

**JACKSONVILLE POLICE AND FIRE PENSION FUND
FINANCIAL INVESTMENT ADVISORY COMMITTEE (FIAC)
MEETING SUMMARY – MAY 12, 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
Craig Lewis Sr., FIAC Secretary
Rob Kowkabany, FIAC
Michael Lukaszewski, FIAC

STAFF

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

EXCUSED

Rodney Van Pelt, FIAC

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 @ 3:35PM

CRAIG LEWIS MOVED TO APPROVE THE APRIL 11, 2016 WORKSHOP MINUTES, ROB KOWKABANY SECONDED, MOTION PASSES UNANIMOUSLY.

CHAIRMAN SMITH REQUESTED THAT THE FIAC DELAY BETH MCCAGUE’S FIRST THREE PORTIONS OF THE AGENDA AND BEGIN WITH DAN HOLMES’S PRESENTATION. BETH MCCAGUE WILL SPEAK WHEN SHE RETURNS TO THE BOARD ROOM.

CAPITAL MARKETS UPDATE

DAN HOLMES NOTED THAT THERE WAS A ROUGH START TO 2016 DUE TO CHINA FEARS AND FEARS OF THE FEDERAL RESERVE RAISING INTEREST RATES. HE ALSO NOTED THAT LARGE CAP OUTPERFORMED SMALL CAP THIS FISCAL YEAR, AND THAT THE US DOLLAR WAS DOWN FOR THE FIRST HALF OF THE YEAR.

CHAIRMAN SMITH ASKED 'WILL VALUE OUTPERFORM GROWTH THIS YEAR?'

DAN HOLMES REPLIED 'IT WILL DEPEND ON FUTURE FEDERAL RESERVE ACTION, AND ALSO COMMODITY PRICES, AS OIL IS UP 20% SO FAR THIS YEAR' HE PREDICTS THAT FOR THIS FISCAL YEAR, RETURNS WILL BE GREATER THAN RETURNS SO FAR FOR THE FIRST QUARTER.

REAL ESTATE

DAN HOLMES RECOMMENDED THAT THE FUND 'TAKE PROFITS FROM REAL ESTATE MANAGERS'. HIS GOAL IS THAT BY THE END OF THE YEAR, ALL CLIENTS MOVE TO THE TARGET ALLOCATION IN CORE REAL ESTATE.

BETH MCCAGUE HAS RETURNED TO THE BOARD ROOM.

BETH MCCAGUE ASKED, 'IF WE TAKE FROM REAL ESTATE, WHERE WILL WE MOVE THE PROFITS?'

DAN HOLMES REPLIED THAT WE SHOULD SPREAD IT OUT AMONG THE REMAINDER OF THE PORTFOLIO.

DAN NOTED THAT HE WILL GET BACK TO THE BOARD OF TRUSTEES AND THE FIAC WITH HIS SPECIFIC RECOMMENDATIONS.

DISCUSSION OF PAGE 12 IN DAN HOLMES' HANDOUT

DAN HOLMES NOTED THAT PERFORMANCE OF THE PORTFOLIO IS UP 44 BASIS POINTS FOR THE 1st QUARTER IN THE CALENDAR YEAR, AND MLPs WERE A DRAG ON PERFORMANCE IN 2015, ALTHOUGH 2013-2014 WERE GOOD FOR MLPs.

MIKE LUKASZEWSKI ASKED 'IS THAT BECAUSE THE DRAG ON THE PORTFOLIO BY MLPs WASN'T DUE TO THE MLPs BEING OVERWEIGHTED, BUT DUE TO THEIR NEGATIVE RETURNS?'

DAN HOLMES CONFIRMED.

BETH MCCAGUE ASKED 'IF ALL MANAGERS ACHIEVED THEIR BENCHMARK RETURNS, WOULD THE FUND STILL BE IN THE 75th PERCENTILE?'

DAN HOLMES CONFIRMED.

CRAIG LEWIS ASKED 'IS THIS BECAUSE WE HAVE MORE MLP EXPOSURE RELATIVE TO OTHER GROUPS?'

DAN HOLMES REPLIED 'THERE IS NO UNIVERSE COMPARISON OF PUBLIC PENSION HOLDINGS TO MLPs'

CRAIG LEWIS ASKED 'IS OUR ALLOCATION REGARDING MLPs TYPICAL?'

MIKE LUKASZEWSKI ADDED 'WHY IS OUR POLICY PUTTING US AT THE 75th PERCENTILE? IS OUR POLICY OUT OF LINE?'

CRAIG LEWIS ADDED 'MY GUESS IS OUR MLP EXPOSURE IS GREATER THAN AVERAGE'

BETH MCCAGUE STATED THAT SHE WOULD LIKE US TO BE IN THE TOP QUARTILE.

