

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

**MINUTES**

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

**Members Present**

Jeff Bernardo, Chairman  
David Kilcrease  
Bill Messick  
Diane Moser  
Shari Shuman  
Bruce Tyson  
Mike Weinstein  
Terry Wood

**Staff Present**

Randall Barnes, Senior Debt Manager  
Paul Barrett, Senior Investment Officer  
Jaime Sawczyn, Pension Assistant  
John Sawyer, OGC  
Tom Stadelmaier, Pension Administrator

**Others Present**

Tim Johnson, PFPF Executive Director  
Dan Holmes, Summit Strategies Group

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

**1. CALL TO ORDER**

The Chair called the meeting to order at 2:00 p.m.

**2. PUBLIC COMMENT**

None

**3. MINUTES**

- Copy of April 24, 2018 Board of Trustees Minutes
- Copy of May 3, 2018 Board of Trustees (Investment Workshop) Minutes

- **RECOMMENDED ACTION: APPROVAL**

Mr. Wood motioned to approve the Minutes and Mr. Weinstein seconded. There was no discussion and the Chair took a vote. The Minutes passed unanimously.

#### 4. **NEW BUSINESS**

##### a. **CONSENT AGENDAS**

- Copy of Consent Agenda for Recommended Benefits for General Employees dated May 9, 2018
- Copy of Consent Agenda for Recommended Benefits for Corrections Officers dated May 1, 2018

- **RECOMMENDED ACTION: APPROVAL**

Chairman Bernardo asked if there was anything unusual on the consent agendas. Mr. Stadelmaier commented that this was his first time reviewing the consent agendas and that based on comparison to prior months, discussion with pension office staff and his initial review of the cases that everything appeared normal and in good order.

Mr. Kilcrease motioned to approve the consent agendas. Ms. Moser seconded. The Chair took a vote and the consent agendas passed unanimously.

#### 5. **INVESTMENT AND FINANCIAL MATTERS**

Mr. Barrett introduced Dan Holmes from Summit Strategies Group to lead a discussion of 1Q investment performance and April 2018 Flash Report. Chairman Bernardo asked Mr. Holmes to focus on items of particular interest or items that may spur discussion.

Mr. Holmes commented that key theme was return to volatility in 1Q. So far this year, slightly positive returns, a lot of negative benchmark returns. The portfolio is structured to protect more on the downside and it has done so. For quarter, portfolio is up 42 basis points. For the FYTD, up almost 4 percent and on track to meet actuarial assumed rate of return. For the quarter and FYTD, portfolio remains ahead of the benchmarks.

Real estate and international equity most positive in 1Q. Fixed income and large cap did relatively well, some issues with small cap. For FYTD, all assets classes outside of MLPs have outperformed the benchmarks.

MLPs were off over 6% for the quarter but recovered over 7% in April.

Portfolio is up over the median especially over the longer-term. The Board established last fall a target rate related to a category called diversifying assets. Staff is looking to increase diversifying assets category but not before completing an asset liability study to help understand the fund liquidity needs.

Ms. Shuman asked about getting the results net of fees. Mr. Holmes pointed out that quarterly is gross of fees for completing a peer comparison and that gross and net is available in the monthly Flash. Net of fees is not available for the quarterly book completed by Summit. Ms. Shuman pointed out that the fees can make a big difference in the review.

Chairman Bernardo asked about MLP composition changes over time with lots of MLPs switching to c-corp. Mr. Holmes answered that there have been some but not a lot of shifts back to c-corps. The FERC ruling only affects a small part but did take away some tax advantages for certain MLPs. MLPs remain a good diversifier and good source of income. MLP volatility is also projected to be dampened going forward with greater holdings from institutional investors vs. retail investors and with MLP operators becoming more conservative.

Mr. Holmes moved to the April Flash and commented that global growth continues. Domestically, growth is supported by revenue growth and increased profit margins. Unemployment fell to 3.9% which is the lowest it has been in quite some time. Market concerns leading to volatility include potential for higher inflation with a tight labor market and possible trade wars. Overall, stocks slightly positive to flat for the year. Bonds continue to be negative with rates up for 3 of 4 months in 2018.

