

**BOARD OF PENSION TRUSTEES
FOR THE
CITY OF JACKSONVILLE RETIREMENT SYSTEM
December 6, 2018**

MINUTES

City Hall - St. James Building, Conference Room 3C: 2:00 P.M.

Members Present

Jeffrey Bernardo, Chair
David Kilcrease
Bill Messick
Diane Moser
Sam Mousa
Kent Mathis
Joey Greive
Terry Wood

Staff Present

Randall Barnes, Treasurer
Paul Barrett, Senior Investment Officer

1. CALL TO ORDER

The Chair called the meeting to order at 2:02 PM

2. PUBLIC COMMENT

None

3. MINUTES

None

4. NEW BUSINESS

None

5. INVESTMENT AND FINANCIAL MATTERS

Mr. Barrett provided an overview of the Investment Consultant interview format, which would include 10 minutes allocated to each firm in presentation time and 20 minutes for Q&A. Mr. Barrett also added that firms would be rotated quickly.

Callan Interview (Presenters: Brian Smith, CFA and Bill Emmett)

Both presenters provided a general update on the markets and general mindset of current clients. It was also mentioned that the first item that would be addressed, if Callan were to be hired, would be a review of the Plan's Diversifying Assets allocation. Specifically, they would provide recommendations related to investment in hedge funds and private equity. In addition, the background and composition of the firm was discussed.

Mr. Mousa asked if the presenters had a chance to review the Plan's portfolio. Presenters answered yes and that there has been a good job of past manager selection. Mr. Mousa asked what Callan's average client tenure is. Presenters answered that it is about 11 years. Mr. Mathis asked about Westin being listed as a presenter. Presenters answered that he had to attend a prior client engagement and couldn't make the interview. Mr. Mathis asked about who would be the Plan's representative. Presenters answered that they could be flexible based on the Board's desires. Mr. Bernardo asked about proprietary systems. Presenters confirmed they maintain their own internal database and explained how they organize the information. They also mentioned that the information would be stored directly in their proprietary database as opposed to those available by third parties. Mr. Kilcrease asked why Callan is better than their competitors. Presenters answered that the stability of the firm and the people/culture set them apart. Mr. Greive asked about client responsiveness of a big firm and client to consultant ratio. Presenters answered that the ratio may vary but normal figure is 10-12 and that client surveys affirm prompt responsiveness. Mr. Mousa asked about Callan's Florida clients. Presenters answered that they have 17 and named several. Mr. Mousa asked how the firm reports. Presenters outlined individuals on the organizational chart. Mr. Mousa asked about the closest office to Jacksonville. Presenters responded that Atlanta was the closest office. Mr. Mousa asked if they were aware of any current acquisition discussions. The presenters responded no. Mr. Wood asked if presenters were associated with the Florida Municipal Trust Fund. Presenters responded they weren't directly. Mr. Bernardo asked about MAC manager selection. Presenters named and described several of these managers. Mr. Mathis asked about length of time to perform a manager search. Presenters answered 4-6 weeks on average. Mr. Bernardo what is different about their analytics and technology. Presenters answered that the way they divide peer groups and explained the difficulty in analyzing bond data. Mr. Mousa asked about outsourced CIO and how much of the business is committed to this. Presenters answered that it is a very small part of their business. Mr. Mathis asked about whether an Asset Liability Study is included in their price. Presenters affirmed that it was and that they tend to perform one every 3 years. Mr. Barrett asked about the total fee level. Presenters answered that there is an annual flat fee of \$275K with a 4% escalator over 5 years. Trust and custody searches would not be included and would cost about \$60K. Mr. Barnes asked about recordkeeping of consultant recommendations and opinions. Presenters answered that everything is recorded and filed.

Graystone Interview (Presenters: David Wheeler, CIMA, CFP and Scott Owens, CFA, CIMA)

Background of firm and explanation of available resources provided. Research methodologies and policies/procedures also explained. Background on Global Investment Committee provided. Importance of forward looking capital market expectations emphasized. In addition, importance of ESG and active vs passive decisions explained.

