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JACKSONVILLE POLICE AND FIRE PENSION FUND  
FINANCIAL INVESTMENT AND ADVISORY COMMITTEE  
MEETING SUMMARY – MAY 18, 2018 – 3:30PM

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**PRESENT**

Eric "Brian" Smith Jr., Chair  
Craig Lewis Sr., Secretary  
Tracey Devine  
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**

Rob Kowkabany

**Meeting Convened:**

3:34

**Meeting Adjourned:**

5:25

NOTICE: 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.

**I. PUBLIC SPEAKING PERIOD**

*None.*

**II. MEETING SUMMARY TO BE APPROVED**

***Motion to approve as amended: VAN PELT; Second: LEWIS; APPROVED UNANIMOUSLY.***

**1. FIAC Meeting – April 13, 2018**

*Brian Smith amended page 5 of the April 13, 2018 FIAC Meeting Summary as follows: IV. 3. Paragraph 11 (pg. 5), Sentence 1: "Brian Smith left the meeting due to a family engagement."*

**III. EXECUTIVE DIRECTOR'S REPORT**

*Timothy Johnson*

**1. Procurement Authority Chart (taken out of order)**

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**Motion to approve: DEVINE; Second: LEWIS; APPROVED UNANIMOUSLY.**

Timothy Johnson discussed the history behind the new PFPF Procurement Authority Chart with the FIAC. He created the chart about 6 months ago because there was not a formal procurement process or policy in place for the PFPF. Mr. Johnson's predecessor followed an informal past practice with no problems. Mr. Johnson wants to translate the informal process into a formal document.

Timothy Johnson discussed the chart as it relates to the City's purchasing processes. Mr. Johnson formed the new PFPF Procurement Authority Chart considering the PFPF's past informal process, the Ordinance Code, and input from the City's Chief Purchasing Officer. Categories in the chart are aligned with the City's processes. Mr. Johnson described the thresholds as outlined in the chart. Procedure and approvals differ from the City's processes.

Rodney Van Pelt asked if the amounts shown in the thresholds are annual or contract amounts. He also asked if the City has to approve PFPF capital projects over \$200,000.

Timothy Johnson said that the amounts shown are contract amounts, and the City does not approve PFPF projects because the PFPF is an Independent Agency.

Timothy Johnson said architectural services is an example of a professional design service in response to a question by Tracey Devine.

Brian Smith asked if the PFPF Procurement Authority Chart is modelled exactly like the City's process.

Timothy Johnson answered yes. The difference lies in the approvals and thresholds.

Brian Smith asked how the PFPF has operated in the past.

Timothy Johnson answered that the PFPF has followed this same procedure. He gave an example of hiring a local broker to perform a financial performance analysis of the PFPF building and garage. This service cost \$9,000. The broker was hired under Mr. Johnson's authority with no formal process in place. Mr. Johnson said this chart would be the PFPF's entire purchasing policy in response to a comment by Rodney Van Pelt.

Brian Smith asked what would prevent the PFPF from overlooking any changes the City makes to its purchasing process.

Timothy Johnson said that the City's Chief Purchasing Officer recommended that the PFPF adopt its own policy unique from the City.

Brian Smith asked if everything is identical to the City's chart besides the threshold amounts.

Timothy Johnson said yes, the threshold amounts and authorities differ. The PFPF chart only requires one written solicitation for items between \$5,000 and \$15,000 for the sake of convenience and agility.

Brian Smith asked about custodial services.

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*Timothy Johnson said that Troy Scherbinski, the PFPF building manager provides custodial services as in-house. Mike Givens and Margie Seaman's services were contracted. Mike Givens was approved by the Board.*

*Rodney Van Pelt asked if money managers have to be approved for renewals according to this chart.*

*Timothy Johnson said no. The money managers' contracts provide for renewal options, and Kevin Grant is working on "evergreening" the money manager contracts.*

*Kevin Grant said he is working on evergreen language with the Office of General Counsel.*

*Brian Smith asked if the PFPF is undertaking any current capital improvement projects.*

*Timothy Johnson said no. The last capital improvement project was the replacement of the PFPF atrium's skylight.*

*Brian Smith asked Timothy Johnson what led him to develop this new policy.*

*Timothy Johnson said that one of the deficiencies in the PFPF's last audit was related to its lack of a formal purchasing policy. This led Mr. Johnson to work with the City's Chief Purchasing Officer to develop a formal chart.*

