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

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**PRESENT**

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

**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**

Joey Greive, Fund Treasurer

**I. CALL TO ORDER**

***Chair Brian Smith called the meeting to order at 3:34 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 January 12, 2018.  
Copies held in the meeting files.

***Rodney Van Pelt made a motion to approve the Meeting Summary for the FIAC Meeting held on January 12, 2018. Seconded by Rob Kowkabany. The vote passed unanimously.***

2. Summary of the FIAC Manager Update held January 25, 2018. Copies held in the meeting files.

**Rodney Van Pelt made a motion to approve the Manager Update Summary for the FIAC Manager Update held on January 25, 2018, with an amendment to correct the date at the top of the page. Seconded by Craig Lewis. The vote passed unanimously.**

#### **IV. EXECUTIVE DIRECTOR'S REPORT**

*Timothy H. Johnson*

*Timothy Johnson said he wants to give FIAC members access to manager presentations, and will continue to schedule 'Manager Updates' with phone access for FIAC members to call in.*

*Timothy Johnson said he felt it was appropriate that the FIAC review the Investment Policy Statement (IPS) according to the process they have previously suggested – the FIAC would review the Asset-Liability Study, recommend an Asset Allocation, and then recommend an updated IPS incorporating applicable changes.*

*Timothy Johnson said he thought it was the will of the FIAC undertake this according to a process. He said today the Asset-Liability Preview would be discussed. He said that the formal Asset-Liability Study will be reviewed in March, the Asset Allocation would be reviewed in April, and the IPS would follow.*

*Tracey Devine asked when the IPS would be reviewed.*

*Timothy Johnson said the IPS should be reviewed after the FIAC makes a recommendation to the Board on the Asset Allocation.*

*Brian Smith asked Timothy Johnson how he likes the new IPS draft.*

*Timothy Johnson said he likes it, and thinks it needs just a few changes. He said the new IPS draft is much more organized than the current document.*

*Rodney Van Pelt asked if Dan Holmes revised the new IPS from scratch or used a 'red-line' method of revision.*

*Timothy Johnson said Dan Holmes wrote the new IPS from scratch.*

*Tracey Devine said that the IPS draft needs a little more clarity, and that Dan Holmes has the answers to her concerns.*

*Timothy Johnson expressed his desire for minority-owned business specifications and timelines within the new IPS.*

*Timothy Johnson said the Board had a robust conversation at their last meeting. He said the Board took the FIAC's recommendation to write a letter to the Mayor and City Council requesting a larger contribution.*

*Brian Smith said that the letter truly captured what the FIAC was trying to convey. He asked Timothy Johnson if there was any feedback to the letter.*

*Timothy Johnson said Councilman Garrett Dennis invited him to the Finance Committee. He said that the Finance Committee wants him to give a presentation. He said this was a big deal, and thanked the FIAC for their recommendation.*

## **V. INVESTMENT CONSULTANT REPORTS**

*Dan Holmes*

### **1. Preliminary Flash Report – January 31, 2018 – Handout**

*Dan Holmes discussed the Preliminary Flash Report as attached. He made the following highlights:*

- *Real Estate allocation was under the permitted range, which calls for rebalancing.*
- *After research, Dan Holmes will come to FIAC with a recommendation to rebalance Real Estate to the policy range.*
- *Aside from Real Estate, the portfolio is within policy range.*
- *WEDGE continued its recovery from December through January.*

### **1. Economic & Capital Market Update – January 31, 2018 – Handout**

*Dan Holmes discussed the Economic & Capital Market Update as attached. He made the following highlight:*

- *Positive economic trends including strong earnings reports, strong wage inflation, GDP growth, and manufacturing growth continued through January.*

*Brian Smith asked about the very recent increase in volatility in the markets, and what the Fund should expect while keeping a long-term investment strategy in mind.*

*Dan Holmes said volatility should be put into perspective. He made the following points:*

- *Abnormally high returns and low volatility over the past two years have lured investors into a place of complacency.*
- *Abnormally high returns and low volatility cannot continue indefinitely.*
- *The recent correction is bringing markets back to normal levels of volatility.*
- *A meltdown is not looming.*
- *The market reacted to positive economic news and a new Fed Chair who has a new approach to raising rates.*
- *The Fund is a long-term portfolio, and benefits from time diversification.*
- *Remaining disciplined and sticking to allocation targets is the right course of action.*