Mr. Mousa asked about thoughts on the Plan's portfolio. Presenters answered that a risk tolerance discussion with the Board would be necessary before providing a full evaluation of the portfolio. Presenters stated that they would also need to discuss characteristics of diversifying assets that are desired by the Board. Mr. Kilcrease asked about any Morgan Stanley relationships currently existing with the Plan. Presenters answered that there is a relationship with JEA but not with the ERS Pension Plan. Mr. Greive asked about average and biggest public fund client size. Presenters answered that the biggest is about \$400 Million and average is about \$75 Million. Mr. Barnes asked about the delineation between Graystone and Morgan Stanley. Presenters answered that the Graystone team can use any and all Morgan Stanley resources. Mr. Bernardo asked if Graystone receives revenue in some form from investment managers. Presenters answered that the asset management side of Morgan Stanley does but they are a completely separate entity and there are firewalls in between both groups. Mr. Greive asked about relationship team. Presenters answered that there are four senior consultants and described their backgrounds. Mr. Greive asked about concerns with working with a larger Plan. Presenters answered that they could provide more tools for a larger plan and there are no concerns about the size of the plan as compared to their smaller overall client base. Mr. Mousa asked about the average size of their municipality clients with multiple plans. Presenters provided an example of an \$850 Million municipal client when aggregating all managed plans for that municipality. Mr. Barrett asked about client to consultant ratio. Presenters answered that the average ratio is 15. Mr. Barrett and Mr. Greive asked about the fee level. Presenters quoted a \$250K all-inclusive fee. Mr. Mathis asked about employee turnover. Presenters responded that there was some staff turnover but that it had been minimal.

Meketa Interview (Presenters: Aaron Lally, CFA, CAIA, Gustavo Bikkesbakker, and Henry Jaung)

Individual presenter backgrounds discussed. Private markets capabilities discussed along with growth in Florida clients, including the University of Jacksonville. Firm timeline and notable events also reviewed. Overall firm growth and quality of service emphasized. Client to consultant ratio graph reviewed. Close collaboration and communication with clients described as a priority. Presenters pointed out that the fund had done very well overall, but first steps would be to perform a full fund review if they

were to be selected as the new consultant.

Mr. Greive asked about the manager research process. Presenters answered that a team of 25 individuals perform manager searches and full due diligence is performed. Firm also has a “bullpen” of managers readily available but that all managers would be met with, prior to any hiring decision. Mr. Greive asked about proactive decision making. Presenters responded that they proactively review the entire portfolio annually and make recommendations. Mr. Wood asked about process for evaluating style drift within existing managers. Presenters answered that a discussion with the Board would be an initial step and a review of reasons for the drift would also be presented. Mr. Mousa asked about average client tenure. Presenters answered that it was over 10 years and that the group’s first client is still with the team. Mr. Mousa asked if there are any M&A discussions within their firm and whether they would be in a position to know. Presenters answered that there were not current ongoing discussions and that they are in a position to know if there were. Mr. Mousa asked how manager results would be presented to the Board. Presenters answered that they would present standard summaries quarterly but could also provide updates on a monthly basis. Mr. Mousa asked how the results would be presented (in person or via conference call). The presenters affirmed that they could attend monthly meetings in person. Mr. Bernardo asked about active versus passive manager recommendations. Presenters answered that they would recommend passive managers in efficient asset classes and active managers for those that are less efficient. Mr. Mousa asked about number of terminated clients due to lack of performance. Presenters responded that total terminations were less than ten total with only up to two of them due to performance issues. Mr. Mathis asked about manager liquidation fees and transparency of those fees. Presenters answered that there is a quarterly report specifying all manager fees. Mr. Wood asked about number of clients in Florida. Presenters answered that they now have 5 Florida clients. Mr. Barnes asked about dual consultant/research roles. Presenters answered that some consultants do serve in dual roles as research analysts but that there are also separate research teams. Mr. Messick asked about what Jacksonville University’s opinion of Meketa’s services would be. Presenters answered they would expect a good review and that the University tends to be a “low touch” client. Mr. Mousa asked what they managed for the University. Presenters answered that they manage the endowment. Mr. Bernardo asked about category managers that would be recommended. Presenters answered that their approach is to take a bucketed, long term approach. Mr. Greive asked about the firm’s fee level. Presenters answered that they weren’t sure the exact fee level but that is all inclusive except for a customized private markets program. Mr. Barrett added that the fee quoted in the RFP response was \$290K but is not inclusive of travel and would grow annually by the greater of CPI or inflation.

