

**JACKSONVILLE POLICE AND FIRE PENSION FUND
FINANCIAL INVESTMENT ADVISORY COMMITTEE (FIAC)
MEETING SUMMARY – JUNE 10, 2016
RICHARD “DICK” COHEE BOARD ROOM**

PFPF MISSION:

To provide long term benefits to participants and their beneficiaries

NOTE: If any person decides to appeal any decision made with respect to any matter considered at this public meeting such person will need a record of proceedings, and for such purpose such person may need to ensure that a verbatim record of the proceedings is made at their own expense and that such record includes the testimony and evidence on which the appeal is based. The public meeting may be continued to a date, time, and place to be specified on the record at the meeting.

PRESENT

Eric “Brian” Smith Jr., FIAC Chair
Michael Lukaszewski, Member Pending Council Approval
Rodney Van Pelt, Member Pending Council Approval

STAFF

Beth McCague, Interim Executive Director – Plan Administrator
Dan Holmes, Summit Strategies – via phone
Steve Lundy, Pension Benefits Specialist / Economic Research

EXCUSED

Craig Lewis Sr., FIAC Secretary
Rob Kowkabany, FIAC
Devin Carter, Chief Financial Officer

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

CHAIRMAN BRIAN SMITH CALLED THE MEETING TO ORDER @ 3:42PM

MIKE LUKASZEWSKI, REFERRING TO THE LAST FIAC MEETING, ASKED, “IF OUR ALLOCATION PUTS US IN JUST THE 75th PERCENTILE, WHAT’S WRONG WITH OUR ALLOCATION? I’M SURPRISED DAN SAID HE COULDN’T RETREIVE THE INFORMATION FROM THEIR DATABASE. WE SHOULD ASK HIM, BECAUSE I WASN’T SATISFIED WITH HIS RESPONSE.”

BRIAN SMITH ASKED IF ROB KOWKABANY WILL BE IN ATTENDANCE.

BETH MCCAGUE INFORMED THE COMMITTEE THAT ROB KOWKABANY IS FEELING ILL AND WILL NOT BE ABLE TO ATTEND.

EXECUTIVE DIRECTOR UPDATE:

BETH MCCAGUE STATED THAT TIM JOHNSON WAS SELECTED BY THE BOARD OF TRUSTEES TO BE THE FUND'S PERMANENT EXECUTIVE DIRECTOR – ADMINISTRATOR. “BOTH CANDIDATES WERE VERY STRONG. THE BOARD OF TRUSTEES WAS ALMOST AT A TOSS-UP. WHAT THE PFPF NEEDS MOST, ACCORDING TO THE BOARD, IS A LEADER WITH EXCELLENT COMMUNICATION SKILLS, WITH WHICH THEY COULD USE TO IMPROVE THE FUND'S RELATIONSHIP WITH THE CITY. THE BOARD SELECTED TIM BECAUSE OF HIS PUBLIC RELATIONS EXPERIENCE. BOTH CANDIDATES MET WITH CITY LEADERS AND BOTH WERE HIGHLY RECOMMENDED. BOTH CANDIDATES ALSO MET WITH ALL OF THE PFPF EMPLOYEES AND ASKED ABOUT THEIR DAILY ACTIVITIES.”

MIKE LUKASZEWSKI ASKED ABOUT THE PFPF STAFF, “HOW MANY EMPLOYEES DOES THE PFPF HAVE?”

BETH MCCAGUE REPLIED, “THERE ARE SEVEN EMPLOYEES, CHUCK, STEVE, DEBBIE, TROY, AGNES, AMY, AND LYNN”

LUKASZEWSKI ASKED HOW THE STAFF CALCULATES PENSIONS FOR INDIVIDUAL RETIREES.

BETH REPLIED, “THE STAFF USES THE CITY SYSTEM.”

BETH ASKED IF THE STAFF OR THE CITY PERFORMS CALCULATIONS.

STEVE LUNDY REPLIED, “YES, WE PERFORM CALCULATIONS OURSELVES BASED OFF OF THE CITY SYSTEM'S DATA IN ORDER TO ACCOMMODATE RETIREES' SPECIFIC UNIQUE SCENARIOS.”

BETH MCCAGUE THEN COMPARED THE PFPF TO TIMOTHY JOHNSON'S FUND, “TIM'S FUND IS ABOUT \$850 MILLION, WITH AROUND 40 MANAGERS. THEY SPEND A LOT OF TIME WITH LOCAL MANAGERS, WHICH IS A MORE SOCIALLY-ORIENTED APPROACH, WHEREAS OUR FUND IS STRICTLY FIDUCIARY.”

