

City of Jacksonville
Police and Fire Pension Fund

FISCAL YEAR 2019
ANNUAL REPORT

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Letter to Shareholders

I am pleased to deliver a year of outstanding performance for FYE2019. The results for this year come after three years of establishing a strong foundation for change. Here are the operational and financial highlights:

- Memorandum of Understanding with the Jacksonville Sheriff's Office to use space in the PFPF building for the bicycle unit stop station;
- Amendments to our Statement of Investment Policy adding an allocation to private assets and commitment to emerging managers and brokers;
- Electronic statements for 2,633 retirees which eliminates paper statements, saving over \$30,000 in annual print and postage costs;
- New Online materials to accommodate the visually impaired;
- "New Rule" for Bailiff Time Service Connections allowing 62 members to connect, on average, one year of additional time service.

BENEFITS	FYE 2018	FYE 2019	TREND
DROP	71	34	▼
Retirements	113	116	▲
Chapter Funds	11,791,197	12,756,091	▲
Administrative Expense to Assets	0.10%	0.10%	-
BUDGET	FYE 2018	FYE 2019	TREND
Administrative	1,093,983	1,037,422	▼
Professional	752,364	361,561	▼
Building Operations	172,220	265,831	▲
INVESTMENT	FYE 2018	FYE 2019	TREND
Net Return on Assets	8.0%	3.0%	▼
Net Yield on Property	5.9%	6.5%	▲
Investment Expense to Assets	0.43%	0.46%	▲

Obviously, the negative trending return on assets stands-out from the chart. The US imposition of tariffs at the end of 2018, along with retaliatory actions taken by US trading partners, reduced economic output, income, employment, asset values and performance. Our investment consultant, RVK, explains results on page 15 of this report.

Nevertheless, I am proud of all we have accomplished together that was in our control. We laid out our plan, committed to drive actions designed to make the PFPF stronger, more efficient and successful long-term. We held ourselves accountable for delivering on those commitments. We still have work to do, but building on our team's spirit, I am excited about what can be accomplished in the year to come.

I want to thank Chris Brown, our Chairman, Willard Payne, our Secretary and our Board of Trustees for their support; Brian Smith and James Holderfield for chairing our committees; as well as you, my fellow shareholders and members, for placing your ongoing trust and confidence in our team.

Looking ahead to 2019, we will remain focused on executing on our journey and we look forward to another strong year ahead and continued demonstration of value to all our stakeholders.

Sincerely,



Timothy H. Johnson, Executive Director – Plan Administrator

Independent Auditors' Report

The Board of Trustees of the Police and Fire Pension Fund
City of Jacksonville, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Jacksonville, Florida Police and Fire Pension Fund (the "Fund"), which comprise the statement of fiduciary net position as of September 30, 2019, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Fund's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Fund as of September 30, 2019, and the changes in its fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the accompanying financial statements present only the City of Jacksonville, Florida Police and Fire Pension Fund and do not purport to, and do not, present fairly the net position restricted for pension benefits of the City of Jacksonville, Florida, as of September 30, 2019, or the City's changes in net position restricted for pension benefits for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and other required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Governmental Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated February 21, 2020 on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Carly Riggs & Ingram, L.L.C.

Jacksonville, Florida

City of Jacksonville, Florida
 Police and Fire Pension Fund
 Statement of Fiduciary Net Position
 September 30, 2019

2019 FINANCIAL HIGHLIGHTS:

\$2.05b

TOTAL ASSETS

\$1.96b

FIDUCIARY NET POSITION
 AVAILABLE FOR PENSION
 BENEFITS

ASSETS

Cash and short-term investments	\$	30,642,509
Due from the City		91,307
Other receivables		98,062
Interest and dividends receivable		1,847,118
Prepaid assets		81,675
Short-term investments		20,479,854
Long-term investments		
Fixed income securities		236,075,803
Domestic and international equities		1,360,928,794
Real estate		315,801,145
Securities lending collateral		83,045,776
Total assets		2,049,092,043

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pension, net		112,110
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LIABILITIES

Accounts payable		2,672,588
Accrued pension pay and wages payable		5,296,876
Compensated absences – current		15,372
Compensated absences - long-term		31,392
Other liabilities		75,069
Securities lending obligations		83,045,776
Total liabilities		91,137,073

