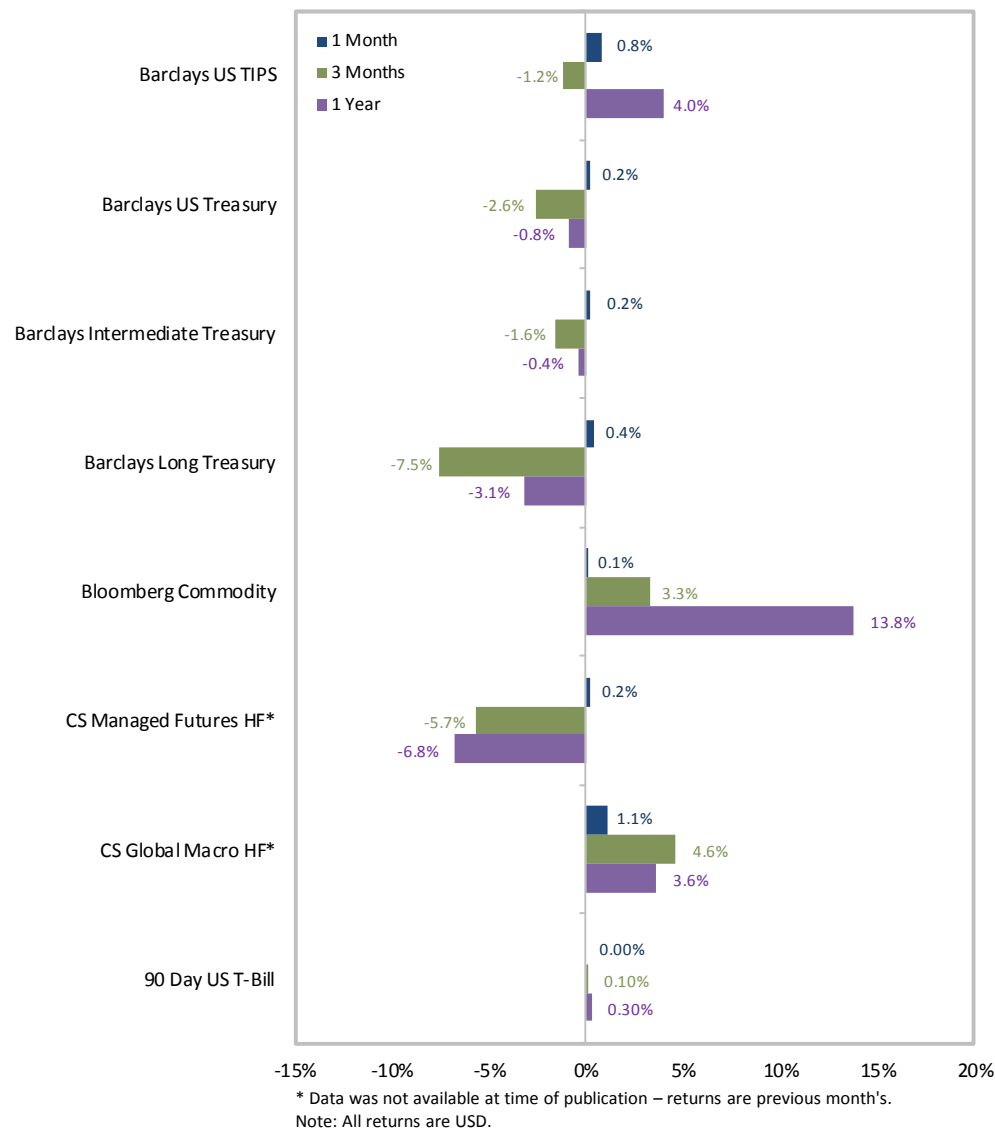
- The Bloomberg Barclays Long Treasury Index returned 0.4% for the month, 12 basis points of which can be attributed to price return. January was the first month to observe a positive price return for the Long Treasury index since July of 2016.
- Cash continues to offer no relative return, as 90-day T-bills were flat for the month and returned 0.3% for the one-year period.

## Commodities

- The Bloomberg Commodity Index returned 0.1% for the month of January. The largest detractor from performance was energy, with natural gas declining 16.3% for the month. Zinc and silver produced the highest returns of 11.3% and 9.7%, respectively. Year-to-date, the index remains positive at 13.8% with zinc and Brent Crude Oil being the largest contributors to performance.

## Tactical Trading

- Tactical Trading strategies gained in December. Discretionary global macro strategies led performance, while CTAs were also positive.



## DISCLOSURES

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***Summit Strategies Group***

*8182 Maryland Avenue, 6th Floor*

*St. Louis, Missouri 63105*

*314.727.7211*

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

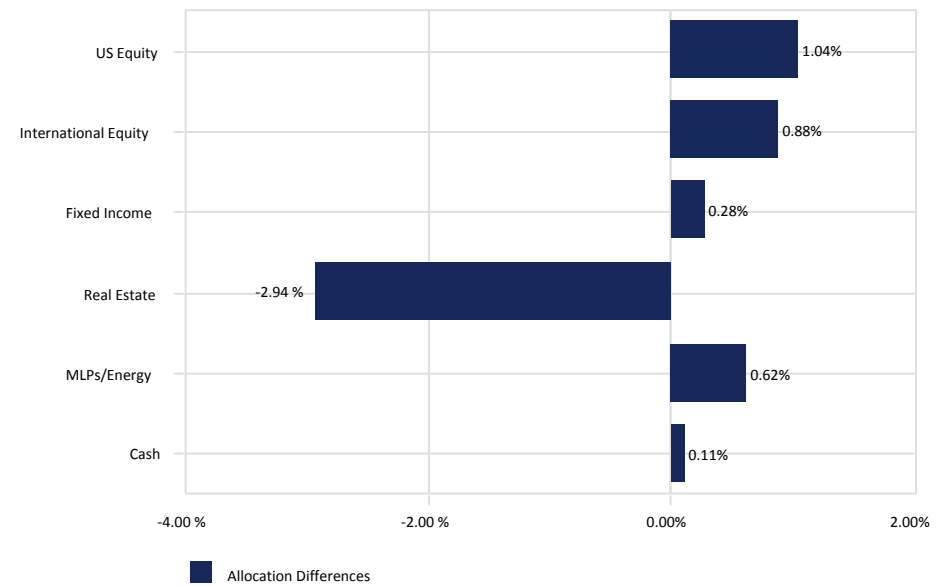
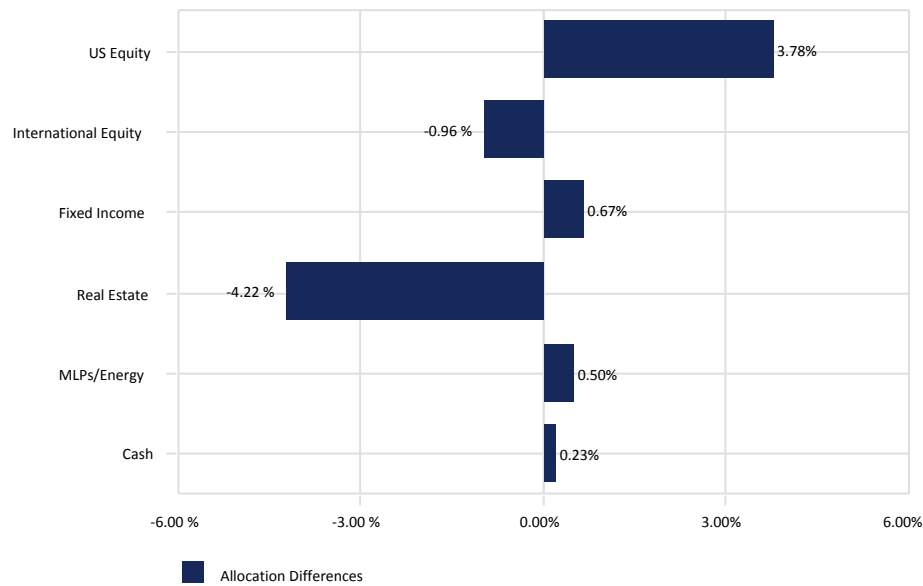
Flash Report

**January 31, 2017**

# City of Jacksonville Police & Fire Pension Fund

## Asset Allocation vs. Target Allocation

January 31, 2017



January 31, 2017

	<u>Market Value</u> <u>(\$)</u>	<u>Allocation</u> <u>(%)</u>	<u>Target</u> <u>(%)</u>
US Equity	772,279,339	42.78	39.00
International Equity	343,745,162	19.04	20.00
Fixed Income	382,195,271	21.17	20.50
Real Estate	194,507,164	10.78	15.00
MLPs/Energy	108,286,341	6.00	5.50
Cash	4,144,128	0.23	0.00
Total Fund	1,805,157,406	100.00	100.00

October 31, 2016

	<u>Market Value</u> <u>(\$)</u>	<u>Allocation</u> <u>(%)</u>	<u>Target</u> <u>(%)</u>
US Equity	633,110,577	40.04	39.00
International Equity	330,137,126	20.88	20.00
Fixed Income	328,586,978	20.78	20.50
Real Estate	190,772,314	12.06	15.00
MLPs/Energy	96,824,223	6.12	5.50
Cash	1,799,587	0.11	0.00
Total Fund	1,581,230,805	100.00	100.00

## City of Jacksonville Police & Fire Pension Fund

Asset Allocation & Performance Gross of Fees

January 31, 2017

	Asset \$	Asset %	Performance(%)							
			1 Month	3 Month	CYTD	FYTD	1 Year	3 Year	5 Year	10 Year
Total Fund Composite	1,805,157,406	100.00	2.49	4.78	2.49	3.61	16.38	6.04	8.72	5.74
<i>Total Fund Policy</i>			<i>1.68</i>	<i>4.62</i>	<i>1.68</i>	<i>3.00</i>	<i>15.50</i>	<i>6.06</i>	<i>8.55</i>	<i>5.22</i>
Excess Return			0.81	0.16	0.81	0.61	0.88	-0.02	0.17	0.52
Total Equity	1,116,024,501	61.82	3.45	6.73	3.45	5.31	21.00	6.57	10.47	-
US Equity	772,279,339	42.78	2.49	8.21	2.49	6.62	21.68	8.68	12.86	7.27
<i>US Equity Index</i>			<i>1.88</i>	<i>8.52</i>	<i>1.88</i>	<i>6.17</i>	<i>21.73</i>	<i>10.28</i>	<i>13.97</i>	<i>7.16</i>
Excess Return			0.61	-0.31	0.61	0.45	-0.05	-1.60	-1.11	0.11
International Equity	343,745,162	19.04	5.68	4.16	5.68	3.05	19.76	2.58	5.70	1.13
<i>International Equity Index</i>			<i>3.55</i>	<i>3.79</i>	<i>3.55</i>	<i>2.31</i>	<i>16.67</i>	<i>1.38</i>	<i>4.83</i>	<i>1.05</i>
Excess Return			2.13	0.37	2.13	0.74	3.09	1.20	0.87	0.08
Fixed Income	382,195,271	21.17	0.39	-1.03	0.39	-1.47	3.74	3.03	2.42	4.51
<i>Blmbg. Barc. U.S. Aggregate</i>			<i>0.20</i>	<i>-2.04</i>	<i>0.20</i>	<i>-2.79</i>	<i>1.45</i>	<i>2.59</i>	<i>2.09</i>	<i>4.37</i>
Excess Return			0.19	1.01	0.19	1.32	2.29	0.44	0.33	0.14
Real Estate	194,507,164	10.78	0.34	1.97	0.34	2.63	8.40	11.70	12.63	7.67
<i>NCREIF Fund Index - ODCE (VW) [M]</i>			<i>0.00</i>	<i>2.11</i>	<i>0.00</i>	<i>2.11</i>	<i>8.77</i>	<i>12.07</i>	<i>12.21</i>	<i>5.82</i>
Excess Return			0.34	-0.14	0.34	0.52	-0.37	-0.37	0.42	1.85
<i>NCREIF Property Index</i>			<i>0.00</i>	<i>1.73</i>	<i>0.00</i>	<i>1.73</i>	<i>7.97</i>	<i>11.02</i>	<i>10.92</i>	<i>6.93</i>
MLPs/Energy	108,286,341	6.00	4.14	11.84	4.14	6.61	40.61	0.40	8.60	-
<i>S&amp;P MLP Index</i>			<i>3.64</i>	<i>12.41</i>	<i>3.64</i>	<i>7.08</i>	<i>44.36</i>	<i>-4.28</i>	<i>3.41</i>	<i>-</i>
Excess Return			0.50	-0.57	0.50	-0.47	-3.75	4.68	5.19	-
Cash	4,144,128	0.23	0.58	0.67	0.58	0.73	0.94	0.86	0.84	2.50

## City of Jacksonville Police & Fire Pension Fund

Asset Allocation & Performance Gross of Fees

January 31, 2017

			Performance(%)								Since Inception	Inception Date
	Asset \$	Asset %	1 Month	3 Month	CYTD	FYTD	1 Year	3 Year	5 Year	10 Year		
<b>US Equity</b>												
NT S&P 500 Index Fund	260,450,087	14.43	1.90	7.76	1.90	5.80	20.08	10.92	14.13	7.00	5.46	Jan-1999
<i>S&amp;P 500</i>			1.90	7.76	1.90	5.79	20.04	10.85	14.09	6.99	5.45	
Excess Return			0.00	0.00	0.00	0.01	0.04	0.07	0.04	0.01	0.01	
Eagle Capital Management	191,182,241	10.59	2.82	9.50	2.82	10.11	22.09	10.91	15.36	-	13.43	Apr-2011
<i>Russell 1000 Value Index</i>			0.71	9.13	0.71	7.44	24.62	10.16	14.11	-	11.57	
Excess Return			2.11	0.37	2.11	2.67	-2.53	0.75	1.25	-	1.86	
Brown Investment Advisory	85,423,358	4.73	4.58	1.36	4.58	-0.17	9.77	6.51	-	-	6.74	Nov-2013
<i>Russell 1000 Growth Index</i>			3.37	6.93	3.37	4.42	17.23	10.82	-	-	10.87	
Excess Return			1.21	-5.57	1.21	-4.59	-7.46	-4.31	-	-	-4.13	
Sawgrass Asset Management	90,350,063	5.01	1.79	6.33	1.79	3.32	11.92	9.03	-	-	9.78	Nov-2013
<i>Russell 1000 Growth Index</i>			3.37	6.93	3.37	4.42	17.23	10.82	-	-	10.87	
Excess Return			-1.58	-0.60	-1.58	-1.10	-5.31	-1.79	-	-	-1.09	
Wedge Capital Mgmt	73,681,621	4.08	0.52	14.90	0.52	12.37	-	-	-	-	12.57	Sep-2016
<i>Russell 2000 Value Index</i>			-0.71	17.11	-0.71	13.26	-	-	-	-	14.15	
Excess Return			1.23	-2.21	1.23	-0.89	-	-	-	-	-1.58	
Pinnacle	71,191,968	3.94	4.31	13.91	4.31	7.83	23.82	7.33	13.55	-	21.32	Mar-2009
<i>Russell 2500 Growth Index</i>			2.37	10.81	2.37	5.03	24.65	6.95	12.73	-	19.52	
Excess Return			1.94	3.10	1.94	2.80	-0.83	0.38	0.82	-	1.80	
<b>International Equity</b>												
NT EAFE Index Fund	77,348,687	4.28	2.90	4.37	2.90	2.30	12.58	1.05	-	-	5.45	Apr-2012
<i>MSCI EAFE Index (Net)</i>			2.90	4.30	2.90	2.17	12.03	0.71	-	-	5.13	
Excess Return			0.00	0.07	0.00	0.13	0.55	0.34	-	-	0.32	
Baillie Gifford	98,704,620	5.47	8.06	4.08	8.06	0.75	21.27	1.85	7.56	-	5.04	Mar-2011
<i>MSCI EAFE Growth Index (Net)</i>			3.37	2.05	3.37	-2.34	7.03	1.44	6.25	-	3.31	
Excess Return			4.69	2.03	4.69	3.09	14.24	0.41	1.31	-	1.73	
Silchester	68,028,823	3.77	3.71	5.68	3.71	6.35	18.91	5.56	-	-	7.41	Sep-2013
<i>MSCI EAFE Value Index (Net)</i>			2.46	6.49	2.46	6.74	17.14	-0.14	-	-	2.83	
Excess Return			1.25	-0.81	1.25	-0.39	1.77	5.70	-	-	4.58	
Acadian Emerging Mkts Equity II Fund	99,663,032	5.52	6.97	3.10	6.97	4.06	30.07	2.79	-	-	0.92	Jan-2014
<i>MSCI Emerging Markets (Net)</i>			5.47	0.84	5.47	1.08	25.41	1.44	-	-	-0.79	
Excess Return			1.50	2.26	1.50	2.98	4.66	1.35	-	-	1.71	