DAN HOLMES ANSWERED 'KEEP IN MIND THAT IF YOU'RE LOOKING AT THE PEER UNIVERSE, YOUR PEERS DON'T HAVE THE SAME RESTRICTIONS. SO RELATIVELY, THEY CAN GO INTO OTHER ASSET CLASSES LIKE PRIVATE EQUITY TO DAMPEN THEIR VOLATILITY IN OTHER CATEGORIES'

BETH MCCAGUE ASKED 'CAN WE LOOK AT CHARTS FOR HIGHEST PERFORMANCE OF OTHER PENSION FUNDS?'

DAN HOLMES ANSWERED 'WE CAN'T DO THAT, THE UNIVERSE IS "BLIND" – I DON'T BELIEVE THAT IS POSSIBLE'

CRAIG LEWIS ADDED 'TYPICALLY, JUST DEALING WITH RETURNS, THERE CAN BE A DIFFERENT ANSWER FOR EACH HORIZON. WE CAN END UP ABOVE AVERAGE BY INCREMENTAL AMOUNTS FOR MANY PERIODS, PUTTING US IN THE TOP QUARTILE OVER MANY YEARS'

DAN HOLMES STATED 'STATE LAW CAPS INTERNATIONAL AT 25%, BUT OUR TARGET IS 20%'

CHAIRMAN SMITH ASKED WHY.

DAN HOLMES REPLIED 'THE BOARD. ALSO OUR MODELS SUGGESTED WE COULD REALIZE HIGHEST RETURNS AT THIS RATE GIVEN STATUTORY GUIDELINES'

BETH MCCAGUE NOTED 'WE SHOULD STRIVE TO HIRE MANAGERS WHOSE RETURNS ARE CONSISTENTLY ABOVE AVERAGE'

DAN HOLMES DIRECTED THE FIAC TO PAGE 16 OF THE INVESTMENT POLICY.

DAN HOLMES SHOWED ON PAGE 21, DOMESTIC EQUITY UNDERPERFORMED DUE TO EAGLE, BROWN, AND PINNACLE. THIS WAS CAUSED BY SPECIFIC STOCK SELECTION ISSUES.

BETH MCCAGUE NOTED 'THIS ONE BAD STOCK SELECTION COST THE FUND ABOUT \$500K'

MIKE LUKASZEWSKI ASKED 'WHY WAS THE STOCK DOWN SO MUCH?'

DAN HOLMES ANSWERED 'DUE TO PRESSURE ON THE PHARMACEUTICAL INDUSTRY'

BETH MCCAGUE ADDED 'THEY BOUGHT A COMPANY TO BROADEN A NEW DRUG, AND THE DEAL TURNED UPSIDE DOWN'

DAN HOLMES NOTED THAT MARTIN SHKRELI NOTORIOUSLY RAISED A SPECIFIC DRUG'S PRICE IN AN EFFORT TO GET THE VALUE OF HIS STOCK UP.

DAN NOTED THAT OUR TWO MONEY MANAGERS HAVE DONE VERY WELL, BUT THESE ARE JUST UNLUCKY STOCK SELECTION ISSUES.

MIKE LUKASZEWSKI ASKED 'DOES ANY MANAGER'S PERFORMANCE GIVE US REASON TO PUT THEM ON A WATCH LIST?'

DAN HOLMES REPLIED 'BROWN. BEFORE QUANTITATIVE EASING, THEY DID VERY WELL, WHEN ASSET PRICES WERE BEING DRIVEN UP. WHAT HAPPENED WAS AS ASSET PRICES WERE BEING DRIVEN UP, AND QUANTITATIVE EASING WAS ENDED, THE STORY CHANGED. BROWN IS A GOOD DIVERSIFIER, ALTHOUGH THEY HAVE BEEN NEGATIVE SINCE INCEPTION'

BETH MCCAGUE ASKED 'SHOULD BROWN VISIT THE FIAC?'

DAN HOLMES REPLIED 'YES, THOUGH THEY'LL REPEAT WHAT I'VE SAID TODAY. SINCE INCEPTION, THEY'RE 2.85 BELOW THE BENCHMARK. BUT WE SHOULD STICK WITH THEM'

DAN HOLMES DIRECTED THE FIAC TO PAGE 51, ALLOCATION AMONG MANAGERS.

DAN HOLMES SAID 'BAILLE GIFFORD, OVER THE FULL CYCLE, THEY WILL PERFORM BETTER, BUT SHOULD BE OFFSET WITH ANOTHER MANAGER. WE SHOULD ALSO STICK WITH WHAT WE HAVE WITH SILCHESTER'

CHAIRMAN SMITH ASKED "WILL YOU BRING IN YOUR DETAILED MANAGER RECOMMENDATIONS?'

DAN HOLMES CONFIRMED.

BETH MCCAGUE REVIEWED PREVIOUS FIAC RECOMMENDATIONS ON HER HANDOUT.

CHAIRMAN SMITH ASKED 'SO WE NEED TO HEAR OUT DEPRINCE RACE & ZOLLO BUT NOT GAMCO?'