Fiduciary net position available for pension benefits	\$	1,958,067,080
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FY 2019 Fund Audit

City of Jacksonville, Florida
Police and Fire Pension Fund
Statement of Changes in Fiduciary Net Position
For the Year Ended September 30, 2019

ADDITIONS

Contributions:		
Plan member \$	\$	16,776,800
Plan member buybacks and pension transfers		969,067
Employer		110,527,718
Total contributions		128,273,585
Other additions:		
Court fines and other penalties		701,652
State insurance contributions		12,756,091
Miscellaneous		645,526
Total other additions		14,103,269
Investment income:		
Rental and parking revenue		736,736
Net appreciation in fair value of investments		26,496,128
Interest and dividends		35,797,345
Investment expenses		(8,798,838)
Rental expenses		(213,037)
Net investment income		54,018,334
Securities lending activities:		
Lending revenue		319,963
Lending expense		(79,642)
Total securities lending activities		240,321
Total additions to fiduciary net position		196,635,509

DEDUCTIONS

Benefit-related expenses:		
Pension benefits remitted (including DROP)		190,413,439
Refunds of contributions		732,596
Total benefit-related expenses		191,146,035
Administrative expenses:		
Personnel services		1,121,417
Professional services - non investment		208,997
Building rent - office space		258,000
Central services		297,012
Supplies		9,715
Other services and charges		221,452
Total administrative expenses		2,116,593
Total deductions to fiduciary net position		186,394,843
Other expenses:		
Employee Pension expense		(582,196)
Reserve reduction disbursements		53,709,887
Total other expenses		53,127,691
Total deductions to fiduciary net position		246,390,319
Change in fiduciary net position		(49,754,810)
Fiduciary net position available for benefits - beginning of year		2,007,821,890
Fiduciary net position available for benefits - end of year	\$	1,958,067,080

2019 FINANCIAL HIGHLIGHTS:

\$197m

TOTAL ADDITIONS TO
 FIDUCIARY NET POSITION

\$1.96b

FIDUCIARY NET POSITION
 AVAILABLE FOR BENEFITS

FY 2019 Fund Audit

Actuarial Certification

Board of Trustees
Jacksonville Police and Fire Pension Fund
One West Adams Street, Suite 100

Jacksonville Police and Fire Pension Fund Actuarial Valuation as of October 1, 2019

Dear Trustees:

The results of the October 1, 2019 Annual Actuarial Valuation of the Jacksonville Police and Fire Pension Fund are presented in this report.


The computed contribution rates shown on page 1 may be considered as a minimum contribution rate that complies with the Board's funding policy. Users of this report should be aware that contributions made at that rate do not guarantee benefit security. Given the importance of benefit security to any retirement system, we suggest that contributions to the Fund in excess of those presented in this report be considered.

The contribution rate in this report is determined using the actuarial assumptions and methods disclosed in Section B of this report. This report does not include a robust assessment of the risks of future experience not meeting the actuarial assumptions, as the assessment of these risks was outside the scope of this assignment. We encourage a review and assessment of investment and other significant risks that may have a material effect on the Fund's financial condition.

This report was prepared at the request of the Board and is intended for use by the Retirement System and those designated or approved by the Board. This report may be provided to parties other than the Fund only in its entirety and only with the permission of the Board. GRS is not responsible for unauthorized use of this report.

The purposes of the valuation are to measure the System's funding progress, to determine the employer contribution rate for the fiscal year ending September 30, 2021, and to determine the actuarial information for Governmental Accounting Standards Board (GASB) Statement No. 67. This report should not be relied on for any purpose other than the purposes described herein. Determinations of financial results associated with the benefits described in this report, for purposes other than those identified above may be significantly different.

The findings in this report are based on data through July 1, 2019 and financial information through September 30, 2019. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the Fund's funded status); and changes in plan provisions or applicable law. The scope of an actuarial valuation does not include an analysis of the potential range of such future measurements.



This valuation assumed the continuing ability of the plan sponsor to make the contributions necessary to fund this plan. A determination regarding whether or not the plan sponsor is actually able to do so is outside our scope of expertise and was not performed.

