



SUMMARY TO THE SPECIAL BOARD OF TRUSTEES AND F.I.A.C. MEETING

Wednesday, October 2, 2019
Convened 2:05 P.M. – Adjourned 5:36 P.M.

City of Jacksonville Police and Fire Pension Fund
1 West Adams Street Suite 100, Jacksonville, FL 32202
Richard "Dick" Cohee Board Room

Board of Trustees

Assistant Chief Chris Brown, Chair
Cpt. Michael Lynch
Nawal McDaniel
Richard Patsy

Staff

Timothy H. Johnson, Executive Director – Plan Administrator
Steve Lundy, Deputy Director
Kevin Grant, Finance Manager
Bob Sugarman, Fund Counsel (via Webex)

Excused

Willard Payne, Secretary
Randall Barnes, Fund Treasurer
Lawsikia Hodges, Office of General Counsel
Craig Lewis Sr., Secretary, FIAC

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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Agenda

- I. Public Speaking
None.

Financial Investment and Advisory Committee (F.I.A.C.)

Eric "Brian" Smith Jr., Chair
Rob Kowkabany
Rodney Van Pelt (via Webex)

Guests

Scott Owens, Graystone
David Wheeler, Graystone
LouAnn Eisenhut, Wilshire
David Lindberg, Wilshire
Jeffrey Boucek, Segal Marco
Robert Hungerbuhler, Segal Marco
J. Keith Reynolds, Segal Marco
Brian Smith, Callan
Weston Lewis, Callan
Jordan Cipriani, RVK
Kevin Schmidt, RVK
James Voytko, RVK

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II. Investment Consulting Services Finalist Interviews

Kevin Grant informed the Board of Trustees that each firm has been allotted 30 minutes – 20 minutes to present, and 10 minutes to answer questions.

a. 2:05 P.M. – 2:35 P.M. – Graystone Consulting
Scott Owens, David Wheeler, & Jodie Gunzberg

Scott Owens, David Wheeler, and Jodie Gunzberg of Graystone Consulting gave their presentation as contained in their handout. They covered the following topics and made the following points:

- Graystone Consulting consults for JEA.
- Dedicated Resources For Institutional Clients – Graystone Consulting is defined by a specialized set of dedicated resources within Morgan Stanley’s Wealth Management Business designed to service institutions (page 9).
- Wealth Management Investment Resources – Asset Allocation, Product Selection, Portfolio Construction, and Thought Leadership (page 10).
- Asset Allocation – Global Investment Committee (page 11).
- Manager Due Diligence – Global Investment Manager Analysis (page 12).
- A Distinct Approach – Graystone Consulting – Graystone Tampa Team Members (page 13).
- Extensive Investment Consulting Experience (page 14).
- Capital Market Assumptions: Our Portfolio Advice Keeps Looking Ahead (page 19).
- Asset Allocation: Customized to Your Objectives – Work to Enhance Expected Return While Managing Risk (page 21)
- Finding the Top Managers Is Critical for Active Investing (page 22)
- Breaking Down Manager Selection (page 23).
- Adding Value through Manager Selection – Adverse Active Alpha (page 24).

Brian Smith (FIAC) discussed Graystone’s consulting service with JEA. JEA’s portfolio is much more conservative than that of the PFPF.

Rob Kowkabany asked about the high consultant to client ratio at Graystone.

Scott Owens said Graystone utilizes strategic partnerships with other teams – the ratio comes somewhere around 12-14 clients per consultant.

Rob Kowkabany asked where the PFPF would rank among this team’s clients based on size.

David Wheeler said the PFPF would be the largest.

Michael Lynch asked how Graystone would suggest to implement a decrease in the Plan’s assumed rate of return.

Scott Owens said Graystone would work with the actuary to come to an appropriate rate, and to lower it smoothly and incrementally over time.

Michael Lynch discussed the PFPF’s unique funding source (the surtax) with the Graystone team.

Brian Smith (FIAC) asked how often the Graystone team would attend the PFPF’s meetings.

Scott Owens said as many times as the PFPF needs, preferably every quarter, or more often as we get up to speed.

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Chris Brown thanked the Graystone team for their time.

b. 2:40 P.M. – 3:10 P.M. – Wilshire Associates

LouAnn Eisenhut & David Lindberg

David Lindberg and LouAnn Eisenhut of Wilshire Associates gave their presentation as contained in their handout. They covered the following topics and made the following points:

- Presenting Today (page 2).
- What We Know (page 3).
- Workplan – Cash Flow Management, Core Fixed Income Portfolio, Asset Liability Study, and Asset Class Structure Analysis (page 4).

Brian Smith asked about Wilshire's ownership.

David Lindberg said Wilshire is 100% employee-owned, and not in the consolidation business. Wilshire's founder started the firm 47 years ago, and the senior management employees are on a path to significantly dilute his ownership.