BETH MCCAGUE THEN UPDATED THE FIAC ON COUNCIL APPROVAL OF MIKE LUKASZEWSKI AND RODNEY VAN PELT.

BETH MCCAGUE DISCUSSED THE DUTIES OF THE FIAC AS DESCRIBED BY THE ORDINANCE:

“THE FINANCIAL INVESTMENT ADVISORY COMMITTEE SHALL HAVE THE RESPONSIBILITY AND DUTY TO PROVIDE ADVICE TO THE JACKSONVILLE POLICE AND FIRE PENSION BOARD OF TRUSTEES (“BOARD”) ON:

1. FINANCIAL MATTERS
2. ACTUARIAL PRACTICES AND ASSUMPTIONS
3. INVESTMENT STRATEGY AND POLICY
4. THE SELECTION OF OUTSIDE FINANCIAL SERVICES PROVIDERS, INCLUDING INVESTMENT MANAGERS AND ADVISORS
5. SUCH OTHER MATTERS AS REQUESTED BY THE BOARD

BETH MCCAGUE SAID, "SO FAR WE'VE FOCUSED ON NUMBERS 3 & 4. AND WE HAVE COMPLETED ALL PLANNED WORK ON SCHEDULE. SOON WE WILL BE COMING TO YOU TO SEE IF YOU THINK WE WILL REQUIRE A BIGGER ACTUARIAL FIRM."

[REDACTED]

RODNEY VAN PELT ASKED, "WHEN ARE WE GOING TO STEP BACK AND SEE EXACTLY WHEN THE FUND 'DERAILED' AND STARTED TO BECOME GROSSLY UNFUNDED?"

BRIAN SMITH REPLIED, "THE ANSWER WAS THE FUNDING BY THE CITY. ALTHOUGH THE CITY WOULD GIVE A DIFFERENT ANSWER."

MIKE LUKASZEWSKI ADDED, "WE SHOULD REVISIT THIS HISTORY TO SEE DIFFERENCES IN INVESTMENT STRATEGIES BETWEEN NOW AND THEN AS WELL."

BETH MCCAGUE SAID, "ONLY A PERCENTAGE OF BENEFITS PAID TO MEMBERS ARE FUNDED FROM INVESTMENT RETURNS. THE MAJORITY IS FROM FUNDING CONTRIBUTIONS."

BRIAN SMITH STATED, "THE UNFUNDED LIABILITY PROBLEM IS NOT DUE TO POOR INVESTMENT PERFORMANCE. THAT IS WHY THE CITY IS THINKING OF NEW WAYS TO FUND THE PLAN TO MAKE UP FOR ALL THE YEARS IN WHICH THEY DID NOT CONTRIBUTE FULL AMOUNTS OF ACTIVE AND UNFUNDED LIABILITIES."

RODNEY VAN PELT NOTED, "SINCE 2008, AN EIGHT PERCENT ASSUMED RATE OF RETURN IS NOT REALISTIC."

BETH MCCAGUE REPLIED, "WHATEVER RATE WE SET HAS A GREAT EFFECT ON THE CITY'S CONTRIBUTION TO THE PLAN."

MIKE LUKASZEWSKI SAID, "I THINK THE BOARD WILL CONSIDER OUR RECOMMENDATION ON AN ACTUARIAL RATE OF RETURN IF WE THINK IT SHOULD BE DIFFERENT FROM THE ACTUARY'S NUMBERS."

BETH MCCAGUE REPLIED, "MAYBE IN AUGUST WE CAN BRING OUR ACTUARY IN TO SPEAK WITH THE FIAC. JARMON WELCH HAS BEEN THE FUND ACTUARY SINCE OUR PLAN STARTED. HE HAS GREAT INSTITUTIONAL KNOWLEDGE."

MIKE LUKASZEWSKI REQUESTED BETH TO EMAIL HIM THE LATEST ACTUARIAL REPORT. BETH AGREED.

RODNEY VAN PELT SAID, "I'M INTERESTED IN LOOKING AT PAST ACTUARIAL PREDICTIONS VERSUS THE ACTUAL RESULTS AND SEE IF THEY LINE UP."

BRIAN SMITH ASKED IF THE ACTUARIAL ASSUMED RATE OF RETURN IS NEGOTIATED.

BETH MCCAGUE ANSWERED, "THE ACTUARIAL ASSUMED RATE OF RETURN IS NEGOTIATED WITH THE CITY. OTHER PIECES SUCH AS THE MORTALITY TABLES ARE NEGOTIATED AS WELL."

MIKE LUKASZEWSKI REMARKED, "IT DOES NOT SIT WELL WITH ME TO NEGOTIATE AND NOT TO ACCEPT THE OFFICIAL MORTALITY TABLES JUST TO SAVE THE CITY MONEY IN CONTRIBUTIONS."

