
JACKSONVILLE POLICE AND FIRE PENSION FUND
FINANCIAL INVESTMENT AND ADVISORY COMMITTEE
MEETING SUMMARY – MARCH 9, 2018 – 3:30PM

PRESENT

Eric "Brian" Smith Jr., Chair
Craig Lewis Sr., Secretary
Tracey Devine
Rob Kowkabany

STAFF

Timothy H. Johnson, Executive Director – Plan Administrator
Steve Lundy, Assistant Plan Administrator
Kevin B. Grant, Finance Manager
Dan Holmes, Summit Strategies – via webex

EXCUSED

Rodney Van Pelt

I. CALL TO ORDER

Chair Brian Smith called the meeting to order at 3:35 PM.

II. PUBLIC SPEAKING PERIOD

There were no requests for public speaking. Public Speaking Period Closed.

III. MEETING SUMMARIES TO BE APPROVED

- 1. Meeting Summary of the FIAC Meeting held February 9, 2018.**
Copies held in the meeting files.

Rob Kowkabany made a motion to approve the Meeting Summary for the FIAC Meeting held on February 9, 2018. Seconded by Craig Lewis. The vote passed unanimously.

IV. EXECUTIVE DIRECTOR'S REPORT

Timothy H. Johnson

1. Educational Opportunity – Florida Division of Retirement

*39th Annual Police Officers' & Firefighters' Pension Trustees' School
June 4 through 6, 2018, Tallahassee, FL*

Timothy Johnson described this educational opportunity. He said if any FIAC members are interested in attending, the PFPF would pay for their travel expenses.

Brian Smith asked if any Board members are attending.

Timothy Johnson said a couple Advisory Committee members might attend. He said himself and Chris Brown attended last year. He said Steve Lundy attended in the fall of last year.

Timothy Johnson mentioned another conference, which is hosted by the FPPTA. He said this other conference would be more applicable to FIAC members because of its investment focus.

Craig Lewis asked if the money managers at the FPPTA conference put on a heavy sales pitch.

Timothy Johnson said they do not. He said they do a good job at avoiding the sales pitches during the conference itself.

2. Reappointment of Rob Kowkabany & Tracey Devine to March 1, 2021

Timothy Johnson requested a motion to reappoint Tracey Devine and Rob Kowkabany to the FIAC. He said this recommendation would be to the Board to direct the Executive Director to write legislation requesting reappointment by City Council. He said the new term would begin once approved by Council, and the end of the terms would be March 1, 2021.

Tracey Devine asked if there are any implications of the March 1, 2018 expiration of her and Rob Kowkabany's terms.

Timothy Johnson said that the language in the ordinance says the FIAC members would serve until replaced.

Craig Lewis made a motion to recommend reappointment of Tracey Devine and Rob Kowkabany. Seconded by Tracey Devine. The vote passed unanimously.

Timothy Johnson mentioned the Custody & Manager Update, which will be held on March 20 at 1:00PM. He said Rich McConville will give a status report on Northern Trust as Custodian of the Fund, and Ashley Hartman Alson will give an update on Northern Trust on the money manager side. He said members may call in or attend in person.

Timothy Johnson mentioned another update, which will be presented by GRS, the Fund Actuary. He said this update would be focused on client satisfaction. He said this meeting would be publically noticed, and held on April 17 at 1:30PM.

Timothy Johnson said the Asset-Liability study was expected this month, but the flu went through Summit Strategies' office, and it is now expected in two weeks. He said it would be ready for the FIAC's April meeting.

Craig Lewis asked to be forwarded the Asset-Liability study once it is completed.

Tracey Devine asked if the delay of the Asset-Liability study seems reasonable.

Timothy Johnson said it seems unusually delayed. He said he isn't giving Dan Holmes a hard time, as we are not hard-pressed to make a decision on the study. He said the PFPF is a long term investor.

Brian Smith suggested having a joint meeting with the Board of Trustees so the FIAC could meet the new Trustees.