## City of Jacksonville Police & Fire Pension Fund

Asset Allocation & Performance Gross of Fees

January 31, 2017

	Performance(%)											
	Asset \$	Asset %	1 Month	3 Month	CYTD	FYTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date
Fixed Income												
NTGI Aggregate Bond Index	25,985,453	1.44	0.23	-2.06	0.23	-2.83	1.44	2.63	-	-	1.96	Feb-2013
Blmbg. Barc. U.S. Aggregate			0.20	-2.04	0.20	-2.79	1.45	2.59	-	-	1.97	
Excess Return			0.03	-0.02	0.03	-0.04	-0.01	0.04	-	-	-0.01	
Neuberger Berman	161,398,904	8.94	0.70	-	0.70	-	-	-	-	-	0.70	Jan-2017
Blmbg. Barc. U.S. Aggregate			0.20	-	0.20	-	-	-	-	-	0.20	
Excess Return			0.50	-	0.50	-	-	-	-	-	0.50	
Loomis, Sayles & Company	108,000,000	5.98										
Thompson Siegel Fixed	86,692,501	4.80	0.24	-1.19	0.24	-1.71	3.59	3.32	3.25	5.10	6.22	Aug-1991
Thompson Policy Index			0.20	-2.04	0.20	-2.79	1.45	2.59	2.09	4.31	5.95	
Excess Return			0.04	0.85	0.04	1.08	2.14	0.73	1.16	0.79	0.27	
Eaton Vance Instl Senior Loan Trust	118,413	0.01										
Real Estate												
JP Morgan	147,919,976	8.19	0.34	1.90	0.34	2.51	7.95	11.37	12.49	6.44	8.27	Apr-2005
NCREIF Fund Index - ODCE (VW) [M]			0.00	2.11	0.00	2.11	8.77	12.07	12.21	5.82	7.60	
Excess Return			0.34	-0.21	0.34	0.40	-0.82	-0.70	0.28	0.62	0.67	
Principal Global Investments	46,587,189	2.58	0.32	2.29	0.32	3.08	9.89	12.80	-	-	13.08	Apr-2013
NCREIF Fund Index - ODCE (VW) [M]			0.00	2.11	0.00	2.11	8.77	12.07	-	-	12.33	
Excess Return			0.32	0.18	0.32	0.97	1.12	0.73	-	-	0.75	
MLPs/Energy												
Harvest MLP	54,265,712	3.01	3.68	11.28	3.68	5.47	41.24	0.22	8.47	-	10.66	Mar-2011
S&P MLP Index			3.64	12.41	3.64	7.08	44.36	-4.28	3.41	-	4.39	
Excess Return			0.04	-1.13	0.04	-1.61	-3.12	4.50	5.06	-	6.27	
Tortoise MLP	54,020,629	2.99	4.60	12.41	4.60	7.77	39.99	0.46	8.67	-	10.35	Mar-2011
S&P MLP Index			3.64	12.41	3.64	7.08	44.36	-4.28	3.41	-	4.39	
Excess Return			0.96	0.00	0.96	0.69	-4.37	4.74	5.26	-	5.96	
Cash	4,144,128	0.23	0.58	0.67	0.58	0.73	0.94	0.86	0.84	2.50	8.40	Dec-1998

## City of Jacksonville Police & Fire Pension Fund

Asset Allocation & Performance Net of Fees

January 31, 2017

	Asset \$	Asset %	Performance(%)							
			1 Month	3 Month	CYTD	FYTD	1 Year	3 Year	5 Year	10 Year
Total Fund Composite	1,805,157,406	100.00	2.47	4.70	2.47	3.52	15.92	5.56	8.22	5.39
<i>Total Fund Policy</i>			<i>1.68</i>	<i>4.62</i>	<i>1.68</i>	<i>3.00</i>	<i>15.50</i>	<i>6.06</i>	<i>8.55</i>	<i>5.22</i>
Excess Return			0.79	0.08	0.79	0.52	0.42	-0.50	-0.33	0.17
Total Equity	1,116,024,501	61.82	3.45	6.64	3.45	5.22	20.50	6.09	9.96	-
US Equity	772,279,339	42.78	2.49	8.10	2.49	6.51	21.13	8.15	12.29	6.90
<i>US Equity Index</i>			<i>1.88</i>	<i>8.52</i>	<i>1.88</i>	<i>6.17</i>	<i>21.73</i>	<i>10.28</i>	<i>13.97</i>	<i>7.16</i>
Excess Return			0.61	-0.42	0.61	0.34	-0.60	-2.13	-1.68	-0.26
International Equity	343,745,162	19.04	5.67	4.12	5.67	3.00	19.33	2.19	5.31	0.77
<i>International Equity Index</i>			<i>3.55</i>	<i>3.79</i>	<i>3.55</i>	<i>2.31</i>	<i>16.67</i>	<i>1.38</i>	<i>4.83</i>	<i>1.05</i>
Excess Return			2.12	0.33	2.12	0.69	2.66	0.81	0.48	-0.28
Fixed Income	382,195,271	21.17	0.39	-1.06	0.39	-1.50	3.62	2.89	2.26	4.39
<i>Blmbg. Barc. U.S. Aggregate</i>			<i>0.20</i>	<i>-2.04</i>	<i>0.20</i>	<i>-2.79</i>	<i>1.45</i>	<i>2.59</i>	<i>2.09</i>	<i>4.37</i>
Excess Return			0.19	0.98	0.19	1.29	2.17	0.30	0.17	0.02
Real Estate	194,507,164	10.78	0.19	1.81	0.19	2.44	7.68	10.69	11.57	6.98
<i>NCREIF Fund Index - ODCE (VW) [M]</i>			<i>0.00</i>	<i>2.11</i>	<i>0.00</i>	<i>2.11</i>	<i>8.77</i>	<i>12.07</i>	<i>12.21</i>	<i>5.82</i>
Excess Return			0.19	-0.30	0.19	0.33	-1.09	-1.38	-0.64	1.16
<i>NCREIF Property Index</i>			<i>0.00</i>	<i>1.73</i>	<i>0.00</i>	<i>1.73</i>	<i>7.97</i>	<i>11.02</i>	<i>10.92</i>	<i>6.93</i>
MLPs/Energy	108,286,341	6.00	4.14	11.73	4.14	6.50	39.69	-0.34	7.82	-
<i>S&amp;P MLP Index</i>			<i>3.64</i>	<i>12.41</i>	<i>3.64</i>	<i>7.08</i>	<i>44.36</i>	<i>-4.28</i>	<i>3.41</i>	<i>-</i>
Excess Return			0.50	-0.68	0.50	-0.58	-4.67	3.94	4.41	-
Cash	4,144,128	0.23	0.58	0.67	0.58	0.73	0.94	0.86	0.84	2.32

## City of Jacksonville Police & Fire Pension Fund

Asset Allocation & Performance Net of Fees

January 31, 2017

	Performance(%)											
	Asset \$	Asset %	1 Month	3 Month	CYTD	FYTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date
US Equity												
NT S&P 500 Index Fund	260,450,087	14.43	1.90	7.76	1.90	5.80	20.06	10.89	14.09	6.97	5.44	Jan-1999
S&P 500			1.90	7.76	1.90	5.79	20.04	10.85	14.09	6.99	5.45	
Excess Return			0.00	0.00	0.00	0.01	0.02	0.04	0.00	-0.02	-0.01	
Eagle Capital Management	191,182,241	10.59	2.82	9.32	2.82	9.93	21.32	10.12	14.52	-	12.64	Apr-2011
Russell 1000 Value Index			0.71	9.13	0.71	7.44	24.62	10.16	14.11	-	11.57	
Excess Return			2.11	0.19	2.11	2.49	-3.30	-0.04	0.41	-	1.07	
Brown Investment Advisory	85,423,358	4.73	4.58	1.26	4.58	-0.27	9.41	6.27	-	-	6.52	Nov-2013
Russell 1000 Growth Index			3.37	6.93	3.37	4.42	17.23	10.82	-	-	10.87	
Excess Return			1.21	-5.67	1.21	-4.69	-7.82	-4.55	-	-	-4.35	
Sawgrass Asset Management	90,350,063	5.01	1.79	6.21	1.79	3.20	11.67	8.77	-	-	9.54	Nov-2013
Russell 1000 Growth Index			3.37	6.93	3.37	4.42	17.23	10.82	-	-	10.87	
Excess Return			-1.58	-0.72	-1.58	-1.22	-5.56	-2.05	-	-	-1.33	
Wedge Capital Mgmt	73,681,621	4.08	0.52	14.77	0.52	12.24	-	-	-	-	12.44	Sep-2016
Russell 2000 Value Index			-0.71	17.11	-0.71	13.26	-	-	-	-	14.15	
Excess Return			1.23	-2.34	1.23	-1.02	-	-	-	-	-1.71	
Pinnacle	71,191,968	3.94	4.31	13.71	4.31	7.64	22.81	6.50	12.68	-	20.59	Mar-2009
Russell 2500 Growth Index			2.37	10.81	2.37	5.03	24.65	6.95	12.73	-	19.52	
Excess Return			1.94	2.90	1.94	2.61	-1.84	-0.45	-0.05	-	1.07	
International Equity												
NT EAFE Index Fund	77,348,687	4.28	2.90	4.37	2.90	2.30	12.55	0.99	-	-	5.40	Apr-2012
MSCI EAFE Index (Net)			2.90	4.30	2.90	2.17	12.03	0.71	-	-	5.13	
Excess Return			0.00	0.07	0.00	0.13	0.52	0.28	-	-	0.27	
Baillie Gifford	98,704,620	5.47	8.06	4.08	8.06	0.75	21.08	1.44	7.08	-	4.61	Mar-2011
MSCI EAFE Growth Index (Net)			3.37	2.05	3.37	-2.34	7.03	1.44	6.25	-	3.31	
Excess Return			4.69	2.03	4.69	3.09	14.05	0.00	0.83	-	1.30	
Silchester	68,028,823	3.77	3.64	5.48	3.64	6.08	17.99	4.76	-	-	6.57	Sep-2013
MSCI EAFE Value Index (Net)			2.46	6.49	2.46	6.74	17.14	-0.14	-	-	2.83	
Excess Return			1.18	-1.01	1.18	-0.66	0.85	4.90	-	-	3.74	
Acadian Emerging Mkts Equity II Fund	99,663,032	5.52	6.97	3.10	6.97	4.06	29.08	2.35	-	-	0.49	Jan-2014
MSCI Emerging Markets (Net)			5.47	0.84	5.47	1.08	25.41	1.44	-	-	-0.79	
Excess Return			1.50	2.26	1.50	2.98	3.67	0.91	-	-	1.28	

## City of Jacksonville Police & Fire Pension Fund

Asset Allocation & Performance Net of Fees

January 31, 2017

	Performance(%)											
	Asset \$	Asset %	1 Month	3 Month	CYTD	FYTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date
Fixed Income												
NTGI Aggregate Bond Index	25,985,453	1.44	0.23	-2.06	0.23	-2.83	1.42	2.60	-	-	1.93	Feb-2013
Blmbg. Barc. U.S. Aggregate			0.20	-2.04	0.20	-2.79	1.45	2.59	-	-	1.97	
Excess Return			0.03	-0.02	0.03	-0.04	-0.03	0.01	-	-	-0.04	
Neuberger Berman	161,398,904	8.94	0.70	-	0.70	-	-	-	-	-	0.70	Jan-2017
Blmbg. Barc. U.S. Aggregate			0.20	-	0.20	-	-	-	-	-	0.20	
Excess Return			0.50	-	0.50	-	-	-	-	-	0.50	
Loomis, Sayles & Company	108,000,000	5.98										
Thompson Siegel Fixed	86,692,501	4.80	0.24	-1.24	0.24	-1.76	3.41	3.15	3.08	4.97	6.17	Aug-1991
Thompson Policy Index			0.20	-2.04	0.20	-2.79	1.45	2.59	2.09	4.31	5.95	
Excess Return			0.04	0.80	0.04	1.03	1.96	0.56	0.99	0.66	0.22	
Eaton Vance Instl Senior Loan Trust	118,413	0.01										
Real Estate												
JP Morgan	147,919,976	8.19	0.14	1.70	0.14	2.31	7.24	10.30	11.41	5.75	7.67	Apr-2005
NCREIF Fund Index - ODCE (VW) [M]			0.00	2.11	0.00	2.11	8.77	12.07	12.21	5.82	7.60	
Excess Return			0.14	-0.41	0.14	0.20	-1.53	-1.77	-0.80	-0.07	0.07	
Principal Global Investments	46,587,189	2.58	0.32	2.15	0.32	2.88	9.09	11.93	-	-	12.17	Apr-2013
NCREIF Fund Index - ODCE (VW) [M]			0.00	2.11	0.00	2.11	8.77	12.07	-	-	12.33	
Excess Return			0.32	0.04	0.32	0.77	0.32	-0.14	-	-	-0.16	
MLPs/Energy												
Harvest MLP	54,265,712	3.01	3.68	11.28	3.68	5.47	40.45	-0.49	7.71	-	9.94	Mar-2011
S&P MLP Index			3.64	12.41	3.64	7.08	44.36	-4.28	3.41	-	4.39	
Excess Return			0.04	-1.13	0.04	-1.61	-3.91	3.79	4.30	-	5.55	
Tortoise MLP	54,020,629	2.99	4.60	12.19	4.60	7.56	38.92	-0.31	7.87	-	9.63	Mar-2011
S&P MLP Index			3.64	12.41	3.64	7.08	44.36	-4.28	3.41	-	4.39	
Excess Return			0.96	-0.22	0.96	0.48	-5.44	3.97	4.46	-	5.24	
Cash	4,144,128	0.23	0.58	0.67	0.58	0.73	0.94	0.86	0.84	2.32	8.30	Dec-1998

## City of Jacksonville Police & Fire Pension Fund

Benchmark Composition Total Fund & US Equity & International Equity

As of January 31, 2017

### Total Fund Policy Index

	(%)
<b>Mar-2016</b>	
Russell 3000 Index	39.00
MSCI AC World ex USA (Net)	20.00
Blmbg. Barc. U.S. Aggregate	20.50
NCREIF Fund Index-ODCE (VW) [M]	15.00
S&P MLP Index	5.50
<b>Mar-2013</b>	
Russell 3000 Index	35.00
MSCI AC World ex USA (Net)	20.00
Blmbg. Barc. U.S. Aggregate	22.50
NCREIF Fund Index-ODCE (VW) [M]	15.00
S&P MLP Index	7.50
<b>Apr-2012</b>	
Russell 3000 Index	40.00
MSCI AC World ex USA (Net)	20.00
Blmbg. Barc. U.S. Aggregate	25.00
NCREIF Fund Index-ODCE (VW) [M]	10.00
S&P MLP Index	5.00
<b>Jun-2011</b>	
Russell 3000 Index	40.00
MSCI EAFE Index	20.00
Blmbg. Barc. U.S. Aggregate	25.00
NCREIF Fund Index-ODCE (VW) [M]	10.00
S&P MLP Index	5.00

### Jul-2009

Russell 3000 Index	40.00
MSCI EAFE Index	20.00
Blmbg. Barc. U.S. Aggregate	25.00
NCREIF Fund Index-ODCE (VW) [M]	15.00

### Oct-2008

Dow Jones US Total Stock Market Index	50.00
MSCI EAFE Index	10.00
BofA Merrill Lynch Gov Corp Master	30.00
NCREIF Fund Index-ODCE (VW) [M]	10.00

### Apr-1989

Dow Jones US Total Stock Market Index	50.00
MSCI EAFE Index	10.00
BofA Merrill Lynch Gov Corp Master	35.00
NCREIF Fund Index-ODCE (VW) [M]	5.00

### US Equity Index

	(%)
<b>Jul-2009</b>	
Russell 3000 Index	100.00
<b>Jan-1988</b>	
Dow Jones US Total Stock Market Index	100.00
<b>International Equity Index</b>	(%)
<b>Oct-2009</b>	
MSCI AC World ex USA	100.00
<b>Feb-1999</b>	
MSCI EAFE Index	100.00

### Thompson Siegal Policy

	(%)
<b>Oct-2009</b>	
Blmbg. Barc. U.S. Aggregate	100.00
<b>Dec-1975</b>	
BofA Merrill Lynch Gov Corp Master	100.00

