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JACKSONVILLE POLICE AND FIRE PENSION FUND  
FINANCIAL INVESTMENT AND ADVISORY COMMITTEE  
MEETING SUMMARY – APRIL 13, 2018 – 3:30PM

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**PRESENT**

Eric "Brian" Smith Jr., Chair  
Craig Lewis Sr., Secretary  
Tracey Devine  
Rob Kowkabany  
Rodney Van Pelt – via Webex

**STAFF**

Timothy H. Johnson, Executive Director – Plan Administrator  
Steve Lundy, Assistant Plan Administrator  
Kevin B. Grant, Finance Manager – via Webex  
Dan Holmes, Summit Strategies – via Webex  
Peter Birk, Summit Strategies – via Webex  
Alecia DeCuollo, Summit Strategies – via Webex  
Joshua McKinley, Summit Strategies – via Webex  
Tom Pollihan, Summit Strategies – via Webex

**Meeting Convened:**

3:32PM

**Meeting Adjourned:**

5:23PM

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.

**I. PUBLIC SPEAKING PERIOD**

*None.*

**II. MEETING SUMMARY TO BE APPROVED**

***Motion to approve as amended: KOWKABANY; Second: DEVINE; APPROVED UNANIMOUSLY.***

**1. FIAC Meeting – March 9, 2018**

*Craig Lewis amended page 3 of the March 9, 2018 FIAC Meeting Summary as follows: V. 1. Paragraph 2, Sentence 2: "He asked if there is reduction in correlation in crude pricing and MLP performance." and V. 1. Paragraph 3, Sentence 2: "He said Summit is going through the process of re-underwriting its thesis on MLPs."*

**III. EXECUTIVE DIRECTOR'S REPORT**

*Timothy Johnson*

**1. Department of Revenue State Sales Tax Audit – Update**

*Kevin Grant discussed the Department of Revenue State Sales Tax Audit with the FIAC. The Department visited the PFPF office on Tuesday to start their preliminary audit for the past Fiscal and Calendar Year. They will look at how the PFPF's procedures are structured for calculating sales tax and filing lease agreements. The Department will do a 3-year review on the PFPF's tenants.*

*Timothy Johnson briefly described the PFPF's building and parking garage. The building is a \$6 million asset generating roughly \$600 thousand a year in revenue. The building has four tenants leasing space, and about 240 parking spaces in the garage. Revenue generated from the leasing of the building and parking spaces is taxed.*

*Brian Smith asked how often this audit is performed.*

*Kevin Grant said that the Department says this will happen once every 1-5 years; however, this is the PFPF's first time with this particular audit.*

*Timothy Johnson added that the PFPF will have a property audit at the end of the year.*

**2. 175-185 Chapter Fund Report – Update**

*Kevin Grant updated the FIAC on the status of the 175-185 Chapter Fund Report to the State. The initial audit findings were submitted to the State, however the PFPF is still waiting on the final audit. The auditor said he does not expect the numbers to change from the initial report to the final report.*

*Timothy Johnson briefly described the chapter funds and how the money is distributed between the police, fire, and city.*

**3. External Audit – Update**

*Kevin Grant updated the FIAC on the status of the External Audit being performed by Carr, Riggs, & Ingram (CRI). CRI is still performing additional testing to make sure the information in the actuarial report matches the information we provided to them. They have said everything matches and expect no changes from the preliminary numbers. CRI says the final report should be complete by the first week in May.*

*Timothy Johnson referenced the attached letter from CRI which explains the completed audit's delay. The audit was due in March, and it will not be complete before May. The delay has a ripple effect – the final audit is needed for the 175-185 Chapter Fund Report to the State. It is also needed for the final actuarial report. The reason for the delay is that this is CRI's first audit of the PFPF.*

#### **4. Northern Trust Custody & Manager Update**

*Timothy Johnson briefly described the directed brokerage and emerging manager policies of Northern Trust that could help the PFPF fill in the gaps in its Investment Policy Statement (IPS). He said there is more to come on this topic.*

#### **5. FIAC Work Plan**

*Timothy Johnson described the updated FIAC Work Plan based on the items previously discussed. The actuarial report, audit, and Asset-Liability study drive a lot of what the FIAC does.*

*Tracey Devine asked if the directed brokerage and emerging manager policies would be reviewed in June.*