The actuarial information for GASB Statement No. 67 is intended to assist in preparation of the financial statements of the Plan. Financial statements are the responsibility of management, subject to the auditor's review. Please let us know if the auditor recommends any changes. Our calculation of the Net Pension Liability associated with the benefits described in this report was performed for the purpose of satisfying the requirements of GASB Statement No. 67. The Net Pension Liability is not an appropriate measure for measuring the sufficiency of plan assets to cover the estimated cost of settling the employer's benefit obligation. The Net Pension Liability is not an appropriate measure for assessing the need for or amount of future employer contributions. A calculation of the plan's liability for purposes other than satisfying the requirements of GASB Statement No. 67 may produce significantly different results.

The valuation was based upon information furnished by the Executive Director concerning Retirement Plan benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal and year-to-year consistency, but did not otherwise audit the data. We are not responsible for the accuracy or completeness of the information provided by the Executive Director.

In addition, this report was prepared using certain assumptions and methods approved by the Board and prescribed by the Florida Statutes as described in the section of this report entitled Actuarial Assumptions and Cost Methods. The prescribed assumptions are the assumed mortality rates detailed in the Actuarial Assumptions and Cost Methods section in accordance with Florida House Bill 1309 (codified in Chapter 2015-157). The prescribed methods include the use of an initial 30-year amortization period for amortizing the unfunded liability as required under Florida Statute 112.64(6)(a), the recognition of the present value of future Pension Liability Surtax proceeds as required by Florida Statute 112.64(6), and the use of a payroll growth assumption to amortize the unfunded liability as required under Florida Statute 112.64(6)(b). Additional information and disclosures regarding these prescribed methods can be found on pages 4 and 5 of this actuarial valuation report.

This report has been prepared by actuaries who have substantial experience valuing public employee retirement systems. To the best of our knowledge the information contained in this report is accurate and fairly presents the actuarial position of the Jacksonville Police and Fire Pension Fund as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices, with the Actuarial Standards of Practice issued by the Actuarial Standards Board and with applicable statutes.

Peter N. Strong and Jeffrey Amrose are members of the American Academy of Actuaries. These actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

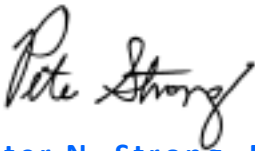
The signing actuaries are independent of the plan sponsor.

This actuarial valuation and/or cost determination was prepared and completed by us or under our direct supervision, and we acknowledge responsibility for the results. To the best of our knowledge, the results are complete and accurate. In our opinion, the techniques and assumptions used are reasonable, meet the requirements and intent of Part VII, Chapter 112, Florida Statutes, and are based on generally accepted actuarial principles and practices, with some exceptions noted on pages 4 and 5 under the section entitled “Disclosures Regarding the Pension Liability Surtax and Florida Statute 112.64(6).” There is no benefit or expense to be provided by the plan and/or paid from the Fund’s assets for which liabilities or current costs have not been established or otherwise taken into account in the valuation. All known events or trends which may require a material increase in plan costs or required contribution rates have been taken into account in the valuation.

Gabriel, Roeder, Smith & Company will be pleased to review this valuation report with the Board of Trustees and to answer any questions pertaining to the valuation.

Respectfully submitted,

GABRIEL, ROEDER, SMITH AND COMPANY



Peter N. Strong, FSA, FCA, MAAA
Enrolled Actuary No. 17-6975
Senior Consultant & Actuary



Jeffrey Amrose, FCA, MAAA
Enrolled Actuary No. 17-6599
Senior Consultant & Actuary

