



SUMMARY TO THE REGULAR F.I.A.C. COMMITTEE MEETING

Friday, November 13, 2020

3:30 P.M. – 4:46 P.M.

City of Jacksonville Police and Fire Pension Fund
1 West Adams Street Suite 100, Jacksonville, FL 32202

The next Financial Investment and Advisory Committee (F.I.A.C.) meeting will be held December 11, 2020 at 3:30 P.M.

Financial Investment and Advisory Committee

Eric “Brian” Smith Jr., Chair

Rodney Van Pelt, Secretary – via ZOOM

Excused

Rob Kowkabany

Erwin Lax

Kendall Park

Guests

Richard Patsy, Trustee

Maja Ben

Gar Chung

Notice

NOTICE: Meeting Agendas and Summaries are available on our website at jaxpfpf.coj.net. For additional meeting documents, please contact Maria Young, Custodian of Public Records for the City of Jacksonville Police and Fire Pension Fund at 904-255-7373 or MariaY@coj.net to file a public records request.

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Summary

There was no quorum at this meeting, as a majority of the FIAC members were not physically present. Therefore, no motions or votes were made.

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I. Public Speaking

None.

II. Meeting Summaries

a. October 16, 2020 FIAC Meeting Summary

Brian Smith said that since there is no quorum today, the October 16, 2020 FIAC Meeting Summary would be added to the December 11, 2020 FIAC Meeting Agenda for approval.

III. Executive Director's Report

a. Fiscal Year 2021 PFPF Strategic Goals

Timothy Johnson discussed his Fiscal Year 2021 PFPF Strategic Goals. To create these goals, we looked at where we are along the Strategic Journey, a 10-year path showing the effects of pension reform on the PFPF. The goals show what we need to do along that path as we begin to anticipate receipt of the surtax revenues.

Timothy Johnson briefly described each item on the slide, and noted that this is a draft. After the Board of Trustees approves the Fiscal Year 2021 PFPF Strategic Goals, he would send the final version to the FIAC.

b. Highlights from the Experience Study – Pete Strong attach

Pete Strong discussed the Experience Study, which analyzes the assumptions used for the Actuarial Valuation Report, and compares them to actual experience. If the actual experience deviates from the assumptions, the assumptions need to be revised. This study resulted in recommended assumption changes to every assumption, and the Board of Trustees will vote to approve the changes at their next meeting. He covered each recommended assumption change:

- Salary Increase Assumption: Higher than expected
- Future Retirement Rates: Lower than expected
- Mortality Assumption: Update to reflect FRS's changes as required by FL Statutes
- Assumed Rate of Separation: Higher than expected
- Disability Rate: Lower than expected
- Probability of Surviving Spouse: Higher than expected

Pete Strong said that all of these changes result in an almost net-zero impact on the required contribution. There is a +\$14,782 impact total, which is not significant. The largest impact was the Probability of Surviving Spouse Assumption, but it was offset by the Mortality Assumption.

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Pete Strong discussed the diagram on page 18 of the Experience Study: Single Equivalent Cashflow-adjusted Investment Return Forecast.

Pedro Herrera asked if the impacts shown in this report are based on the 6.9% or the 7.0% Assumed Rate of Return.

Pete Strong said that they are based on the 10/01/2019 Valuation Results, which uses the 7.0% Assumed Rate of Return.

Rodney Van Pelt asked about the ideal Assumed Rate of Return, and asked if 6.75% was too high.

Pete Strong said that he does not believe 6.75% is outside the reasonable range. The 'best estimate' of 6.64% is based on capital market assumptions of 13 investment consultants, and the reasonable range is plus or minus 50 basis points, from 6.14% to 7.14%.

IV. Investment Consultant Reports

a. Payroll Contribution Analysis

Jordan Cipriani began to discuss the Payroll Contribution Analysis memo, "The purpose of this memo is to provide merits and considerations for the PFPF Staff to assess when thinking about the possibility of moving away from a one-time reimbursement of the annual advance payroll contribution and instead towards a quarterly funding of payroll.

As background, RVK was asked by a member of the PFPF Board to provide thoughts and supporting analysis on whether there is heightened timing risk associated with a once a year cash raise of significant dollar amount versus raising that cash at predetermined periodic points throughout the year.