*Timothy Johnson said he had asked Dan Holmes to look at the policies and see if they make sense compared to what his other clients are doing in the same area. The policies would be a clarification in the IPS. The IPS references directed brokerage and emerging managers, but there is no meat to the policy.*

### **IV. INVESTMENT CONSULTANT REPORTS**

*Dan Holmes*

#### **1. Flash Report – March 31, 2018 – Handout**

*Dan Holmes briefly described the Flash Report. The report is self-explanatory – there was volatility throughout March. All assets outperformed their benchmarks. The tracking error of the International Index Fund is positive because of securities lending revenue.*

#### **2. Economic & Capital Market Update – March 31, 2018 – Handout** *Not discussed.*

#### **3. Asset-Liability Study**

*Dan Holmes outlined the structure of the Asset-Liability Study. The Study's sections include the overview, baseline projections, portfolio construction, stochastic projection, recommendation, and discussion piece.*

*Dan Holmes discussed page 1 of the Study. The purpose of the Study is to evaluate the evolution of the Plan's assets and liabilities over time. The surtax's effect on different metrics is examined. The Study reviews capital market assumptions, combines liabilities and assets, and looks at its effects on risk and return. Target allocations are recommended.*

*Dan Holmes discussed pages 2-3 as attached. He discussed effects on different metrics from considering the surtax and without considering the surtax. The recognition of the present value of the*

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*future surtax proceeds as an asset results in significant reductions of the City's contribution over the next 13 years.*

*Dan Holmes discussed the Plan Summary as of October 1, 2017 on page 4, and assumptions and additional considerations on page 5. He described the big picture view of assets and liabilities as two different 'portfolios'. Assets grow from investment returns and contributions, and liabilities grow from normal cost as benefits are earned and reduce by payments made. The funded ratio is 69% counting the surtax. The funded ratio is 48% not counting the surtax.*

*Dan Holmes discussed the growth of annual benefit payments on page 6, setting the baseline.*

*Tracey Devine asked about the 10 and 30 year projection periods used in the Asset-Liability Study versus the 13 years until the surtax commences and the 30 years of surtax proceeds.*

*Tom Pollihan said that the model can project to a maximum of 30 years into the future. The study shows the longest period the model allows, which is 30 years.*

*Dan Holmes described the composition of contributions as shown on page 7. The city contributions, employee contributions, and the actual surtax proceeds were discussed. The ordinance requires the Asset-Liability Study to reflect the effect of the reduction in city contributions by the present value of future surtax proceeds. Employee contributions decrease over time due to the closed status of the Plan. The study projects the Plan to be fully funded in 2047.*

*Dan Holmes discussed the Plan's liquidity needs and net cash flows as shown on page 8. Over the next ten years, cash outflow as a percentage of the Plan's investable portfolio increases from 2% to over 8%. Cash outflows need to be monitored closely and considered during portfolio management, income generation, and rebalancing.*

*Rodney Van Pelt asked about the cash inflows and outflows. He noted there was a positive cash inflow this year, but a negative cash outflow next year.*

*Tom Pollihan said that cash flows were positive due to the city contribution, and turn negative in future years due to reduced city contributions. As shown on page 4, the city's contribution was almost \$168 million, and the next will be \$128 million.*

*Dan Holmes discussed the projected funded status of the Plan on page 9. The study illustrates metrics considering surtax proceeds, and without surtax proceeds. The surtax proceeds are necessary to fully fund the Plan through the entire period through 2060.*

*Tracey Devine asked if it was coincidental that the Plan becomes fully funded in the last year of the 30-year Asset-Liability Study projection period.*

*Tom Pollihan said she is correct – it is coincidental. The Plan also relies on the payment of the surtax proceeds for another 13 years to maintain the fully funded position.*

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*Dan Holmes discussed the sensitivity analysis on page 10. Prior pages assume the Plan's return to be a steady 7%. The sensitivity analysis shows the effect of earning less or more of that 7% baseline. If risk is reduced, the fully funded status of the Plan will be delayed.*

*Tracey Devine asked if the sensitivity analysis considers periods of recession.*

*Tom Pollihan said the volatility is incorporated into the scenarios across 10,000 trials across the standard deviation spectrum. He said a shorter analysis period could specifically show the effects of an individual recession projection.*