FY 2019 Fund Actuarial Valuation

Jacksonville Police and Fire Pension Fund

Calculation of City Minimum Required Contribution as of October 1, 2019

ACTUARIALLY DETERMINED CONTRIBUTION (ADC)			
A. Valuation Date	October 1, 2019 <i>After Benefit Changes</i>	October 1, 2019 <i>Before Benefit Changes</i>	October 1, 2018
B. ADC to Be Paid During Fiscal Year Ending	9/30/2021	9/30/2021	9/30/2020
C. Assumed Date of Employer Contributions	12/1/2020	12/1/2020	12/1/2019
D. Expected Covered Payroll for the Year Beginning on the Valuation Date	\$ 174,124,935	\$ 174,124,935	\$ 162,003,561
E. Annual Payment to Amortize Unfunded Actuarial Liability	82,496,560	82,349,190	78,785,998
F. Employer Normal Cost	63,203,681	63,203,681	58,996,678
G. ADC if Paid on the Valuation Date: E + F	145,700,241	145,552,871	137,782,676
H. Contributions from Court Fines	701,652	701,652	775,741
I. City Contribution: G - H as % of Covered Payroll	144,998,589 83.27 %	144,851,219 83.19 %	137,006,935 84.57 %
J. Actuarially Determined Contribution (ADC) in Contribution Year*	148,475,947	148,325,043	140,292,637

* = City Contribution (item I.) x (1+payroll growth of 1.25%) x 1.07 ^ (2/12)

Jacksonville Police and Fire Pension Fund
Actuarial Value of Benefits and Assets

ACTUARIAL VALUE OF BENEFITS AND ASSETS			
A. Valuation Date	October 1, 2019 After Benefit Changes	October 1, 2019 Before Benefit Changes	October 1, 2018
B. Actuarial Present Value of All Projected Benefits for			
1. Active Members			
a. Service Retirement Benefits	\$ 1,541,568,972	1,541,568,972	\$ 1,474,607,303
b. Vesting Benefits	32,124,302	32,124,302	32,369,342
c. Disability Benefits	26,549,450	26,549,450	26,627,567
d. Preretirement Death Benefits	16,586,522	16,586,522	16,794,443
e. Return of Member Contributions	877,311	877,311	866,671
f. Total	1,617,706,557	1,617,706,557	1,551,265,326
2. Inactive Members*			
a. Service Retirees	2,299,596,668	2,297,123,761	2,179,401,393
b. DROP Retirees	409,446,434	409,249,284	463,666,735
c. Disability Retirees	28,434,818	28,434,818	28,607,276
d. Beneficiaries	207,605,486	207,568,986	197,715,131
e. Terminated Vested Members	19,131,781	19,131,781	22,686,254
f. Total	2,964,215,187	2,961,508,630	2,892,076,789
3. Total for All Members	4,581,921,744	4,579,215,187	4,443,342,115
C. Actuarial Accrued (Past Service) Liability			
1. Active Members	1,072,709,930	1,072,709,930	987,995,717
2. Inactive Members	2,964,215,187	2,961,508,630	2,892,076,789
3. Total for All Members	4,036,925,117	4,034,218,560	3,880,072,506
D. Actuarial Value of Accumulated Plan Benefits per FASB No. 35	3,805,435,833	3,802,729,276	3,624,155,961
E. Plan Assets			
1. Gross Market Value of Assets	1,958,615,310	1,958,067,080	2,007,821,892
2. Reserve Accounts, including Share Plan	(54,902,408)	(54,902,408)	(122,329,885)
3. Sr. Staff Plan Assets	(4,359,959)	(4,359,959)	(4,489,259)
4. Net Market Value of Assets	1,899,352,943	1,898,804,713	1,881,002,748
5. Actuarial Value of Assets	1,946,967,113	1,946,418,883	1,865,495,526
F. Total Unfunded Actuarial Accrued Liability: C3 - E5	2,089,958,004	2,087,799,677	2,014,576,980
G. Net Present Value of Total Pension Liability Surtax Proceeds According to Pro Rata Share	900,348,997	900,348,997	861,255,049
H. Net Unfunded Actuarial Accrued Liability: F - G	1,189,609,007	1,187,450,680	1,153,321,931
I. Actuarial Present Value of Projected Covered Payroll	1,366,185,181	1,366,185,181	1,410,038,036
J. Funded Ratio: E5 / C3	48.23%	48.25%	48.08%
K. Percent of Actuarial Accrued Liability Covered by Assets and Total Pension Liability Surtax Proceeds: (G + E5) / C3	70.53%	70.57%	70.28%
L. Liquidity Ratio			
1. DROP Balance as of Valuation Date	357,699,120	357,699,120	342,305,582
2. Net Market Value (Net of DROP): E4 - L1	1,541,653,823	1,541,105,593	1,538,697,166
3. Annual Benefit Payments in Pay Status	174,945,657	174,786,664	168,569,285
4. Ratio: L2 : L3	8.81 : 1	8.82 : 1	9.13 : 1