**City of Jacksonville Police & Fire Fund**  
**Asset Allocation as of January 31, 2017**

	% Current Target	% Actual	% Difference from Current Target	\$ Current Target	\$ Actual	\$ Difference
<b>A. Total Equity</b>	<b>59.00%</b>	<b>61.82%</b>	<b>2.82%</b>	<b>\$1,065,042,870</b>	<b>\$1,116,024,501</b>	<b>\$50,981,632</b>
1. <i>Domestic Large Cap Equity (70% of Domestic)</i>	31.40%	34.76%	3.36%	566,819,426	627,405,750	60,586,324
NT S&P 500 Index Fund		14.43%	14.43%		260,450,087	260,450,087
Eagle Capital Management		10.59%	10.59%		191,182,241	191,182,241
Brown Advisory		4.73%	4.73%		85,423,358	85,423,358
Sawgrass Asset Management		5.01%	5.01%		90,350,063	90,350,063
2. <i>Domestic Small/Mid Cap Equity (30% of Domestic)</i>	7.60%	8.03%	0.43%	137,191,963	144,873,589	7,681,626
Wedge Capital Mgmt		4.08%	4.08%		73,681,621	73,681,621
Pinnacle		3.94%	3.94%		71,191,968	71,191,968
3. <i>International Equity Developed</i>	14.00%	13.52%	(0.48%)	252,722,037	244,082,130	(8,639,906)
NT EAFE Index Fund		4.28%	4.28%		77,348,687	77,348,687
Baillie Gifford		5.47%	5.47%		98,704,620	98,704,620
Silchester		3.77%	3.77%		68,028,823	68,028,823
4. <i>International Emerging Markets</i>	6.00%	5.52%	(0.48%)	108,309,444	99,663,032	(8,646,412)
Acadian Emerging Markets		5.52%	5.52%		99,663,032	99,663,032
<b>B. Total Fixed Income</b>	<b>20.50%</b>	<b>21.40%</b>	<b>0.90%</b>	<b>\$370,057,268</b>	<b>\$386,339,400</b>	<b>\$16,282,132</b>
1. <i>Core Fixed Income</i>	4.00%	6.24%	2.24%	72,206,296	112,677,955	40,471,659
NTGI Aggregate Bond Index		1.44%	1.44%		25,985,453	25,985,453
Thompson Siegel Fixed		4.80%	4.80%		86,692,501	86,692,501
2. <i>Core Plus</i>	15.50%	14.92%	(0.58%)	279,799,398	269,398,904	(10,400,494)
Neuberger Berman		8.94%	8.94%		161,398,904	161,398,904
Loomis, Sayles & Company		5.98%	5.98%		108,000,000	108,000,000
3. <i>Senior Bank Notes</i>	0.00%	0.01%	0.01%	0	118,413	118,413
Eaton Vance Instl Senior Loan Trust		0.01%	0.01%		118,413	118,413
4 <i>Cash/Paid Receipts</i>	1.00%	0.23%	(0.77%)	18,051,574	4,144,128	(13,907,446)
<b>C. Total Real Assets</b>	<b>20.50%</b>	<b>16.77%</b>	<b>(3.73%)</b>	<b>\$370,057,268</b>	<b>\$302,793,505</b>	<b>(\$67,263,763)</b>
1. <i>Real Estate</i>	15.00%	10.78%	(4.22%)	270,773,611	194,507,164	(76,266,447)
JPM RE Strategic Property	5.00%	8.19%	3.19%	90,257,870	147,919,976	57,662,105
Principal Global Investments	5.00%	2.58%	(2.42%)	90,257,870	46,587,189	(43,670,682)
Non-Core Real Estate (TBD)	5.00%	0.00%	(5.00%)	90,257,870	0	(90,257,870)
2. <i>MLPs / Timber / Commodities</i>	5.50%	6.00%	0.50%	99,283,657	108,286,341	9,002,683
Harvest MLP		3.01%	3.01%		54,265,712	54,265,712
Tortoise MLP		2.99%	2.99%		54,020,629	54,020,629
<b>D. TOTAL FUND</b>	<b>100.00%</b>	<b>100.00%</b>			<b>\$1,805,157,406</b>	

## DISCLAIMER

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***Summit Strategies Group***

*8182 Maryland Avenue, 6th Floor*

*St. Louis, Missouri 63105*

*314.727.7211*

**Eagle and Brown Advisory Review**

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

*February 10, 2017*



## EXECUTIVE SUMMARY

- **Eagle Review**

- On a net of fees basis, Eagle had underperformed their benchmark by 7.2% over the last 12 months (ending 12/31/2016) and by 86 basis points over the last three years. Since inception, Eagle remains 68 basis points over the benchmark, net of fees, and ranks in the top quartile.
- Most of the underperformance is attributable to the first half of 2016 where:
  - Eagle held Valeant Pharmaceuticals at a 3.5% portfolio weight and which declined 90%.
  - An underweight to the Utilities sector which rallied when investors became defensive.
- Longer-term performance remains attractive. They meet the standards set out in the IPS.
- Their process is not “broken” but the concentrated nature of the portfolio holdings can lead to higher volatility and periods where it is “out of sync” with the market.
- Eagle is not a deep value manager; instead they correlate highly with both the Russell 1000 Value and the S&P 500 over time. They are also benchmark agnostic.
- At this time, no changes to Eagle are recommended.

- **Brown Review**

- On a net of fees basis, Brown has underperformed their benchmark by 4.8% since inception. The magnitude of their underperformance in 2016, 2014, and 2013 has created longer-term underperformance over 3, 5, and 7 years.
- Brown’s process is not “broken” per se – Most active large cap growth managers have underperformed the benchmark during this time period, where fundamental stock selection has been made more difficult by the Fed’s Quantitative Easing and investors’ flight to defensive stocks.
  - Active management’s ability to add value is cyclical, and at some point may recover. However, persistency of outperformance by active large cap growth managers remains a question in view of the availability of cheap exposure provided by index funds.
  - Due to the level of outperformance over recent years, passive management may be seen as “expensive” currently, and active may be seen as “cheap”.
- Brown’s underperformance in 2016 is outside of their expected tracking error. In order for Brown to catch up with their benchmark, they would need one year of significant outperformance or 3-4 years of consistent outperformance.
- Brown does not meet the standards set out in the IPS.
- Poor relative stock selection has been magnified by their concentrated holdings.

## RECOMMENDATION TODAY

- **Keep Eagle in place.**
- **Reduce Brown by half.**
  - Move that half into a Russell 1000 Growth Index Fund.
    - Approximately three-quarters of large cap growth exposure remains actively managed between Brown and Sawgrass.
    - One quarter of the large cap growth exposure will be passively managed, moving toward a longer term goal of increasing passive management.
- **Monitor Brown's progress throughout the year.**

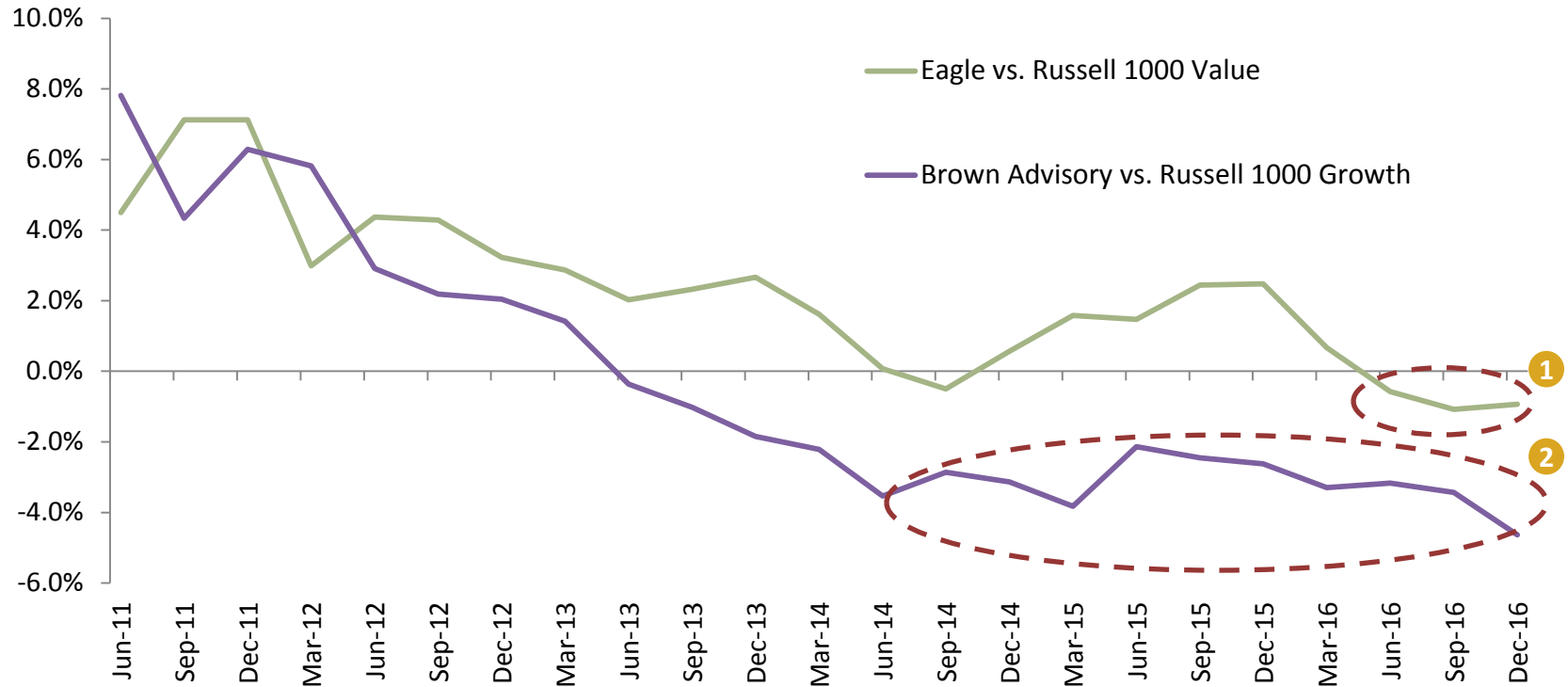
## ANNUALIZED PERFORMANCE – NET OF FEES (AS OF DECEMBER 31, 2016)

Manager vs Benchmark										
As of 12/31/16	1 year		3 years		5 years		7 years		10 years	
Eagle	10.10%		7.73%		14.82%		14.21%		9.18%	
Russell 1000 Value	17.34%		8.59%		14.80%		12.72%		5.72%	
Brown	-2.62%		3.87%		11.08%		11.34%		8.75%	
Russell 1000 Growth	7.08%		8.55%		14.50%		13.03%		8.33%	
Calendar Year Return										
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Eagle	10.10%	1.15%	12.28%	35.86%	17.47%	4.86%	20.57%	32.17%	-34.65%	8.03%
Russell 1000 Value	17.34%	-3.83%	13.45%	32.53%	17.51%	0.39%	15.51%	19.69%	-36.85%	-0.17%
Brown	-2.62%	7.71%	6.86%	29.42%	16.18%	0.12%	25.36%	53.05%	-36.27%	11.84%
Russell 1000 Growth	7.08%	5.67%	13.05%	33.48%	15.26%	2.64%	16.71%	37.21%	-38.44%	11.81%

Performance reflects City of Jacksonville Police & Fire Pension Fund net of fees returns, linked with composite net of fees returns to lengthen performance history as necessary.

## HISTORICAL PERFORMANCE SUMMARY – NET OF FEES (AS OF DECEMBER 31, 2016)

### Rolling Three-Year Excess Performance



- ① A historically strong relative performer, Eagle's three-year relative performance (primarily due to performance over the past year) has fallen slightly below over the most recent three-year period.
- ② After outperforming on a three-year rolling basis historically, Brown Advisory's performance has significantly trailed its benchmark in recent years.

Performance reflects City of Jacksonville Police & Fire Pension Fund net of fees returns, linked with composite net of fees returns to lengthen performance history as necessary.

## EAGLE CAPITAL MANAGEMENT, LLC – EAGLE EQUITY

## FIRM DETAILS

Address: 499 Park Ave.  
New York, NY 10022

Phone: 212.293.4040

Asset Class: Large Cap Value

Benchmark: Russell 1000 Value

Founded: 1988

Ownership: 100% employee owned

Assets Under Management: \$25.0 billion

## PRODUCT DETAILS

Inception: December 1988

Assets Under Management: \$25.0 billion

Vehicles Offered: SA (closed)

Separate Account Minimum: \$5 million

Portfolio Managers/Dual Role PMs: 1

Avg. Yrs of Experience: 48

Avg. Yrs at Firm: 28

Research Analysts: 5

Avg. Yrs of Experience: 20

Avg. Yrs at Firm: 13

Fee Schedule (SA): 1.00% on the first \$5 million  
0.75% on the balance

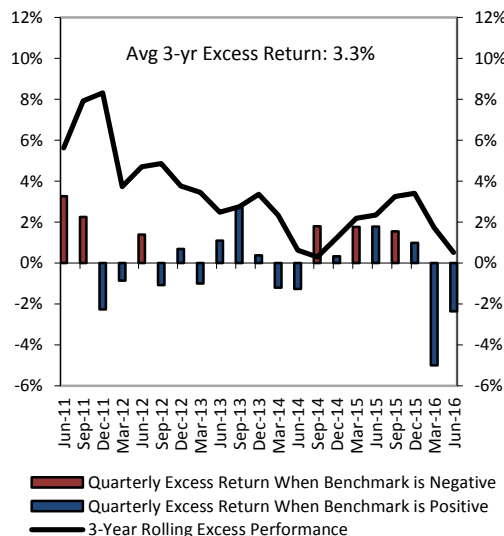
(Performance-based fees are available)

## CHARACTERISTICS

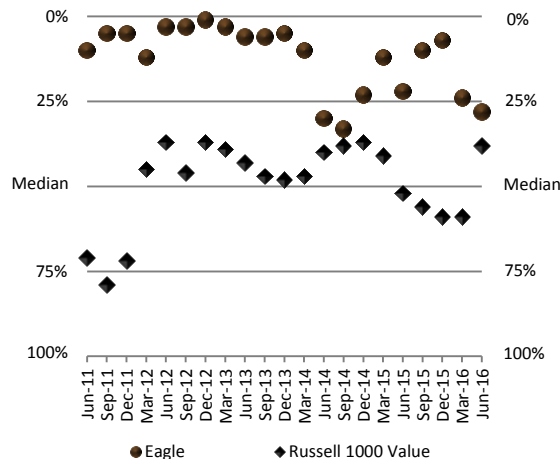
	Portfolio	Benchmark
No of Securities:	27	692
Portfolio Turnover:	20%	N/A
Dividend Yield:	1.1%	2.6%
Equity P/E:	18.3x	17.9x
Avg. Mkt Cap:	\$166.0 billion	\$114.1 billion
Last 3 Years:		
Tracking Error:	4.4%	N/A
Information Ratio:	0.1	N/A
Sharpe Ratio:	1.0	1.1

## ROLLING PERFORMANCE AND RANKINGS

Three-Year Rolling/Quarterly Excess Performance vs. Russell 1000 Value Index



Manager vs. Large Cap Value Universe Rolling Three-Year Periods



## QUALITATIVE OVERVIEW

- Eagle Capital Management, LLC was founded in late 1988 by Ravenel and Beth Curry. After the passing of Beth in 2015, 10 employees own 100% of the firm. Ravenel has been the portfolio manager since inception, though the strategy has become more team oriented over the last 10 years. Ravenel was formerly a partner at H.C. Wainwright and the portfolio manager of the Duke Endowment prior to co-founding ECM.
- This firm is focused on one strategy. Ravenel Curry leads the six-person team and is supported by Richard Ong, Mary Kush, Boykin Curry, Alex Henry, and Adrian Meli.
- Through industry contacts, reports, other investors, and trade shows, the team generates 100 new ideas a year. These are added to an existing inventory of 30 to 40 names per analyst. From this pool, approximately 50 names undergo a rigorous research process to identify companies with superior management, attractive current valuation, and a plan for significant growth that has not yet been recognized by the market. Approximately 5-10 of these names will be added to the portfolio each year.
- The strategy is opportunistic with regard to market cap, often with sizable positions in the mid cap space. Position sizes are limited to 5% at the time of purchase and 10% overall. Sector and industry exposure is limited to 25%. Expected alpha is 200 to 300 bps over the S&P 500, though they are comfortable with any benchmark over a 3- to 5-year horizon. Portfolios hold 25-35 stocks, and turnover averages 15%-30%.