**2. Continuing Financial Education Matrix (taken out of order)**

*Steve Lundy*

*Timothy Johnson briefly described the monthly dashboard chart, which is included in each Board of Trustee's book for informational purposes.*

*Steve Lundy discussed the current dashboard, and how it now includes investment continuing education tracking of FIAC members, Trustees, Timothy Johnson and Kevin Grant. The Florida Statutes require at least 8 hours on investment related continuing education for individuals involved in financial decision making.*

*Timothy Johnson mentioned the FPPTA conference as being a good opportunity to accrue the required 8 hours.*

*Rodney Van Pelt asked if the calls he attends regarding capital market and economic outlooks would count towards the education requirement.*

*Timothy Johnson answered yes, and to send the PFPF a copy of the content for our records. Once we get information from FIAC members, the minimum 8 hours would be easily met.*

*Steve Lundy asked the FIAC to send a written attestation or statement confirming any number of hours spent on investment related continuing education.*

**IV. NEW BUSINESS**

1. **Fiscal Year 2019 Budget** (taken out of order)

Kevin Grant

**Motion to approve: VAN PELT; Second: LEWIS; APPROVED UNANIMOUSLY.**

Timothy Johnson said he received direction from the City to approve the PFPF Fiscal Year 2019 budget in May, not June as previously expected.

Kevin Grant described the adopted FY2018 budget alongside the proposed FY2019 budget. PACE will finish their lease of the 3<sup>rd</sup> Floor of the PFPF building and will not renew. Building rent revenues will decrease. Parking capacity has increased and grown by 5%. Parking rates have been increased as close to \$90 as possible to bring the rates up to market. Rent for HERTZ has been increased from \$12/sqft. to \$19/sqft.

Rodney Van Pelt asked if these rate increases are reflected in the proposed budget. Kevin Grant answered yes.

Timothy Johnson noted that common area maintenance has been added to HERTZ's new contract.

Brian Smith asked how the PFPF would find a new tenant for the 3<sup>rd</sup> floor.

Kevin Grant discussed a mailer that he sent to a number of different law firms in Jacksonville advertising the upcoming 3<sup>rd</sup> floor space. No responses have been received. Mass marketing may be used to fill the space.

Tracey Devine asked if there is much vacant office space in downtown Jacksonville.

Kevin Grant said there is space available downtown, and the PFPF wants to be ready to rent out the 3<sup>rd</sup> floor space because there is also lots of new construction.

Kevin Grant discussed the expenditures in the proposed FY2019 budget. Personnel expense increased by 4.4%, which includes the COJ raise in October and pro rata step raises for employees. Total expenditures increase by about 3.38%.

Timothy Johnson added that the personnel expense has been approved by the Board of Trustees already as part of the New PFPF Pay Plan.

Kevin Grant said part of the allocation to professional services relating to investment consultant services and custody bank services have been moved to investment expenses.

Rodney Van Pelt said he would like to see monthly budget updates.

Kevin Grant said that the monthly updates are already provided to the Board of Trustees, and he would provide them to the FIAC going forward.

**V. EXECUTIVE DIRECTOR'S REPORT (CONTINUED)**

*Timothy Johnson*

1. **External Audit** – Update (taken out of order)

*Timothy Johnson updated the FIAC on the progress of the external audit performed by Carr, Riggs & Ingram. Discrepancies in salary data for active members have resulted in an increase in liability. Data reported initially did not include all pensionable pay data because the City made changes to its ERP system during the middle of the year, which erroneously was not captured by the census report. The auditors looked at the census report provided to the actuary and compared it to actual salary data and discovered this discrepancy. This will appear as a deficiency on the final audit.*

*Craig Lewis asked how big this impact would be on the liability and Actuarially Determined Employer Contribution (ADEC).*

*Timothy Johnson said total liability would increase by \$43 million, and the ADEC would increase by about \$4.5 million. The total ADEC would increase from \$135 million to about \$140 million.*

*Brian Smith asked if the PFPF has determined where this error originated.*

*Timothy Johnson said yes. The City made a change in the ERP system relating to how incentives were paid to JFRD employees. The incentives were changed from being paid on a monthly to a bi-weekly basis. The bi-weekly incentives were not captured by the ITD active member census reports.*