Jacksonville Police and Fire Pension Fund
Liquidation of the Unfunded Actuarial Accrued Liability

Before Plan Changes

UAAL AMORTIZATION PERIOD AND PAYMENTS						
Original UAAL				Current UAAL*		
Date Established	Type of Amortization Base	Amortization Period (Years)	Amount	Years Remaining	Amount	Payment
10/1/2016	Fresh Start	30	\$ 1,243,587,908	27	\$ 1,192,103,589	\$ 82,666,889
10/1/2017	Experience (Gain)/Loss	30	(102,449,877)	28	(102,342,305)	(6,987,906)
10/1/2017	Assumption Changes	30	67,640,845	28	67,569,823	4,613,650
10/1/2018	Experience (Gain)/Loss	30	(19,072,874)	28	(19,099,780)	(1,304,128)
10/1/2018	Method Change	29	15,507,222	28	15,529,098	1,060,323
10/1/2019	Experience (Gain)/Loss	28	<u>33,690,255</u>	28	<u>33,690,255</u>	<u>2,300,362</u>
			1,238,903,479		1,187,450,680	82,349,190

After Plan Changes

UAAL AMORTIZATION PERIOD AND PAYMENTS						
Original UAAL				Current UAAL*		
Date Established	Type of Amortization Base	Amortization Period (Years)	Amount	Years Remaining	Amount	Payment
10/1/2016	Fresh Start	30	\$ 1,243,587,908	27	\$ 1,192,103,589	\$ 82,666,889
10/1/2017	Experience (Gain)/Loss	30	(102,449,877)	28	(102,342,305)	(6,987,906)
10/1/2017	Assumption Changes	30	67,640,845	28	67,569,823	4,613,650
10/1/2018	Experience (Gain)/Loss	30	(19,072,874)	28	(19,099,780)	(1,304,128)
10/1/2018	Method Change	29	15,507,222	28	15,529,098	1,060,323
10/1/2019	Experience (Gain)/Loss	28	33,690,255	28	33,690,255	2,300,362
10/1/2019	Benefit Change	28	<u>2,158,327</u>	28	<u>2,158,327</u>	<u>147,370</u>
			1,241,061,806		1,189,609,007	82,496,560

*Reflects an offset equal to the net present value of the total pension liability surtax proceeds based on a pro rata share of 59.26%.

Jacksonville Police and Fire Pension Fund
Pension Liability Surtax Estimates

PENSION LIABILITY SURTAX ESTIMATES 4.25% GROWTH			
<u>Fiscal Year</u>	<u>Projected Total 1/2-Penny Sales Tax</u>	<u>Projected Pension Liability Surtax</u>	<u>59.26% of Revenue for Police and Fire Pension Fund</u>
2019	\$ 95,804,756		
2020	99,876,458		
2021	104,121,207		
2022	108,546,358		
2023	113,159,579		
2024	117,968,861		
2025	122,982,537		
2026	128,209,295		
2027	133,658,190		
2028	139,338,663		
2029	145,260,557		
2030	151,434,130		
2031	157,870,081	\$ 118,402,561	\$ 70,165,357
2032	164,579,559	164,579,559	97,529,847
2033	171,574,190	171,574,190	101,674,865
2034	178,866,094	178,866,094	105,996,047
2035	186,467,903	186,467,903	110,500,879
2036	194,392,788	194,392,788	115,197,166
2037	202,654,482	202,654,482	120,093,046
2038	211,267,297	211,267,297	125,197,000
2039	220,246,158	220,246,158	130,517,873
2040	229,606,619	229,606,619	136,064,883
2041	239,364,901	239,364,901	141,847,640
2042	249,537,909	249,537,909	147,876,165
2043	260,143,270	260,143,270	154,160,902
2044	271,199,359	271,199,359	160,712,740
2045	282,725,332	282,725,332	167,543,032
2046	294,741,158	294,741,158	174,663,610
2047	307,267,657	307,267,657	182,086,814
2048	320,326,533	320,326,533	189,825,503
2049	333,940,411	333,940,411	197,893,087
2050	348,132,878	348,132,878	206,303,544
2051	362,928,525	362,928,525	215,071,444
2052	378,352,988	378,352,988	224,211,980
2053	394,432,990	394,432,990	233,740,990
2054	411,196,392	411,196,392	243,674,982
2055	428,672,238	428,672,238	254,031,168
2056	446,890,808	446,890,808	264,827,493
2057	465,883,668	465,883,668	276,082,662
2058	485,683,724	485,683,724	287,816,175
2059	506,325,282	506,325,282	300,048,362
2060	527,844,106	527,844,106	312,800,417
2061	550,277,481	137,569,370	81,523,609
Total Proceeds from 2031-2061:		\$ 9,331,217,149	\$ 5,529,679,282
Net Present Value of Proceeds as of 10/1/19:		\$ 1,519,319,941	\$ 900,348,997