## QUALITATIVE RANKING

FIRM	-2	-1	0	1	2
Empl Ownership					
Mgmt Consistency					
Integration					
Cost					
Litigation					
Responsiveness					
<b>TOTAL</b>					<b>+6</b>

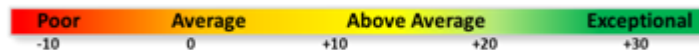
PERSONNEL	-3	-2	-1	0	1	2	3
Staff Depth							
Experience							
Stability							
Support							
<b>TOTAL</b>							<b>+7</b>

PRODUCT	-2	-1	0	1	2
History					
Size					
Growth					
Asset Split					
<b>TOTAL</b>					<b>+1</b>

PHILOSOPHY	-3	-2	-1	0	1	2	3
Philosophy							
Purchase Discipline							
Sell Discipline							
Research							
Trading Skills							
Decision Process							
Characteristics							
<b>TOTAL</b>							<b>+9</b>

## TOTAL QUALITATIVE SCORE:

+23



## BROWN ADVISORY, LLC – LARGE CAP GROWTH

## FIRM DETAILS

Address: 901 South Bond Street, Ste. 400  
Baltimore, MD 21231

Phone: 410.537.5400

Asset Class: Large Cap Growth

Benchmark: Russell 1000 Growth

Founded: 1993

Ownership: 70% employee owned; 30% owned  
by Board of Directors, clients, and  
investors

Assets Under Management: \$20.4 billion

## PRODUCT DETAILS

Inception: April 1993

Assets Under Management: \$11.6 billion

Vehicles Offered: SA, MF

Separate Account Minimum: \$5 million

Mutual Fund Minimum (BAFGX): \$1 million

Portfolio Managers/Dual Role PMs: 1

Avg. Yrs of Experience: 29

Avg. Yrs at Firm: 19

Research Analysts: 22

Avg. Yrs of Experience: 12

Avg. Yrs at Firm: 6

Fee Schedule (SA): 0.80% on first \$10 million  
0.65% on next \$15 million  
0.50% on next \$25 million  
0.40% on balance

(MF): 0.72% on all assets

## CHARACTERISTICS

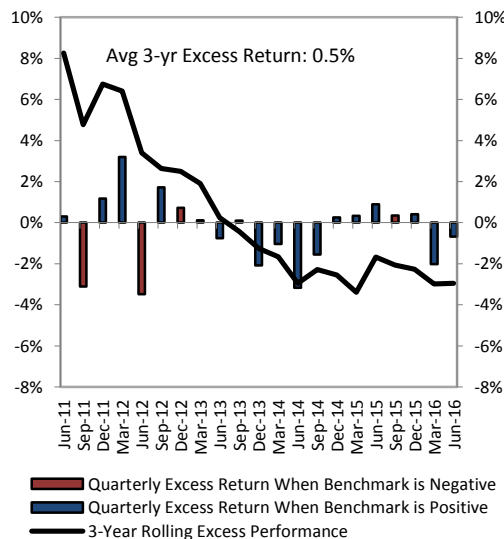
	Portfolio	Benchmark
No of Securities:	36	600
Portfolio Turnover:	25%	N/A
Dividend Yield:	0.5%	1.6%
Equity P/E:	32.2x	23.7x
Avg Market Cap:	\$92.7 billion	\$133.2 billion
Last 3 Years:		
Tracking Error:	2.6%	N/A
Information Ratio:	-1.2	N/A
Sharpe Ratio:	1.2	1.5

Performance reflects gross of fees composite returns.

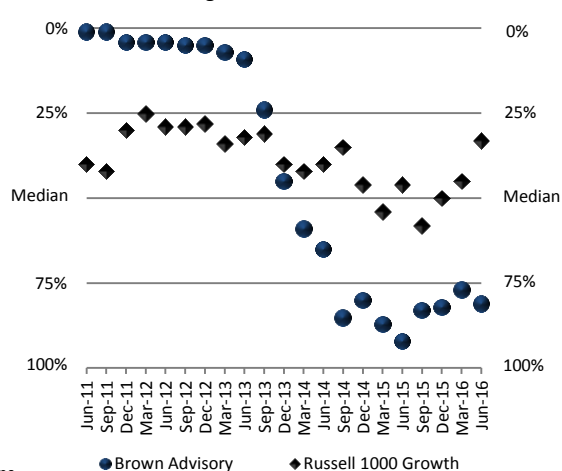
\*As of 3/31/2016

## ROLLING PERFORMANCE AND RANKINGS

Three-Year Rolling/Quarterly Excess Performance  
vs. Russell 1000 Growth Index



Manager vs. Large Cap Growth Universe  
Rolling Three-Year Periods



## QUALITATIVE OVERVIEW

- Brown Advisory was established in 1993 as an investment management arm of Alex Brown and Sons. Key professionals made an employee-led buyout in 1998 to gain independence from investment banking conflicts. 70% of the equity is held by a diverse group of employees, and 30% is held by members of the independent Board of Directors and a group of clients.
- Ken Stuzin took over as the lead manager for institutional large cap growth accounts in 2001 and proceeded to build out the research team. The 22 analysts on this team average twelve years of investment experience and six years with the firm.
- The process is designed to find quality sustainable growth companies through bottom-up research, focused on both traditional and non-traditional growth sectors. A quantitative screen, based on several growth and balance sheet metrics, is used to narrow the initial universe. Companies must have sustainable earnings growth rates of 14% or better. Favored companies will have large and enduring market opportunities, an experienced management team, and proprietary products or services. The firm tries to identify companies with a culture that rewards innovation and is adaptable to change. Patience on valuation is a key factor in the strategy's buy and sell discipline.
- Portfolios are relatively concentrated (30-35 stocks) with name turnover averaging 35%. Analysts remain style agnostic, which brings periods of significant benchmark risk, especially in momentum-driven or narrow markets.

## QUALITATIVE RANKING

FIRM	-2	-1	0	1	2
Empl Ownership					
Mgmt Consistency					
Integration					
Cost					
Litigation					
Responsiveness					
<b>TOTAL</b>					<b>+8</b>

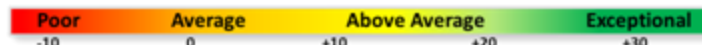
PRODUCT	-2	-1	0	1	2
History					
Size					
Growth					
Asset Split					
<b>TOTAL</b>					<b>+4</b>

PERSONNEL	-3	-2	-1	0	1	2	3
Staff Depth							
Experience							
Stability							
Support							
<b>TOTAL</b>							<b>+6</b>

PHILOSOPHY	-3	-2	-1	0	1	2	3
Philosophy							
Purchase Discipline							
Sell Discipline							
Research							
Trading Skills							
Decision Process							
Characteristics							
<b>TOTAL</b>							<b>+9</b>

TOTAL QUALITATIVE SCORE:

+27



Note: Summit Strategies Group (Summit) has prepared this report for the exclusive use by its clients. The information herein was obtained from various sources, which Summit believes to be reliable, and may contain opinions developed by Summit. Summit does not guarantee the accuracy or completeness of the opinions, observations or other information contained in this report. The opinions, market commentary, portfolio holdings and characteristics are as of the date shown and are subject to change. Past performance is no guarantee of future performance. No graph, chart, or formula can, in and of itself, be used to determine which managers or investments to buy or sell. Any forward-looking projection contained herein is based on assumptions that Summit believes may be reasonable, but are subject to a wide range of risks, uncertainties and the possibility of loss. Accordingly, there is no assurance that any estimated performance figures will occur in the amounts and during the periods indicated, or at all. Actual results and performance will differ from those expressed or implied by such forward-looking projections. Any information contained in this report is for information purposes only and should not be construed to be an offer to buy or sell any securities, investment consulting or investment management.







A PARTNERSHIP OF PROFESSIONAL ASSOCIATIONS  
ATTORNEYS AT LAW

## Memorandum of Law

To: Board of Trustees  
Jacksonville Police & Fire Pension Fund

Re: Commission Recapture

The Jacksonville Police and Fire Pension Fund, through its asset managers, engages in securities transactions, which incur regular brokerage costs that effectively reduce the Fund's yearly return. As fiduciaries, the Board of Trustees should attempt to reduce the impact brokerage costs have on the Fund while still obtaining best execution of trades. To that extent, commission recapture is an option which allows a trust to recover a portion of its brokerage costs with participating brokers. Historically, in a commission recapture program, a pension plan informs its investment managers that the plan has an agreement with a participating broker or brokers to recapture a mutually agreed upon percentage of brokerage costs incurred in making the plans securities trades.<sup>1</sup> Plans encourage their investment managers to contact the plans' commission recapture brokers when searching for best execution of plan security transactions.<sup>2</sup>

Under Section 28(e) of the Securities Exchange Act of 1934,<sup>3</sup> commission recapture dollars were originally used to purchase research services, currently performed by investment consultants, through the use of "soft dollars." Fiduciary principles require money managers to seek the best execution for client trades, and limit money managers from using client assets for their own benefit.<sup>4</sup> Use of client commissions to pay for research and brokerage services presents money managers with significant conflicts of interest, and may give incentives to disregard their best execution obligations when directing orders, to obtain client commission services as well as to trade client securities inappropriately in order to earn credits for client commission services.<sup>5</sup> In 1998, the Florida Legislature required funds to retain investment consultants on a hard dollar

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<sup>1</sup> *Commission Recapture Programs*, Government Finance Officers' Association Advisory (October 2010)

<sup>2</sup> *Id.*

<sup>3</sup> 15 U.S.C. § 78bb

<sup>4</sup> Money managers include investment advisers, who have a fundamental obligation under the Investment Advisers Act of 1940 ("Advisers Act") [15 U.S.C. 80b-1] and state law to act in the best interest of their clients. *SEC v. Capital Gains Research Bureau, Inc.*, 375 U.S. 180, 189-191 (1963).

<sup>5</sup> *Commission Guidance Regarding Client Commission Practice Under Section 28(e) of the Securities Exchange Act of 1934*, 19 C.F.R. Part 241, Securities and Exchange Commission (2005).

7080 NORTHWEST 4TH STREET, PLANTATION, FLORIDA 33317

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(flat fee) basis. See, Chapter 98-134, Laws of Florida 1998; codified as Section 175.071(6)<sup>6</sup> and 185.06 (5)<sup>7</sup>, Fla. Stat. As a result, conversion of commission recapture money to soft dollars was no longer acceptable. Since that time, it has been required that any commission recapture money be paid as a hard dollar to the Fund. While it could be used to pay for the hard dollar cost of a consultant, it could no longer be used by a consultant who also was associated with a money manager. Section 28e commission recapture money may lawfully be used for any purpose related to the Fund except the payment of benefits.

The question of whether to continue the Section 28e capture program is essentially a business decision. It is recommended that the value of the execution of trades, the administrative cost of review and the amount of recapture revenue be compared to determine if the program is still viable. Additionally, if the Fund continues to use commission recapture agents, the Board should take care to select the best-qualified firms, based on:

1. The firm's historic ability to achieve best execution, which should always be the first and foremost concern.
2. The volume of trades a firm conducts, its level of experience in working with a large number of institutional clients, and that the firm currently participates in other recapture programs.
3. Basic due diligence. Verify that all firms involved in the program are financially solvent, compliant with Securities and Exchange Commission regulations and all relevant state and federal laws, and have proper internal controls in place. Also, examine the firm's references.<sup>8</sup>

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<sup>6</sup> F.S.S. § 175.071 – General Powers and Duties of Board of Trustees

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(6)(a) At least once every 3 years, the board of trustees shall retain a professionally qualified independent consultant who shall evaluate the performance of any existing professional money manager and shall make recommendations to the board of trustees regarding the selection of money managers for the next investment term. These recommendations shall be considered by the board of trustees at its next regularly scheduled meeting. The date, time, place, and subject of this meeting shall be advertised in the same manner as for any meeting of the board.

(b) For purposes of this subsection, the term "professionally qualified independent consultant" means a consultant who, based on education and experience, is professionally qualified to evaluate the performance of professional money managers, and who, at a minimum:

1. Provides his or her services on a flat-fee basis.
2. Is not associated in any manner with the money manager for the pension fund.
3. Makes calculations according to the American Banking Institute method of calculating time-weighted rates of return. All calculations must be made net of fees.
4. Has 3 or more years of experience working in the public sector.

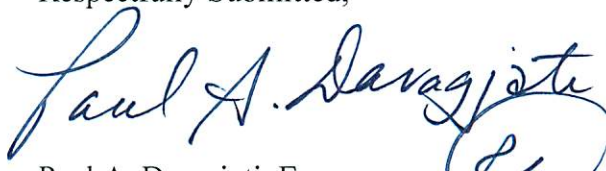
<sup>7</sup> Same.

<sup>8</sup> *Commission Recapture Programs*, Government Finance Officers' Association Advisory (October 2010)

When the Fund changes managers on a specific mandate, the use of transition managers remains a useful tool which can lower costs in the transfer of asset value in hard dollars from a manager who is terminated to a manager who is newly hired as a replacement. The recapture managers can also be effective transition managers. Again, this is a business decision which warrants review and analysis on a cost vs. labor basis.<sup>9</sup>

I trust the foregoing is of assistance on this subject. If the Board has any further questions, please do not hesitate to ask.

Respectfully Submitted,

  
Paul A. Daragjati, Esq.

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<sup>9</sup> The Fund has established in its Statement of Investment Policy, administrative rules consistent with federal and state law. See Sec. XII(C), *Soft Dollar Arrangements of Advisors and Commission Recapture/Directed Brokerage Programs and Best Execution*:

“Any commission recapture program established by the Fund, shall be limited to cash rebates made payable to the Fund and/or the Fund’s custodian bank and fully reported as commission recapture revenues within the Fund’s financial reporting system. Commission Recapture distributions shall not be accepted by the Fund in the form of payments on behalf of the Fund for goods and Draft Amendment as of August 12, 2016 services to third parties or for services provided by the broker.

All trades that are administered by the investment advisor under the commission recapture program established by the Fund shall be subject to the requirement to procure best execution on behalf of the Fund. In pursuing this standard, all securities transactions shall be executed only on a “best price and execution basis” (as described by ERISA Technical Release Number 86-1) and when in the best interest of the Fund. If the advisor concludes in his judgment that the commission recapture broker(s) is not offering best execution, the advisor possesses a fiduciary obligation to seek other brokers to accomplish the desired transaction. Advisors may also employ the use of “step-out” trades in the event that the advisor has concerns as to his ability to obtain best execution through a commission recapture broker.”



One Battery Park Plaza, Sixth Floor  
New York, NY 10004  
November 11, 2016

November 23, 2016

The Jacksonville Police and Fire Pension Fund  
One West Adams Street, Suite 100  
Jacksonville, Florida 33202-3616  
Attention: Mr. Devin Carter, Chief Financial Officer

**Re: Commission Recapture Agreement Information Request**

Dear Mr. Carter:

In connection with that certain Commission Recapture Agreement by and between The Jacksonville Police and Fire Pension Fund Board of Trustees (the "**Board**") and Abel/Noser, L.L.C. ("**Abel/Noser**"), the Board has requested Abel/Noser to provide it with the status of any current litigation between Abel/Noser and any third parties. As of the date of this letter, Abel/Noser can confirm that to the best of its knowledge, information, and belief, there are no outstanding lawsuits, actions, or other proceedings pending against or relating to Abel/Noser, L.L.C.

If you should have any questions regarding the above, please do not hesitate to contact the undersigned or Mr. Bruce Feiner at (646) 432-4000.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ted Morgan", is written over a horizontal line.

ABEL/NOSER, L.L.C.

A handwritten signature in blue ink, appearing to read "Ted Morgan", is written over a horizontal line.

By: Ted Morgan, CEO





# POLICE AND FIRE PENSION FUND

ONE WEST ADAMS STREET, SUITE 100

JACKSONVILLE, FLORIDA 32202-3616

*"We Serve... and We Protect"*

## COMMISSION RECAPTURE AGREEMENT BETWEEN THE JACKSONVILLE POLICE AND FIRE PENSION FUND BOARD OF TRUSTEES

AND

ABEL/NOSER, L.L.C.

**THIS AGREEMENT**, made and entered into in duplicate the \_\_\_\_ day of November, 2016, by and between the **JACKSONVILLE POLICE AND FIRE PENSION BOARD OF TRUSTEES**, a body politic and corporate, hereinafter referred to as the "**BOARD**" or the "**TRUSTEES**" and **ABEL/NOSER, L.L.C.**, an institutional broker/dealer registered with the Securities and Exchange Commission and the National Association of Securities Dealers with its principal offices located at One Battery Park Plaza 6<sup>th</sup> Floor New York NY 20004-1405 hereinafter referred to as the **BROKER**:

### WITNESSETH:

**WHEREAS**, Chapters 112, 175, 185, 215.47 and 518 of the Florida Statutes, Article 22 of the City Charter and Chapter 121 of the City of Jacksonville Code of Ordinances vest the **BOARD** with full authority, power and responsibility to manage and administer the Police Officers and Firefighters Pension, Fund, hereinafter referred to as the "**FUND**"; and,

**WHEREAS**, the **BOARD** desires to control brokerage costs and has determined that a commission recapture program will help accomplish this goal and the establishment of such a program would be in the best interest of the **FUND** and its participants and beneficiaries; and,

**WHEREAS**, commissions recaptured under the commission recapture program would be used for the exclusive benefit of the **FUND**, from whose assets the commissions were generated; and,

**WHEREAS**, the **BROKER** has previously expressed an interest in serving the **BOARD** to provide commission recapture services; and,

**WHEREAS**, the **BROKER** is qualified to provide commission recapture services and is willing to provide commission recapture services to the **BOARD**; and,

**WHEREAS**, the **BROKER** has previously rendered commission recapture services to the **BOARD** and the parties wish to continue this relationship by the execution of this Agreement which will authorize the continued provision of such services for periods subsequent to the expiration or discontinuance of the previously executed Agreement(s);

**NOW, THEREFORE**, in consideration of the premises and of the mutual covenants and agreements hereinafter contained, the **BOARD** hereby engages the **BROKER** for the provision of commission recapture in accordance with the following:

- 1. INCORPORATION OF RECITALS.** The above stated recitals are true and correct and, by this reference, are made a part hereof and are incorporated herein.
- 2. APPOINTMENT OF BROKER AND ACCEPTANCE.** The **BOARD** does hereby designate and appoint the **BROKER** to provide commission recapture services in conjunction with certain brokerage activity generate with the various investment managers ("Investment Managers") providing investment counseling services to the **TRUSTEES**. The **BROKER** hereby accepts such appointment and agrees to provide commission recapture services to the **TRUSTEES** in accordance with the terms of this Agreement.
- 3. DUTIES AND RESPONSIBILITIES OF BOARD.**
  - A. The **BOARD** may appoint from time to time one or more Investment Managers and delegate to such Investment Managers responsibility for the investment of **FUND** assets. The **FUND'S** custodian and the group of Investment Managers currently providing investment counseling services to the **BOARD** are listed on Exhibit A attached hereto. The **BOARD** will provide written notice to the **BROKER** of the removal of any of these Investment Managers and of the appointment of other Investment Managers.
  - B. The **BOARD** shall advise the Investment Managers of the commission recapture program with the **BROKER** and encourage the Investment Managers to direct trades to the **BROKER** and other commission recapture brokers providing similar services to the **BOARD**, subject to the provision by the **BROKER** and other

brokers of best price and execution capabilities as required by law and in accordance with industry standard of a fiduciary.

