
JACKSONVILLE POLICE AND FIRE PENSION FUND
FINANCIAL INVESTMENT AND ADVISORY COMMITTEE
MEETING SUMMARY – MAY 17, 2019 – 3:30PM

FIAC

Eric "Brian" Smith Jr., Chair
Rob Kowkabany
Rodney Van Pelt

STAFF

Timothy H. Johnson, Executive Director – Plan Administrator
Steve Lundy, Assistant Plan Administrator
Kevin Grant, Finance Manager
Pedro Herrera, Fund Counsel – via Webex
Lawsikia Hodges, Office of General Counsel – via Webex
David Lindberg, Investment Consultant

EXCUSED

Craig Lewis Sr., Secretary
Priyesh Patel

Meeting Convened:

3:48PM

Meeting Adjourned:

5:46PM

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I. PUBLIC SPEAKING PERIOD

None.

II. MEETING SUMMARIES TO BE APPROVED

Motion to approve: VAN PELT; Second: KOWKABANY; APPROVED UNANIMOUSLY.

1. **FIAC Meeting** – April 12, 2019

III. INVESTMENT CONSULTANT REPORTS

David Lindberg

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David Lindberg discussed the updated Investment Consultant Reports (HANDOUT) with the FIAC. He covered the following topics and gave the following points:

1. **Capital Market Review**

- Page 5: Asset Class Performance – In a flip from the first quarter of Fiscal Year 2018, the Fund experienced strong returns in the second quarter.
- Page 7: Economic Review – Consumer confidence is strong, economic data is strong, and unemployment is at a 50-year low.
- Page 8: Fiscal Policy Boost – This chart shows the contribution to US GDP estimated to come from quantitative easing, from which the Fed is scaling back.
- Page 10: U.S. Equity Market – Growth continues to outperform value. Value-oriented managers continue to lag compared to growth-oriented managers. This is driven by FANG stocks and large cap growth.
- Page 11: Non-U.S. Equity Market – China and Taiwan are experiencing significant growth.
- Page 14: Long-Term Rates – Current interest rates are on par with historical rates over the long-term.

2. **April 2019 Fiscal YTD Performance Estimate**

- Page 18: PFPF Performance Update – The Fund experienced tremendous volatility since October 2018, and is now back into the positive for its FYTD returns.
- Page 20-25: Monthly Summary – The Fund experienced good returns for April. Performance across all Fund asset classes was discussed.

3. **FY 2019 Second Quarter Executive Summary Report**

- Page 28: Actual Allocation Vs. Policy Allocation – Everything is close to policy. Domestic Equity is slightly offsetting – about 4% overweight. Real Estate is about 4% underweight. This makes sense right now given the price appreciation in US Equity.
- Page 29: Performance Comparison – The Fund is in the 17th percentile relative to the public fund peer universe for the first calendar year quarter. The Fund is closer to the median over longer periods (5-10 years).

Brian Smith asked what other public funds were doing differently over the past 5 and 10-year periods to experience better results.

David Lindberg said the universe is tilted more towards US equity more than anything else. This has been the leading asset class over the past 10 years. Less diversified funds have experienced the best returns over this period.

- Page 31: Performance Comparison – Going forward, Wilshire would recommend being less active in the Fund's U.S. Equity allocation. From an efficiency standpoint, this is a hard area for active management to outperform passive management.
- Page 30: Risk / Return Analysis

Brian Smith asked what funds in the upper left quadrant are doing to be performing so well with low risk.

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David Lindberg said they have a higher allocation to U.S. Equity. Volatility was subdued in 2017 – a record low for 40 years. These funds are less diversified and heavy in U.S. Equity. This is unsustainable.

Rodney Van Pelt asked how this is not sustainable. U.S. Equities have outperformed over very long periods – over 20-30-50 years.

David Lindberg said because we have had such a long run, it is hard to find a period where non-U.S. markets outperform U.S. equities. Because the Fund is less globally allocated than most funds, it has benefitted from this trend.

Brian Smith asked if David Lindberg had a 10-year version of the chart on page 30.

David Lindberg said Wilshire has 10 years of data, so most certainly.

Rodney Van Pelt asked if the Fund is more actively managed than funds in the peer universe. He noted these figures are gross of fees, and asked if the net of fees measure would deteriorate the Fund's ranking.

