BOARD OF PENSION TRUSTEES
FOR THE
CITY OF JACKSONVILLE RETIREMENT SYSTEM
April 24, 2018

MINUTES

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

Members Present
Jeff Bernardo, Chairman
Sam Mousa
Mike Weinstein
Diane Moser
Terry Wood

Staff Present
Joey Greive, Treasurer
Randall Barnes, Senior Debt Manager
John Sawyer, OGC
Jaime Sawczyn, Pension Assistant

An audio recording of the meeting is available in the Pension Office.

1. **CALL TO ORDER**

The Chair called the meeting to order at 2:02 p.m.

2. **PUBLIC COMMENT**

None

3. **MINUTES**

- Copy of March 22, 2018 Board of Trustees Minutes

- **RECOMMENDED ACTION: APPROVAL**

Mr. Wood motioned to approve the minutes. The motion was seconded by Mr. Weinstein. There was no discussion. Chairman Bernardo took a vote and the minutes were approved unanimously.

4. NEW BUSINESS

A. CONSENT AGENDA

- Copy of Consent Agenda for Recommended Benefits for Corrections Officers dated April 3, 2018
- Copy of Consent Agenda for Recommended Benefits for General Employees dated April 11, 2018
- **RECOMMENDED ACTION: APPROVAL**

Mr. Wood motioned to approve the Consent Agendas for discussion. The motion was seconded by Mr. Mousa.

Mr. Wood asked Jeff Williams, the plan's actuary of Segal Consulting, if he has the ability to break out the JEA portion if a sale of JEA is contemplated. Mr. Williams indicated that he certainly can break out the JEA portion of the liability and provide it at a future meeting. Mr. Mousa commented that when the current administration came into power and negotiations were going on between City Council and JEA on a new multi-year contract, JEA leadership briefly discussed an option that included taking JEA employees out of the GEPP. According to Mr. Mousa, during that time someone calculated a rough estimate of that breakdown and he asked Mr. Williams if Segal provided that information. Mr. Williams said that he believed that was the case, but he was not sure which assumptions were used at the time. Mr. Williams then indicated that Segal usually provides the liability and contribution information broken down by contributing employer, and could certainly provide that information by the following week, if necessary. Mr. Williams also indicated that what might happen in an asset sale would be negotiated and something he could not provide. Mr. Weinstein suggested that Segal do nothing that relates to JEA at this time, including any analysis or providing the Board with any information. Mr. Mousa said that he supported Mr. Weinstein's suggestion, and that his questions and comments were not meant to encourage that work related to JEA be done, only to point out that the liability directly-related to JEA can be segregated. Mr. Williams went on to describe how the Actuarial Accrued Liability is determined by looking at each individual employer. Mr. Mousa agreed that, in order to even do the actuarial study, one would have to be able to isolate each employer – it is a routine, annual process. Mr. Williams agreed that it is routinely done each year.

Mr. Mousa asked if there were any issues or anomalies with regard to the Consent Agendas. Mr. Greive responded that he had reviewed the Consent Agendas and there were no issues. Mr. Greive did point out the City's former Pension Administrator had done a DB to DC conversion, and that he had personally reviewed the calculation and supporting documentation as suggested by the auditors during the last audit.

There was no further discussion. Chairman Bernardo took a vote and the Consent Agendas passed unanimously.

5. INVESTMENT AND FINANCIAL MATTERS

- **March 2018 Flash Report**

Mr. Greive began the investment performance review indicating that March was a rough month, with the fund losing 1.07% (gross of fees). The fund is still at $2.321 billion in assets, which is still near the highest value the fund has ever been. Over the last year, the fund is still up 12.10% (gross of fees) vs. the policy benchmark of 8.43%. The fund is outperforming largely due to being overweight stocks, which Mr. Greive mentioned has been good for the last several years. Mr. Greive indicated that the fund is up 11.54% over the last year, net of fees. Also net of fees, the 3-year return is 6.85%, the 5-year return is 8.66%, and the 10-year return is 7.12%.

Mr. Greive mentioned that the fund had mixed performance among asset classes. He said international equities have been the star performers. Mr. Greive mentioned that Baillie Gifford and Silchester have dramatically outperformed their benchmarks, mainly due to exposure to China.

