
JACKSONVILLE POLICE AND FIRE PENSION FUND
FINANCIAL INVESTMENT AND ADVISORY COMMITTEE
MEETING SUMMARY – APRIL 12, 2019 – 3:30PM

FIAC

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

STAFF

Timothy H. Johnson, Executive Director – Plan Administrator
Steve Lundy, Assistant Plan Administrator
Kevin Grant, Finance Manager
David Lindberg, Wilshire Associates, Investment Consultant
Alex Ford, Wilshire Associates, Investment Consultant
Rich McConville, Northern Trust – via Webex
Ashley Hartman Alson, Northern Trust – via Webex

GUESTS

Priyesh Patel

Meeting Convened:

3:34PM

Meeting Adjourned:

4:52PM

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I. PUBLIC SPEAKING PERIOD

None.

II. MEETING SUMMARIES TO BE APPROVED

Motion to approve as revised: KOWKABANY; Second: VAN PELT; APPROVED UNANIMOUSLY.

1. FIAC Meeting – March 15, 2019

Rodney Van Pelt asked to revise item IV.2. on page 3 of the summary to include the motion in the body of the document.

Rob Kowkabany made a motion to approve the March 15, 2019 FIAC Meeting Summary as revised. Seconded by Rodney Van Pelt. The vote passed unanimously.

III. INVESTMENT CONSULTANT REPORTS

David Lindberg & Alex Ford

1. **Capital Markets Review**
2. **March 2019 Fiscal YTD Performance Estimate**
3. **February 2019 Performance Flash Report**

David Lindberg and Alex Ford began presenting Wilshire's Investment Consultant Reports as attached, "Capital Market Review, March 2019 Fiscal YTD Performance Estimate & February 2019 Performance Flash Report". They made the following highlights:

- *This has been the best quarter since 2009, which follows a selloff quarter (page 4).*
- *The Federal Reserve is changing their stance on interest rates – in the Fall, they were considering 3 rate increases in 2019. Now, they are considering 0.*
- *Employment and GDP are strong (page 5).*
- *Every sector has a positive quarterly return (page 7)*
- *FANG stocks are driving strong large cap returns.*
- *The market has been heavily growth-dominated since the credit crisis.*

David Lindberg said he and Alex Ford met with Sawgrass Asset Management earlier in the day to discuss strategy. Sawgrass is defensive within the growth space. This is a tough time in the market for them, especially when they are not holding FANG stocks at market weights.

David Lindberg continued the presentation as attached, covering the following topics:

- *Non-U.S. Equity Market (page 8)*
- *U.S. Fixed Income (page 9)*
- *The inverted yield curve is on the front end, and then flattens out over time. This is a challenging environment. Typically, a more extended, inverted yield curve indicates looming recession, however, we do not think this is an indicator. This results from the Fed easing rates and backing off quantitative easing.*
- *Asset Class Performance (page 10)*

David Lindberg said overall, this was a strong quarter, and fundamentals remain strong. There is good consumer confidence and manufacturing numbers.

Rodney Van Pelt asked David Lindberg about a possible trade deal with China, and its impact on the markets, and whether it is already 'priced in'.

David Lindberg said newsflashes affect the market every day, and has contributed a lot to today's volatility which was not present a year ago. In the long-term, if there is a good outcome with China, this will be great news for GDP.

Rodney Van Pelt asked about tariffs – tariffs are affecting growth, and growth will return if tariffs are lifted.

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David Lindberg said – if he had to guess – that this has already been 'priced in'. Earnings drive stock prices, and GDP has been strong. He said he leans on the side that a lot of this has been already 'priced in' to the market.

Rodney Van Pelt asked if the trade deal fell apart would spell bad news for the markets.

David Lindberg said yes.

Rodney Van Pelt asked if the postponing of Brexit has had any impact on the markets.

David Lindberg said there is a lot of volatility, and this leads to uncertainty. This trend will continue. It will be difficult to deal with until they figure this out.

Rodney Van Pelt said England is not a big trade partner with the U.S., and asked if there would not be a big impact on our returns.

David Lindberg said there would be direct and indirect impacts. There would be indirect impacts because there is so much connectivity in today's global markets.

Craig Lewis noted that the chart of 10-year returns on page 7 looks phenomenal.

David Lindberg said 10 years ago was the low point in the financial crisis, and a lot of this is fueled by the U.S.'s effort to ease. If there was no easing, there would be a regression to the mean. This is an unusual 10-year period – Wilshire's forward looking outlook forecasts 6.25% growth.

