
JACKSONVILLE POLICE AND FIRE PENSION FUND
FINANCIAL INVESTMENT AND ADVISORY COMMITTEE
MEETING SUMMARY – JULY 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
Bob Sugarman, Fund Counsel – via Webex
David Lindberg, Investment Consultant – via Webex
Alex Ford, Investment Consultant – via Webex

EXCUSED

Priyesh Patel
Lawsikia Hodges, Office of General Counsel

Meeting Convened

3:36PM

Meeting Adjourned

5:23PM

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I. PUBLIC SPEAKING PERIOD

None.

II. MEETING SUMMARIES TO BE APPROVED

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

1. **FIAC Meeting** – June 14, 2019

III. INVESTMENT CONSULTANT REPORTS – All Handouts

David Lindberg & Alex Ford

David Lindberg said today's presentation will set the space for where we would like to see the Fund go next. Alex Ford will discuss performance. The month of May was not fun at all, but June was much more

enjoyable. Performance numbers today are estimates through the end of June. We will touch on what we suggest doing next with the Fund's U.S. Equity and Fixed Income allocations, and benchmarking for MLP managers.

1. Fund Performance

Alex Ford began the presentation as contained in the handout. He covered the following topics and made the following points:

- Page 5: Asset Class Performance – The first half of 2019 has been the strongest first half of the year for equities in 24 years. This is unusual, but welcomed performance.
- Page 6: Economic Review – The economy is fundamentally strong. Unemployment is at 50-year lows. June's jobs report was stronger than expected. There is persistent, low inflation. Forward pricing in the markets expect rate cuts by the Federal Reserve. However, the Federal Reserve forecasts slower economic growth on the long-term horizon.
- Page 7: Risk Monitor – The 10-year vs. the 3-month Treasury Bill yield curve is inverted, which is historically a warning sign of a market slowdown on the horizon. Short-term rates are pushed above long-term rates. However, all other indicators point to expectations of future economic growth.
- Page 8: U.S. Equity Market – The story has not changed much in recent years – growth and large caps dominate the market. Wilshire expects this trend to reverse at some point in the market cycle.
- Page 9: Non-U.S. Equity Market – Developed markets are performing better than emerging markets. Growth is edging out value abroad. China is up big for the year, although tariffs gave them a tough time in the 2nd quarter.
- Page 10: U.S. Fixed Income – Strong nominal returns for bonds. Spreads are compressing – the tightening bodes well for near-term economic prospects. Expectations point to further decreases in interest rates.
- Page 15: PFPF Performance Update – The Fund is up 4.6% in June, which is a nice rebound from May. The Fund is up 2.3% on a Fiscal Year-To-Date basis. Yesterday, the Fund just crossed the \$2.1 billion mark, approaching its all-time high.

Craig Lewis asked about the disconnect between the inverted yield curve, and the market expectations for economic growth. He asked what has tended to be the outcome in cases like these in the past.

Alex Ford said he was unsure if he could quantify the relationship between the two. It is important to note that the environment is relative to the blowout at the end of 2018. There was panic at the time, and markets reacted rapidly. With the benefit of hindsight, this was a massive overshoot based on fear.

David Lindberg noted that the current yield curve inversion is short – out to the 5-year point, then up again. There is a market expectation that the Federal Reserve will lower rates again sometime in the future.

Brian Smith said that just because the market has priced its expectations of future Federal Reserve action on rates, doesn't mean it will happen. If the Federal Reserve doesn't follow through, then we could be in for a bumpy ride.

David Lindberg said he believes the Federal Reserve will act, unless something changes. Inflation is very low.

Alex Ford said the Federal Reserve is more concerned with falling prices – inflation is very low, and that's what they are combating.

2. U.S. Equity – Active Management Analysis

David Lindberg continued the presentation as contained in the handout:

- Page 17: U.S. Equity Portfolio – We believe you should increase the Fund's allocation to passive management in the U.S. Equity space. Active management has been a challenge. In general, it is very hard to outperform passive management in this space. We will do a comprehensive structural analysis in September.

3. WEDGE Performance since Inception

David Lindberg said the Fund's money manager WEDGE has had a short history with the Fund, but Wilshire has a high conviction in the manager. Wilshire recommends continuing with the manager. The structural analysis will help.