BETH MCCAGUE AGREED 'YES, AT THE REQUEST OF THE BOARD'

MIKE LUKASZEWSKI ASKED 'DID THE BOARD AGREE TO REBALANCE THE FUND TO THE TARGET ALLOCATION?'

DAN HOLMES ANSWERED 'YES, THE BOARD DID DECIDE TO ALLOCATE TO TARGET. I RECOMMENDED A TRANSITION MANAGER. ONCE STARTED, THE TRANSITION SHOULDN'T TAKE MORE THAN SEVEN DAYS'

MIKE LUKASZEWSKI ASKED 'DO YOU RECOMMEND A SINGLE TRANSITION MANAGER OR MULTIPLE MANAGERS?'

DAN HOLMES REPLIED 'I'M OPEN TO HAVING THREE TRANSITION MANAGERS'

CHAIRMAN SMITH SAID 'I'D EXPECT DRZ TO BE DISSAPPOINTED, WERE THEY DISSAPPOINTED OR MAD AFTER HEARING THE NEWS?'

DAN HOLMES ADDED 'DRZ KNOWS THEY'RE UNDER PRESSURE DUE TO THEIR PERFORMANCE. THEY'RE PROCESS IS LIMITING – THEY RESTRICT THEMSELVES STRICTLY TO DIVIDEND-PAYING STOCKS. THEY TAKE ONE STEP FORWARD, TWO STEPS BACK'

BETH MCCAGUE (RETURNING BACK TO THE FIRST PART OF THE AGENDA) BRIEFED THE FIAC ON THE STATUS OF THE SURTAX. SHE NOTED THAT CITY COUNCIL IS BEHIND THE SURTAX 100%. THE REFERENDUM IS SCHEDULED FOR AUGUST 30th. MAYOR CURRY WILL SIT DOWN WITH THE UNIONS AND THE FUND ONCE THE REFERENDUM PASSES. A FEBRUARY MILLIMAN ANALYSIS REQUESTED BY THE CITY SHOWS THAT BY 2045, THE PLAN WOULD ONLY BE 60% FUNDED. THAT WAS A PRELIMINARY STUDY, AND ADDITIONAL ANALYSIS WILL BE FORTHCOMING. THE MAYOR HAS RECENTLY INDICATED THAT HE EXPECTS THE PLAN TO BE FULLY FUNDED BY 2045. THE COMMUNITY IS PUSHING FOR SPECIFICS OF THE MAYOR'S PLAN FOR THE DEAL.

MIKE LUKASZEWSKI STATED THAT THE MAYOR AND CITY SHOULD DEVELOP A DETAILED EXPLANATION OF THEIR PLANS AND RELEASE IT TO THE PUBLIC.

BETH MCCAGUE BRIEFED THE FIAC ON THE SEARCH FOR THE NEW EXECUTIVE DIRECTOR.

CHAIRMAN SMITH ASKED THE COMMITTEE 'REGARDING THE WORK PLAN FOR THE NEXT SIX MONTHS, SHOULD THE FIAC CONTINUE TO MEET MONTHLY?'

MIKE LUKASZEWSKI REPLIED 'FOR THIS YEAR WE SHOULD CONTINUE TO MEET MONTHLY, BUT EVENTUALLY WE SHOULD BEGIN TO MEET QUARTERLY'

CHAIRMAN SMITH ADDRESSED THE TOPIC OF THE FUND'S ACTUARY.

BETH MCCAGUE STATED 'IF THE SURTAX PASSES, WE'LL NEED STRONG ACTUARIAL WORK. IT MAY BE ADVISABLE TO SEND OUT A NEW RFP.

CHAIRMAN SMITH ADDRESSED THE TOPIC OF LIFE INSURANCE AS AN ASSET FOR THE FUND.

BETH MCCAGUE NOTED THAT IT MAY BE WORTH LOOKING INTO.

CHAIRMAN SMITH SAID 'WITH MY BACKGROUND, THIS LOOKS PROMISING, ALBEIT COMPLEX'

MIKE LUKASZEWSKI STATED 'I'LL SAY I AM NOT IN FAVOR'

ROB KOWKABANY ADDED 'IT'S BEST TO GET THE MOST INFORMATION BEFORE MAKING ANY YES OR NO DECISIONS ON THE MATTER'

DAN HOLMES ADDED 'USUALLY STATUTORY PROVISIONS PROHIBIT THIS KIND OF INVESTMENT BY DEFINED BENEFIT PLANS. NONE OF MY CLIENTS UTILIZE THIS'

CHAIRMAN SMITH ADJOURNED THE MEETING AT 5:05PM.

CHAIRMAN SMITH REMINDED THE FIAC TO STAY AN EXTRA MINUTE OR SO FOR PHOTOS.

**TO BE APPROVED AT THE NEXT FIAC
MEETING ON JUNE 10, 2016**

Craig Lewis, Secretary