*Rodney Van Pelt said that this would affect the wage growth rate in the final actuarial report.*

*Timothy Johnson said Kevin Grant will work with the auditors to start testing early next year to make sure this does not happen again.*

*Rodney Van Pelt asked if the resulting increase in the City Contribution (ADEC) would impact the FIAC's previous request for a \$5 million additional City Contribution to the Fund in excess of the ADEC.*

*Timothy Johnson said he expects an impact.*

*Brian Smith asked if the City Council Finance Committee is aware of the increase in the ADEC.*

*Timothy Johnson said the City Council Finance Committee is not yet aware, but some City officials are.*

*Brian Smith asked if there will be headlines in the newspaper after this is discussed with the Board at their next meeting.*

*Timothy Johnson said he is trying to avoid headlines. So far there have been none. It remains to be seen if or what the headlines will read after the final Actuarial Valuation goes to the Board of Trustees on the 25<sup>th</sup>.*

Brian Smith asked the FIAC whether it would like to see the Economic & Capital Market Update every month, or on a quarterly basis. Sometimes the FIAC feels rushed during their meetings.

Rodney Van Pelt said he would like to review the Economic & Capital Market Updates quarterly.

Tracey Devine said the updates are repetitive by the time she sees them. The industry norm is to look at these reports quarterly.

Craig Lewis agreed with Tracey Devine and Rodney Van Pelt. He added that he may be concerned if the FIAC puts these on the agenda for informational purposes but does not discuss them.

Brian Smith suggested including the Economic & Capital Market Updates and Flash Reports on the agenda as information but could decide each month whether Dan Holmes should discuss it or not.

Timothy Johnson agreed.

Tracey Devine said it would free up time to review these reports quarterly.

Timothy Johnson said we would continue to publish these reports in the FIAC book, and the FIAC could choose to discuss them if they wish going forward. He added that Dan Holmes is right to err on the side of providing a lot of data.

## **VI. NEW BUSINESS (CONTINUED)**

### **1. Investment Consultant/Custodian RFI**

**Motion to give Timothy Johnson and Tracey Devine authority to put together an RFI questionnaire to Summit Strategies to update information on file: LEWIS; Second: VAN PELT; APPROVED UNANIMOUSLY.**

Tracey Devine said she has researched the previous Request For Information (RFI) sent to Summit Strategies in 2006. She recreated the RFI in a new Microsoft Word document. She wants to build off what was received from Summit Strategies 10 years ago and update it to the present time. She suggested sending it back to Summit Strategies and letting them respond instead of sending out a mass Request For Proposal (RFP).

Tracey Devine also proposed asking Dan Holmes for a quarterly review and update of the Summit Strategies firm, including any key firm, client, and asset changes.

Timothy Johnson asked for an FIAC action to give him and Tracey Devine authority to work on this project and send it to Summit Strategies. It would justify the continuation of Summit Strategies' contract until the FIAC is ready to consider a full RFP.

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Tracey Devine said the updated document is almost ready to go minus a few tweaks. The target is to send it to Summit Strategies on Friday the 25<sup>th</sup>. She hopes to recommend the Board renew Summit Strategies' contract by September.

Rodney Van Pelt said this sounds like a new contract and asked how it would be compliant with the methodology of the new procurement policy.

Timothy Johnson said the Board of Trustees has renewed this contract 5 times in the past. This would be an addendum to the current contract.

Rodney Van Pelt said that if he were an auditor, he would say this would be a violation of the procurement policy just adopted.

Tracey Devine said the initial RFP is considered different from RFIs.

Timothy Johnson said he has no problem with including a footnote on the procurement policy stating it doesn't apply to amending current contracts like that of the medical director, actuary, and custodian.

Brian Smith entertained a motion to give Timothy Johnson and Tracey Devine authority to put together an RFI questionnaire to Summit Strategies to update information on file.

**Craig Lewis made a motion to give Timothy Johnson and Tracey Devine authority to put together an RFI questionnaire to Summit Strategies to update information on file. Seconded by Rodney Van Pelt. The vote passed unanimously.**

#### **IV. INVESTMENT CONSULTANT REPORTS**

Dan Holmes

Brian Smith said the FIAC would not discuss items 2-4 today in the interest of time.