David Lindberg and LouAnn Eisenhut continued their presentation:

- Consulting Client Profile – Wilshire Consulting by the Numbers (page 6).
- Wilshire Consulting Today – Long Tenured Global Investment Organization, Thoughtful & Practical Research, and Customized Client Driven Solutions (page 7).
- Diversity at Wilshire – The Firm, Our Clients, and The Industry & Community (page 8).
- Your Personalized Team – David Lindberg, LouAnn Eisenhut & Brian White (page 9).
- Investment Philosophy – Wilshire's investment platform is focused on converting risk into attractive returns (page 11).
- Manager Evaluations for Public Markets – Qualitative Due Diligence and Breakdown of Total Rating (page 14).
- ESG – Wilshire's Credentials, ESG Manager Research, and Sample of Wilshire's available ESG services (page 16).
- Fee Proposal – Annual fee for full service consulting arrangement: \$225,000 (page 17).

Timothy Johnson asked about performing another Asset – Liability Study; the last Asset – Liability Study was performed recently – about two years ago.

David Lindberg said it is important to go through this process with the PFPF, which will result in recommendations made, and how to incorporate them.

Brian Smith asked if the Asset – Liability Study is included in the fee proposal.

David Lindberg said yes – there is no a la carte pricing.

Brian Smith asked about the consultant – client ratio at Wilshire.

David Lindberg said he had 12 clients, however he has been reducing his clients based on his new role. Now, he has 7 clients, including the PFPF.

Richard Patsy asked about Wilshire's forecasting and evaluations of money managers.

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David Lindberg discussed manager scoring, and the manager's ability to forecast stock prices. Wilshire scores how managers add value – through forecasting and attribution.

Brian Smith asked about Wilshire's relatively flat number of clients over the past decade.

David Lindberg said Wilshire's strategy is not to have 300 clients – Wilshire's strategy is focused on customized service, and how we bring work to clients. Historically, revenue has grown very nicely.

LouAnn Eisenhut said Wilshire brings a high touch, custom solution to its clients – not a "one size fits all".

Brian Smith asked about the timeline to select a new money manager.

David Lindberg said the manager search process varies by client. Some clients want to perform an RFP, while some advertise – that process takes longer.

Michael Lynch said he is comfortable with a longer timeline to perform a manager search.

David Lindberg said it could be pushed through two months of meetings – there is a lot of work with the PFPF staff, research, and qualitative data. This is client driven.

Chris Brown thanked the Wilshire team for their presentation.

c. 3:15 P.M. – 3:45 P.M. – Segal Marco Advisors

Jeffrey Boucek, Robert Hungerbuhler, & J. Keith Reynolds

Jeffrey Boucek, Robert Hungerbuhler, and J. Keith Reynolds of Segal Marco Advisors gave their presentation as contained in their handout. They covered the following topics and made the following points:

- Your Proposed Team – Jeffrey Boucek, Keith Reynolds, Robert Hungerbuhler, and Felicia Ewell (page 3).
- Insights from Working with Similar Public Sector Clients (page 9).
- Our Commitment to the Public Fund Marketplace (page 10).
- Big Picture Strategy Requires a Holistic Approach – With our holistic view toward a pension plan, we focus on investment allocations and strategies, as only one part of the solution – Investment Gains and Losses, Cash Flows, and Key Liability Metrics (page 12).
- The Importance of Asset Allocation – Determinants of Portfolio Performance, and Characteristics to Consider (page 14).
- Current Situation – Observations – Target Asset Allocation, 10 Year Expected Return 6.9%, and 20 Year Expected Return 7.4% (page 18).
- Our MR2 Process Identifies the Best Managers for Your Plans (page 22).
- Manager Due Diligence Enhances Your Investment Lineup (page 23).
- Manager Research & Coverage (page 24).
- Proven Results in Investment Manager Selection (page 25).
- Ensuring a Smooth, Seamless Transition (page 33).

Chris Brown asked about asset allocation and passive vs. active management.

Jeffrey Boucek said Segal Marco's philosophy is to take active risk where you will get compensated for it net of fees. Active management in large cap domestic equity is not the best way to go. There is low added value before fees.

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Brian Smith (FIAC) asked if the Segal Marco team could discuss the possibility of fee negotiation in more detail, as it relates to negotiating better fees with the Fund's custodian bank.

Jeffrey Boucek said this process involves a blind RFP. Segal Marco has been very successful at negotiating lower fees, usually between a 30-60% custody fee reduction.

Brian Smith (FIAC) asked the Segal Marco team to discuss more about the Plan's liquidity analysis.

Jeffrey Boucek said that he has worked with three firms this size, and Segal Marco is the only one who performs this. More public plans are looking for higher returns in private investments, which are generally illiquid.