David Lindberg said Wilshire believes Pinnacle is not as strong as WEDGE. Pinnacle's rating is slightly above average. Wilshire is not suggesting Pinnacle is not suitable or should be eliminated. The structural review will quantify all of this in September.

- Page 18: Active Management Summary – This shows how active management has fared in different areas back over 10 years.

Alex Ford discussed WEDGE Capital Management as shown on page 26 of the handout. Wilshire recommends retention of WEDGE. The PFPF happened to start working with WEDGE at a moment of underperformance, which does not fall in line with the rest of their history. If you zoom out, and look at their whole track record, the underperformance is easily explained. They went into the 2016 election cycle in line with the benchmark and ahead of their peers. After the election, a lot of macroeconomic headwinds materialized. In 2016, the growth market took off. Their portfolio turned against them – they have no exposure to biotech as a principle.

Brian Smith said to continue the presentation, the FIAC is good with WEDGE.

Alex Ford discussed Pinnacle Associates on page 34 of the handout. We don't want to put the cart before the horse – we want to perform the structural analysis work first before any recommendations. The concern is what appropriate level of risk the Fund wants. Page 35 shows Pinnacle has not added value. They are struggling to find footing. Page 36 shows their statistics. They are a median-level average manager.

4. Core Fixed Income Allocation / Risk Profile

Brian Smith asked if we need to discuss Fixed Income.

David Lindberg said there is nothing to recommend today. In September, we will bring a structural analysis, and we will show that the Fund needs a more investment grade core allocation.

5. Indexing MLPs

Alex Ford said Wilshire believes there is a better benchmark for the Fund's MLP allocation. The industry is moving further towards C-Corp structure, however the two major benchmarks have very little allocations to C-Corps. There are new indices in this space, which include C-Corps, and exposure to Canadian companies. Wilshire proposed moving to the 'Alerian Midstream Energy Total Return Index', "AMNA", for the benchmark for the Fund's managers Tortoise and Harvest. This would be a more accurate reflection of what the Fund's managers are doing.

Brian Smith asked for the FIAC's thoughts on this.

Craig Lewis said he understands focusing on the fundamental physical assets in the business model, as opposed to focusing on what corporate structure the companies are wrapped around. This is the right direction – we should process this more. He said he would like to see more information on the Canadian aspect – there are some political issues regarding some of their pipelines.

Alex Ford said some data is on page 42. Harvest and Tortoise don't invest in Canada – none of these benchmarks are perfect. But, they are more appropriate as they reflect the entire investable universe.

Brian Smith said he wants to evaluate this more, and to add this to the agenda for a future meeting. We will continue to hear thoughts and will make a recommendation for change later.

Rodney Van Pelt said it was interesting that our two MLP managers do not invest in Canada.

Craig Lewis said that on a forward basis, Canada might be less attractive given certain regulatory and political trends.

IV. EXECUTIVE DIRECTOR'S REPORTS

1. Draft Investment Consultant Evaluation Matrix

Kevin Grant

Brian Smith asked Steve Lundy to display the Request For Proposal (RFP) Evaluation Matrix from last month (handout). This matrix showed what the City of Jacksonville used in evaluating their 12 or so respondents for their investment consultant RFP.

Kevin Grant discussed the new, revised PFPF evaluation matrix (handout). This was handed out, as the matrix shown in the book had two columns inadvertently cut off.

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Kevin Grant said the new evaluation matrix was shortened to 5 criteria the FIAC selected. Definitions are shown in attachment B. The last definition was 'Competence'. We wanted to change this to 'Experience'. 'Financial Responsibility' means what legal position the company is in – whether they have any pending lawsuits or FEC findings, etc...

Brian Smith said the FIAC liked 'Experience' rather than 'Competence'.

Kevin Grant said he added the interview portion to the matrix – the FIAC wanted to put a score to determine if there were any distinguishing factors in the interviews. Today, we should assign each category a weighting.

Brian Smith asked Timothy Johnson for his thoughts – he has undertaken previous RFPs here in Jacksonville, and in Allegheny County.

Timothy Johnson said he did not have the benefit of being at last month's FIAC meeting. He said his thoughts are like what Rodney Van Pelt has noted – we use different words to describe what we want to see. Whatever words we use should have specific meaning to this group. For example, 'Time and Budget' is synonymous with cost and fees. Also, with respect to the specific consultant who will be assigned to the Fund – that will be rolled into the 'Experience' category.

