

**BOARD OF PENSION TRUSTEES
FOR THE
CITY OF JACKSONVILLE RETIREMENT SYSTEM
February 28, 2019**

MINUTES

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

Members Present

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

Staff Present

Randall Barnes, Treasurer
Paul Barrett, Senior Investment Officer
Brennan Merrell, Manager Debt and Investments
John Sawyer, OGC
Tom Stadelmaier, Pension Administrator

Others Present

Jordan Cipriani, RVK
Matt Powell, Segal (via phone)
Kevin Schmidt, RVK
Jeff Williams, Segal (via phone)

1. CALL TO ORDER

Chair Bernardo called the meeting to order at 2:01 PM

2. PUBLIC COMMENT

None

3. MINUTES

Mr. Greive made a motion to approve the minutes. Mr. Kilcrease seconded the motion. The Chair asked for any discussion and there was none. The Chair took a vote and the minutes passed unanimously.

4. NEW BUSINESS

Consent agendas

Mr. Greive moved to approve the consent agendas. Mr. Wood seconded the motion. The Chair opened discussion and there was limited discussion. It was noted the PAC did complete an extensive review of several items on consent. The Chair took a vote and the consent agendas passed unanimously.

Zilahy disability application

Mr. Stadelmaier reviewed the disability application for Mr. Zilahy. He provided a summary to the board and made the full file available for review. Also provided was a copy of a settlement agreement between Mr. Zilahy and the City that allowed him to make this application. Mr. Stadelmaier reported the PAC recommended approval.

Mr. Greive made a motion to approve the disability retirement application and Mr. Wood seconded the motion. Chair Bernardo asked if there was further discussion. Mr. Wood asked if there was a pre-existing condition clause and Mr. Sawyer said there was none (there is however pre-existing condition language for DC disability cases). The Chair took a vote and the motion passed unanimously.

Segal Preliminary Review of Actuarial Valuations for October 1, 2018

Jeff Williams from Segal reviewed the preliminary findings for the October 1, 2018 Valuation reports. He reported he does not expect the numbers he is presenting to change in the final report that will be presented next month.

Both GEPP and COPP showed results in-line with expectations. GEPP showed a gain of 0.79% based on actual experience and COPP reported minimal demographic deviation. There will be a larger contribution towards the PFPF and that plays a role in amounts funded for GEPP and COPP. Overall, it was a very good year for both plans with all of the assumption changes and positive growth of assets. Mr. Williams also pointed out that there is still \$63.5M in deferred gains for GEPP (\$9.7M for COPP) which is still to be recognized. These results are through September and do NOT reflect December market losses.

Mr. Wood asked about the contribution if the surtax wasn't included and Mr. Mathis asked about the general financial health of the Plan. Mr. Williams pointed out the surtax has helped with keeping down the contribution increase and went over the figures provided for the contribution with and without the surtax. He also reviewed the Plans' funding percentages which are included as part of the report as well. Mr. Greive also pointed out the liquidity ratios as an indicator that are also part of the code as it relates to funding requirements. Mr. Mathis asked about changes to the mortality tables and

Mr. Williams said he didn't expect changes before the next State experience study which he believes is next Fall.

5. INVESTMENT AND FINANCIAL MATTERS

Brennan Merrell was introduced to the Board as the new manager of debt and investments. He graduated from the University of Florida with his undergrad degree and Tulane University for his MBA in Finance. He also has experience both with investment management and investment research. Mr. Barrett will take on some additional responsibilities with Mr. Merrell now on staff.

Mr. Barnes pointed out the CFA document for trustees that was shared and said staff was having further discussion on educational opportunities as well as additional avenues for input from the Board on investment matters.

Jordan Cipriani and Kevin Schmidt from RVK provided an update on investments. Ms. Cipriani reported they have converted all data to the RVK warehouse and all managers have been notified that they are in place. Conversion went very smoothly. All data was compared vs. Summit and BNYM all it checked out.

Mr. Schmidt reported markets are off to a flying start in January 2019. This is thanks in part to a dovish tone from the Fed and improving trade relations. February is up moderately as well so far. Outlook is for continued volatility in 2019.

Ms. Cipriani reviewed the report format changes. She showed the allocation is in compliance with our policy and equities are on the high side, diversifying assets remain low. The Plan beat benchmarks across asset classes in January. Baillie Gifford in particular came roaring back in January.

Mr. Kilcrease asked about the difference between this report and monthly DROP rate. Mr. Stadelmaier reported DROP rates are run from BNYM and they should be very close if not matching RVK's report.