Keith Reynolds said the Segal Marco team works with actuaries to model assets, considering liquidity of alternative investments, and its impact on the plan's ability to pay benefit payments.

Brian Smith (FIAC) asked if all of these services were included in the proposed fee.

Jeffrey Boucek said everything is included. He said the PFPF would be an important client to Segal Marco, and believes Segal Marco could add value. As a sign of good intentions, Segal Marco is willing to bring the fee down to \$180,000. All services would be included.

Chris Brown thanked the Segal Marco team for their time.

d. 3:45 P.M. – 3:55 P.M. – Break

e. 3:55 P.M. – 4:25 P.M. – Callan, LLC

Brian Smith & Weston Lewis

Brian Smith and Weston Lewis of Callan, LLC gave their presentation as contained in their handout. They covered the following topics and made the following points:

- Employee-Owned. Client-Focused. Callan's Value Proposition (page 2).
- Callan's Organizational and 45 Year History – Exceptional Client Service Backed by Deep Resources and Unmatched Collective Experience (page 4).
- Jacksonville Police and Fire Pension Fund – Target Mix Observations – Target Asset Allocation, and Range of Projected Rates of Return (page 8).
- Jacksonville Police and Fire Pension Fund – US Equity Structure – US Equity structure exhibits a pronounced growth bias (page 11).
- Jacksonville Police and Fire Pension Fund – Non-US Equity Structure – Non-US Equity structure exhibits ~40% emerging markets exposure (page 12).
- Jacksonville Police and Fire Pension Fund – Fixed Income Manager Example (page 13).
- Callan's Proposed 12-Month Work Plan (page 14).

Richard Patsy asked about the 'Callan College'.

Brian Smith (Callan) said the Callan College is meeting next month in Atlanta, and will go through topics such as creating an effective Investment Policy, Asset – Liability Study, and manager searches.

Michael Lynch asked how Callan would suggest lowering the PFPF's assumed rate of return.

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Weston Lewis said some of Callan's clients reduce the assumed rate of return to make sure the City or County pays more into the plan than it would have otherwise. The PFPF's special case, considering the surtax, makes this a much broader discussion. We do not know enough today to say 'reduce'. 7% is reasonable.

Timothy Johnson asked about Callan's work with emerging managers and minority and female businesses.

Brian Smith (Callan) said Callan's founder, Ed Callan, was the co-founder of Progress Asset Management, one of the first emerging managers in the industry. Callan casts a much wider net, and covers the vast majority of diverse managers just starting up.

Richard Patsy said Callan's fee structure is on the high side.

Brian Smith (Callan) said the \$230,000 fee, plus a 4% COLA, considers Callan's high allocation to Real Estate and Real Assets. Added to the emergence of Private Equity, these consume a lot of time and energy, especially when a client is ramping up the program.

Chris Brown thanked the Callan team for their presentation.

f. 4:30 P.M. – 5:00 P.M. – RVK, Inc.

Jordan Cipriani, Kevin Schmidt, & James Voytko

Jordan Cipriani, Kevin Schmidt, and James Voytko of RVK, Inc. gave their presentation as contained in their handout. They covered the following topics and made the following points:

- RVK Receives 2nd Greenwich Quality Leader Award (page 4).
- RVK Overview – RVK By the Numbers, and Accounts by Client Type (page 5)
- Depth of Experience with Public Fund Clients (page 6).
- Service Overview: What We Do – We understand that each client is unique, thus we employ a nimble approach to advising each of our clients (page 7).
- Service Overview: Proposed Consulting Team (page 8).
- RVK Consulting Philosophy (page 12).
- Asset Allocation: Investment Decision-Making Hierarchy (page 13).
- Dedicated Manager Research Team (page 14).
- Manager Searches, Perpetual Due Diligence (page 15).
- Investment Operations Solutions Group (page 16).
- Topics Facing Public Pension Plans Today (page 19).
- Plan Assets vs. Liabilities: Current Observations (page 20).
- Asset Allocation: Current Observations (page 21).
- RVK Competitive Attributes (page 23).

Michael Lynch said that actions taken by this Board of Trustees have a direct impact to the City's General Employees' Pension Plan. GEPP lowered their assumed rate of return, which negatively affected the PFPF's share of the future surtax proceeds. Now, we are having that same discussion.

Michael Lynch asked how RVK can consult for the City's GEPP, and also consult for the PFPF without a conflict of interest.

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James Voytko said there is no conflict at the end of the day. The assumed rate of return is not an investment consultant decision, although it has investment considerations. The City has set up an unusual funding mechanism which we have to accept. The asset-liability study uses stochastic analysis. The PFPF will receive the same unvarnished analysis as the City with no changes whatsoever. The PFPF sets its assumed rate of return with its Actuary.

Brian Smith (FIAC) asked about RVK's consultant to client ratio.