Timothy Johnson said the specific assigned consultant is important – will we be assigned a junior member with little experience, or a seasoned consultant? The firm may have a great reputation, but the rubber meets the road with the individual we will be working with.

Timothy Johnson said he would suggest giving some weight to the quality of talent assigned to our business – either in the matrix, or separately in the 'Experience' category.

Brian Smith said we have the flexibility to add this as another category. He asked if we should rename 'Time and Budget' to 'Fee Structure'.

Timothy Johnson said the FIAC should decide either the traditional category, or something more relevant.

Kevin Grant said that realistically, this City of Jacksonville template makes more sense for projects that take a lot of time.

Timothy Johnson said he doesn't think that applies to us.

Craig Lewis said this sounds better suited to physical projects – the City wants to know if their projects will be completed on time, ahead of time, or behind.

Brian Smith said he would like to discuss what is important to the FIAC. 'Fee Structure' is important. He said he prefers fixed fees. He said he does not like built-in COLAs. He said he sees FIAC consensus for 'Fee Structure' as the category name.

Bob Sugarman said fees are largely negotiable, and should not be given a heavy weighting.

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Brian Smith said he agreed, but proposals lay out the fees. This is fixed. We could negotiate, but fixed fees should be scored higher.

Kevin Grant said that we could ask if fees are negotiable.

Rodney Van Pelt said he wouldn't want to ask about negotiating fees. He said he wants to know their proposal. It's the same as 'Experience' – if one firm has 30 years of experience, and another 27, one doesn't necessarily rank higher. It is the same with fees – a \$5,000 difference in fees is not significant.

Brian Smith agreed. He said there should be a range for our opinions. He asked if there was any more discussion.

Rob Kowkabany said he is looking for a proactive consultant, who has a work plan, and stays on schedule. It is important for a consultant to come to us with recommendations outside of the work plan as well. He said he thinks the third category, 'Ability to Observe Compliance with Plans; Design and Approach a Work Plan', is the most important.

Brian Smith asked Rob Kowkabany if he thinks this category should be weighted more heavily.

Rob Kowkabany said yes. It should be weighted higher than 'Fee Structure', but not necessarily higher than 'Experience'.

Craig Lewis said the consultant's experience with private equity should be important as the Fund moves in this new direction.

Brian Smith asked Craig Lewis if he thinks this is covered in the existing categories.

Craig Lewis said yes. It overlaps with Rob Kowkabany's comments. We will design a work plan with the consultant, and we need to be sure we are working with a consultant with the right capabilities and approach – we don't need a new category for this.

Timothy Johnson said we would be allocating 10% of the portfolio – \$200 million – to private equity. If the consultant doesn't have that expertise, then there would be a problem.

Rodney Van Pelt said we should specify the areas in which the consultant should be experienced in the RFP.

Brian Smith said it should be in the 'Experience' category.

Rodney Van Pelt said he would like to see the consultant attend the FIAC meetings quarterly in person.

Brian Smith agreed. He said AndCo had a representative in Orange Park. This was important – we would see them in person all the time if we had selected that consultant. This should be a strong selling point.

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Timothy Johnson said this is already in the RFP relative to Board of Trustees meetings. We could also add FIAC meetings.

Rodney Van Pelt said that would bring the number to 8 visits a year.

Brian Smith agreed and asked Kevin Grant to add this to the RFP.

Brian Smith said the new consultant should have a clear understanding of the nuances of the Plan – considering the complexity of local and state law.

Kevin Grant said this is spelled out in item 3, in the last sentence.

Brian Smith asked about consultant – client ratio.

Timothy Johnson said that was a big deal for the GEPP – but their Board ultimately chose RVK because of their 'a la carte' fee structure.

Brian Smith said we would do two interviews, with the second by phone. He asked if there were any more thoughts.

Bob Sugarman said the amount of insurance held by the firm should be included. He said the firm should also disclose if there are any pending lawsuits against them.

Kevin Grant said both are in the RFP.

Bob Sugarman asked if we are asking for examples of the firm's reports.

Kevin Grant said we are.

Rodney Van Pelt said we are giving them data and asking them to generate reports.

Brian Smith said he feels we are on the right track.

Bob Sugarman reminded the FIAC that if they individually score these firms, their notes and scores will be public record.

Brian Smith asked if the interviews would be on the evaluation matrix.