As a means to provide the pros and cons of each option, RVK has compiled the following qualitative and quantitative evaluations for the benefit of Staff's consideration."

Jordan Cipriani said that essentially, the City is funding in advance. This is a big plus, but there are some disadvantages such as singular timing and risk.

Jordan Cipriani discussed the 'pros and cons' of the current process versus a periodic process:

Advantages of the Current Structure (Annual Lump Sum Reimbursement):

- Less administrative burden on Staff, as any cash raise and related rebalance only occurs once a year.
- Having the City fund payroll in advance allows the Fund to stay invested throughout the year.

Disadvantages of the Current Structure:

- While there is always risk involved with the timing of any cash raise, you increase the potential magnitude of your exposure to tail scenarios, given the higher dollar value involved, when only transacting once a year.

Advantages of PFPF Funding Payroll:

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- The more frequently you transact, the less risk you run from a timing perspective due to an averaging, or smoothing effect.
- Increased access to cash for future private investment capital calls (pending approval of proposed asset allocation).

Disadvantages of PFPF Funding Payroll:

- Increased administrative burden on Staff to raise cash, and any related rebalance, more frequently throughout the year.
- Potentially increased burden on the FIAC and/or the Board if cash raises and rebalances require prior approval.
- Raising cash more frequently throughout the year would impede dollar gains in those years where the markets achieve positive quarter over quarter returns.
- Potentially higher transaction costs from managers trading more often.
- More disruptive to the managers strategy due to more frequent withdrawals.

Kevin Grant asked if the City did not advance the PFPF funds at the beginning of the year, would the net difference be about \$10 million a quarter. He said we could just net-out the cost quarterly.

Jordan Cipriani said that sounds about right.

Rodney Van Pelt said he agrees. The PFPF sends the City a check for about \$120 million every September. He said he prefers the current process.

Jordan Cipriani discussed the quantitative evaluation of the two different methods – quarterly versus annually. Over the past 5 years these two methods were tested. Three out of the five years the annual lump sum method produced higher returns. The difference is small – in the long term, the difference is a drop in the bucket.

Richard Patsy asked Jim Voytko which method he would choose.

Jim Voytko said that the odds are in your favor when you have the advance funding. It is like having a slight wind to your sails. He said the current system is working fine. One improvement could be made – to give managers more advance notice of withdrawals.

Timothy Johnson agreed and said that there is more process risk than financial risk. We ask RVK for a rebalancing recommendation on the 3rd Friday in September, and need to pay the City by September 28th. There is not enough time to administer this intelligently. The Board, Managers, Custodian, and PFPF Staff feel rushed. Maybe we can move this process back to August.

Pedro Herrera asked if the quarterly protocol makes sense to alleviate downside risk.

Jim Voytko said that there are some years in which this protocol will and will not be favorable.

Brian Smith asked if the annual or quarterly processes are analogous to quarterly or annual rebalancing of portfolios.

Jim Voytko said that these are exactly along the same lines. If you rebalance too frequently, transaction costs begin to overwhelm. If you do not rebalance enough, you will experience the opposite effect.

Brian Smith asked Timothy Johnson if the current method is tough on the PFPF Staff because there is little time.

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Timothy Johnson said that is correct – previously, we asked the Board to give discretion to the FIAC, and also to PFPF Staff. The Board did not like that suggestion because it is a lot of money. If the discretion stays with the Board of Trustees, then we would have to move it back a month to August. We do not want to be in the same squeeze again next year.

Brian Smith agreed and said it is almost impossible to execute that quickly. He thanked RVK for an excellent report, and said he agrees with Rodney Van Pelt that he prefers the current method.

b. Monthly Investment Performance Analysis – October 31, 2020 – Preliminary

Kevin Schmidt briefly covered the general market commentary as shown on page 1 of the Monthly Investment Performance Analysis as of October 31, 2020.

V. Old Business
None.

VI. New Business
None.

VII. Next Meeting – December 11, 2020 at 3:30 P.M.

Brian Smith said that next month's meeting will be held in person at the PFPF Office.

VIII. Adjournment
4:46 P.M.

Rodney Van Pelt, FIAC Secretary

Summary Prepared By:

Steve Lundy, Deputy Director
City of Jacksonville Police and Fire Pension Fund

Posted: 11/16/2020

To be Approved: 12/11/2020