Jordan Cipriani said she is current the lead or co-lead on 5 relationships, and the backup on 2. RVK counts backups as one-half, so her total is 6. The industry average is 12:1, RVK's average is 8:1.

Chris Brown asked if RVK would be coming to the monthly meetings.

Jordan Cipriani said absolutely.

Chris Brown asked about RVK's fee.

Jordan Cipriani said RVK proposes a \$180,000 annual fee, not including an Asset-Liability study, which is \$45,000. A custody search would be \$20,000.

Timothy Johnson asked if RVK performed an Asset-Liability study for the City's GEPP.

Jordan Cipriani said the City's GEPP just completed an Asset-Liability study, and shared the data with RVK. TVK took a deep dive, and used that data to forgo an immediate study. If the City wanted a new Asset-Liability study, they would get a discount rate since they just conducted one.

Brian Smith clarified that the FIAC meets a week before the Board of Trustees – so that is 24 meetings total annually.

James Voytko said GEPP meets 12 times a year.

Jordan Cipriani said RVK assumes that we would be here at least 12 times a year.

Chris Brown thanked the RVK team for their time.

The Board of Trustees dismissed RVK, Inc., and discussed the five finalist firms' presentations:

Chris Brown said he was not impressed with Graystone and Callan. He said he was impressed by Wilshire, Segal, and RVK.

Michael Lynch said he agreed with most of that – however he has concerns with RVK being the same consultant the City uses. That brings a conflict.

The Board discussed the possibility of a conflict of interest arising if the PFPF and City's GEPP shared the same consulting firm.

Chris Brown said he was impressed by Segal Marco and Wilshire. \$180,000 fee for Segal Marco and RVK. You get what you pay for. This made the decision tougher. He said he thought the decision would be more clear.

Michael Lynch said that if RVK, Segal Marco, and Wilshire are the top three, we should go back to Wilshire and give them the opportunity to lower their fee – it is only fair. Everyone came in with their best offer, then someone undercut.

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Nawal McDaniel said she agreed – we can cross Graystone off the list.

Chris Brown asked for thoughts on Callan.

Rodney Van Pelt said he agrees about Graystone – and Callan’s presentation was the weakest.

Richard Patsy said he doesn’t disagree.

Michael Lynch said we will follow up with the top three.

Chris Brown asked what the Board of Trustees needs to do today.

Timothy Johnson said the Board of Trustees should whittle down the list.

Kevin Grant asked if scoring or general consensus should be used.

Timothy Johnson said “Let’s go around the table”.

Richard Patsy said Segal Marco is always very empathetic to plan participants and retirees. This is impressive.

Nawal McDaniel said she agrees that Wilshire, Segal Marco, and RVK were the strongest.

Brian Smith (FIAC) said that the FIAC reviewed and scored the firms’ responses to the RFP. The scores had Graystone as number 2 – however the interview was unimpressive.

Brian Smith (FIAC) said he is in agreement with the top three – Wilshire, Segal Marco, and RVK. He said the relationship with Wilshire over the last year has been extremely satisfactory. He said he thought RVK was more impressive than Segal Marco.

Michael Lynch said Wilshire has made recommendations the Board of Trustees has muted, and waited to act upon – we did not want to take advice from Wilshire, then hire a new consultant, then change again.

Brian Smith (FIAC) said he does not believe having the same consultant as the City’s GEPP would be a conflict of interest. This is an actuarial issue – there would be a conflict of interest if the City and PFPF shared the same actuary. The GEPP and PFPF shared the same investment consultant for years – Summit Strategies. He said he liked the synergy.

Rob Kowkabany said he agrees with the top three – Wilshire, Segal Marco, and RVK.

Rodney Van Pelt said he doesn’t think Wilshire wowed us, even though they had the opportunity. He said he was mixed on Wilshire. Not being present in person might have been an issue, however.

Chris Brown asked for the timeframe for making a motion.

Timothy Johnson said we want an FIAC recommendation for the Board of Trustees by October 18th.

Brian Smith (FIAC) said the FIAC can debate the top three at the FIAC meeting. We are looking for the one thing which sets the firm apart.

Chris Brown said everyone is clear on the top three firms: Wilshire, Segal Marco, and RVK. He asked the FIAC to relay the official recommendation to the Board of Trustees to consider on October 18th.

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Michael Lynch said that everything which was brought up for discussion made sense – reducing fees, and where we will be in the next few years – and would all be pieces used to make the final decision.

Brian Smith (FIAC) said to send any questions to Timothy Johnson.

Richard Patsy asked the PFPF staff to check the firms' references.

III. [Adjournment](#)

5:36 P.M.

IV. [Summary Approved:](#)

Willard Payne, Secretary
Board of Trustees

Summary Prepared By:

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

Posted: 10/09/2019

To be Approved: 10/18/2019