##### **1. Asset-Liability Study**

**Motion to approve: VAN PELT; Second: LEWIS; APPROVED UNANIMOUSLY.**

Dan Holmes discussed the Asset – Liability Study. The overall message has not changed. He has talked with all members of the FIAC and incorporated the consensus in the current document. He discussed the target asset allocation as it relates to private investments.

Rodney Van Pelt asked for clarification on private investment's target of 10% and its permissible range.

Dan Holmes said the target for private investments is 10%, and could go up to 15%. It takes anywhere from 5 to 7 years to build up to a 7% asset allocation. Once the 10% level is reached, the portfolio becomes self-funding. Distributions would offset contributions. He said he has left this flexible in order to consider a best ideas approach at the FIAC's discretion.

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Dan Holmes said illiquidity of private investments can be concerning, however an advantage of non-core real estate is that it produces current income and dampens the J-curve dramatically. The combination of income and capital gains offsets the J-curve. A lot of the liquidity concerns will go away.

Brian Smith asked for clarification of the term 'private investments' as it relates to the investment policy statement (IPS).

Dan Holmes said the current IPS dates back to 2015 when the ordinance changed and the Board was authorized to invest in 'private investments'. The Board asked Dan Holmes to add private equity as a permissible asset class, however the strategic target was set to 0% at that time. The permissible range at that time was 0-10%.

Brian Smith asked if the ranges would be changed in addition to the target.

Dan Holmes said he would like to take the range to 15% to align with the other asset classes.

Brian Smith asked if an updated IPS should be approved before an updated asset allocation is approved.

Dan Holmes said all private assets would be in one bucket with a target of 10%. The fund can fill the 10% bucket as it sees fit. The range would be kept between 5-15%. Changes to the asset allocation after the Board approves the Asset – Liability Study would be reflected in an updated IPS.

**Rodney Van Pelt made a motion to accept the Asset – Liability Study as a whole. Seconded by Craig Lewis. The vote passed unanimously.**

**Rodney Van Pelt made a motion to accept the asset allocation recommendation as provided in the report to make changes in the categories stated, allowing the fund to increase investment in private investments. Seconded by Craig Lewis.**

Brian Smith asked Dan Holmes to summarize the FIAC's recommended asset allocation for the Board.

Dan Holmes said he would title the page "Target Asset Allocation Recommended by the FIAC".

**The vote passed unanimously.**

Brian Smith said the Asset – Liability Study and the new target asset allocation reflects the FIAC's effort to look for new areas of investments for the fund to make more returns.

Craig Lewis said the new asset allocation expands the opportunities for the fund by including a broader set of less liquid investments. It exposes the plan to a more direct control oriented style of investing in companies with more alpha potential. It serves to provide greater diversity in the portfolio from a risk perspective by having assets not in sync with public market beta or fixed income beta. The level of return generation is independent.

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*Brian Smith said the loss of liquidity in this asset class would be offset by the income potential by the time the fund would need more income.*

*Tracey Devine said she liked the slightly reduced MLPs in light of the current activity in that sector.*

*Brian Smith informed Dan Holmes that the FIAC decided it would like to discuss the Economic & Capital Market Updates and Flash Reports on a quarterly basis, but would like to continue to include the reports for the record.*

*Dan Holmes said he would continue, but would not take up anything for discussion unless there is anything significant. He thanked the FIAC for the effort to use time more efficiently.*

*Brian Smith said Dan Holmes always has to err on the side of giving a lot of data.*

*Tracey Devine said Dan Holmes should touch on each manager on a quarterly basis.*

*Rodney Van Pelt said the FIAC Work Plan should be adjusted to accompany this quarterly schedule.*

*Tracey Devine thanked Dan Holmes for reaching out to all of the FIAC members, and thanked him for the very comprehensive nature of his work.*

**2. Investment Performance Review – March 31, 2018**

*Received as information.*

**3. Flash Report – April 30, 2018**

*Received as information.*

**4. Economic & Capital Market Update – April 30, 2018**

*Received as information.*

**V. OLD BUSINESS**

*None.*

Steve Lundy, Assistant Plan Administrator  
Posted 05/23/2018

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Craig Lewis Sr., Secretary  
To be approved at the FIAC Meeting on June 8, 2018.

The next regular meeting will be held Friday, June 8, 2018 at 3:30PM.