
**JACKSONVILLE POLICE AND FIRE PENSION FUND
FINANCIAL INVESTMENT AND ADVISORY COMMITTEE
MEETING SUMMARY – JANUARY 12, 2018 – 3:30PM**

PRESENT

Eric "Brian" Smith Jr., Chair
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*
Pete Strong, GRS, Fund Actuary – *via webex*

GUESTS

Paul Barrett

EXCUSED

Joey Greive, Fund Treasurer
Craig Lewis Sr., Secretary

I. CALL TO ORDER

Brian Smith called the meeting to order at 3:36 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 December 8, 2017.
Copies held in the meeting files.

Tracey Devine made a motion to approve the Meeting Summary for the FIAC Meeting held on December 8, 2017. Seconded by Rodney Van Pelt. Discussion:

Rodney Van Pelt made a motion to amend the Meeting Summary to change the first sentence of the third paragraph on page seven of the Meeting Summary to:

“Rodney Van Pelt said that when liability numbers are understood, all Dan Holmes needs to do is to drop them into the Asset – Liability Study.”

Tracey Devine seconded the amendment. The vote passed unanimously.

The vote to approve the Meeting Summary for the FIAC Meeting held on December 8, 2017, as amended, passed unanimously.

2. Workshop Summary of the FIAC Workshop held December 19, 2017. Copies held in the meeting files.

Rodney Van Pelt made a motion to approve the Workshop Summary for the FIAC Workshop held on December 19, 2017. Seconded by Tracey Devine. The vote passed unanimously.

Steve Lundy informed the FIAC that although an ‘Election of Officers’ is not on today’s agenda, a FIAC Chair and Secretary need to be approved for the New Year.

Rodney Van Pelt made a motion to approve Brian Smith as Chair and Craig Lewis as Secretary. Seconded by Tracey Devine. The vote passed unanimously.

Timothy Johnson suggested that Pete Strong and Dan Holmes present their portions of the agenda next.

VII. NEW BUSINESS

1. FYE2017 Actuarial Report *Pete Strong*

Pete Strong said that most of his comments to follow are from the Executive Summary section of his report.

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Tracey Devine asked how Pete Strong's second letter dovetails to the Actuarial Report.

Pete Strong said that Timothy Johnson requested the second letter, and that he will discuss it after he highlights the Actuarial Valuation.

Pete Strong discussed the contribution requirement on page 1, noting that good investment returns have driven it down by about \$6 million. He said that this effectively offsets the increase in contribution required by changing the DROP valuation method.

Pete Strong discussed the changes made in the past year since the last full actuarial valuation on pages 2-3. He said that the information reiterates a lot of the same information from April's Actuarial Impact Statement.

Pete Strong said that salaries increased less than expected. He added that the data used for the valuation was through June 30th, and that a load was added.

Rodney Van Pelt mentioned the Surtax Growth Rate and Payroll Growth assumptions, saying that there was a lot of discussion surrounding the assumptions and the actual numbers.

Pete Strong said that GRS has concerns about those two assumptions. He said that they are considered prescribed assumptions with no leeway on the Actuary's part. He said that the actual Surtax Growth Rate for the year was higher than expected due to economic growth. He said that he has no idea if this can continue over the long term, noting that a rate of 4.25% is about double the rate of inflation. He said that he disclosed his concerns in the Actuarial Valuation.

Rodney Van Pelt said that City Council prescribes these assumptions. He asked if it is typical of public pension funds to have prescribed assumptions.

Pete Strong said that he would not describe prescribed assumptions as typical. He said that some situations exist in which assumptions are prescribed. He said that he could think of few municipalities where all assumptions are prescribed. He said that it is rare to have assumptions prescribed in the code.

Tracey Devine asked if the Surtax Growth Rate assumption is an average, or if it needs to be updated annually.

Pete Strong said that the Surtax Growth Rate assumption is a long-term compound average. He said that it would be trued up annually. He said that

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GRS would reflect changes in the projection every year based on the actual sales tax revenues.

Timothy Johnson said that the Surtax Growth Rate assumption of 4.25% was not a historical rate. He said that the City has discretion to 'juice' the rate based on what it thinks it will do in the future.

Pete Strong said that the City projects the surtax to grow at a rate of 4.25%. He said that the Surtax Growth Rate is outside GRS's purview of expertise, and that GRS defers to experts, like the City. He said that GRS has its concerns and is unable to assess the reasonableness of the assumption.

Pete Strong discussed the details of actual experience on page 4. He noted that salaries have increased, retirement increased higher than expected, new hires were higher than expected, and mortality was lower than expected.