Total fund value is just over \$2.3B with all asset classes in range of investment policy guidelines but diversifying assets remain somewhat underweight. Overall fund up 63 basis points in April with a majority of the positive coming from MLPs and real estate. FYTD remains overall above the benchmark. For the year, international and real estate are the two asset classes performing the best.

Ms. Shuman asked about concerns with any managers. Mr. Holmes is meeting with Loomis which has not been in the portfolio for a full year. Half of their underperformance is solely from not holding Apple.

For small caps, Pinnacle, was very positive last fiscal year, since then, very red (rebalance at end of fiscal year did take money away from Pinnacle). Pinnacle return patterns have more volatility. Summit has observed this from having them in portfolios for over 10 years. Tech and biotech drove returns last year. Style has not changed and Summit is reviewing closely but not concerned at this time. William Blair is also down, largely due to mid-cap and value bias. Summit believes they will come back when value comes back into favor which they believe it will. Also no redemptions and closed to new investors so they have remained true to their style.

Westwood was originally recommended to stay in the portfolio due to diversification

reasons and low correlation relative to the other managers. However, they continue to underperform relative to what should be expected among the smaller and mid-cap managers. Summit is talking to staff with an eye towards replacing them in the portfolio. Chairman Bernardo asked if Westwood was style-tilted or more generalist. Mr. Holmes said not a deep style-tilt, but a lean toward the value side. He indicated that after meeting with Westwood he does know the valid reason they are underperforming. Chairman Bernardo pointed out a discrepancy in the benchmark for Westwood in the Quarterly vs. the Flash. Mr. Holmes confirmed the Russell 2000 is the correct benchmark. Chairman Bernardo asked if Summit was recommending meeting with Westwood. Mr. Holmes indicated that based on their meeting they do not feel the need to do this and that their rebalancing recommendation will include moving money out of this fund.

Mr. Wood asked about Chinese exposure in Baillie Gifford. Mr. Holmes indicated it's about 12%. Summit is looking at possibly taking money out of the fund as part of rebalancing. Preference is to not move out of Silchester because it is closed.

Ms. Shuman asked about timing of rebalancing and where we are heading with investment changes. Mr. Barrett said staff is moving forward based on discussion including the investment workshop with the Board, with more interest in private equity than hedge-fund. Also looking away from fund-of-funds and more at another advisory relationship. Also, since pricing levels are high now, may be an advantage to not move too quickly but to narrow the decisions. Mr. Barnes added that the asset liability study will help with making decisions on how much private equity to buy relative to liquidity needs. Mr. Barrett said we are providing Summit the actuarial data needed for the study. Mr. Holmes said the review is about a 3 month process. Chairman Bernardo commented that we are making changes but that now we are going through the sequence of education and other steps prior to final action. Mr. Barrett and Mr. Holmes agreed to provide the board an implementation timeline for the changes.

Mr. Wood asked if the plan includes draw down of funds while we are taking credit now for future taxes. Mr. Holmes confirmed that is built into the study.

## **6. ADMINISTRATIVE**

Mr. Barnes introduced the new Pension Administration Manager, Tom Stadelmaier. Mr. Stadelmaier has a long experience working in pension administration, most recently for Conduent where he worked on 15-20 outsourced pension administration clients. Mr. Stadelmaier indicated he was excited to be here and looked forward to working with the Board.

## **7. OLD BUSINESS**

None

**8. INFORMATION**

**a. NEXT BOARD OF TRUSTEES MEETING**

- The next regular BOT meeting will be Thursday, June 28, 2018 at 2:00 PM

**9. PRIVILEGE OF THE FLOOR**

Mr. Kilcrease raised a question to the group he received about military service and how that is handled in the 401a Plan. Mr. Weinstein indicated that it is based on a percentage of pay and if an employee is on military leave and not getting paid they would not get contributions into the 401a Plan.

**10. ADJOURNMENT**

Chairman Bernardo adjourned the meeting at about 2:46 PM.