Market Commentary for Fiscal Year 2019

To the City of Jacksonville Police & Fire Pension Fund

The first quarter of Fiscal Year 2019, which began on October 1, 2018, was characterized by heightened levels of volatility and negative returns for the majority of risk assets, as concerns about an escalation in the trade war between the US and China and broader worries about a slowdown in global growth weighed heavily on the minds of investors. China's economy recorded its weakest quarterly growth since the global financial crisis (2008), as industrial production and retail sales slowed more than expected. The Federal Reserve Board ("the Fed") also raised the target range for the federal funds rate by 0.25% for the fourth time in calendar year 2018, which proved to be more controversial than many had anticipated and further hurt investor confidence. Amidst all of the macroeconomic concerns, US equity markets suffered meaningful losses, with the S&P 500 Index posting returns of -13.5% as investors shifted dollars to more defensive asset classes. One of the beneficiaries of those asset flows was Core Real Estate, which provided one of the few bright spots during the quarter with the NCREIF ODCE Index returning 1.8%.

Markets rebounded in the second quarter of Fiscal Year 2019, supported by a more dovish stance from the Fed and hopes for a truce in the trade war. The global equity market, as represented by the MSCI All Country World Index, rose over 12% during the quarter, while fixed income markets benefited from the shift in interest rate expectations as central banks grew more accommodative.

Volatility ensued in the third quarter of Fiscal Year 2019 as a result of comments from US President Donald Trump indicating his administration could impose tariffs on Mexican imports and extend taxes on Chinese imports to a broader suite of goods. Global central banks collectively reacted to the negative market sentiment with a flurry of dovish guidance that eased market concerns and brought about renewed optimism. As a result, equity markets rallied, with the S&P 500 Index providing the largest return (+4.3%) and developed international equities, as represented by the MSCI EAFE Index, also producing strong performance (+3.7%). Conversely, commodities registered one of the lone negative returns (Bloomberg Commodity -1.2%) during the quarter due to increased concerns surrounding slowing global growth.

The end of Fiscal Year 2019 was mixed for asset classes, amid ongoing trade tensions and heightened political risks spurred by the impeachment proceedings for President Trump. US equities finished in positive territory (S&P 500 +1.7%), while emerging market equities were the worst performer (MSCI EM -4.3%). Eurozone equities rose moderately as the European Central Bank announced new measures designed to help stimulate their economies, including the restarting of quantitative easing. Similarly, the Fed took steps to mitigate developing concerns of weakening inflation and growth expectations in the US, primarily by cutting interest rates twice during the quarter.

Throughout Fiscal Year 2019, financial markets experienced bouts of volatility in large part to ongoing tariff and trade disputes between the US and China, in addition to signs of global economic weakness. Central banks around the world took steps to mitigate developing concerns of weakening inflation and growth expectations, which resulted in mixed performance for major asset classes for the full fiscal year. Domestic equities finished in positive territory (S&P 500 +4.3%), but both developed international (MSCI EAFE -1.3%) and emerging markets equities (MSCI EM -2.0%) were negative for the 12-month period. Fixed income markets were a welcomed bright spot, with a decline in rates helping to produce a return for the full fiscal year of 10.3% for the Bloomberg US Aggregate Bond Index. Finally, Core Real Estate, as measured by the NCREIF ODCE Index, ended the fiscal year in positive territory, returning 5.60% for the period.

RVK, Inc.

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