RODNEY VAN PELT ADDED, "IT'S GOING TO BE PROBLEMATIC TO ME IF THE CITY SAYS ARBITRARILY WHAT NUMBERS TO SET, DISREGARDING THE OFFICIAL REALISTIC NUMBERS."

MIKE LUKASZEWSKI SAID, "WE SHOULD BE ON RECORD AS WANTING REALISTIC ACTUARIAL NUMBERS."

BETH MCCAGUE SAID, "USUALLY THESE NUMBERS ARE NEGOTIATED AMONG THE CITY, THEIR ACTUARIES, US, AND OUR ACTUARIES."

BRIAN SMITH REMARKED, "IT MAKES ME WONDER IF ALL THE CITY'S FUSS ABOUT OUR UNFUNDED LIABILITY WOULD STILL BE THERE HAD THEY NOT CHANGED THE ASSUMED ACTUARIAL RATE OF RETURN – SINCE THE UNFUNDED PERCENTAGE WOULD HAVE DEFINITELY NOT BEEN AS LARGE."

INTERNATIONAL EQUITY MANAGER UPDATE:

DAN HOLMES STATED THAT DOMESTIC EQUITY IS ALMOST UP 4% THIS CALENDAR YEAR, BONDS ARE UP OVER 4% AS WELL, MLPs CONTINUE TO MAKE THEIR COMEBACK BY BEING UP 12% THIS CALENDAR YEAR THROUGH LAST WEEK.

DAN HOLMES STATED BAILLE GIFFORD AND SILCHESTER ARE UP PAST THEIR BENCHMARKS.

DAN HOLMES SAID, "I RECOMMEND THAT WE ADD A NEW INTERNATIONAL MANAGER TO THE PORTFOLIO. WE HAVE HERE A PRESENTATION OF FOUR POTENTIAL NEW

MANAGERS. THEIR DIVERSIFICATION STRATEGIES COMPLEMENT THOSE OF EXISTING MANAGERS OF THE PORTFOLIO."

RODNEY VAN PELT ASKED, "HOW MUCH IS IN THIS ASSET CLASS?"

DAN HOLMES REPLIED, "\$123 MILLION AS OF THE END OF APRIL."

MIKE LUKASZEWSKI ASKED, "WE HAVE A LARGE ALLOCATION TO INTERNATIONAL EQUITY; HOW DOES THIS COMPARE TO OTHER FUNDS?"

DAN HOLMES REPLIED, "SLIGHTLY ABOVE MEDIAN. OUR POLICY TARGET IS 20%."

RODNEY VAN PELT ASKED, "WHERE ARE WE RIGHT NOW?"

MIKE LUKASZEWSKI ANSWERED, "WE ARE AT 22%. IT SHOULD BE LOWERED AFTER THE REBALANCE."

MIKE LUKASZEWSKI ASKED, "WHAT IS OUR DEFINITION OF INTERNATIONAL?"

DAN HOLMES REPLIED, "NO USA; TOTALLY INTERNATIONAL, NON-US COMPANIES."

RODNEY VAN PELT ASKED, "WHY IS THERE NO INFORMATION ON ACADIAN?"

DAN HOLMES REPLIED, "THAT IS BECAUSE THEY ARE EMERGING MARKET. WE ARE LOOKING AT DEVELOPED MARKETS."

DAN HOLMES SHIFTED THE FOCUS TO PAGE 15. HE STATED, "WE WANT MANAGERS THAT DON'T ACT LIKE EACH OTHER. ALL SUGGESTED MANAGERS HAVE LOW CORRELATION TO CURRENT MANAGERS IN THE PORTFOLIO."

RODNEY VAN PELT ASKED, "WHAT ARE THE TYPICAL FEES?"

DAN HOLMES REPLIED, "BETWEEN 75-100 BASIS POINTS."

MIKE LUKASZEWSKI REQUESTED THAT ALL NUMBERS BE PRESENTED NET OF FEES IN THE FUTURE.

BRIAN SMITH ASKED WHERE THE FOUR MANAGERS' FEES ARE PRESENTED.

DAN HOLMES ANSWERED, "ON PAGE THREE, YOU WILL SEE ARISTOTLE'S FEE SCHEDULE: 85 BASIS POINTS DOWNWARDS."

MIKE LUKASZEWSKI ASKED WHY THE MUTUAL FUND FEE WAS SO HIGH.

DAN HOLMES REPLIED, "CUSTODY IS INCLUDED, IN ADDITION TO MANAGER FEES AND IT MAY BE OPEN TO RETAIL INVESTORS."