- C. The **BOARD** shall furnish the **BROKER** with all documents, authorizations and powers as might be reasonably required by the **BROKER** to carry out its obligations according to the terms of this Agreement. The **BROKER** does not assume liability for the accuracy of information furnished by the **TRUSTEES** or by any other party.

#### 4. DUTIES AND RESPONSIBILITIES OF BROKER.

- A. The **BROKER** will contact the Investment Managers and any subsequently appointed Investment Managers for the purpose of explaining the **BROKER'S** services, capabilities, trading procedures, and in the exchange of requisite documentation for the establishment of a trading relationship with the Investment Manager and the maintenance of an on-going commission recapture program for the benefit of the **FUND**.
- B. The **BROKER** will provide execution services to the Investment Managers.
- C. The **BROKER** will promptly respond to all questions and requirements of the Investment Managers and the **TRUSTEES** that are necessary for the proper administration of this Agreement and the maintenance of trading relationships established thereunder.
- D. The **BROKER** shall provide the Investment Managers with a list of trading contacts at the various brokerage firms with whom, it has execution and clearing agreements.
- E. The **BROKER** shall electronically deliver trade confirmations to the **BOARD'S** designated custodian on a daily basis.
- F. The **BROKER** will provide sound efficient execution of trades and will properly document all trades executed under this Agreement.
- G. The **BROKER** shall monitor commission activity and provide the **BOARD** with a report, no less often than quarterly, in the form of a Directed Brokerage Statement identifying the commissions received on trades executed for the **FUND** and the individual disbursements made to the **BOARD** representing recaptured

commissions. Such report shall include details as to the number of shares traded, the price per share and the commissions charged on such trade.

**5. TERM.**

- A. This Agreement shall commence on the 22<sup>nd</sup> day of November, 2016, and may be amended by mutual written agreement of the parties. This Agreement shall continue in effect until termination in writing.
- B. This Agreement may be terminated either the **BROKER** or the **BOARD** on ten (10) days written notice to the other party, with or without cause. In the event this Agreement is terminated, the **BROKER** shall cease all work, provide all final reports and promptly make all final payments to the **FUND** upon termination of this Agreement.
- C. Notwithstanding the foregoing, in the event the **BROKER** for any reason shall cease to be registered as a broker/dealer with the Securities and Exchange Commission or shall become otherwise disqualified to offer services as a broker/dealer, this Agreement shall automatically and immediately terminate.

**6. INVESTMENT OBJECTIVE AND POLICY.**

- A. The **BROKER** hereby acknowledges that it has been provided with the Statement of Investment Policy (Exhibit B) which has been duly adopted by the **BOARD** in accordance with its authority under state law.
- B. The **BROKER** further acknowledges that it has been provided with and understands the provisions of the Commission Recapture Program duly adopted by the **BOARD** together with a list of authorized recapture agents.
- C. The **BROKER** shall discharge its responsibilities hereunder in accordance with the parameters set out in the Investment Policy Statement attached to this Agreement as Exhibit B and by this reference made a part hereof. The **BROKER** acknowledges that it has read and fully understands (to the extent relevant to the provision of commission recapture services hereunder) the provisions of Chapters 112, 175, 185, 215.47 and 518 of the Florida Statutes, Article 22 of the City Charter and Chapter 121 of the City of Jacksonville Code of Ordinances and the



limitations and prohibitions regarding investments therein contained. The **BROKER** agrees to observe those statutory provisions together with the Investment Policy Statement as set forth by the **BOARD**.

#### **7. PAYMENTS TO THE FUND.**

- A. The **TRUSTEES** consider the recaptured commissions to be an asset of the **FUND** and therefore a subject that is within the scope of its fiduciary responsibilities. The **BROKER** shall make commission recapture payments to the **FUND** pursuant to Schedule A, attached hereto. In addition the **BROKER** shall make commission recapture payments to the **FUND** in an amount articulated in Schedule A for net brokerage commissions received by the **BROKER** for International Equity trades directed by the Investment Managers to the **BROKER**. Payment from the **BROKER** shall be returned to the **BOARD** by check from the **BROKER** by the 15th of the month following the transaction. All recaptured commissions shall be deposited into the **FUND**.
- B. Except for specific services negotiated on an individual basis, trading shall be performed at fully negotiated institutional rates, without regard to the existence of the commission recapture arrangement.
- C. The **BROKER** represents and warrants that effective as of the date hereof, the recapture rate to be paid under this Agreement, as set forth in Schedule A, shall equal or exceed the effective rate paid by the **BROKER** to any other similarly situated client of the **BROKER**. For the avoidance of doubt, a similarly situated client of the **BROKER** shall constitute a client with the same level of assets as the **FUND** and that generates the same level of revenue to the **BROKER** as the **FUND**.

## **8. REPORTS AND MEETINGS.**

A. The **BROKER** shall provide the **BOARD** with a statement of the status of brokerage activity for services rendered herein, which shall include as a minimum the commission received and any disbursements made to the **FUND**, no less frequently than quarterly. The **BROKER** shall on an annual basis provide the **BOARD** with a copy of the annual company report. In addition thereto, the **BROKER** shall attend all meetings relative to the services being performed by it where its presence is determined to be necessary and requested by the **TRUSTEES** and the **BROKER** can reasonably schedule its appearance in response to such request.

B. In addition to the foregoing reporting responsibilities, the **BROKER** shall be obligated on a continuing basis to promptly inform the **BOARD** in the event that the **BROKER** or any of its employees is:

- 1) being sued on an alleged breach of the terms of a directed brokerage or commission recapture agreement or other matters as an outgrowth of directed brokerage or commission recapture services provided for an institutional client; or
- 2) under sanction or order of investigation by the US Department of Justice, US Department of Labor, the Internal Revenue Service or the Securities and Exchange Commission.

**9. NON-DISCRIMINATION.** The **BROKER** shall not discriminate in its employment practices during the term of this Agreement on the basis on race, creed, color, sex, age, physical handicap, marital status or national origin.

**10. PROHIBITION AGAINST CONTINGENT FEES.** The **BROKER** warrants that it has not employed or retained any company or person, other than a bona fide employee working solely for the **BROKER**, to solicit or secure this Agreement and that it has not paid or agreed to pay any person, company, corporation, individual, or firm other than a bona fide employee working solely for the **BROKER**, any fee,

commission, percentage, gift, or other consideration contingent upon or resulting from the award or making of this Agreement.

#### **11. COMMUNICATIONS.**

- A. All communications between the **BROKER** and any individual **TRUSTEE** shall be for informational purposes only. No individual **TRUSTEE** is authorized to bind the **FUND** in any manner or transaction, unless acting in accordance with prior written approval of the **BOARD**. Any representation, direction or promise made by an individual **TRUSTEE** shall not bind or obligate the **FUND** or the **BOARD** unless evidenced by prior written authorization by the **BOARD**. No communication between the **BROKER** and any individual **TRUSTEE** shall be evidence of any promise, contract or obligation of the **FUND** or the **BOARD** in any proceeding to enforce the provisions of this Agreement.
- B. The **BROKER** shall not make any public statement regarding its dealings with the **FUND** without the prior written approval of the **FUND**.
- C. The **BROKER** shall not make any public statement regarding the performance of any Investment Manager of the **FUND** without the prior written approval of the **FUND**. This shall not include any report made to the **TRUSTEES** or to any third person at the request of the **TRUSTEES**.

**12. INDEMNIFICATION.** The **BROKER**, including its employees, agents, and sub-consultants, shall hold harmless, indemnify, and defend the **FUND**, its directors, officers, employees, representatives, and agents against any claim, action, loss, damage, injury, liability, cost and expense of whatsoever kind or nature (including, but not by way of limitation, attorney's fees and court costs) arising out of injury (whether mental or corporeal) to persons, including death, or damage to property, arising out of or incidental to the **BROKER'S**, its employees', agents, and/or performance of this Agreement or work performed thereunder. This indemnification agreement is separate and apart from, and in no way limited by, any insurance provided pursuant to this Agreement or otherwise.

**13. INSURANCE REQUIREMENTS.** Without limiting its liability under this Agreement, the **BROKER** shall procure and maintain at its sole expense effective as of December 1, 2016, and continuing throughout the duration of the term of the Agreement, insurance of the type and in the minimum amounts stated below:

**Errors and Omissions Policy in the amount of \$5,000,000.**

**14. GENERAL.**

**A. REPRESENTATIONS.**

- 1) The **BROKER** represents and warrants that it is registered as a broker/dealer with the Securities and Exchange Commission and that it is duly registered and licensed to perform the directed brokerage services described in this Agreement, and that it will maintain such registration and licensing during the term of the Agreement.
- 2) The **BROKER** acknowledges that it is fully familiar with, the applicable laws of the State of Florida governing public employee retirement systems and is fully familiar with the provisions of the Ordinance Code of the City of Jacksonville relating specifically to the management of this **FUND** (Chapter 121). The Agreement shall be performed in accordance with all applicable Federal laws, State laws, the City of Jacksonville Charter (Article 22), Ordinance Code and administrative regulations. The **BOARD** represents that the **FUND** is not subject to ERISA.

**B. GOVERNING LAW and VENUE.** This shall be governed by and construed under applicable federal law, and to the extent not preempted, the laws of the State of Florida. In any action to enforce the provisions of this Agreement, venue shall be in the United States Court for the Middle District of Florida, or in the Circuit Court of the Fourth Judicial Circuit in and for Duval County, Florida.

**C. ATTORNEYS FEES.** Should any action be necessary to enforce the terms of this Agreement, in the event the **FUND** prevails, the **BROKER**, shall make the **FUND** whole including any costs and reasonable attorney's fees.

D. **ARBITRATION.** In the event of a dispute between the parties, the parties may by mutual consent agree to submit the matter to binding arbitration. This provision however, does not act, and shall not be construed, as a waiver of either parties' right to trial by jury in either Federal or State court.

E. **LIMITATIONS OF BROKER LIABILITY.** The **BROKER** shall have no liability for any act or omission of a custodian or any other broker or dealer. If any losses are suffered by the **FUND** or its beneficiaries as a result of any act or omission of a custodian, broker or dealer or other third party service provider, the **FUND** will seek any recovery or pursue any remedy available to it against such custodian, broker, dealer or third party as appropriate, and the **BROKER** shall have no responsibility relating thereto.

F. **FIDUCIARY LIABILITY.**

- 1) The **BROKER** acknowledges that to the extent it exercises any discretionary authority or control with respect to the management of the **FUND'S** assets or to the extent the **BROKER** renders investment advice or services to the **FUND** for compensation, whether directly or indirectly, the **BROKER** acts as a fiduciary with respect to the **FUND** in accordance with applicable laws. The **BROKER** further acknowledges that such fiduciary status, when applicable, requires the **BROKER** to discharge all duties performed for the **FUND** in the exclusive interest of the **FUND'S** members and beneficiaries for the exclusive purpose of providing benefits to participants and beneficiaries.
- 2) The **BROKER** agrees that to the extent it breaches any fiduciary duty or obligation owed to the **FUND**, its participants and/or the **TRUSTEES**, the **BROKER** shall be liable, pursuant to Florida laws, to make good any losses to the **FUND** resulting from each such breach, and to restore to the **FUND** any profits of the **BROKER** which have been made through use of assets of the **FUND** by the **BROKER**.

- G. **REGULATORY BODIES.** The **BROKER** further acknowledges that its activities and status under this Agreement may be further subject to regulations issued under the Securities Exchange Act, the Internal Revenue Code and such other federal administrative statutory and administrative law as may from time to time be effective and applicable.
- H. **NONASSIGNABILITY.** This Agreement may not be assigned by the **BOARD** or the **BROKER** without the prior written consent of the other party.
- I. **PROTECTION OF FUNDS FROM CREDITORS.** The **BROKER** acknowledges that unless otherwise provided by law no participating employee or beneficiary has the right to anticipate, alienate, sell, transfer, assign, encumber, or charge any part of the **FUND**, including contributions or benefits payable, and that no part of the **FUND** shall be liable for the debts of a participating employee or beneficiary, nor be subject in any manner to garnishment, attachment, lien, charge, or any other legal process. Such provisions shall apply to the funds held by the **BROKER** pending recapture by the **BOARD**.
- J. **SEVERABILITY.** If any part of this Agreement shall be held void, voidable, or otherwise unenforceable by any court of law or equity, nothing contained in this Agreement shall limit the enforceability of any other part.

**K. FLORIDA PUBLIC RECORDS LAW (Ch. 119, Fla. Stat.). BROKER will comply with public records laws, specifically to:**

- 1) Keep and maintain public records required by the **FUND** to perform the service.
- 2) Upon request from the **FUND** or its public records custodian, provide the **FUND** with a copy of the requested records or allow the records to be inspected or copied within a reasonable time at a cost that does not exceed the cost provided in this chapter or as otherwise provided by law.
- 3) Ensure that public records that are exempt or confidential and exempt from public records disclosure requirements are not disclosed except as authorized by law for the duration of the contract term and following completion of the contract if **BROKER** does not transfer the records to the public agency.
- 4) Upon completion of the contract, transfer, at no cost, to **FUND** all public records in possession of **BROKER** or keep and maintain public records required by the **FUND** to perform the service. If **BROKER** transfers all public records to **FUND** upon completion of the contract, **BROKER** shall destroy any duplicate public records that are exempt or confidential and exempt from public records disclosure requirements. If **BROKER** keeps and maintains public records upon completion of the contract, **BROKER** shall meet all applicable requirements for retaining public records. All records stored electronically must be provided to **FUND**, upon request from **FUND** or its public records custodian, in a format that is compatible with the information technology systems of **FUND**.
- 5) **IF BROKER HAS QUESTIONS REGARDING THE APPLICATION OF CHAPTER 119, FLORIDA STATUTES, TO ITS DUTY TO PROVIDE PUBLIC RECORDS RELATING TO THIS CONTRACT, CONTACT THE CUSTODIAN OF PUBLIC RECORDS: TIMOTHY JOHNSON, EXECUTIVE DIRECTOR-PLAN**

**ADMINISTRATOR, JACKSONVILLE POLICE & FIRE  
PENSION FUND, 1 west ADAMS ST., JACKSONVILLE,  
FL. 32202, (904) 255-7373, email: THJohnson@coj.net**

- L. **ENTIRE AGREEMENT.** This Agreement and any written amendments thereto constitute the entire understanding between the **BOARD** and the **BROKER** with respect to the services described herein and such understandings may be amended only by written instrument executed by both parties.

*Signature element on the following page.*



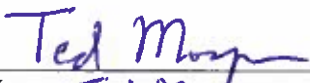
IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the day and year first above written.


For:  
**JACKSONVILLE POLICE AND FIRE  
PENSION FUND BOARD OF TRUSTEES**

\_\_\_\_\_  
Chairman:

\_\_\_\_\_  
Secretary:

For: **ABEL/NOSER, L.L.C.**

  
\_\_\_\_\_  
Name: Ted Morgan  
Title: CEO

  
\_\_\_\_\_  
Name: Peter L. Weiler  
Title: President

**ATTEST:**

\_\_\_\_\_  
Timothy H. Johnson  
Executive Director-Administrator  
Jacksonville Police and Fire Pension Fund



**CITY OF JACKSONVILLE, FLORIDA  
POLICE AND FIRE PENSION FUND**

**A Pension Trust Fund of the City of  
Jacksonville Financial Report**

**For the Fiscal Year Ended September 30, 2016**

**KBLD, LLC  
6960 Bonneval Rd, Suite 302  
Jacksonville, Florida 32216  
(904) 208-4659 Phone  
(904) 641-1171 Fax**

**City of Jacksonville, Florida  
Police and Fire Pension Fund Financial Report  
For The Fiscal Year Ended September 30, 2016**

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DATE

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees of the Police and Fire Pension Fund  
Jacksonville, Florida

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the City of Jacksonville, Florida Police and Fire Pension Fund (Fund), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Fund, as of September 30, 2016, and the respective changes in the fiduciary net position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 3-6 and pages 23-27, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated \_\_\_\_\_, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

KBLD, LLC

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

We are pleased to provide this overview and analysis of the financial activities of the Jacksonville Police and Fire Pension Fund (Fund) during the fiscal year ended September 30, 2016. This section presents management's discussion and analysis of key financial performance indicators in a narrative format.