David Lindberg said he does not have enough universal data to make that conclusion.

David Lindberg briefly outlined the structure of the following pages, "Investment Manager Analysis". Most of the four charts shown on page 40 (Eagle Capital Management) will be shown for each manager, depending on how long they have managed the Fund's assets.

Rodney Van Pelt asked what role Sawgrass plays in the Fund's asset allocation.

David Lindberg said Wilshire thinks of any manager as a structural piece of the larger portfolio. To optimize the Fund's U.S. equity allocation, Sawgrass and Loomis complement each other. The Fund's wouldn't want just Sawgrass or Loomis alone, but together as they are part of the structure.

Rodney Van Pelt asked if the Fund should be more aggressive, given its long term timeline.

David Lindberg said possibly – but there are additional concerns such as liquidity needs. Eventually, we should conduct a structural analysis and consider the Fund's level of active management risk in order to optimize the portfolio.

Brian Smith noted that in this example, blending the two managers together gets the Fund where it wants to be, as opposed to having a single manager.

Timothy Johnson said we have had a lot of conversation on the value vs. growth question, but not on manager performance vs. peers.

David Lindberg said this will happen during the structural analysis work. The takeaway is that Wilshire will recommend less active management in the U.S. equity portfolio. This is the most efficient space for passive management.

David Lindberg also discussed the Fund's credit risk within its fixed income portfolio, which also needs to be considered.

Brian Smith asked about the recent trade policy issue and how it affects volatility in the markets.

David Lindberg said the news headlines change by the day, and the volatility is there. Once the market believes a trade agreement is coming, the market will take off. The market doesn't like uncertainty. We don't recommend any tactical changes in anticipation of how this may be resolved.

Rob Kowkabany asked to clarify that Wilshire doesn't foresee any deterioration in the credit markets.

David Lindberg said Wilshire does not foresee any credit market deterioration. The Fund just needs a solid structure in its fixed income allocation.

IV. EXECUTIVE DIRECTOR'S REPORTS

Timothy Johnson

1. Fiscal Year 2020 Operating Budget

Kevin Grant

Motion to approve: KOWKABANY; Second: VAN PELT; APPROVED UNANIMOUSLY.

Kevin Grant discussed the Fiscal Year 2020 Proposed Operating Budget with the FIAC.

Kevin Grant discussed the 'trust revenues' line item on the budget – this is always a percentage of the payroll of police and firefighters. To make a balanced budget, it must always match our operational dollars. This may be \$3-3.5 million higher by the end of the year.

Kevin Grant discussed building rents. The proposed budget shows actual rents from the tenants, however there is a projection built in to account for the June vacancy of the third floor. The projection for rent collection starts in November.

Rodney Van Pelt said he does not see a projection of the budget. He asked to see a projection.

Steve Lundy displayed the March 2019 budget to actual sheet (HANDOUT), which shows a budget projection.

Kevin Grant said the numbers on the March 2019 budget to actual show the budget dollars at this actual point in time.

Brian Smith asked if there was a rate increase in parking, as the line item increased.

Kevin Grant said yes, parking spaces have been increased from \$80 to \$90, which is in line with market prices in downtown Jacksonville.

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Kevin Grant discussed personnel expense, which has increased by about \$80,000. This comes from adding the part time employee, and possible 5% increases for staff based on the new performance plan. This does not mean everyone will see a 5% raise, we just have to budget for the maximum.

Rodney Van Pelt asked if this is realistic.

Timothy Johnson said no, but we have to put 5% in. This is the Board policy. We have no idea at the beginning of the year how employees will perform. In the past, employees were on a longevity-style step plan. This has now been replaced by a performance plan. This will be the first year on the new plan.

Lawsikia Hodges said that at the end of the day, City Council approves the budget. The policy is in place, but ultimately it is decided by City Council.

Kevin Grant discussed changes in the professional services and capital improvement line items. The building's chiller is old and will need to be replaced.

Kevin Grant said everything else is on target.

Rob Kowkabany said that Kevin Grant noted that items are facing repair. He asked if the Fund has ever conducted a property condition report for capital improvement budgeting needs.

Kevin Grant said the Fund has not, however it is a great idea.

Rob Kowkabany said he will recommend some firms and will get back to Kevin Grant.