- **Investment Workshop – May 3, 2018 – 2 p.m.**

Mr. Greive mentioned that there is an Investment Workshop scheduled on May 3, 2018, from 2:00 p.m. to 4:00 p.m. He indicated that the agenda for the Workshop is almost complete. Mr. Greive said the goal of the meeting is to do a “deep dive” on private equity, hedge funds, and various other strategies that would fall under the fund’s Diversifying Assets asset class. Mr. Greive reiterated that the fund is currently overweight large cap and international stocks and underweight Diversifying Assets vs. the target allocation. Before making any investment decisions, Mr. Greive said it would be important to gain a good understanding of the different types of strategies the Board could choose to implement.

Chairman Bernardo asked Mr. Greive how he thought about when to reduce exposure to a manager like Baillie Gifford when it has outperformed significantly given that the probability of some reversion to the mean is likely. He further asked if the Board is nimble enough to act on a situation like that, or if any decision would take months to implement. Mr. Greive said that we are always evaluating managers as to whether we should add to or decrease exposure based on performance. Speaking directly about Baillie Gifford, Mr. Greive indicated that staff had discussed the topic with the consultant, Summit Strategies. One issue with Baillie Gifford, in particular, is that they are a closed fund and will not take any additional money for investment. Mr. Greive continued that if we were to sell out of Baillie Gifford, the Board would need to have a place for the money to go. He said that when the Board seeks to allocate funds to the Diversifying Assets bucket, managers like Baillie Gifford would be prime candidates for sourcing those funds because they are way ahead of the benchmark and would most likely revert to the mean at some point. Chairman Bernardo said that Chinese tech companies will need to do well for Baillie Gifford to continue to do well because their portfolio is very concentrated, and that is a concern.

Mr. Weinstein prompted Mr. Greive to discuss the second part of Chairman Bernardo's question dealing with the process and timing of making changes to the portfolio. Mr. Greive agreed that the Board is not as nimble as they could be if investment management discretion were delegated to staff entirely. He said that staff would typically not make an investment management decision without action of the Board. Chairman Bernardo asked if there was a process to gain approval from the Board or to act if timing was important. Mr. Greive said that there is language in the policy that allows the Treasurer to take action first and then notify the Board. He said that, in that circumstance, he would typically gain Board consensus by reaching out to Board members individually prior to taking any action. However, Mr. Greive said that there is a strong preference to have the Board act first before transacting. Mr. Mousa asked how many times situations have occurred under Mr. Greive's watch that led to decisions occurring prior to Board action. Mr. Greive said it had occurred 2-3 times over 8 years, and those were related to the year-end payback to the City where the fund needed to sell assets in an effort to make that payment and the amount was not known at the prior Board meeting. He said he called the Board members individually and performed the transactions without direct Board action. Mr. Greive offered to put a discussion about Baillie Gifford on the Investment Workshop agenda for May 3. Chairman Bernardo agreed that would be a good idea.

- **VOTING ITEM: GEPP Actuarial Report**

  Mr. Greive introduced the topic of the final actuarial reports of the GEPP and COPP by saying he had reviewed the report over the last week and had asked Segal Consulting to make a few grammatical changes, but that the numbers were the same as discussed at last month's meeting when the assumed rate of return was adopted. Mr. Greive also mentioned that he had received no feedback from any member of the Board, so the Board would be in a posture to approve the reports at this meeting.

  Mr. Williams began an overview of the actuarial report for the GEPP. He indicated that the same information that was presented at the last meeting was in this report. Mr. Williams made it clear that when the report talks about the "City contribution," it is referring to the total of all contributions by the different employers in the GEPP. He discussed that the actual contributions in FY17 were over 100% of the actuarially determined employer contribution because it was calculated on a percentage basis. Going forward, the actual dollar amount of the required contribution will be contributed.

Mr. Williams proceeded to go through a summary of the results. Highlights include: a slight decrease in the funded ratio on an actuarial basis from 64.64% to 64.36%, mainly due to the change in the discount rate; the ADEC increasing by $1.5 million to $95.3 million, also due to the change in discount rate; the required contribution decreasing by about $1 million to $69.2 million; and the unfunded actuarial accrued liability growing by about $56.8 million to $1.081 billion, also due to the change in discount rate. Mr. Williams also mentioned that the analysis included the increase in the employee contribution rate, which increased from 7.7% to 9.7% as part of the pension reform. Finally, Mr. Williams discussed the present value of the surtax revenue projection, which came in at about $394 million allocated to the GEPP as of October 1, 2017, based on a 4.25% annual increase. He explained that the GEPP's allocation of the present value of surtax revenue increased from 31.00% to 31.90% because it is based on the GEPP's share of the City's unfunded liabilities.