*Brian Smith asked if this volatile market presents any new buying opportunities.*

*Dan Holmes said some assets might look cheaper going forward, however he does not want to make any recommendations on the whim without research.*

*Tracey Devine said that this volatility is welcome after a 9-year bull market. She said she believes active management will start to perform and provide greater value relative to passive management.*

*Dan Holmes agreed. He said he believes active management will start to outperform passive indices.*

*Craig Lewis said that alternatives should be closely considered as part of the asset allocation. He said he thinks it is an opportune time to weigh different alternative investments from a risk and diversification perspective.*

*Dan Holmes discussed the Fund's Real Estate managers, and how private equity strategies could provide additional diversification to the Fund. He said the Fund's deployment into private equity needs to be strategic because of the 'shrinking liquidity premium'.*

## **2. Investment Performance Review – December 31, 2017**

*Dan Holmes discussed the Investment Performance Review as attached. He made the following highlights:*

- Returns presented are the same as shown on the Flash Report – the big difference is that the Investment Performance Review shows peer rankings, portfolio characteristics, and asset class deposits.*
- Over the Calendar Year, the Total Fund was up over 17%, outperforming the policy index by 2.7%, and ranking in the 11<sup>th</sup> percentile for the public pension plan universe.*
- 2017 was a very good year on an absolute and relative basis.*
- Trailing returns were exceptionally strong post-financial crisis.*
- Every asset class outperformed its benchmark.*
- The Fund's strongest performance was in International Equities. Baillie Gifford performed exceptionally well.*

*Dan Holmes said the 'Total Fund' metric is compared to the universe of public pension funds. He said composites are compared to domestic funds across all investment types, not just pension funds.*

*Tracey Devine asked Dan Holmes to include this as a footnote on future reports.*

*Dan Holmes said he would include the footnote.*

*Rodney Van Pelt asked if this report suggests the Fund has more risk than other public pension funds.*

*Dan Holmes said the Fund has an above-median allocation to international equities when compared to other public pension plans. He said his view is that this is not necessarily aggressive or conservative, but rather reflects upon where the Fund thinks the opportunities are.*

### **3. Asset-Liability Study Process Presentation – Handout**

*Dan Holmes discussed the Asset-Liability Study Process Presentation as attached. He made the following points:*

- *The first couple of pages broadly overview the steps of the Asset-Liability Study. The remainder illustrates a possible output.*
- *Philosophically, the Asset-Liability Study is the key component to setting long-term asset allocation targets.*
- *“Let the liabilities lead to where the assets are allocated.”*
- *Analysis of key pension metrics are shown, and how liabilities evolve over time.*
- *Effects of pension reform, closed entry to the plan, and contribution changes on funded status will be shown.*

*Dan Holmes said Summit Strategies has received the data from Pete Strong, the Fund’s actuary. He said Summit Strategies is going through Pete Strong’s Actuarial Valuation with a fine toothed comb, and is loading in all actuarial data into the Asset-Liability Study program to replicate the result of the Actuarial Valuation. He said forecasting is important, and the Asset-Liability Study data must foot to the Actuarial Valuation.*

*Dan Holmes said that due consideration is given to the Plan’s status – everything must be ‘baked into the pie’, including actuarial data, funded status, liquidity needs, goals and objectives, statutory limitations, permitted asset classes, and plan provisions.*

*Dan Holmes described aspects of the Asset-Liability Study further:*

- *A base line is established once all data has been loaded and ‘footed’ to the Actuarial Valuation.*

- *An assumption is made that all Actuarial Assumptions come true.*
- *Liability growth over time is forecasted, assuming all Actuarial Assumptions materialize.*
- *Assets and Liabilities are combined, which sets the stage for modelling possible asset allocation scenarios.*
- *Asset growth over time is forecasted, starting with the current Asset Allocation. Expected return and volatility is shown.*
- *10,000+ trial simulations are run to seek out the optimal portfolio – predicting how to simultaneously improve expected return, minimize risk, and achieve investment goals.*

*Dan Holmes said any specific asset class scenarios suggested by the FIAC could be input into the modelling program.*