### **FINANCIAL HIGHLIGHTS**

- The fiduciary net position of the Fund as of the fiscal year ended September 30, 2016, was \$1,613,043,824. The fiduciary net position, which is held in trust for pension benefits, is available to meet the Fund's ongoing obligations to plan participants and their beneficiaries.
- The net position represents an increase of \$175,267,193 or 10.87%. The increase was largely a result of favorable investment returns available in the financial markets.
- The Fund's ongoing funding objective is to meet long-term benefit obligations through contributions, investment income, and the receipt of various revenue sources. As of September 30, 2016, the funded ratio for the Fund was approximately 45.24% which compares to the September 30, 2015 funded ratio of 42.68%. In general, the current funded ratio indicates that for every dollar of benefits due, the Fund has approximately \$45.27 of assets to cover it.
- Revenues (additions to the fiduciary net position) other than investment income for the 2016 fiscal year were \$181,961,280, which comprises member and employer contributions of \$165,325,232, and other additions of \$16,636,048. This compares to revenues other than investment income in the amount of \$178,551,888 in the prior fiscal year. This 2% increase was largely attributable to a supplemental payment of \$5,000,000 from the City to pay down the unfunded liability.
- Net investment income (part of additions to fiduciary net position) for the 2016 fiscal year was \$153,879,649 compared to net investment loss in the amount of \$63,531,291 that was recorded in the prior fiscal year.
- Expenses (deductions in fiduciary net position) not related to investment activities for the 2016 fiscal year increased from \$150,987,677 to \$163,245,229 or approximately 8%.

### **OVERVIEW OF FINANCIAL STATEMENTS**

The following discussion and analysis is intended to serve as an introduction to the Fund's financial statement, which are comprised of these components: 1) statement of fiduciary net position, 2) statement of changes in fiduciary net position, 3) notes to the financial statements, and 4) required supplementary information. The information available in each of these sections is briefly summarized as follows:

- 1) The statement of fiduciary net position is a snapshot of account balances at the end of the fiscal year. It indicates the assets available for future payments to retirees and beneficiaries and any current liabilities that are owed at this time.
- 2) The statement of changes in fiduciary net position provides a view of current year additions to and deductions from the resources of the Fund during the fiscal year.

Both statements are presented in compliance with Governmental Accounting Standards Board (GASB) pronouncements. These pronouncements require certain disclosures and reporting standards. The Fund complies with all material requirements of these pronouncements.

The statement of fiduciary net position and the statement of changes in fiduciary net position report information about the Fund's financial activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the basis of accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All realized and unrealized gains and losses are shown on investments, and all property and equipment (i.e. fixed assets) are depreciated over their useful lives.

These two statements report the Fund's fiduciary net position held in trust for pension benefits (the difference between assets and liabilities) as one way to measure the Fund's financial position. Over time, increases and decreases in the Fund's fiduciary net position are one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring the Fund's overall financial health (See the Fund's financial statements on pages 7 - 8 of this report).

- 3) Notes to the financial statements provide additional Information that is essential to a full understanding of the data provided in the financial statements (see notes to financial statements on pages 9 - 23 of this report).

In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the Fund's progress in funding its obligations to provide pension benefits to members (see required supplementary information on pages 24 - 28 of this report). Management's discussion and analysis described herein is additionally classified as required supplementary information for reporting and auditing purposes even though it is not presented in the required supplementary information section of this report.

### Condensed Statement of Fiduciary Net Position

	September 30,		Increase (Decrease) 2016/2015
	2016	2015	
Current assets	\$ 49,793,025	\$ 38,817,069	\$ 10,975,956
Investments	1,575,485,127	1,403,418,715	172,066,412
Securities lending collateral	92,760,152	141,105,101	(48,344,949)
Capital assets	6,751	17,683	(10,932)
Total assets	1,718,045,055	1,583,358,568	134,686,487
Deferred outflows of resources	112,110	273,082	(160,972)
Current liabilities	11,665,471	4,259,802	7,405,669
Securities lending obligations	92,760,152	141,105,101	(48,344,949)
Long-term liabilities	687,718	490,116	197,602
Total liabilities	105,113,341	145,855,019 *	(40,741,678)
Total fiduciary net position	\$ 1,613,043,824	\$ 1,437,776,631	\$ 175,267,193

### Condensed Statement of Changes in Fiduciary Net Position

	September 30,		Increase (Decrease) 2016/2015
	2016	2015	
Plan member contributions	\$ 12,830,861	\$ 12,061,321	\$ 769,540
Employer contributions	152,494,371	154,664,522	(2,170,151)
Other additions	16,636,048	11,826,045	4,810,003
Net investment income	153,879,649	(63,531,291)	217,410,940
Net securities lending activities	433,493	646,659	(213,166)
Total additions to fiduciary net position	336,274,422	115,667,256	220,607,166
Benefit payments	159,726,009	148,633,308	11,092,701
Administrative expenses	3,519,220	2,354,369	1,164,851
Total deductions to fiduciary net position	163,245,229	150,987,677	12,257,552
Change in fiduciary net position	173,029,193	(35,320,421)	208,349,614
Fiduciary net position available for benefits - beginning of year, previously reported	1,437,776,631	1,473,097,052	(35,320,421)
Prior period adjustment	2,238,000	-	2,238,000
Fiduciary net position available for benefits - beginning of year, restated	1,440,014,631	1,473,097,052	(33,082,421)
Fiduciary net position available for benefits - end of year	\$ 1,613,043,824	\$ 1,437,776,631	\$ 175,267,193



## FINANCIAL ANALYSIS

The Fund provides retirement benefits to police officers and firefighters employed by the Consolidated City of Jacksonville (City). The pension benefits, which are provided by the Fund, are funded by member and employer contributions, by earnings on investments, and by various revenue sources. The Fund's fiduciary net position held in trust for benefits at September 30, 2016 was \$1,613,043,824, an increase of \$175,267,193 or 11% from \$1,437,776,631 at September 30, 2015. The increase was largely a result of favorable investment returns available in the financial markets.

For the 2016 fiscal year, employer and member contributions were \$165,325,232 representing a decrease of 1% over the \$166,725,843 recorded during the 2015 fiscal year. The decrease in the level of pension contributions during fiscal year 2016 resulted from the amount of contribution by the City based on the actuary study. The Fund recognized net investment income of \$153,879,649 for the 2016 fiscal year, compared with a net investment loss of \$63,531,291 for the 2015 fiscal year. Other additional revenues recorded by the Fund are represented by: thirty percent of fines and court costs from charges of violations held in Duval County court and parking fines \$832,536, Florida Chapter 175 and 185 premium taxes \$10,680,624, supplemental payment from City to reduce unfunded liability \$5,000,000, and miscellaneous revenues \$122,888. Miscellaneous revenues consisted of commissions recapture \$79,585, sales of surplus, lost, abandoned and unclaimed property held by the Office of Sheriff \$30,796, investment security settlements \$9,440, and de minimis revenue \$3,067. For the 2016 fiscal year, these other additions of revenue sources produced revenues in the amount of \$16,636,048 for the Fund, a \$4,810,004 or 41% increase of as compared to the \$11,826,045 recorded during the 2015 fiscal year.

Deductions from the Fund's fiduciary net position held in trust for benefits included mainly retirement and survivor benefits, DROP payments, refunds of contributions and administrative expenses. For the 2016 fiscal year, retirement and survivor benefits (including DROP) were \$159,726,009. Administrative expenses during the 2016 fiscal year were \$3,519,220 versus \$2,354,369 in the prior fiscal year.

At September 30, 2016, the Fund held \$1,053,394,238 in U.S. equity, international equity securities and MLP's Energy, an increase of \$137,035,698 or 14.95% from the \$916,358,540 held at September 30, 2015. The Fund's money managers administering U.S. equity, international equity securities and MLP's Energy earned returns of approximately 13.47%, 12.05% and 14.53%, respectively, for the 2016 fiscal year compared to the Fund's benchmark return of 14.96%, 9.80% and 10.12%, respectively, on such securities.

At September 30, 2016, the Fund held \$326,147,367 in U.S. fixed income securities, an increase of \$13,960,018 or 4.47% from the \$312,187,349 held at September 30, 2015. The Fund's money managers administering U.S. fixed income securities returned approximately 5.69% for the 2016 fiscal year, compared to the Fund's benchmark return of positive 5.19% on such securities.

At September 30, 2016, the Fund held \$189,585,522 in a commingled U.S. real estate investment trust, an increase of \$16,638,142 or 9.6% from the \$172,947,380 held at September 30, 2015. The money manager administering real estate products for the Fund earned a return of 9.83% for the 2016 fiscal year, compared to Fund's benchmark return of 10.09% on such Investments.

At September 30, 2016, the Fund held \$28,252,353 in short-term investments, which represent an increase of \$3,643,673 or 14.8% compared to the \$24,608,680 value of short-term Investments held at September 30, 2015. Short-term Investments generally represent liquid assets that are held by investment counseling firms and awaiting investment decisions.

## **CONTACTING THE FUND'S FINANCIAL MANAGEMENT**

The Financial report is designed to provide citizens, taxpayers, fund participants and other interested parties with an overview of the Fund's finances and the prudent exercise of the Board's oversight. If you have any questions regarding this report or need additional financial information, please contact the Fund's Executive Director-Administrator, One West Adams Street, Suite 100, Jacksonville, Florida 32202-3616.

DRAFT

**City of Jacksonville, Florida  
Police and Fire Pension Fund  
Statement of Fiduciary Net Position  
September 30, 2016**

**ASSETS**

Cash and short-term investments	\$ 3,263,098
Due from the City	5,651,397
Other receivables	10,761,896
Interest and dividends receivable	1,782,528
Recoverable taxes	78
Prepaid assets	81,675
Short-term investments	28,252,353
Long-term investments	
Fixed income securities	326,147,367
Domestic and international equities	1,053,394,238
Real estate	195,943,522
Property, plant, furniture and equipment, net	6,751
Securities lending collateral	92,760,152
Total assets	<u>1,718,045,055</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows related to pension, net	<u>112,110</u>
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**LIABILITIES**

Due to the City	7,000,000
Accounts payable	1,533,688
Accrued pension pay and wages payable	3,045,699
Compensated absences - current	21,278
Compensated absences - long-term	45,174
Net pension liability	582,196
Other post employment benefits	60,348
Other liabilities	64,806
Securities lending obligations	92,760,152
Total liabilities	<u>105,113,341</u>
Fiduciary net position available for pension benefits	<u><u>\$ 1,613,043,824</u></u>

The accompanying notes are an integral part of these statements.

**City of Jacksonville, Florida**  
**Police and Fire Pension Fund**  
**Statement of Changes in Fiduciary Net Position**  
**For the Year Ended September 30, 2016**

**ADDITIONS**

Contributions:

Plan member	\$ 11,633,724
Plan member buybacks and pension transfers	1,197,137
Employer	149,499,492
Employer pension transfers	2,994,879
Total contributions	<u>165,325,232</u>

Other additions:

Court fines and other penalties	832,536
State insurance contributions	10,680,624
Supplemental payment	5,000,000
Miscellaneous	122,888
Total other additions	<u>16,636,048</u>

Investment income:

Rental and parking revenue	704,536
Net appreciation in fair value of investments	131,355,243
Interest and dividends	29,406,337
Investment expenses	(7,297,110)
Rental expenses	(289,357)
Net investment income	<u>153,879,649</u>

Securities lending activities:

Lending revenue	577,398
Lending expense	(143,905)
Total securities lending activities	<u>433,493</u>

Total additions to fiduciary net position

336,274,422

**DEDUCTIONS**

Pension benefits remitted	129,091,476
DROP benefits remitted	30,249,696
Refunds of contributions	384,837

Administrative expenses:

Personnel services	757,311
Professional services - non investment	1,242,822
Building rent - office space	258,000
Central services	265,713
Supplies	9,582
Depreciation	10,932
Judgements and settlements	570,200
Other services and charges	404,660
Total administrative expenses	<u>3,519,220</u>

Total deductions to fiduciary net position

163,245,229

Change in fiduciary net position

173,029,193

Fiduciary net position available for benefits - beginning of year, previously reported

1,437,776,631

Prior period adjustment

2,238,000

Fiduciary net position available for benefits - beginning of year, restated

1,440,014,631

Fiduciary net position available for benefits - end of year

\$ 1,613,043,824

The accompanying notes are an integral part of these statements.

**City of Jacksonville, Florida  
Police and Fire Pension Fund  
Notes to the Financial Statements  
September 30, 2016**

**1. Description of Plan**

The City of Jacksonville, Florida (City) Police and Fire Pension Fund (Fund) is a single-employer contributory defined benefit pension plan covering all full-time civil service members of the City Police and Fire Departments. Qualified membership is further limited to only police officers and firefighters. The Fund is administered solely by a five-member board of trustees.

The Fund's membership consists of:

Retirees and beneficiaries currently receiving benefits	2,411
Deferred Retirement Option Program (DROP) participants	475
Terminated employees entitled to benefits but not yet receiving them	77
Active plan members	<u>2,294</u>
Total participants	<u><u>5,257</u></u>

**Group I members**

For members with five or more years of service as of the effective date of Ordinance 2015-304-E, those members shall be entitled to a time service retirement benefit equal to a maximum of 80 percent of the average salary (1) received by the member for the 52 pay periods immediately preceding the time of retirement, upon the completion of 30 years of credited service. For each year prior to the thirtieth year of service that a member retires, the 80 percent retirement benefit shall be reduced by two percent, of the average salary (1) received by the member for the 52 pay periods immediately preceding the time of retirement, with the minimum normal retirement benefit being 60 percent after completion of 20 years of credited service.

For members with fewer than five years of service as of the effective date of Ordinance 2015-304-E, those members shall be entitled to a time service retirement benefit equal to a maximum of 80 percent of the average salary (1) received by the member for the 104 pay periods immediately preceding the time of retirement, upon the completion of 30 years of credited service. For each year prior to the thirtieth year of service that a member retires, the 80 percent retirement benefit shall be reduced by two percent, of the average salary (1) received by the member for the 104 pay periods immediately preceding the time of retirement, with the minimum normal retirement benefit being 60 percent after completion of 20 years of credited service. However, in no event shall the average salary be less than it would have been using the 52 pay periods ending on the effective date of Ordinance 2015-304-E.

**Group II members hired on or after June 19, 2015**

Upon reaching 30 years of credited service, Group II members shall be entitled to a time service retirement with a benefit equal to 2.5 percent of average salary multiplied by the number of years of credited service, but not exceeding a maximum of 75 percent of average salary. The term average salary as used in the foregoing sentence means the average salaries (2) received by the Group II member during the 130 bi-weekly pay periods immediately preceding the date of retirement. The annual retirement benefit shall not exceed \$99,999.99, which amount shall be adjusted January 1 of each year beginning with the first January after the effective date of Ordinance 2015-304-E, by the most recent cost of living adjustment applicable to recipients of Social Security retirement benefits, as determined by the U.S. Social Security Administration each calendar year, but not exceeding 1.5 percent.

Employees in both categories may alternatively select a 100% payout of member contributions to the Fund without interest upon withdrawal from the Fund. Early retirement, disability, death and other benefits are also provided.

**City of Jacksonville, Florida  
Police and Fire Pension Fund  
Notes to the Financial Statements  
September 30, 2016**

Other benefits based on eligibility

Share Plan

Members of the Fund also participate in a supplemental Share Plan which is funded by insurance premium taxes received pursuant to Florida Statute 175.351(1)(b) and 185.35(1)(b). Florida Statutes Chapter 175.351(1)(b) defines the Fire Share Plan and Florida Statutes Chapter 185.35 defines the Police Share Plan and the methodology for funding each plan. The Share Plan is in addition to any other benefits and nothing herein shall in any way affect any other benefits that now exist. The Board of Trustees provides for all assets of the Share Plan to be held in trust solely for the use of paying the benefits provided and expenses of the Share Plan. Membership of the Share Plan consists of all firefighters and police officers in active service on or after June 9, 2015, excluding retired members and people who have entered the DROP. Each year the premium tax monies are allocated to the share accounts maintained for each firefighter and police officer, and the accounts earn interest over time. Upon retirement members receive his or her share account balance.

Terminal Leave Conversion Program (TLCP)

The Fund has a program for retirees to participate in the TLCP upon retirement, which was previously closed to new participants. There are two remaining retirees that elected to participate, whereby the member's credited Terminal Leave and Retirement Leave account balance was transferred into the Fund. The account balance is then used to pay for biweekly health-care premiums. The member's TLCP balance in the Fund continues to accrue interest until the member's individual account balance is drawn to zero.

Deferred Retirement Option Plan (DROP)

Eligible members of the Fund may elect to participate in the DROP. Upon election to participate the member's credited service and final average salary are frozen for purposes of determining pension benefits. The member continues employment with the City for a defined period of time not to exceed 60 months. The deferred monthly retirement benefits under the DROP accrue in the Fund plus interest on behalf of the member. Upon retirement, the member receives his or her DROP distribution or lump sum and bi-weekly pension benefit.