Alex Ford continued the presentation as attached:

- Fiscal Year to Date performance – this has been an interesting and challenging period (page 12). We are back to where we started at the beginning of the Fiscal Year. The Fund performed very well in the rally.

Brian Smith asked where the Fund is on a Calendar Year to Date basis.

David Lindberg said that would be the first quarter results – a positive 9.3%. FYTD Q2 is CYTD Q1.

Brian Smith asked how Wilshire gets the performance estimates.

Alex Ford said estimates are derived by taking the Fund's asset class weightings, and then applying the index return to them. The estimates are within a few basis points of the actuals once the final numbers come in.

Alex Ford continued the presentation as attached:

- Monthly Summary (page 14).
- This is a challenging environment for equity managers. While Sawgrass has been soft, we still have confidence.

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David Lindberg said Sawgrass has less volatility than the index. When you measure on a risk-adjusted basis, that's where they will rank at the top. It makes sense when you understand their story.

Craig Lewis asked if Sawgrass' Sharpe Ratio is better than that of the index.

David Lindberg said yes.

Brian Smith asked how familiar Wilshire is with Sawgrass.

David Lindberg said he wasn't that familiar with Sawgrass before today. Wilshire's research team was familiar, but hasn't performed a review in a while. Wilshire will have a complete evaluation with them soon.

Brian Smith asked what Sawgrass is specifically doing in the growth space to make them so defensive.

David Lindberg said, in a nutshell, Sawgrass looks for lower price volatility within the growth space. They are missing some of the FANG stocks – Amazon, Facebook, and Netflix alone accounted for 2% of their underperformance this quarter. It makes total sense to us, based on how they approach their search for low volatility.

David Lindberg said this is a tough play for managers. If the fundamental approach is to not buy stocks with this price volatility, their performance will lag when those stocks run hard.

Alex Ford added that this is not an environment Wilshire expects to persist.

Rodney Van Pelt said the total fund performance has underperformed the policy index on the 1, 5, and 10-year periods. This questions whether active management is a good play.

David Lindberg said the area in which the fund has been most challenged is that of U.S. equity. This is where everyone is most challenged. When Wilshire begins to do structure work for the fund, we will eventually recommend less active management in U.S. equity. With this rally, a lot of funds have struggled recently.

David Lindberg said the quarterly executive summary will be ready in May, including more detail on managers and indexes.

Alex Ford continued the presentation, discussing Acadian and MLPs. MLPs were the best performing asset class through March – up about 20%.

David Lindberg handed out the '2018 Active Management Review' research paper (HANDOUT).

IV. EXECUTIVE DIRECTOR'S REPORTS

Timothy Johnson

1. **Ordinance 2019-261** – Priyesh Patel Appointment to FIAC

2. **Ordinance 2019-262** – Brian Smith Reappointment to FIAC

Timothy Johnson said two resolutions were submitted to City Council on Wednesday. One is to reappoint Brian Smith to the FIAC, and the other is to appoint Priyesh Patel to the FIAC – to serve the remainder of Tracey Devine's term.

Brian Smith asked when Tracey Devine's term expires.

Timothy Johnson said it lasts about two more years. He said the resolutions will go to the Rules Committee on May 7th.

Timothy Johnson said that after the Rules Committee, he and Priyesh Patel would meet with Council Members if they are interested.

Brian Smith asked who the Chair of the City Council Rules Committee is.

Steve Lundy said the Rules Committee Chair is Tommy Hazouri.

3. **FYE2019 Work Plan** – Remaining Items

Timothy Johnson reviewed the FYE2019 Work Plan with the FIAC, covering items already completed, and items left to complete during the Fiscal Year.

Rodney Van Pelt asked if any manager updates are scheduled for the next month.

Timothy Johnson said that we notice and invite all Trustees and FIAC members to each Manager Update.

Steve Lundy said that Tortoise Capital Advisors presented in March.

Timothy Johnson asked David Lindberg what Wilshire's work plan may look like, if they are retained as the Fund's permanent Investment Consultant.

David Lindberg said the first item would be a fresh look on an Asset – Liability study. The fund has a new allocation to private equity, and a new Asset – Liability study would be perfect for that. Investment structure within the asset allocation is another component – Wilshire models the level of active risk. For example, its harder to 'win' with active management in U.S. equity. Wilshire may suggest taking less risk in that asset class. All of these considerations will go into the plan.