Mr. Mousa asked the Board if they were comfortable with monthly focus on net of fees. Chair Bernardo, Ms. Shuman and Mr. Greive all indicated net of fees was the preference for monthly. Ms. Cipriani said gross would be shown for the quarterly analysis they provide.

Mr. Mathis asked about MLP performance and Mr. Schmidt said they tend to be oil-driven.

Ms. Cipriani covered the benchmark review they completed and only minor changes were suggested. Mr. Greive made a motion to approve the benchmark changes. Mr. Mathis seconded the motion. Chair Bernardo asked for further discussion and after limited comments the motion passed unanimously.

Mr. Schmidt then turned attention to the INTECH memo and the RVK recommendation to eliminate the large cap INTECH fund. Chair Bernardo asked about INTECH moving to mid-cap and Ms. Cipriani agreed they have trickled into the mid-cap space. Mr. Mathis asked if management was a factor in their recommendation to eliminate INTECH. Ms. Cipriani indicated that was not the case since INTECH follows a more quantitative model. Management is more of a driver with funds like Eagle which involve fundamental analysis.

Ms. Cipriani went on to cover the additional proposed US equity changes which also includes selling the Mellon Growth Fund and adding the passive low-cost Mellon Large-Cap Index. Switching from INTECH to the passive Mellon Large Cap Index will reduce the manager fee expense from 0.32% to 0.015%, a noticeable savings. In addition, Ms. Cipriani recommended an increase to the currently held Loomis Sayles Large Cap Growth by nearly \$60 million or nearly an 8% increase of the US Equity allocation. Additionally, there are other minor allocation change in the US Equity allocation shown in the deck. Ms. Cipriani pointed out that fees are not a thesis for changes but something to be mindful of in reviewing purchases. RVK also recommends using a transition manager and they can facilitate a short-term bid on this.

Mr. Greive suggested to staff that when talking to Mellon to take advantage of the influx of \$100M to Mellon to get improved reporting and other services that have been discussed if possible.

Mr. Greive made a motion to approve the recommended US equity changes as outlined by RVK. Ms. Moser seconded the motion. Chair Bernardo opened it for discussion. Ms. Shuman asked about increases to Pinnacle given recent concerns with their performance. Mr. Schmidt said RVK did an extensive review of Pinnacle with manager research team based on Board and staff feedback. Ms. Cipriani said RVK does not view Pinnacle as a manager on watch at this point. Ms. Shuman indicated she was comfortable with the overall approach but wants to be mindful of Pinnacle activity. Chair Bernardo agreed Pinnacle may need to be reviewed again based on last meeting with Pinnacle team as they were not that convincing regarding their approach in their presentation. Mr. Wood indicated more discussion on passive vs. active would be good long-term. Chair Bernardo added that hitting the fund's 7% target would be challenging if moving to more passive assets. Ms. Cipriani pointed out that finding active large-cap managers that beat their benchmark is challenging and she hates to take risks and pay extra fees for unproven processes in practice and academia. Chair took a vote on the changes and it was approved unanimously.

Ms. Shuman asked for more information on target allocations and Mr. Wood asked about liquidity needs for payment activity. Ms. Cipriani responded that RVK has just finalized 2019 capital market assumptions and analysis. At the next board meeting she will share the analysis with the Board along with more information on diversifying assets class.

6. OLD BUSINESS

None

7. ADMINISTRATIVE

Mr. Stadelmaier asked the Board to consider allowing the Pension Office to accept documents without notarization if the person appears personally in the Pension Office and presents valid picture ID. This change was approved at the PAC meeting. Mr. Mousa made a motion to accept this change, Mr. Greive seconded the motion. The Chair asked if there was any discussion and it was said this is a reasonable approach. The Chair took a vote and the motion passed unanimously.

8. INFORMATION

The next regular BOT meeting will be Thursday, March 28, 2019, at 2 PM.

9. PRIVILEGE OF THE FLOOR

Mr. Mathis thanked staff for helping with an education initiative he raised after attending an FPPTA conference. Mr. Barrett is presenting to the PAC an overview of firms and contacts associated with the pension and pension investments. This may develop into further educational opportunities as well for PAC and Board members.

Mr. Mousa read into the record a document pertaining to the Mosely case and providing clarification of action previously taken in the matter. A full copy of this is available from the Pension Office.

10. ADJOURNMENT

Chair Bernardo adjourned the meeting at about 3:15 PM.