*Dan Holmes said through the presentation of all of these metrics, he would recommend an asset allocation for discussion, and take any recommendations to model other scenarios. He said any fine-tuning would be made, and once the final target allocation is adopted, the IPS would be revised to accommodate the final target allocation. He said at this point, asset allocation execution would be considered.*

*Tracey Devine thanked Dan Holmes for a wonderful review of the Asset-Liability Study process. She asked how the closing of the Plan affects this process.*

*Dan Holmes said this would be reflected in the baseline analysis and will affect employee and employer contributions.*

*Tracey Devine asked if the closing of the Plan would materially result in any asset allocation changes.*

*Dan Holmes said he cannot say at this time, and does not want to shoot from the hip – however the Asset-Liability Study will fully capture the effect of the Plan's closed status.*

*Brian Smith noted that this Asset-Liability Study is a long-term forecasting tool used to identify any needed adjustments to asset allocation over the next 5-10 years.*

*Tracey Devine said that the Asset-Liability Study is akin to a 'Monte Carlo', input-output type simulation.*

*Dan Holmes agreed.*

*Dan Holmes overviewed some illustrations on pages 16-17, which shows identified risk factors. He said there are 10-12 macroeconomic risk factors that drive returns in the overall portfolio. He said stress testing would model what may happen to the portfolio assuming the financial crisis repeated. He told the FIAC to feel free to dream up whatever Armageddon they want modelled.*

*Brian Smith said he is looking forward to this process.*

*Dan Holmes said he is looking forward to the Asset-Liability Study as well. He expects there will be some 'funky-looking' charts due to the deferred surtax revenue affecting the contribution and liquidity needs, and perhaps funded status of the Plan.*

## **VI. OLD BUSINESS**

### **1. Summit Strategies Firm Overview**

*Dan Holmes said that Summit Strategies is a Registered Investment Advisor (RIA).*

*Craig Lewis asked if the SEC has audited Summit.*

*Dan Holmes said no.*

*Tracey Devine asked if Summit's Form ADV section 11 disclosures are clean.*

*Dan Holmes answered yes.*

*Dan Holmes discussed the Summit Strategies Firm Overview as attached. He made the following points:*

- Summit Strategies broke off in a 'corporate divorce' from another consulting group in 1995 due to different views.*
- Summit Strategies built a new business model, dealing only with hard dollars, and only consulting institutional clients.*

- *Summit Strategies has a rule in which no consultant has more than 10 clients.*
- *The average client to consultant ratio at Summit is 7:1.*
- *Multiple consultants are available for each client.*
- *Summit Strategies has over 70 clients, and approximately \$160 billion under advisement.*
- *Summit Strategies has a particular expertise in healthcare endowments and public service funds.*
- *Summit Strategies has some Taft-Hartley relationships, as well as public defined-benefit and defined-contribution pension plan relationships.*
- *In Florida, in addition to the PFPF, Summit Strategies consults the Jacksonville General Employees' Pension Plan and the Gainesville General Employees' Pension Plan.*
- *Summit Strategies is 100% owned by its current 22 shareholders. Each shareholder does not have equal ownership; however, ownership spreads across high and low level seniority from research, consulting, and to administrative owners.*
- *Summit Strategies' staff holds a meeting every Monday to go through each of its clients and to discuss the specific current issues of each.*

*Tracey Devine thanked Dan Holmes for all of this information. She asked if she could access any of the white papers Summit Strategies produces.*

*Dan Holmes said he would check, and email some recent white papers to her.*

## **VII. NEW BUSINESS**

## **VIII. UPCOMING MEETINGS**

**Friday, March 9<sup>th</sup>, 2018 at 3:30PM**

*Rodney Van Pelt said that he will be on vacation for the month of March, and would not be able to attend the next meeting.*

*Brian Smith said that the FIAC would meet at the regularly scheduled date of March 9<sup>th</sup>, 2018 at 3:30PM.*

**IX. ADJOURNMENT**

***Chair Brian Smith adjourned the meeting at 5:09PM.***

**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.

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

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Craig Lewis Sr., FIAC Secretary

To be approved at the FIAC Meeting on March 9<sup>th</sup>, 2018.