Brian Smith asked about the elevator repairs.

Kevin Grant said the elevator repairs were included in the Fiscal Year 2019 budget amendment. The dollars were moved from the professional services line item.

Timothy Johnson said we should anticipate capital repairs as opposed to funding them when something breaks. He gave the skylight – which was repaired in 2016 – as an example.

Rodney Van Pelt said this is a hefty increase in the operating budget.

Timothy Johnson said the problem is the budget has to balance, and trust fund revenues are made by employees. The Fund has no control over this number. The big expense is the automatic growth in investment expenses. As the portfolio grows, fees will grow.

Rodney Van Pelt said this is an interesting way to budget.

Timothy Johnson said many pension funds don't budget for revenue. This plan is different. This is how the City does it. The growth number you'd want to see is the change in actual vs. actual year over year, not proposed vs. proposed.

Rob Kowkabany made a motion to accept the Proposed Fiscal Year 2020 Operating Budget as presented. Seconded by Rodney Van Pelt. The vote passed unanimously.

3. Emerging Manager and Broker Memo

Motion to approve: VAN PELT; Second: KOWKABANY; APPROVED UNANIMOUSLY.

Timothy Johnson said the Investment Policy Statement (IPS) has not been approved by the Board of Trustees yet, as we have been discussing how to incorporate Emerging Managers and Brokers into the IPS. The Trustees have delegated to the FIAC the duty to bring Emergina Managers and Brokers to the portfolio. This is memorialized in this memo. There is nothing new here – the investment consultant will include an Emerging Manager in every search it conducts. They are doing this anyways.

Rodney Van Pelt asked if this search is 'blinded'.

David Lindberg said 'you would know'. There is a huge effort in diversity. Wilshire's research team identifies diverse firms in each asset class and style. In every search Wilshire conducts, at least one diverse manager is included that meets the client's criteria.

Timothy Johnson said this is very transparent. Also, Wilshire will identify and report the Fund's utilization of diverse managers in the monthly flash reports.

Timothy Johnson said the investment consultant will refer to the Fund's managers Northern Trust's roster of preferred Emerging Brokers. We will not select the brokers – Northern Trust has already done this. We are just suggesting managers use them. The investment consultant and Fund finance manager will track the utilization of Emerging Brokers in Northern Trust's online system for separately managed accounts. For comingled accounts, the investment consultant or Fund finance manager will track utilization of Emerging Brokers through direct contact with managers.

Timothy Johnson said the Fund will achieve its goals through programs already in place with our investment consultant, Wilshire, and our custodian, Northern Trust.

Timothy Johnson said he is excited about David Lindberg's promotion to Chair of Wilshire's diversity initiative.

Rodney Van Pelt said this is a good start. We will wait to see the numbers.

Brian Smith asked if we got the requested numbers from Ashley Alson after she presented last month.

Timothy Johnson said she gave us the numbers through December, and she backed her claims she made in her report.

Timothy Johnson said he is asking for the FIAC's approval of the memo. This will be the policy we will administer. This will now represent the Emerging Manager and Emerging Broker policy of the Board of Trustees. They subcontracted it to the FIAC, and this will be shown to them.

Lawsikia Hodges asked where this leaves us in the process of approving the IPS. She asked if this would be approved in tandem with the IPS.

Timothy Johnson said the reason why the IPS isn't done is because the Emerging Manager and Emerging Broker issue has not been resolved. Once this is approved, it will be incorporated into the IPS.

Lawsikia Hodges asked if the Board of Trustees will have a draft IPS to approve at the subsequent meeting referencing the FIAC's memo.

Timothy Johnson said it is not on the May Board of Trustees agenda.

Brian Smith asked if there would be a footnote on the IPS referencing the FIAC's memo.

Timothy Johnson said it can be a part of the IPS, or an attachment, or a footnote could be inserted referring to the memo. In the new IPS, it will say the FIAC is responsible for the Emerging Managers and Emerging Brokers policy. And this memo describes how we address this.

Rodney Van Pelt made a motion to accept the memo from Timothy Johnson setting forth the FIAC's recommendations regarding Emerging Managers and Emerging Brokers. Seconded by Rob Kowkabany. The vote passed unanimously.

Brian Smith said he is really please to finally get this done. He thanked everyone for all the hard work.