RVK Interview (Presenters: Jordan Cipriani, Kevin Schmidt, and Jim Voytko)

The presenters provided a background of the firm and key personnel. Presenters emphasized independence and client focused approach. Presenters also mentioned

that they have never been sued and that the firm is 100% employee owned with no plans for M&A activity. It was stated that firm does not offer OCIO services and that the group has about 50 public fund clients.

Mr. Mousa asked about office locations and whether the far proximity from Florida would affect the firm's ability to attend meetings. Presenters outlined their firm's office locations in the western and northeastern United States and confirmed that they could attend all meetings. Mr. Mousa asked about the firm's longest tenured client. Presenters responded that many clients have been with them for over a decade. Mr. Mathis asked about low client to consultant ratio of four to one. Presenters confirmed figure and mentioned that the average ratio across the firm is eight to one. Mr. Mousa asked if the presenters had reviewed the Plan's portfolio. Presenters confirmed they had and that they had performed a high level analysis. Presenters added that the fund's investments had done well over time but projections show that expected return may fall short of the required return at the current allocation. Mr. Bernardo asked about the firm's research process and access to managers. Presenters answered that they have an entire team dedicated to private equity/credit and that they have extensive access to managers. Mr. Barnes asked about the size of the firm's research team. Presenters responded that there are 20 members of that team but it is still growing. Mr. Barrett asked about the size of other public fund clients. Presenters answered that median size is about \$4 Billion but that they have large clients that slightly skew the average to the upside. Mr. Wood asked about other Florida clients. Presenters confirmed that the State of Florida SBA was a client. Mr. Mathis asked about a pending legal complaint. Presenters confirmed complaint in the State of Kentucky and provided details surrounding complaint. Mr. Mathis asked about the work plan schedule submitted as part of the RFP response. Presenters responded that they would like to prioritize accurate reporting in the first few quarters of the relationship and that they ask all new clients to help them formulate a work plan. Mr. Barrett asked about the fee level. Presenters answered that the initial flat fee level is \$180K for first two years with increase of the larger of CPI or 3% after that initial period. Two items not included in the flat fee are Asset Liability studies and custody searches. Mr. Greive asked about specific cost of Asset Liability study. Presenters answered that the cost is \$45K but they would be willing to review the last study performed and possibly adjust the fee. Mr. Greive asked about approach to reviewing client portfolios. Presenters answered that they take a proactive approach but they are not necessarily looking to completely tear down the portfolio.

Segal Marco Interview (Lead Presenter: Jeff Boucek, CFA)

Background of the firm and key personnel was provided. Presenters also emphasized a holistic approach to consulting. Presenters briefly reviewed target allocation for the plan.

Mr. Bernardo asked about the 109 US Equity strategies on the firm's platform. Presenters explained research process on analyzing those managers and providing

recommendations. Presenters also mentioned that early goal would be to meet with some of the Plan's SMID managers that they are not particularly familiar with. Mr. Greive asked about whether Segal's relationship as an actuary for the City would create any conflicts. Presenters responded that it would be a benefit to the Plan and would not create a conflict. Mr. Barrett asked about the firm's ability to analyze diversifying assets investments. Presenters answered that they are capable of assisting with private equity research and recommendations. Presenters also mentioned that they are fee conscious regarding any private markets investments that they recommend. Mr. Mousa asked about the firm's corporate structure. Presenters provided history of Marco acquisition by Segal. Mr. Mathis asked about ownership. Presenters confirmed that the firm is privately held. Mr. Mousa asked if the presenters would know if there were any M&A plans. Presenters responded that they would not due to the sensitivity of the negotiations but that they do not expect the firm to ever be sold. Mr. Wood asked about Rodgers-Casey Canada. Presenters responded that the firm is based in Toronto. Mr. Barrett asked about the fee level. Presenters responded that the fee is all inclusive and guaranteed for three years with an escalator after that. Mr. Mousa asked if the fee included an Asset Liability study. Presenters responded that it did. Mr. Wood asked about the actual fee in dollars. Presenters stated that it would be \$205K. Mr. Barrett asked about average client to consultant ratio. Presenters responded that the current firm average is about 8. Mr. Wood asked about Florida clients and whether the firm would be able to attend every Board meeting. Presenters confirmed that there would be at least two attendees available at every meeting. Presenters also named several Florida clients.