Timothy Johnson said he is planning a Summer Social, which would be held in July. He said all three bodies would be invited.

V. INVESTMENT CONSULTANT REPORTS

Dan Holmes

1. Preliminary Flash Report – February 28, 2018 – Handout

Dan Holmes discussed the details of his Preliminary Flash Report handout.

Craig Lewis asked about the selloff of crude oil and MLPs. He asked if there is reduction in correlation in crude pricing and MLP performance.

Dan Holmes said the correlation began to decouple late last year. He said Summit is analyzing February's data. He said Summit is going through the process of re-underwriting its thesis on MLPs. He said he received these returns this morning, and needs more time to dig deeper.

Tracey Devine asked to be reminded why the EAFE Index is at \$19 million, and if it is a placeholder.

Dan Holmes said that the EAFE Index's purpose has evolved over time. He said it was originally a placeholder for money moving into Silchester. He said it was also used for rebalancing purposes to avoid transaction costs.

2. Economic & Capital Market Update – February 28, 2018 – Handout

Dan Holmes discussed the details of his Economic & Capital Market Update handout.

Brian Smith asked Dan Holmes to elaborate on the outlook of Fixed Income investments over the next year or two.

Dan Holmes said Fixed Income would be a drag in the near term. He said he believes in a rising interest rate market, and credit spreads are extremely low. He said capital market assumptions are long term, but in the near term, dampened returns may possibly be negative over the year. He said he expects modestly positive returns over a 10 year period.

Craig Lewis asked about the duration profile of the Fund's Fixed Income Portfolio versus the Barclays Aggregate. He asked whether the Fund was above or below the index.

Dan Holmes said that the Fund is shorter on an aggregate basis. He said almost all managers have a shorter duration to the benchmark because of sizing and manager positioning.

3. Rebalancing Recommendation – Handout

Dan Holmes said at the end of January, the Fund's Fixed Income composite was 22 basis points, or \$4.7 million outside the permissible range. He said his recommendation was to rebalance to within the range by using Principal. He said due to the recent declines in equity and fixed income in February, the Fund is back in the permissible range. He said that his recommendation is to hold, and not to rebalance.

Rob Kowkabany asked how long Principal would be open for contributions in case we changed our minds and decided to contribute more.

Dan Holmes said he put a reservation for up to \$25 million, and contributions to Principal would be open for a while. He said Principal has daily liquidity, and JP Morgan does not.

Rob Kowkabany asked Dan Holmes about his concerns surrounding JP Morgan.

Dan Holmes said JPM's contribution queue continues to be fairly long. He said JPM has a significant weight towards the retail sector in big malls. He said given the "Amazon Effect",

retail is suffering. He said retail is generally attractive when you look at grocery-anchored strips, as opposed to malls. He said Principal has a higher flexibility.

Timothy Johnson said that JPM was just in town and he met with them. He said that JPM's attitude is that their retail assets are top-of-the-line.

Brian Smith quipped that JPM says they're like the St. John's Town Center, not the Regency Mall!

Tracey Devine said she gives JPM the benefit of the doubt that they are strategically deployed. She said managers have tapped into many unique retail opportunities over the years. She asked if the Fund has manager overviews and brief manager commentaries.

Dan Holmes said that Summit's quarterly reports contain the manager fact sheets. He said the reports do not contain manager comments but they break down their portfolios and sectors. He said that managers do not usually produce a one to two page fact sheet on a monthly basis. He said managers usually produce quarterly publications.

Tracey Devine made a motion to accept Dan Holmes' recommendation of no rebalancing. Seconded by Rob Kowkabany. The vote passed unanimously.

4. First Quarter 2018 Playbook

Dan Holmes discussed his First Quarter 2018 Playbook as attached. He said he wants to solicit feedback from the FIAC before the Asset Liability study is complete to take the FIAC's considerations and suggestions to factor into scenarios.

Tracey Devine asked for perspective on allocation to TIPS or bank loans.