David Lindberg said this is a good policy.

Brian Smith excused David Lindberg from the meeting – he had to catch a flight.

Rodney Van Pelt said he will not be present at the June 14th FIAC meeting.

Rob Kowkabany said he would be able to attend.

2. Investment Consultant RFP Discussion (taken out of order)

Motion to open the Investment Consultant Contract for RFP: KOWKABANY; Second: VAN PELT; PASSED UNANIMOUSLY.

Timothy Johnson said the FIAC has a few options regarding the investment consultant contract. The contract expires in November, and the FIAC could recommend extending the current contract, conducting a Request for Proposal (RFP), or anything in between. The original idea was to conduct a full RFP during Wilshire's interim 1-year contract. He said he is hopeful to have a final decision by June.

Timothy Johnson handed out the "Meeting Handouts RE: Investment Consulting" and described the following sheets:

- Evaluation Matrix – This is the GEPP's evaluation matrix for their RFP for investment consultant.
- Board of Pension Trustees for the COJ Retirement System 12/06/2018 Meeting Minutes – This shows that the GEPP Board of Trustees ultimately chose their new investment consultant based on the interview, and not their scoring matrix.

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- *Investment Consultant Contract Comparison – This compares the services provided by GEPP's investment consultant, RVK, and the PFPF's investment consultant, Wilshire. Additional items are highlighted for emphasis.*

Lawsikia Hodges reminded the FIAC of the PFPF's procurement policy, which may be applicable for a contract of this magnitude. Competitiveness must be considered, and the process should be fair. Brian Smith said he knows what he would like to do.

Rob Kowkabany said he would like to look at more data.

Rodney Van Pelt said he would like to make sure we are in compliance with the PFPF's procurement policy.

Lawsikia Hodges said this is the Board of Trustees' policy, and doesn't preclude the FIAC from making a recommendation to waive the policy in certain circumstances.

Brian Smith said he would like to conduct an RFP. He said he is happy with Wilshire. Wilshire will have a 'leg up' due to the current relationship. If we do not do an RFP, it would be a disservice to Wilshire. They could solidify a 5-year contract.

Brian Smith said let's lock in who we want for 5 years through conducting an RFP. He said the PFPF can conduct a good RFP. He asked Rodney Van Pelt to provide his input to Timothy Johnson in the meantime since he will not be present at the June FIAC meeting.

Rodney Van Pelt said he is good with an RFP, but just to make sure Wilshire is included.

Lawsikia Hodges said the PFPF could use the COJ RFP template, and then narrow the pool through minimum qualifications. She said she would provide Timothy Johnson the current COJ RFP policy.

Rob Kowkabany said he prefers a full RFP as well, and is open to a vote.

Rob Kowkabany made a motion to open the investment consultant contract up for an RFP. Seconded by Rodney Van Pelt. Discussion:

Brian Smith said he does not remember what the PFPF RFPs looked like in the past.

Timothy Johnson said he has copies of the older RFPs.

Brian Smith asked if there would be submissions which would be further narrowed down to 3-4 candidates. He asked if Wilshire would receive an automatic slot.

Timothy Johnson said yes, it would be narrowed, but Wilshire would not automatically get a slot. This would be determined by the scoring just like anybody else.

Rodney Van Pelt said he liked the fact that there is a hurdle to get in for an interview assessment, and he preferred the City's method of ultimately choosing based on the interview.

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Timothy Johnson said some people don't prefer the interview method because they may think it is an unfair 'backdoor' to get in. It is qualitative and not as quantitative.

Lawsikia Hodges said that to be clear, the FIAC is recommending an RFP to the Board of Trustees. Timothy Johnson will bring this back to the FIAC to provide input. The FIAC can perfect the City's RFP methods, and ask the City what it might have changed in hindsight.

Timothy Johnson said he would do whatever the FIAC wishes. We have 6 months to complete this. He said he has no problem bringing back an RFP template for editing.

The vote passed unanimously.

V. OLD BUSINESS

None.

VI. ADJOURNMENT

5:46PM

Steve Lundy, Assistant Plan Administrator
Posted 05/23/2019

Craig Lewis Sr., Secretary

To be approved at the FIAC Meeting on June 14, 2019.

The next regular FIAC meeting will be held Friday, June 14, 2019 at 3:30PM.