Kevin Grant said they are. The printed book cut off those last two columns on accident.

Rodney Van Pelt asked how many firms we should interview.

Kevin Grant said if scoring was so close, the City would take the top 2-3 for interviews.

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Rodney Van Pelt asked about the scores, and gave a scenario in which some firms may not be able to make up enough points to win even if they scored 100% on the interviews. He asked if we should call them in to interview if this was the case.

Brian Smith said he views the evaluation matrix as a tool to help us come to our final conclusion. Obviously, the City did this too. The City interviewed 5 firms. This was surely grueling. Maybe we could interview 3. We shouldn't interview 4 in the same day.

Bob Sugarman said the question is who does the shortlist. The PFPF staff creating the shortlist, subject to FIAC review is a great idea. The magic number is 3-4 firms. Half of the interview should be answering questions. We need time for in-depth conversations.

Brian Smith agreed, and said he doesn't want the FIAC to be unsure the PFPF staff did a good job evaluating the firms.

Timothy Johnson said the City threw out the staff evaluations and started from the baseline. They didn't add an interview score to a staff evaluation score to make a final decision. He said we could add a high weight to the FIAC interview score, around 40%.

Rodney Van Pelt said he likes this hybrid approach. The staff could score the firms, but the FIAC doesn't see the scores until after the interview. This would be unbiased.

Brian Smith said the interview would be the strongest indicator. The best interviewed firm may not be the best firm on paper.

Rodney Van Pelt asked if Brian Smith didn't like the blind, unbiased approach he suggested.

Brian Smith said he just doesn't want to interview 10 firms. The PFPF staff can weed out some firms, narrow it down to 5-6, then the FIAC picks 3 to interview.

Bob Sugarman said there are three lists: the long list, including everyone who applies, the short list, including everyone we consider to interview, and the interview list. The PFPF Staff makes the short list. The Trustees then decide who to interview.

Bob Sugarman added that the FIAC has input to read all responses if they wish.

Rob Kowkabany agreed and said the interview has a ton of weight.

Craig Lewis said the final interview list should be all viable firms.

Brian Smith said any time we have narrowed down to three candidates, whether actuaries or money managers, there has been no 'wrong decision'. He said he feels this will be the case again.

Bob Sugarman said the final three would be the most difficult decision.

Brian Smith asked to discuss the weights to each category.

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Timothy Johnson began to discuss the weights he had prepared to start the discussion. 'Experience' – 30%, 'Fee Structure' – 15%, 'Past & Present Demonstrated Commitment to Small & Minority Businesses & Contributions Toward A Diverse Market Place' – 5%, 'Ability to Observe Compliance with Plans; Design and Approach a Work Plan' – 40%.

Brian Smith asked if there was too much weight to 'Fee Structure'.

Rob Kowkabany said if alternative investments fall under 'Experience', then it may need to be increased to 35%, and 'Ability to Observe Compliance with Plans; Design and Approach a Work Plan' lowered to 35%.

Brian Smith said he likes this. He asked if the FIAC needed to vote.

Timothy Johnson said he doesn't think so.

Bob Sugarman said the meeting summary will reflect the FIAC's consensus.

Final categories and weights:

- Experience – 35%
- Financial Responsibility – 10%
- Ability to Observe Compliance with Plans; Design and Approach a Work Plan – 35%
- Past & Present Demonstrated Commitment to Small & Minority Businesses & Contributions Toward A Diverse Market Place – 5%
- Fee Structure – 15%

Timothy Johnson asked what the next steps should be.

Kevin Grant said once the Board approves the RFP, OGC will review, and approve before it hits the street. The RFP will be open for 20-30 days, then we will need 2 weeks to evaluate the responses.

Rodney Van Pelt said we wouldn't get the information until the September meeting to discuss the top firms.

Timothy Johnson said PFPF Staff will evaluate the responses in September, then the FIAC will decide who to interview in October.

Bob Sugarman suggested starting the meeting earlier in the afternoon to accommodate the interviews.

V. OLD BUSINESS

None.

VI. ADJOURNMENT

5:23PM

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Steve Lundy, Assistant Plan Administrator
Posted 07/15/2019

Craig Lewis Sr., Secretary
To be approved at the FIAC Meeting on August 16, 2019.

The next regular FIAC meeting will be held Friday, August 16, 2019 at 3:30PM.