The State of Florida requires funding of pension contributions to be made based upon an actuarial valuation. The most recent full actuarial valuation report available for distribution is dated October 1, 2016. The City Council has the authority to amend its contribution to the Fund but not less than the minimum state requirement.

## **2. Summary of Significant Accounting Policies**

### **A. Basis of Accounting**

The Fund's financial statements have been prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and collection is reasonably assured, and expenses are recognized when occurred, if measurable. Contributions from the Fund's members and the City are recognized as additions in the period in which the contributions are due. State contributions are recognized when received. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**City of Jacksonville, Florida  
Police and Fire Pension Fund  
Notes to the Financial Statements  
September 30, 2016**

**B. Cumulative Effect of Change in Accounting Principle**

The Fund recorded an increase to the beginning net position balance as a result of adopting Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Recognition and measurement changes were applied prospectively since the Fund presents current and not comparative financial statements. The net position has been restated as follows:

Net position, September 30, 2015, as previously reported	\$ 1,437,776,631
Prior period adjustment:	
Capital assets - investment value	2,238,000
Net position, October 1, 2015, as restated	<u>\$ 1,440,014,631</u>

**C. Basis of Presentation**

The accompanying financial statements are presented in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans* and the Codification of Governmental Accounting and Financial Reporting Standards which covers the reporting requirements for defined benefit pensions established by a governmental employer.

**D. Methods Used to Value Investments and Cash Equivalents**

Highly liquid investments with short maturities, typically less than three months but no more than one year when purchased, are considered to be cash equivalents. Such amounts are recorded at cost which approximates market value.

Equities securities traded on a national or international exchange are reported at current quoted fair values.

Bonds are other fixed assets are primarily reported at fair values obtained from independent pricing services.

Mortgages are valued on the basis of future principal and interest payments are discounted at prevailing interest rates for similar instruments.

Direct investments in real estate are valued based on independent appraisals made every year or according to fund agreement.

Real estate partnerships are reported at values provided by general partners. These values are based on discounted cash flows, comparative sales, capitalization rates applied to net operating income, or if none of the preceding fit a property's attributes and strategy, at cost.

For various alternative investments (private equity, absolute return strategies, opportunistic funds, and real assets) where no readily ascertainable fair value exists, management in consultation with its investment advisors will value these investments in good faith based upon reported net asset values, cash flow analysis, purchases and sales of similar investments, new financings, economic conditions, other practices used within the industry, or other information provided by underlying investment advisors. Because of the inherent uncertainty in privately held securities, the fair value may differ from the values that would have been used if a ready market for such securities existed, and the difference can be material.

**City of Jacksonville, Florida  
Police and Fire Pension Fund  
Notes to the Financial Statements  
September 30, 2016**

**E. Investment Policy**

The pension plan's policy for the allocation of invested assets is established by a majority vote of the Board. The Board pursues an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The selection of asset classes is limited by statute and each asset class is further diversified by style, and the use of both active and passive management. The policy discourages the use of cash equivalents, except for liquidity purposes, and refrains from dramatically shifting asset class allocations over short time spans. The following is the Board's asset allocation policy:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Guidelines</b>
Domestic equity	39.0%	30-40%
International equity	20.0%	15-25%
Fixed income	20.5%	14-24.5%
Real estate	15.0%	10-20%
MLPs/Energy	5.5%	0-10%
Cash	0.0%	0-5%
Total	100.0%	100.0%

**F. Furniture and Equipment**

Furniture and equipment are carried at historical cost and are depreciated using the straight-line method of depreciation over their respective useful lives.

**G. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Senior Staff Voluntary Retirement Plan (SERP) has one item that meets this criterion, net difference between projected and actual earning on pension plan investments. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The SERP has one item that meets this criterion, the difference between projected and actual earning on pension investments. These deferred inflows and deferred outflows are aggregated and reported as net deferred outflows of resources.

**H. Recently issued accounting standards**

GASB Statement No. 72, *Fair Value Measurement and Application*, provides guidance for determining a fair value measurement of financial reporting purposes. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The Fund implemented this standard beginning with financial statements as of and for the fiscal year ended September 30, 2016.



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GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* - narrows the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, to exclude pensions provided to defined benefit pension plan meeting specific criteria; establishes new guidance for these employers, including separate requirements for recognition and measurement of pension expense or expenditures and liabilities, note disclosures and required supplementary information (RSI).

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* - establishes new criteria to continue amortized cost accounting for certain external investment pools in light of recent SEC changes to money market fund criteria.

GASB Statement No. 80, *Blending Requirements for Certain Component Units* - an amendment of GASB Statement No. 14 - establishes an additional blending requirement for the financial statement presentation of component units.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* - establishes accounting and financial reporting standards for irrevocable split-interest agreements created through trusts - or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements - in which a donor irrevocably transfers resources to an intermediary. The intermediary administers these resources for the unconditional benefit of a government and at least one other beneficiary.

GASB Statement No. 82, *Pension Issues* - an amendment of GASB Statements No. 67, No. 68, and No. 73 - establishes accounting and financial reporting requirements for pensions provided to the employees of state or local governmental employers. This Statement also establishes financial reporting requirements for pension plans administered through trusts that meet the criteria in paragraph 3 of Statement 67.

#### **I. Use of Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **J. Risk and Uncertainties**

Contributions to the Fund and the actuarial information included in the RSI are reported based on certain assumptions pertaining to the interest rates, inflation rates and member compensation and demographics. Due to the changing nature of these assumptions, it is reasonably possible that changes in these assumptions may occur in the near term and could be material to the financial statements.

### **3. Reserve Accounts**

An agreement between the Fund and the City established June 9, 2015 (Ordinance 2015-304-E) the Unfunded Actuarial Liability Reserve Account (UALPA) which consists of funds from the City Budget Stabilization Account (CBSA) and Enhanced Benefit Account (EBA) and the Supplemental Account (SUPA).

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- UALPA was established to make payments towards unfunded accrued liability conditioned by City making contributions to the Fund in excess of any annual statutorily required payments.
- The CBSA was established to account for contributions in excess of current funding requirements.
- The EBA was established to account for State Chapter 175 and 185 funds to pay down the unfunded liability as a voluntary contribution and/or fund Share Plan and/or pay annual discretionary bonus payment to retiree.
- The SUPA is established to provide additional payments to the unfunded liability.

As of September 30, 2016 the balance for the various accounts are: UALPA \$71,733,907, CBSA \$5,085,300, EBA \$5,278,118 and SUPA \$10,000,000.

The SERP reserve account was established September 20, 2000 by the Board of Trustees to account for employee and employer contributions and payments for defined contribution plan for senior staff. At September 30, 2016 the balance was \$4,102,201.

The Share Plan was established June 9, 2015 (Ordinance 2015-304-E) by the City and Fund to provide supplemental benefits to eligible active members. At September 30, 2016 the balance was \$3,445,831.

#### **4. Deferred Retirement Option Program (DROP)**

The DROP is a form of retirement that allows an employee with at least 20 years of service to continue working for a maximum period of five (5) additional years while accumulating a savings account consisting of the retirement benefits that would have been received had the employee actually retired.

For Members with 20 or more years of creditable service, as of the effective date of Ordinance 2015-304-E, such interest shall produce an annual rate of return of 8.40%. The individual's retirement amount is calculated based on parameters when the employee enters the DROP.

For Members with less than 20 years of service as of the effective date of Ordinance 2015-304-E, such interest shall accrue based on the money-weighted rate of return or internal rate of return as presented in the plan's most recent audited financial statements; provided however, that the minimum interest shall be 2.0% and the maximum interest shall be 14.4%. The money weighted return of expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested. The money weighted rate of return for the fiscal year ended September 30, 2016 was 10.00%.

At the end of the DROP period, the retiree has the option to withdraw all or part of their DROP balance or leave the balance in the interest earning account within the Fund and then subsequently withdrawing equal bi-weekly amounts over a period of time selected by the retiree, up to the maximum time limit set by IRS regulations. The DROP balance as of September 30, 2016 is \$310,283,837.

#### **5. Deposits and Investments**

For the year ended September 30, 2016, the annual money weighted rate of return on pension plan investments was 10.00%. This expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

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The Fund participates in a pooled cash account with other funds at the City. At September 30, 2016, the carrying amount of cash on hand and on deposit with banks, including interest-bearing accounts, was \$3,263,097.

Deposits and investments of the Fund which have been transferred to the pension custodians are held separately from those of other City funds and are required to be administered by nationally recognized investment counseling firms. At September 30, 2016, the carrying amount of these deposits and investments was \$1,428,972,660. Monies which are placed on deposit with financial institutions in the form of demand deposit accounts, time deposit accounts, and certificates of deposit are defined as public deposits.

The Fund is authorized to invest in certificates of deposit, obligations of the U.S. Treasury, its agencies and instrumentalities, repurchase and reverse repurchase agreements, the local government surplus fund's trust fund, obligations of the City, the State of Florida, fixed income obligations issued by foreign governments if the obligations are rated Investment grade by at least one nationally recognized rating service, commercial paper of prime quality of the highest letter and numerical rating as provided for by at least one nationally recognized rating service, bankers' acceptances, group annuity contracts, corporate bonds, including collateralized mortgage obligations, preferred stocks, common stocks, foreign securities, securities lending transactions, and real estate investments. For the comprehensive list of available investments, the Statement of Investment Policy approved by the Board of Pension Trustees on August 20, 2016 should be referenced.

The Fund purchased land, an office building with related improvements, and a parking garage in fiscal year 1999. Upon purchase of the parking garage, the Fund took assignment of the existing management agreement and receives rental revenue from parking tenants. This asset is reported at its fair value, as determined by appraisals, and has been classified as an investment, as it is an income-producing asset.

During the fiscal year ended September 30, 2016, the office building and parking garage generated \$704,536 in rental revenue.

The table below shows the Fund's investments by type as of September 30, 2016:

Cash and cash equivalents:	
Short term investments	<u>\$ 28,252,353</u>
Fixed:	
Commercial mortgage backed	2,723,354
Corporate bonds	79,501,458
Government bonds	15,651,951
Government mortgage backed securities	61,891,776
Funds-other fixed income	<u>166,378,828</u>
	<u>326,147,367</u>
Equity:	
Common stock	1,051,476,822
Preferred	<u>1,917,416</u>
	<u>1,053,394,238</u>
Real estate	<u>195,943,522</u>
Total	<u><u>\$ 1,603,737,480</u></u>

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**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest values will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its value to changes in market interest rates. As a means of limiting its exposure to interest rate risk, the Fund diversifies its investments by security type and limits holdings in any one type of investment with any one issuer with various durations of maturities.

The Fund holds certain investments in government mortgage-backed securities. Generally these are securities whose cash flows are backed by the principal and interest payments of a set of loans and payments are typically made monthly over the lifetime of the underlying loans. These types of investments are subject to various risks which have the potential to result in a decline in the value of the investments. For example, credit risk can be affected by borrowers defaulting on their loans. In addition, a change in interest rates may result in mortgage borrowers refinancing their loans or payment lives may change which will impact the life of the security. If the investments are backed by risky loans or sub-prime home loans for which the monthly interest payments fall, there is a potential for a decline in the value of the these investments.

Information about the sensitivity of the fair value of the Fund's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Fund's investments by maturity at September 30, 2016:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Commercial Mortgage-Backed	\$ 2,723,354	32
Corporate Bonds	79,501,458	9
Government Bonds	15,651,951	12
Government Mortgage Backed Securities	61,891,776	21
Total Fair Value	<u>\$ 159,768,539</u>	
Portfolio Weighted Average Maturity		14.36

Bonds not due at a single maturity date have been included in the above table in the year of final contractual maturity. Actual maturities may differ from contractual maturities due to the exercise of prepayment options.

**Foreign Currency Risk**

Foreign currency is the risk that changes in exchange rates will adversely affect the fair value of investment as of September 30, 2016, the Fund has no foreign currency risk as all investments are in the U.S. dollars.

**Credit and Concentration Risk**

Concentration of credit risk is the risk of loss attributed to the multitude of the Fund's investment in a single insurer. The Fund's investment policy was designed to mitigate both credit and concentration risk by providing specific guidance as to the weighting and integrity of the deposit and investment instruments. The Fund places no limit on the amount it may invest in any one issuer.

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As of September 30, 2016, the following Organizations held 5% or more of the Plan's fiduciary net position:

	<u>Market Value</u>	<u>Market Value as a Percentage</u>
Fixed:		
Northern Trust Company	\$ 125,230,036	15.54%
Equity:		
Northern Trust Company	248,448,696	7.83%
Baile Gifford	97,966,173	6.13%
Acadian	88,840,511	5.56%
Total equity	435,255,380	
Real estate:		
JP Morgan Strategic Property Fund	144,301,596	9.02%
Total	<u>\$ 704,787,012</u>	

As of September 30, 2016 the Fund's debt security investments credit risk are in the following table:

	<u>Fair Value Moody's</u>
Aaa	\$ 21,136,091
Aa	3,055,971
A	14,093,822
Baa	41,057,564
Ba	6,148,263
B	7,758,725
Not Rated	200,122,546
Total	<u>\$ 293,372,982</u>

#### Custodial Credit Risk

Custodial risk for investments is the risk that, in the event of failure of the counterparty a transaction, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the Fund, and are held either by the counterparty or the counterparty's trust department or agent but not in the Fund's name. Consistent with the Fund's investment policy, the investments are held by the Fund's custodial bank and registered in the Fund's name. All of the Fund's deposits are insured and or collateralized by a financial institution separate from the Fund's depository financial institutions.

#### Securities Lending

The Fund, pursuant to a Securities Lending Authorization Agreement, has authorized, Northern Trust Company, acting as agent, to lend securities held in the portfolios with the intent of generating additional interest income. Northern Trust's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending.

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Securities are loaned against collateral that may include cash, U.S. government securities, and irrevocable letters of credit. Securities are loaned against collateral valued at a minimum of 102% of the market value of the securities plus any accrued interest. If the broker/dealer fails to return the security upon request, the custodian, acting as agent, will utilize the collateral to replace the security borrowed. When non-cash collateral is provided the collateral must be obligations issued or guaranteed by the U.S. Government or its agencies and instrumentalities. The Fund cannot pledge or sell these obligations in the absence of a default by the borrower.

The transaction establishes a rebate interest rate, which is due back to the broker/dealer upon return of the security. The cash is then invested short-term and the Fund and the custodian share in the incremental return available above the rebated interest rate. The short-term fixed income instruments can be invested in high quality, dollar denominated fixed income instruments, with a policy dollar-weighted, average maturity limit of less than thirty days.

As of September 30, 2016, the Fund maintained collateral on loaned securities of \$92,760,152 and earned a net income of \$433,493.

The following represents the balance relating to the securities lending transactions as of September 30, 2016:

Security Type	Fair Value Securities Lent for Cash	Cash Collateral Received	Securities Lent for Non-Cash Collateral	Securities Received as Collateral
US Corporate Fixed	\$ 10,755,732	\$ 10,985,515	\$ -	\$ -
US Equities	79,609,582	81,097,771	503,793	512,550
US Government Fixed	664,220	676,866	-	-
	<u>\$ 91,029,534</u>	<u>\$ 92,760,152</u>	<u>\$ 503,793</u>	<u>\$ 512,550</u>

## 6. Fair Value Measurements

The Fund categorizes its fair value measurements within the fair value hierarchy established by general accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Fund has the following recurring fair value measurement as of September 30, 2016:

	Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents:				
Short-term investments	\$ 28,252,353	\$ 28,252,353	\$ -	\$ -
Total cash and cash equivalents	<u>28,252,353</u>	<u>28,252,353</u>	<u>-</u>	<u>-</u>
Fixed:				
Commercial mortgage-backed	2,723,354	-	2,723,354	-
Corporate Bonds	79,501,458	-	79,501,458	-
Funds - other fixed income	166,378,828	-	166,378,828	-
Government bonds	15,651,951	-	15,651,951	-
Government mortgage-backed securities	61,891,776	-	61,891,776	-
Total fixed	<u>326,147,367</u>	<u>-</u>	<u>326,147,367</u>	<u>-</u>
Equity:				
Common stock	1,051,476,822	1,051,476,822	-	-
Preferred	1,917,416	1,917,416	-	-
Real estate	195,943,523	-	189,585,523	6,358,000
Total equity	<u>1,249,337,761</u>	<u>1,053,394,238</u>	<u>189,585,523</u>	<u>6,358,000</u>
Total investments by fair value level	<u>\$ 1,603,737,481</u>	<u>\$ 1,081,646,591</u>	<u>\$ 515,732,890</u>	<u>\$ 6,358,000</u>

**City of Jacksonville, Florida  
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## 7. Other Receivables

The other receivable balance below includes an amount for an allowance for doubtful accounts.

