



SUMMARY TO THE BOARD OF TRUSTEES AND F.I.A.C. MANAGER UPDATE

Thursday, June 28, 2018

11:00 A.M. - 12:27 P.M.

City of Jacksonville Police and Fire Pension Fund
1 West Adams Street Suite 100, Jacksonville, FL 32202
Richard "Dick" Cohee Board Room

Board of Trustees

Cpt. Michael Lynch, Trustee

Staff

Timothy H. Johnson, Executive Director – Plan Administrator

Steve Lundy, Assistant Plan Administrator

Kevin B. Grant, Finance Manager

Dan Holmes, Summit Strategies – via Webex

FIAC Members

Rodney Van Pelt

Guests

David Brown, Neuberger Berman

Michael Savinelli, Neuberger Berman

Notice

NOTICE: Any person requiring a special accommodation to participate in the meeting because of disability shall contact Steve Lundy, Assistant Plan Administrator at (904) 255-7373, at least five business days in advance of the meeting to make appropriate arrangements. 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. Additional items may be added / changed prior to meeting.

Agenda

- I. Public Speaking Period
None.
- II. Neuberger Berman - Manager Update
David Brown, Andrew Johnson & Michael Savinelli

David Brown and Michael Savinelli presented their update as attached:

- Michael Savinelli discussed the Investment Platform on page 6.
- David Brown gave a brief summary of his history with Neuberger Berman. He discussed the Fixed Income Organization on page 8 and the Core Plus Portfolio Management Team on page 9.

Rodney Van Pelt asked to see the Fund's investment distribution across different fixed income strategies.

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David Brown showed the Detailed Asset Allocation on page 15.

David Brown and Michael Savinelli continued presenting the update as attached:

- Investment Performance on page 11.
- Positioning Themes on page 13.

Kevin Grant asked if Neuberger Berman's recent performance is a result of any big changes.

David Brown said recent performance is not a result of any major change. Recent changes include additions to emerging markets, and reductions to corporate credit risk. Spreads have gotten tight. Exposure to non-dollar periphery risk has hurt this year as opposed to last; Neuberger Berman's position in Italian debt was moved to Spain due to Italy's recent political volatility. Some of this loss was likely monetized.

David Brown explained Neuberger Berman's durations relative to those of benchmarks, and interest rate risk.

Michael Savinelli asked about the effect of global monetary policy on interest rates.

David Brown directed attention to page 23, which touches on that effect. He discussed quantitative easing by the Fed and the ECB, and Neuberger Berman's outlook on whether those and other central banks will raise rates in the near future.

Rodney Van Pelt asked about Neuberger Berman's strategy relating to widening or narrowing spreads.

David Brown discussed page 13, which touches on this point. He suggested the value disconnect is larger between European rates and fair value than in the US.

David Brown and Rodney Van Pelt discussed different risk management methods.

David Brown and Rodney Van Pelt discussed disciplines of increasing risk across funds of different strategies.

Michael Savinelli discussed risk management in changing risk environments as shown on page 16. He said that some managers utilize top-down or bottom-up strategies, but Neuberger Berman is in the middle. Neuberger Berman takes inputs from all approaches.

David Brown said their firm is dynamic and flexible in the right way – focused on the current market environment.

Dan Holmes asked David Brown and Michael Savinelli to briefly discuss portfolio positioning and any other noteworthy portfolio characteristics.

David Brown discussed the detailed asset allocation on page 15. He noted that Neuberger Berman is underweight in government treasury securities, most of which is in TIPS. The firm's view is that – although attractive – TIPS does not fully price in realistic inflation expectations.

Rodney Van Pelt asked David Brown if there are other concerning countries in the EU.

David Brown said their view is that the EU will not 'break up'. Immigration issues are a big deal in Germany right now with floods of immigrants from Africa and the Middle East. If Angela Merkel, who is the 'rock who holds the EU together' were voted out, that would be worrying.

Michael Lynch and David Brown discussed Brexit and the Italian election's effects on the portfolio.

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Rodney Van Pelt and David Brown discussed the recent ‘trade wars’ and the firms expectation that the next month will see the apex of the issue.

Rodney Van Pelt asked about the impact of US debt and its impact in the markets.

David Brown said there is no impact right now – the massive debt load combined with the deficit is not priced into the markets. Rates would be higher if it was. Puerto Rico should have been more alarming to the markets, but the markets decided it was a unique case. However, Chicago, Illinois, and California are just the same. At some point these bills will come due.

Michael Lynch, David Brown, and Michael Savinelli discussed this percolating issue of National, State, and Municipal debts.

Steve Lundy, Assistant Plan Administrator
Posted 07/03/2018

Willard Payne, Secretary
To be approved at the Board Meeting on July 20, 2018.