Mr. Williams indicated that the ADEC has remained fairly stable over the last three years, which is good. He also pointed out that the actuarial value of assets is lower than the market value of assets, which means that there are unrecognized asset gains to be had in the future, which provides a cushion in future years.

Mr. Mousa suggested changing the title of the first part of Section 1 of the report from "Significant Issues" to something else like "Actuarial Highlights" because significant issues has a negative connotation, when the information listed is not necessarily negative. Mr. Williams agreed that he would change the title in next year's report.

Mr. Wood asked if the Board would be voting to submit the report to the State. Mr. Greive said that the Board would be voting to approve the report, which would then be submitted to the State.

Mr. Wood motioned to approve the GEPP Actuarial Report. The motion was seconded by Mr. Weinstein. Chairman Bernardo took a vote and the GEPP Actuarial Report was approved unanimously.

- **VOTING ITEM: COPP Actuarial Report**

  Mr. Williams proceeded to give an overview of the COPP Actuarial Report. Highlights include: an increase in the funded ratio on an actuarial basis from 49.50% to 50.81%; the ADEC increased by $0.5 million to $19.1 million; the required contribution increased by about $0.5 million to $14.5 million; and the unfunded actuarial accrued liability grew by about $6.7 million to $185.6 million. Mr. Williams also mentioned that the analysis included the increase in the employee contribution rate, which increased from 8.0% to 10.0% as part of the pension reform. Finally, Mr. Williams discussed the present value of the surtax revenue projection, which came in at about $69 million allocated to the COPP as of October 1, 2017, based on a 4.25% annual increase. He explained that the COPP's allocation of the present value of surtax revenue decreased from 6.00% to 5.60% because it is based on the COPP's share of the City's unfunded liabilities.

There was no further discussion on the report. Mr. Mousa motioned to approve the COPP Actuarial Report. The motion was seconded by Mr. Wood. Chairman Bernardo took a vote and the COPP Actuarial Report was approved unanimously.

6. ADMINISTRATIVE

Mr. Greive noted that the Administration had posted, performed interviews, and offered the job to a candidate for the position of Pension Administrator. He indicated the candidate was unanimously selected by the interviewing committee. Mr. Greive discussed the candidate's background, which is heavy in third-party defined benefit administration. He also discussed the candidate's demeanor and attitude, which he thought would be a great fit for the Pension Office team.

Mr. Mousa asked why the candidate had decided to leave his current employment. Mr. Greive indicated that he thinks the candidate was just ready for something new. He had long tenure at his previous employers. Mr. Barnes mentioned that the candidate had expressed a lot of interest in serving the City of Jacksonville and its people.

Some discussion was had between Mr. Mousa and Ms. Moser about the types of background checks currently being performed on new employees. Ms. Moser explained that new employees undergo Level II background checks, which is national in nature.

Mr. Wood asked if the candidate understood the City's benefits, including the fact that the City does not participate in Social Security. Mr. Greive said that all of that was covered with the candidate, including that the salary offered was the same as the prior Pension Administrator and that a waiver of the typical requirement for healthcare coverage to start 55 days after employment.

7. OLD BUSINESS

No discussion

8. PRIVILEGE OF THE FLOOR

Chairman Bernardo expressed gratitude to the Board for being willing to move the date up for the day's Board meeting to accommodate his business travel schedule.

Chairman Bernardo said that he appreciates that by lowering the assumed rate of return to 7.2% the Board is moving to levels that approach what is believed to be more reflective of the reality in today's capital markets. He said he thinks that is the right thing to do. He indicated the "right number" is something probably lower than 7.2%.

Chairman Bernardo then presented the Board with an updated handout that he had shared in the past showing the discount rates and assumed rates of return of corporate pension plans in the U.S., as well as differences in asset allocations among endowments, corporate pensions, and public pensions. He indicated that he views the average assumed rates of return (around 6.5%) as not an unreasonable goal for the City's pension. Chairman Bernardo also noted that public pensions, because they have higher return assumptions, often tend to take on more risk to achieve those higher returns. He expressed that this is something to think about over the next 12 months before the next actuarial study. He also expressed that he understands the economic impact to the City associated with lowering the assumed rate and that there are constraints to what can be done.

Mr. Mousa said that he appreciates Chairman Bernardo's guidance and counsel. Mr. Wood indicated some differences between public and private pensions.

9. ADJOURNMENT

There was no further business and Chairman Bernardo adjourned the meeting at 2:53 p.m.