Dan Holmes said he believes bank loans are attractive, and on the front end of the curve. He said they are short duration and reset on a monthly basis. He said yields will rise with rising interest rates which adds incremental income higher than the investment grade market with lower interest rate risk.

Tracey Devine said bank loan exposure may be a good thing to have in the portfolio.

Dan Holmes said he thinks TIPS remain cheap and attractive. He said his fear is that the allocation to TIPS may be too small to have a significant effect on the long-term performance of the overall portfolio.

Dan Holmes said as equity grows, we might want to take some equity allocation off the table during the bull market. He said he thinks there will be more allocation opportunities to diversify into more asset classes.

Timothy Johnson questioned how easy it would be for the Fund to rebalance based on his concerns. He said recommendations must flow through the FIAC and the Board of Trustees. He said it could take some time to be proactive, and that an automatic rebalancing trigger may be beneficial to have.

Tracey Devine said there are pros and cons to automatic rebalancing. She said the Fund shouldn't assume too much risk. Regarding the Fixed Income allocation, she said she just observed a case in which the Fund did not need to rebalance. She said rebalancing should not be done too often. She said the market often self corrects.

Brian Smith asked if less is more. He asked what a good time frame would be for rebalancing.

Tracey Devine said it depends on the client. She said in her world, taxes are a big issue. She said Fed tightening is good news, and so is volatility. She said less is more in that regard.

Brian Smith agreed with Tracey Devine and said he has heard of monthly and quarterly rebalancing. He said he thinks that would sabotage the Fund's performance. He said the Fund also has legal constraints.

Timothy Johnson said that this issue would be revisited when the FIAC discusses the Investment Policy Statement.

Dan Holmes said everyone had valid points in the discussion. He said his perspective is that there is no right or wrong way to rebalance, just to do it. He said he crafted language in the Investment Policy Statement draft to be fairly permissible. He said a working mechanism must be embedded into the policy, but that would be discussed later.

Dan Holmes discussed his First Quarter 2018 Playbook further, and requested any feedback or suggestions.

Tracey Devine said she wants to look at the relationships between asset classes.

Craig Lewis said he would like to have a conversation with Dan Holmes on private and real asset strategies. He said the opportunity cost of real assets is low given where we are in the cycle. He said that when we pursue private strategies, the FIAC needs to convey patience to the Board concerning the J-curve and fees on committed capital in the early days.

Dan Holmes said he appreciates the feedback, and he would contact the FIAC to schedule calls. Dan Holmes left the meeting.

Tracey Devine suggested the FIAC consider a consultant to look at the private side who has more experience in private strategies.

Brian Smith said he does not agree, and said that Dan Holmes said that the universe of private strategies is very wide, and if the FIAC had any specific private strategies in mind, then Dan Holmes would have done his research beforehand.

Tracey Devine said private strategies requires a specific expertise.

Craig Lewis said it would be a good point to follow up with Dan Holmes on Summit Strategies' capabilities and expertise is on the private strategies side.

VI. OLD BUSINESS

Timothy Johnson briefly discussed his presentation of the October 1, 2017 Actuarial Valuation to the City Council Finance Committee. He said the FIAC's recommendation was to request an additional \$5 million in contribution, and at the meeting, Council Member Schellenberg recommended giving an additional \$10 million in contribution to the Fund.

Brian Smith said that he likes the cover picture on the FIAC book.

VII. NEW BUSINESS

VIII. UPCOMING MEETINGS

- 1. Optional Board of Trustees & FIAC Workshop**
Northern Trust – Custody & Manager Update
Tuesday, March 20th, 2018 at 1:00PM
- 2. FIAC Meeting**
Friday, April 13th, 2018 at 3:30PM

IX. ADJOURNMENT

Chair Brian Smith adjourned the meeting at approximately 5:00PM.

NOTES:

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.

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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.

Meeting recorded by Steve Lundy, Assistant Plan Administrator

Craig Lewis Sr., FIAC Secretary

To be approved at the FIAC Meeting on April 13, 2018