MIKE LUKASZEWSKI NOTED, "LOOKS LIKE THE CITY OF LONDON IS NEWER."

BRIAN SMITH COMMENTED, "THEIR FEE SCHEDULE LOOKS GOOD."

DAN HOLMES STATED, "OUT OF THE FOUR, THEY ARE THE MOST DIFFERENT. THEY'RE ONLY AT \$92 MILLION THOUGH."

MIKE LUKASZEWSKI SAID, "THAT IS TOO SMALL TO BE THROWING \$60 MILLION AT."

DAN HOLMES WENT OVER THE PROS AND CONS OF CITY OF LONDON, "THEY HAVE A VERY SUCCESSFUL EMERGING MARKET PRODUCT. THEY INVEST IN CLOSED-END FUNDS. THEIR OPPORTUNITIES GOING FORWARD LOOK GOOD. THEY BUY FUNDS, NOT STOCKS – DISCOUNTED FUNDS, FOR A VARIETY OF REASONS."

MIKE LUKASZEWSKI ASKED, "IF WE INVESTED IN THIS, WOULD WE OWN THE STOCKS IN THESE FUNDS? COULD WE DIRECT THE MANAGER TO INVEST?"

DAN REPLIED, "NO, THIS IS AT THE DISCRETION OF THE MANAGER."

DAN HOLMES CONTINUED, "IF WE WERE TO ELIMINATE ONE OF THE MANAGERS FROM CONSIDERATION, IT SHOULD BE ARISTOTLE. TRINITY AND ARISTOTLE ARE SIMILAR, BUT TRINITY IS BETTER, EVEN CONSIDERING THEIR FEES."

MIKE LUKASZEWSKI ADDED, "SINCE I'M NOT A VOTING MEMBER YET, LET ME STATE THAT I RECOMMEND WE INVITE ALL FOUR IN."

DAN HOLMES SAID EARLY JULY WAS GOOD FOR HIM.

BRIAN SMITH SAID HE WILL BE OUT OF TOWN EARLY JULY.

BETH MCCAUGE STATED SHE WILL ALSO BE OUT OF TOWN THROUGHOUT MUCH OF THE MONTH.

BRIAN SMITH SAID, "LET'S MOVE ON TO THE TRANSITION DISCUSSION, SINCE WE DO NOT HAVE A QUORUM TO MAKE ANY DECISIONS."

TRANSITION UPDATE:

DAN HOLMES DIRECTED ATTENTION TO THE FIRST PAGE OF THE HANDOUT, "THIS PAGE REITERATES DECISIONS THAT WERE MADE SO FAR. THE SECOND PAGE SHOWS WHERE THE FLOW OF ASSETS WILL GO TO GET US BACK TO THE TARGET."

DAN HOLMES THEN DESCRIBED THE PROCESS OF THE TRANSITION OF SECURITIES THROUGH PORTFOLIOS BETWEEN MANAGERS.

MIKE LUKASZEWSKI ASKED HOW THE PRICE WAS DETERMINED.

DAN HOLMES ANSWERED, "THE REMAINING SECURITIES ARE SOLD ON THE OPEN MARKET. THE TRANSITION SHOULDN'T TAKE MORE THAN A WEEK, ALTHOUGH I THINK IT'LL FINISH IN 2-3 DAYS. POST TRANSITION, WE WILL SHOW THE RESULTS."

BRIAN SMITH ASKED, "ARE WE ON SILCHESTER'S WAITING LIST?"

DAN HOLMES CONFIRMED.

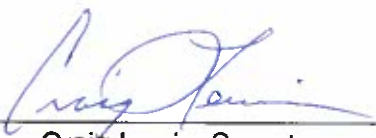
RODNEY VAN PELT ASKED, "COULD WE GET THE HISTORY ON ARISTOTLE AND CITY OF LONDON? WHERE THEIR MANAGERS WERE BEFORE THESE FIRMS?"

DAN HOLMES REPLIED, "YES. I ALSO KNOW SOME CAME FROM 'MET WEST'."

BRIAN SMITH REQUESTED, "LET'S GET A LIST, DAN. FIND THEIR HISTORY OF WORK BEFORE THEY WORKED AT THESE FIRMS, GIVEN THESE FIRMS SHORT HISTORY."

LUKASZEWSKI AGREED, AND ADDED, "I'M WARY OF GIVING \$123 MILLION TO A COMPLETELY NEW MANAGER. A LIST OF THEIR HISTORIES WOULD HELP US MAKE A BETTER INFORMED DECISION."

CHAIRMAN SMITH ADJOURNED THE MEETING AT 5:19 PM.



Craig Lewis, Secretary