Pete Strong discussed the breakdown of actual experience on page 14. He said that unfunded liabilities of the City's other two pension plans slightly reduced the PFPF's share of surtax revenues.

Pete Strong discussed the chart on page 4. He described changes in assumptions due to the assumed rate of return and changes due to pension reform.

Pete Strong discussed the roll forward analysis of change in the contribution rate on page 5. He added that total payroll increased from last year.

Rodney Van Pelt asked why administration expenses were down.

Kevin Grant said that in prior years, administrative expenses were heavy, and that the drastic drop is explained in part by HR expenses, legal services, building services, and parking services.

Pete Strong said that costs are deferred to future taxpayers through 2060. He said that GRS has addressed this concern and that this is not in line with best practices. He said that it is better to pay down liabilities quickly and to not defer the costs to future taxpayers.

Pete Strong said that the clock is ticking down to the point where the PFPF's members are all inactive. He said that due to the shortfall in assets to cover the liabilities, and given the surtax deferring receipts of revenue for 13 years, GRS suggests seeking additional contributions exceeding that minimally required. He said that the unfunded liability is expected to grow over the next 13 years, and

the annual contribution is not sufficient to maintain the current level of unfunded liability. He said that GRS's recommendation is to seek additional contributions. He said that there is no magic number. He said that we shouldn't wait until the plan hits the 5:1 ratio, given that the contribution is still subject to appropriation. He said that putting in extra money now can help bridge the gap in case of any future possible recessions. He said that the City may not be able to contribute extra money during a deep recession to bring the plan back to a 5:1 ratio.

Tracey Devine asked if the City was legally obligated to maintain the 5:1 ratio.

Pete Strong answered no.

Tracey Devine asked who has the influence to advocate for extra contributions.

Timothy Johnson said that PEW Charitable Trust performed independent analysis and recommended that the City make additional contributions to the plan during good economic times. He said that Councilman Danny Becton proposed an ordinance, which would provide for extra contributions to avoid deferring costs to future generations; however, it was not approved.

Pete Strong moved the discussion to the supplementary GRS letter, "Funding Sources for All Future Benefits/Expenses"

Brian Smith asked Pete Strong how he expects the unfunded liability to grow through the future.

Pete Strong said that it is expected to grow, however it went down this year due to stellar investment returns. He directed the FIAC to look at page 3 of the supplementary letter.

Pete Strong said that over the next 100 years, the total expected sum of all benefit payments over the lifetime of the fund is \$20 billion. He described the two pie charts, one of which shows the funding sources including the surtax revenues, and the other, which does not. He said that if the surtax was not put into place, there would be higher investment earnings due to returns made earlier. He said that the surtax defers a lot of funding to future generations of taxpayers.

Tracey Devine said that losing 13 years of compounding at a 7% assumed rate of return had a much larger impact than she expected.

Rob Kowkabany said that the Collective Bargaining Agreements (CBAs) are good for three years, and that if future benefits change, future contributions will change as well.

Rodney Van Pelt asked Pete Strong for a recommendation to encourage additional contributions.

Pete Strong said that any extra contribution helps, and that there is no magic number.

Tracey Devine asked if the minimum liquidity ratio is being tracked.

Pete Strong said that the minimum liquidity ratio is tracked on the bottom of page 9. He said that the liquidity ratio is 8.84:1 this year.

Rodney Van Pelt asked if sensitivity analysis is contained in the valuation.

Pete Strong said that sensitivity analysis is on page 41, which is required by GASB to show rates of 6% and 8%.

Rodney Van Pelt made a motion to approve the Actuarial Valuation. Seconded by Tracey Devine. The vote passed unanimously.

V. INVESTMENT CONSULTANT REPORTS

Dan Holmes

1. Economic & Capital Market Update – December 31, 2017

Dan Holmes said that the strong economic and market performance continued through December 2017. He said that risk assets have provided positive results, and MLPs have experienced a recovery in December.

1. Flash Report – December 31, 2017

Dan Holmes said that the total market value of the Fund's assets have topped \$2 billion. He said that asset allocation is in line with target policy range. He said that the Fund is slightly overweight to cash. He described performance on page 3. He said that the big takeaway is that for the calendar year, the total plan is up 17.5% net of fees. He said that all asset classes outperformed their

benchmarks net of fees. He said that the Fund is up 4.9% for the first quarter of Fiscal Year 2018.