<u>Other Accounts Receivable</u>	<u>Allowance for Doubtful Accounts</u>	<u>Shown on Statement of Fiduciary Net Position</u>
\$ 10,784,322	\$ (22,426)	\$ 10,761,896

## 8. Net Pension Liability of the City

Total pension liability	\$ 3,345,515,259
Total Plan fiduciary net position	1,513,398,466
City's net pension liability	1,832,116,793
 Plan fiduciary net position as a percentage of the total pension liability	 45.24%

## 9. Actuarial Methods and Assumptions

The actuarial assumptions used in the October 1, 2016 valuation were based on the results of an actuarial experience study for the period October 1, 2011 – September 30, 2015.

Investment Yield	7.0% annually, including inflation
Salary increases	3.5%, including inflation
	Group I: 3% annually reduced to 2.5% for future service for actives with less than 20 years of service on June 19, 2015
Annual COLA	Group II: 1.5% annually
DROP Load	2% on active and DROP liabilities for interest greater than 7%
Payroll Increase	0.067% annually, actual 10 year average (2.5% COLA increase when allowed, adopted after the above experience study)

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The total pension liability in the October 1, 2016 actuarial report was based on the RP-2000, Generational Scale BB mortality rates. In the previous fiscal year, in the October 1, 2015 actuarial report was based on the RP-2014, combined Blue Collar, age set forward 2 years for males and 1 year for females, with MP-2014 Improvement Scale, generational, sex distinct mortality rates.

Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation as of September 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return (gross less 2.5% inflation)</u>
Domestic equity	5.4%
International equity	5.5%
Fixed income	1.3%
Real estate	4.5%
Cash	1.4%
MLPs/Energy	5.5%

**City of Jacksonville, Florida  
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These are combined to produce the 7% expected rate of return, or discount rate, by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (diversification and volatility also impact this).

The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

#### **10. Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the City, calculated using the discount rate of 7%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (6%) or 1% higher (8%) than the current rate:

	<b>1% Decrease (6%)</b>	<b>Current Discount (7%)</b>	<b>1% Increase (8%)</b>
City's net pension liability	\$ 2,270,273,985	\$ 1,832,116,793	\$ 1,479,775,059

#### **11. Tax Status**

The Fund obtained a determination letter on January 20, 1999, in which the Internal Revenue Service stated that the Fund, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Fund has been amended since receiving the determination letter. The Fund's administrator believes that the Fund is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, the Fund's administrator believes the Fund was qualified and the related trust was tax exempt as of September 30, 2016.

#### **12. Claims and Litigation**

The Fund is involved in various claims and litigation arising in the ordinary course of operations, most of which, in the opinion of the Fund's Administrator, will not have a material effect on the Fund's financial position.

#### **13. Pension Plans for Fund Employees**

The Fund sponsors a single-employer contributory defined benefit plan called the SERP that provides retirement, death, and disability benefits. The SERP is administered by the Fund's five member Board of Trustees and was adopted on September 20, 2000 and lastly amended on November 9, 2009. The Fund's Board of Trustees is responsible for establishing or amending the pension plan. As of September 30, 2015 this plan closed. The SERP currently has two retirees and one surviving spouse, and is closed to new members. There are no separately issued financial statements for the SERP.

The Fund also participates in the City of Jacksonville Retirement System (JRS). The JRS is a cost-sharing, multiple-employer, contributory defined benefit pension plan with a defined contribution alternative. The JRS is administered by a nine-member Board of Trustees that makes recommendations to the City Council. The Fund participates in the General Employee Pension Plan (GEPP) of the JRS. The Fund has seven employees participating in the contributory defined benefit pension plan and one employee participating in the defined contribution alternative. The financial statements for the JRS are included in the City's Comprehensive Annual Financial Report (CAFR).



**City of Jacksonville, Florida  
Police and Fire Pension Fund  
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**Senior Staff Voluntary Retirement Plan (SERP)**

1. **Plan Description** – The SERP provides vesting of benefits after five years of credited service. Members are eligible for normal retirement at age 65 with five years of service. Retirement benefits shall be equal to three percent of average final compensation which is based on the average for the last 24 months of compensation immediately preceding retirement for each year of credited service. Benefits shall be paid on a bi-weekly basis. Early retirement is at the age of 60 with five years of credited service; however, the benefits are reduced at the rate of 0.5% per month for each month that the member's retirement date precedes the attainment of age 65. A member may elect a deferred retirement upon the completion of five years of credited service, but delayed implementation under the provisions of normal retirement and early retirement above. The plan also provides for a delayed retirement benefit payable at age 70.5, disability retirement, and death benefits. A cost of living increase of 3% per year is provided to pensioners and their beneficiaries. Contributions are determined by Board of Trustees. No contributions were made for the year ended September 30, 2016.

2. **Net pension liability of the SERP -**

Total pension liability	\$ 4,684,398
Fiduciary net position	(4,102,201)
City's fiduciary net pension liability	582,197
 Fiduciary net position as a percentage of the total pension liability	 87.57%

3. **Pension Expense and Deferred Inflows and Outflows of Resources Related to Pensions**

For the year ended September 30, 2016, the SERP recognized pension expense of \$130,745. At September 30, 2016, the SERP reported \$112,110 of deferred outflows of resources related to pensions due to differences between projected and actual earnings on plan investments. The amount reported as deferred outflows related to pensions, net will be recognized in pension expense as follows:

Years Ending September 30,	Actual Investment Experience Net Deferred Outflows (Inflows) to be Recognized
2017	\$ 45,095
2018	45,095
2019	45,095
2020	(23,175)
Deferred outflows related to pension, net	<u>\$ 112,110</u>

**City of Jacksonville, Florida  
Police and Fire Pension Fund  
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**4. Actuarial Methods and Assumptions –**

Valuation Date	10/1/2016
Actuarial cost method	Individual Entry Age
Amortization method	Aggregate Method*
Asset valuation method	Market Value
Actuarial assumptions:	
Net investment rate of return**	7.00%, compounded annually
**Includes inflation at	2.50%
Projected salary increases	None
Mortality table in use	Pre and Post Retirement: All using RP-2000 Generational, Scale BB, with Female: 100% Annuitant White Collar Male: 10% Annuitant White Collar/90% Annuitant Blue Collar
Post-retirement benefit increase (COLA)	3.00%, compounded annually

\* The actuarial cost method used by the SERP is the Aggregate Method which does not have an explicit amortization method of period. Instead, the total cost is paid for over the expected future working lifetime.

The total SERP pension liability in the October 1, 2016 actuarial report was based on the RP-2000, Generational Scale BB mortality rates.

In the previous fiscal year, the total SERP pension liability in the October 1, 2015 actuarial report was based on the RP-2014 Blue Collar Annuitant mortality rates.

**5. Sensitivity of the SERP Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the SERP, calculated using the discount rate of 7%, as well as what the SERP's net pension liability would be if it were calculated using a discount rate that is 1% lower (6%) or 1% higher (8%) than the current rate:

	<b>1% Decrease (6%)</b>	<b>Current Discount (7%)</b>	<b>1% Increase (8%)</b>
SERP net pension liability	\$ 1,088,347	\$ 582,197	\$ 156,036

**14. Supplemental Information**

**Minimum Required Contribution**

In accordance with Ordinance 2016-504-E for fiscal year 2017 the City will contribute the greater of 119.60% of covered payroll or \$165,771,919 and contribute an additional \$10,000,000 to the Fund.

**15. Subsequent Event**

Management has evaluated subsequent events through \_\_\_\_\_, the date on which the financial statements were available to be issued.

## **REQUIRED SUPPLEMENTARY INFORMATION**

DRAFT

**City of Jacksonville, Florida Police and Fire Pension Fund**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**for the Senior Staff Voluntary Retirement Plan**  
**For the Year Ended September 30, 2016**

	2016	2015	2014	2013	2012	2011
Total pension liability						
Service cost (BOY)	\$ -	\$ (56,578)				
Interest on total pension liability	298,576	281,837				
Experience deviations including buybacks	89,627	-				
Changes of benefit terms	26,951	-				
Changes of assumptions	149,469	153,704				
Benefit payments, including refunds of member contributions	(286,346)	(109,482)				
Net change in total pension liability	278,277	269,481				
Total pension liability -- beginning	4,406,121	4,136,640				
Total pension liability -- ending(a)	<u>\$ 4,684,398</u>	<u>\$ 4,406,121</u>				
Plan fiduciary net position						
Contributions--member	\$ -	\$ 21,520				
Net investment income	386,253	(166,821)				
Benefit payments, including refunds of member contributions	(286,346)	(109,482)				
Net change in plan fiduciary net position	99,907	(254,783)				
Plan fiduciary net position -- beginning	4,002,294	4,257,077				
Plan fiduciary net position -- ending(b)	<u>4,102,201</u>	<u>4,002,294</u>				
Plan net pension liability--ending(a)-(b)	<u>\$ 582,197</u>	<u>\$ 403,827</u>				
Plan fiduciary net position as a percentage of the total pension liability	87.57%	90.83%				
Covered-employee payroll	\$0	\$0				
City's pension liability as a percentage of covered-employee payroll	N/A	N/A				

**City of Jacksonville, Florida Police and Fire Pension Fund**  
**Schedule of Contributions for the Senior Staff Voluntary Retirement Plan**  
**For the Year Ended September 30, 2016**

FYE	Actuarially determined City contribution	Contribution in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered employee payroll	Contribution as a percentage of covered employee payroll
2016	\$ -	\$ -	\$ -	\$ -	N/A
2015	-	-	-	-	N/A
2014	28,098	7,205	20,893	298,471	2.41%
2013	28,098	248,016	(219,918)	289,786	85.59%
2012	523,102	117,460	405,642	354,971	33.09%
2011	142,308	101,004	41,304	484,071	20.87%
2010	134,889	247,476	(112,587)	506,043	48.90%

Valuation date: Actuarially determined contribution rates are calculated as of October 1, each year prior to the end of the fiscal year in which contributions are reported.

Methods used to determine contribution rates:

Actuarial cost method:	Individual entry age
Amortization method:	Aggregate method
Asset valuation method:	Market Value
Inflation:	2.5%
Investment rate of return:	7.00%, including inflation, compounded annually
Cost of living adjustments:	3.00%, compounded annually
Mortality Table in use	Postretirement: RP-2014 Blue Collar Annuitant Postretirement: RP-2014 Disabled Annuitant All tables are set forward 2 years for males and 1 year for females, use MP-2014 Improvement Scale, 2D generational, separate by sex.
Age differences for spouses:	Females are assumed to be 3 years younger than males
Percent married	100%

**City of Jacksonville, Florida Police and Fire Pension Fund**  
**Schedule of City Contributions**  
**Last 10 Fiscal Years and**  
**For the Year Ended September 30, 2016**

FYE	Actuarially determined City contribution	Contribution in relation to the actuarially determined contribution	Contribution deficiency (excess) *	Covered employee payroll	Contribution as a percentage of covered employee payroll
2016	\$ 149,499,492	\$ 149,499,492	\$ -	\$ 135,599,741	110.25%
2015	153,603,996	153,935,565	(6,726,082)	132,735,243	110.88%
2014	142,432,577	149,158,659	(22,583,482)	134,521,216	93.59%
2013	99,996,835	122,580,317	3,130,318	130,972,174	52.84%
2012	73,729,000	70,598,682	1,162,380	133,611,459	50.95%
2011	77,065,314	75,902,934	(5,014,820)	148,967,906	52.01%
2010	77,182,058	82,196,878	329,448	158,046,680	32.29%
2009	50,564,207	50,234,759	442,776	155,557,729	32.62%
2008	48,806,879	48,364,103	(4,358,257)	148,276,743	30.91%
2007	39,849,713	44,207,970	2,105,596	143,006,154	26.82%

\* Contribution deficiency (excess) is assigned to the City Budget Stabilization Account

Valuation date: Actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods used to determine contribution rates:

Actuarial cost method:	Individual entry age
Amortization method:	Constant percentage of payroll increasing 3.25% annually, Closed
Remaining amortization period:	21 years
Asset valuation method:	Market Value
Inflation:	2.5%
Salary increases:	3.5%, including inflation
Investment rate of return:	7.0%, including inflation
Cost of living adjustments:	3.0%, compounded annually
Mortality Table in use	RP-2014, Blue Collar, age set forward 2 years for males and 1 year for females with MP-2014 Improvement Scale, generational, separate by sex.
Age differences for spouses:	Females are assumed to be 3 years younger than males
Percent married	Assume 75% of active employees are married, use tax reported status for inactive

**City of Jacksonville, Florida Police and Fire Pension Fund**  
**Schedule of Investment Returns**  
**Annual money-weighted rate of return, net of investment expenses**  
**For the Year Ended September 30, 2016**

<b>For Year Ended</b>	<b>Percentage</b>
2016	10.00%
2015	-3.95%
2014	10.73%
2013	14.29%
2012	18.25%
2011	0.64%
2010	8.45%
2009	1.70%
2008	-13.07%
2007	15.05%

**City of Jacksonville, Florida Police and Fire Pension Fund**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Last 10 Fiscal Years and**  
**For the Year Ended September 30, 2016**

	2016	2015	2014	2013	2012	2011
Total pension liability						
Service Cost (BOY)	\$ 44,087,089	\$ 46,662,780	\$ 47,915,012	\$ 46,109,290	\$ 47,569,761	PRIOR
Interest on total pension liability	217,546,212	210,942,612	203,577,435	195,519,742	190,343,631	INFORMATION
Changes of benefit terms	-	(28,684,960)	-	-	-	NOT
Experience deviations including buybacks	3,566,449	24,831,339	22,671,112	(4,675,994)	(12,512,641)	AVAILABLE
Changes of assumptions	97,813,304	24,514,349	-	5,332,605	227,333,255	
Benefit payments, including refunds of member contributions	(159,726,007)	(148,628,476)	(138,179,183)	(128,655,957)	(116,955,126)	
Net change in total pension liability	203,287,047	129,637,644	135,984,376	113,629,686	335,778,880	
Total pension liability -- beginning	3,142,228,212	3,012,590,568	2,876,606,192	2,762,976,506	2,427,197,626	
Total pension liability -- ending(a)	<u>\$ 3,345,515,259</u>	<u>\$ 3,142,228,212</u>	<u>\$ 3,012,590,568</u>	<u>\$ 2,876,606,192</u>	<u>\$ 2,762,976,506</u>	
Fiduciary net position						
Contributions--employer	\$ 154,499,492	\$ 153,014,791	\$ 148,277,368	\$ 121,822,333	\$ 69,828,557	
Contributions--member	11,633,724	10,469,643	10,067,765	9,682,998	11,204,317	
Buybacks and transfers--employer	2,994,879	1,649,732	2,242,902	-	2,814,296	
Buybacks and transfers--member	1,197,137	1,591,678	1,515,800	1,070,503	406,553	
Net investment income	153,879,649	(63,531,293)	146,950,776	169,202,439	181,653,432	
Securities Lending	433,493	646,659	382,022	-	-	
Benefit payments, including refunds of member contributions	(159,726,007)	(148,628,476)	(138,179,183)	(128,655,957)	(116,955,126)	
Administrative expense	(3,519,224)	(2,228,452)	(2,224,248)	(2,505,985)	(2,351,598)	
Chapter 175/185	10,680,624	10,577,853	10,110,493	9,667,185	9,275,728	
Court Fines	832,536	920,774	881,291	757,984	770,125	
Other	122,886	327,418	141,855	1,187,289	55,383	
Net change in fiduciary net position	173,029,189	(35,189,673)	180,166,841	182,228,789	156,701,667	
Cumulative effect of change in accounting principle	2,238,000					
Fiduciary net position -- beginning	1,437,776,634	1,473,097,052	1,292,930,211	1,110,737,208	954,035,541	
Fiduciary net position -- ending	1,613,043,823	1,437,907,379	1,473,097,052	1,292,965,997	1,110,737,208	
less Reserve Accounts and Sr. Staff Assets	(99,645,357)	(83,502,014)	(83,349,437)	(64,834,813)	(31,830,621)	
Total fiduciary net position -- ending(b)	1,513,398,466	1,354,405,365	1,389,747,615	1,228,131,184	1,078,906,587	
City's fiduciary net pension liability--ending(a)-(b)	<u>\$ 1,832,116,793</u>	<u>\$ 1,787,822,847</u>	<u>\$ 1,622,842,953</u>	<u>\$ 1,648,475,008</u>	<u>\$ 1,684,069,919</u>	
Fiduciary net position as a percentage of the total pension liability	45.24%	43.10%	46.13%	42.69%	39.05%	
Covered-employee payroll	\$135,599,741	\$132,735,243	\$134,521,216	\$130,972,174	\$133,611,459	
City's fiduciary net pension liability as a percentage of covered-employee payroll	1351.12%	1346.91%	1206.38%	1258.65%	1260.42%	



DATE

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To Board of Trustees of the Jacksonville Police and Fire Pension Fund  
Jacksonville, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Jacksonville Police and Fire Pension Fund (Fund), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated \_\_\_\_\_.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KBLD, LLC

DRAFT



**POLICE AND FIRE PENSION FUND**  
**Holiday - Meeting Schedules - Revised**  
**2017**

**Holidays**

**Advisory Committee**

**Trustees**

**FIAC**

JANUARY						
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NOVEMBER						
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DECEMBER						
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