Wilshire Interview (Presenters: David Lindberg, CFA, Theodore Hermann, Ned McGuire, CFA, FSA, FRM)

Presenters provided background of firm and current public fund clients. Presenters mentioned that they had 10 municipal clients in Florida. Presenters mentioned employee ownership and customized approach to Asset Liability studies. Presenters described bucket approach to asset analysis and also described the firm's approach to manager research. Presenters mentioned their current relationship with the COJ PFPF and confirmed that the combined relationship would result in a fee discount to each plan of \$20K, as long as both Board meetings could be scheduled on the same or adjacent days.

Mr. Mousa asked if the presenters had reviewed the Plan's portfolio. The presenters commented that there was a good exposure to buckets of growth and inflation. Presenters also mentioned that there was room for improvement in the US Equity portion of the portfolio by adding some passive exposure. Possible additions to the fixed income allocation were discussed. Mr. Mathis asked about reconciliation of financial data. Presenters responded that they perform a full reconciliation with the custodian. Mr. Bernardo asked about the process for identifying active managers. Presenters answered that they prefer to be partially passive in US Large Cap equities but that they prefer active positions in other asset classes. Mr. Mathis asked about the

new firm President. Presenters provided background of the new President and the changes to the role. Mr. Mousa asked about the fee without the discount for the PFPF relationship. Presenters confirmed an all-inclusive annual fee of \$260K with the exception of direct private equity investments. Mr. Greive asked where the presenters are located and who else would be involved on the account. Presenters responded that two of them are based in Pittsburgh and one is based in Santa Monica. Additional personal on the account are located in Denver. Mr. Mousa asked if personal attendance on a monthly basis would be a problem. Presenters responded that it would not. Mr. Barnes asked about firm's relationship with the Kentucky system. Presenters responded that this relationship would not present any conflicts with the ERS Plan's needs. Mr. Mathis asked about the firm's proprietary research tools. Presenters responded that the firm started as a risk analytics firm which led them to having tailored proprietary systems. Mr. Barnes asked about the firm's ability to create custom benchmarks. Presenters responded that a portion of their business is dedicated to creating and testing benchmarks. Mr. Mathis asked about the unique aspects of the ERS Plan as a result of pension reform and how the firm would address risk. Presenters stated that the expected surtax revenue is a positive characteristic of the plan and that they would incorporate it into their modeling. Mr. Mousa asked if this should be the job of the actuary. Presenters responded that they typically engage with actuaries for managing the Plan's assets. Mr. Bernardo asked about type of client base and differences between the Plan's needs and needs of other client types. Presenters responded that endowments and foundations tend to invest more in alternatives but that there are several similarities with pension plans. Mr. Bernardo asked if the Plan's current diversifying assets allocation target seemed low to them. Presenters stated that it did, but that they've seen plans range anywhere from 0% to 35% in this asset class. Mr. Wood asked about Florida clients. Presenters confirmed ten Florida clients ranging from \$200 Billion to \$40 Million and confirmed a relationship with the SBA.

Board Vote

Per Board discussion following the interviews, the decision was made to rank the consultants via anonymous paper votes of the first, second, and third picks of each Trustee. After staff collected and tallied the written votes, RVK was declared the firm with the most first place submissions and also had the best overall score. (Mr. Wood was involved in the discussion but left prior to the following votes due to a scheduled engagement). Further discussion ensued amongst the Trustees was followed by a motion from Mr. Mousa, which was then seconded by Ms. Moser, to enter into contract negotiations with RVK. The motion passed unanimously. A second motion was made by Mr. Kilcrease to assign Meketa the runner up, should negotiations with RVK fail. Mr. Greive seconded the motion. The motion passed unanimously.

6. ADMINISTRATIVE

None

7. OLD BUSINESS

None

8. INFORMATION

The next regular BOT meeting will be Thursday, December 20, 2018 at 2 PM.

9. PRIVILEGE OF THE FLOOR

N/A

10. ADJOURNMENT

Chairman Bernardo adjourned the meeting at about 5:35 PM.