3. Index Report – December 31, 2017

(Not discussed)

4. Investment Policy Statement Draft – Handout

Dan Holmes asked for the FIAC's review and input of the draft IPS. He said that he was able to reduce it from 74 pages to 22 pages. He asked that Fund Counsel review the IPS to double check the statutory citations.

Brian Smith said that this IPS will be on February's FIAC Agenda, and thanked Dan Holmes for his work.

Tracey Devine asked if there is anything in the IPS that is not in line with the current portfolio relative to asset allocation.

Dan Holmes said that it is in line with regulations, and said that he would like to flesh out a policy concerning alternative investments.

Timothy Johnson informed the FIAC that if they want to make any additional recommendations to the Board of Trustees concerning the Actuarial Valuation, the time is now.

Tracey Devine said that she highly recommends the City consider making any additional contribution to the Fund.

Rodney Van Pelt said that the Actuarial Valuation states near its conclusion that GRS recommends additional funding. He said that the FIAC should recommend going back to the 3.34% Surtax Growth Rate Assumption from 4.25%, which would result in a higher contribution.

Tracey Devine said that conservative assumptions are always wise.

Timothy Johnson added that it is easier to make this recommendation when the Fund realizes greater than expected investment returns. He remarked, "Why not put more money in?"

Brian Smith said that he would like verbiage to add as an addendum to the report. He said that he would like the record to note that the FIAC prefers a more conservative approach.

Tracey Devine said she would like the FIAC to acknowledge that a more conservative Surtax Growth Rate assumption would have given the Fund \$11 million more in its contribution. She said that the FIAC should suggest that an additional contribution should be made in this good environment.

Rodney Van Pelt said that he would recommend that an additional contribution should be made to maintain the current funded percentage.

Brian Smith said that voters approved pension reform in order to reduce funding and free up funding from taxes. He said that the FIAC's view is that as fiduciaries, a more fiscally conservative approach is preferred. He said that the right time to increase the contribution is in better economic times such as the present.

5. Summit Strategies Firm Overview

Brian Smith deferred the Summit Strategies Firm Overview to the February FIAC meeting.

6. WEDGE Memo – Handout

Dan Holmes summarized his conference call with WEDGE as detailed in the Memo.

IV. EXECUTIVE DIRECTOR'S REPORT

Timothy H. Johnson

1. FIAC Work Plan

Timothy Johnson updated the FIAC on the work plan. He said that the Chair, Brian Smith, gave the PFPF administration direction to revise the work plan.

Tracey Devine asked about the Investment Consultant / Custodian RFI, whether it was just a discussion or whether an actual RFI would be made.

Timothy Johnson said that it would be a discussion only, and a review of whether it would be worth it to look for a new Custodian or Investment Consultant, and whether our Custodian and Investment Consultant are doing a good job.

Tracey Devine suggested that Summit Strategies should produce a regular presentation relative to the health of their business model.

Rodney Van Pelt asked who administers the FIAC term expirations and reappointments.

Brian Smith answered that it is ultimately City Council, and PFPF staff would help with the related administrative work.

1. Facts-at-a-Glance – 10/1/2017

Timothy Johnson gave a brief overview of the Facts-at-a-Glance as attached.

1. FYE2017 Budget to Actual – Handout

Kevin Grant gave a brief overview of the FYE2017 Budget to Actual Handout. He noted that parking revenues were up 24% due to more rented spaces.

Kevin Grant noted that the change in personnel services is explained in part by the Deputy position not being filled, and Devin Carter's absence.

Kevin Grant noted that parking expenses are up because of necessary repairs to the gate.

Rob Kowkabany asked what 'Trust Fund Revenues' means.

Kevin Grant said that it is a percentage of payroll, and then a projection of what is expected to be received. He added that it is a 'fill number'.

Timothy Johnson added that Fiscal Year 2017 was a big year for legal fees and settlements, noting that these expenses were 'extraordinary'.

Kevin Grant discussed the actuals to date for Fiscal year 2018 on page 2 of the handout. He said that the makeups for payroll going forward would capture the gap. He said that there is some lag time for the expenditures based on the billing schedule of money manager fees and services.

VI. OLD BUSINESS

VIII. UPCOMING MEETINGS

1. **Optional FIAC Manager Update**
Thompson Siegel & Walmsley
Thursday, January 25th, 2018 at 10:00AM

2. **FIAC Meeting**
Friday, February 9th, 2018 at 3:30PM

IX. ADJOURNMENT

Chair Brian Smith adjourned the meeting at 5:06PM.

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

FIAC Secretary

To be approved at the FIAC Meeting on February 9th, 2018.