V. OLD BUSINESS

Rich McConville & Ashley Hartman Alson

1. **Emerging Manager and Broker Policy Discussion**

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Timothy Johnson said Northern Trust has been invited to participate on the conference call today to pick up on Rodney Van Pelt's comments on the January meeting. Northern Trust wasn't on the line in February. Rodney's question was related to how Northern Trust keeps score of the utilization of minority brokerage firms.

Rodney Van Pelt said he wanted clarification regarding page 5 of the January 11, 2019 FIAC meeting summary.

Ashley Alson said the discrepancy in the numbers is likely due to setting the goal of 10% minority brokerage firm utilization in mid-2018. Northern Trust did not have a full year to compare. She said she thinks its better to give the following numbers because they are a 'fresh slate', and represent a full year:

- Year-to-date, through February, actuals total \$140,000.*
- The target was approximately \$130,000, which exceeds the goal by around \$10,000.*

Rodney Van Pelt said that makes sense. He said his question is how we reflect this updated information in the January minutes – do we strike what was presented in error, or change to the full 2018 numbers.

Ashley Alson said she would go back to the research team and see if they have more information. It is hard because this program was implemented in mid-2018. She said she will go back and ask if these number should be corrected, and will follow up with the best game plan to update or correct the meeting summary.

Timothy Johnson asked how Northern Trust defines 'minority'.

Ashley Alson said the minority brokerage firms are state-certified, and is based on gender, race, disability, and national origin.

Timothy Johnson asked if the universe Northern Trust measures is defined by its clients who want to measure their usage of minority brokerage firms.

Ashley Alson said that's why there was confusion in the numbers for 2018 – not how Northern Trust looks at it now. The confusion in the minutes was due to just tracking total commissions to minority brokerage firms, not clients. That is why they don't match. 2019 is specific to the 10% target Northern Trust put in place. Now, Northern Trust will track these separately – one statistic of tracking what clients requested, and one statistic tracking Northern Trust's 10% target.

Timothy Johnson asked if Northern Trust would provide a report at the end of the year showing how much of the Fund's assets managed by Northern Trust were traded using minority brokerage firms.

Ashley Alson said yes – Northern Trust could show, within the funds invested in, the percentage of trades in which minority brokers were used.

Timothy Johnson said the FIAC considered encouraging the Fund's money managers to use Northern Trust's list of qualified minority brokerage firms for trades. He asked if any of Northern Trust's other clients have done something similar to this.

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Ashley Alson said she would ask her team if any of Northern Trust's clients leverage their list and would follow up.

Timothy Johnson said at the end of the year, Northern Trust's report should show the goals, and the brokers used to achieve the target.

Ashley Alson said she could provide a list of who Northern Trust uses, and dollar amount. She noted that Northern Trust engages in RFPs regularly, so the list of preferred minority brokerage firms may change over time.

Timothy Johnson said if Northern Trust gives the PFPF a report once a year, our list would never be more than a year old.

Rodney Van Pelt said that the Fund has not asked Northern Trust to be within its 10% minority brokerage firm target. He asked, if one of Northern Trust's clients asked to be within that target, how would our universe look different than theirs?

Ashley Alson said Northern Trust's target is 10% across certain funds. Clients invested in those specific funds do not opt-in. For example, the account of a client who requested 20% of trades to be directed by minority brokerage firms would be handled as a separately managed account.

Rodney Van Pelt asked if there is an associated cost with this.

Ashley Alson said the only difference in fees would be the same as the difference in fees between a collectively managed account and a separately managed account. She said she would have to go back and look at the Fund's asset totals and see what the appropriate fee level would be if those accounts were separately managed.

Brian Smith asked if Ashley could give the number and percentage of trades by minority brokerage firms in years prior to 2018. If Northern Trust set a target of 10% in 2018, there must have been a deficiency before that target was set.

Ashley Alson said that was not the case. Northern Trust was already sending a higher percentage of trades by minority brokers than peers in the industry, according to a 2016 study. Northern Trust wanted to take it to the next level, to say, "we're already doing this, and we want to show we are committed to this cause and put down some hard targets". This is something we believe in and want to continue to push our peers to do the same. We weren't deficient – we just wanted everyone to understand our dedication.

Brian Smith asked to see the percentages of trades by minority brokerage firms going 5 years into the past.

Ashely Alson said she would add that to her list.

VI. ADJOURNMENT

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Steve Lundy, Assistant Plan Administrator
Posted 04/16/2019

Craig Lewis Sr., Secretary
To be approved at the FIAC Meeting on May 17, 2019.

The next regular FIAC meeting will be held Friday, May 17, 2019 at 3:30PM.