*Dan Holmes discussed the asset class restrictions on page 12. Statutory restrictions set limits on the Plan's asset allocation.*

*Rodney Van Pelt asked what source was used to determine the base expected return by asset class.*

*Dan Holmes said Summit Strategies' capital market assumptions are used. Summit Strategies' methodology is to look at current market conditions to extrapolate what market conditions may look like over the 10 and 30-year projection periods.*

*Dan Holmes discussed the asset allocation mixes on page 13. He said the liquidity of the allocation must be closely considered. As the amount of illiquid assets increases among the portfolio mixes, expected return increases modestly but volatility increases as well.*

*Craig Lewis asked which portfolio is most efficient and independent around the constraints.*

*Dan Holmes said efficiency is subjective based on ones tolerance to illiquidity risk and volatility. All portfolio mixes produce an expected return higher than the baseline of 7%. He said the 5:1 minimum liquidity rule keeps the worst-case results similar.*

*Dan Holmes briefly discussed the funded status on page 18, and portfolio liquidity on pages 20-21.*

*Dan Holmes discussed his recommendations on page 21. He recommends a streamlined portfolio more diversified than the current portfolio, but somewhere between the current portfolio and portfolio mix A. He discussed his handout that shows what that portfolio mix would look like.*

*Chair Brian Smith left the meeting due to a family engagement.*

*Craig Lewis said high illiquidity is not wise considering rising benefit payments and lower city contributions, especially in the case of possible recessionary periods or growth slowdowns.*

*Tracey Devine agreed with Craig Lewis. She asked if the Plan would survive with portfolio C given another 2008 recession.*

*Dan Holmes said the Plan would survive. He discussed commitment calls in periods of recession as they relate to illiquid investments.*

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*Craig Lewis said that liquid assets would have to be sold to make commitments at the bottom of the market. This would result in the Plan becoming unable to feed capital into undervalued opportunities – something the Plan would have otherwise been able to do if it had less illiquid assets.*

*Tracey Devine said this is a matter of illiquidity tolerance.*

*Dan Holmes said he would feel uncomfortable with an illiquidity allocation over 8%, and he would be comfortable at 5%. He said the increase in expected return as illiquid allocation increases is marginal.*

*Rodney Van Pelt added that it would be increasingly difficult to remain compliant with the IPS with increasing illiquidity. The IPS would have to change for the Plan to meet its operations. He asked why the Plan should seek to make more than a 7% return given the added risk.*

*Dan Holmes agreed. He said the goal is to build a more efficient portfolio with a higher return while maintaining the same risk.*

*Rodney Van Pelt said the Plan's charge is to maintain and meet the needs of its retirees. Increasing the return is only decreasing the liability of the city because they have to make it up anyway.*

*Tracey Devine said she wants to maximize return at the same risk. She said she is not sure about an 8% illiquid asset allocation.*

*Dan Holmes said the key is the maximum limit, and how the illiquidity 'bucket' is distributed between private equity, private natural resources, and real estate. He said it comes to a preference – any specific combination does not significantly increase returns.*

*Tracey Devine asked if the FIAC could dedicate time on their next meeting to discuss the Asset-Liability Study.*

*Timothy Johnson said it would be added to the agenda.*

*Dan Holmes said he could model any specific scenario the FIAC would want modelled. He said he would take what the FIAC discussed today to move towards a target allocation.*

*Rodney Van Pelt said Dan Holmes' report gives plenty of insight as to the impact of different asset allocations, and that the FIAC just needs to discuss and decide on a final recommendation.*

*Craig Lewis thanked Dan Holmes for a good report and for the information it gives the FIAC to make its decisions.*

**V. OLD BUSINESS**

None.

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VI. **NEW BUSINESS**

*None.*

VII. **UPCOMING MEETINGS**

1. **Optional Board of Trustees & FIAC Workshop**  
*GRS – Actuary Update – Client Satisfaction Review*  
**Tuesday, April 17<sup>th</sup>, 2018 at 1:00PM**
2. **FIAC Meeting**  
**Thursday, May 10<sup>th</sup>, 2018 at 3:30PM**

Steve Lundy, Assistant Plan Administrator  
Posted 04/18/2018  
Revised 05/14/2018  
Revised 05/21/2018

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Craig Lewis Sr., Secretary  
To be approved at the FIAC Meeting on May 18, 2018.