CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
NOVEMBER 19, 2015

Summarized Minutes of the regular meeting of the City of Fort Pierce Retirement and Benefit System, November 19, 2015 at 2:01 p.m., in the 2nd Floor Conference Room at City Hall.

Present:

Commissioner Tom Perona, Chair	City Commission Member
Johnna Morris	Interim Director of Finance
Stanley Fidge, Vice Chair	General Member
Nina Hurtubise	U.A. Board Appointee
Rodney Nieves	Police Officer Member
Keith Stephens	U.A. General Manager

Attorney Jim Walker	Assistant City Attorney, Advisory
Christina Paz	Retirement Clerk

Absent:

Commissioner Reginald Sessions	City Commission Member

Recording:

Queen Thompkins	Executive Assistant to Director of Finance

ITEM NO. 1 & 2 ~ ROLL CALL

Commissioner Tom Perona called the meeting to order at 2:01 p.m., the first item on the agenda being the "*Roll Call*".

ITEM NO. 3 ~ COMMENTS FROM THE PUBLIC

Commissioner Perona, the next item on the agenda was comments from the public. There were no comments from the public.

ITEM NO. 4 ~ APPROVAL OF SUMMARIZED MINUTES OF SEPTEMBER 17, 2015.

Comm. Perona, the next item was the approval of the summarized minutes of September 17, 2015 and asked if there was a motion to approve the minutes. **Ms. Nina Hurtubise** had one correction to the October 15, 2015 minutes. The correction was Mr. Godsil name should read **C. Paul Godsil** instead of **Paul C. Godsil.**

A motion was made by Ms. Nina Hurtubise and seconded by Mr. Stanley Fidge to approve the summarized minutes of October 15, 2015.

All those in favor of the motion signified by saying aye. There was no opposition and the motion carried unanimously.

Mr. Jim Walker asked Ms. Johnna Morris is she had done a follow-up on their conservation and Ms. Morris responded yes, everything had been updated.

Comm. Perona thanked Mr. Fidge for a job well done chairing the October 15, 2015 Board meeting.

ITEM NO. 5 ~ ATTORNEY'S REPORT

Attorney Jim Walker stated there were no pending litigations or legal matters to bring to the Board's attention. He said it was understood the matter of legal representation will coming up later on the agenda; otherwise, if there are any questions, he would be happy to answer them.

Mr. Fidge said he wanted to thank Mr. Walker, when asked by Comm. Sessions if he would continue as the attorney for the Retirement Board, and Mr. Walker confirming that he would be happy to remain as the attorney for the Board.

Comm. Perona said he understands this something that will be discussed later.

ITEM NO. 6 ~ PUBLIC HEARING ON BENFITS APPLICATIONS

Comm. Perona stated that the next item on the agenda was Public Hearings on Benefit Applications.

Comm. Perona opened up the public hearing for comments on the request for Deferred Retirement from Erin Greiner with 11 years and 3 months of service with the City of Fort Pierce. He asked if there was any one here who would like to publicly comment on this request. Seeing none, Comm. Perona closed the public hearing. Comm. Perona opened up the matter for the Board. **A motion was made by Mr. Nieves and seconded by Mr. Stephens to approve the request for retirement from Erin Greiner.** Comm. Perona asked for any questions or comments on this request before the motion was called. **All those in favor of the motion signified by saying aye. There was no opposition and the motion was carried unanimously.**

ITEM NO. 7. ~ OLD BUSINESS

None

ITEM NO.8 ~ NEW BUSINESS – DISCUSSION OF FUTURE LEGAL REPRESENTATION

Comm. Perona said comments were made at the last Board meeting concerning future representation. He asked Mr. Walker what was the position of the Board as far as choosing its own representation.

Mr. Walker said it would require an amendment of the code. He said before he came on the Board, the code required that the counsel for the Board be the City Attorney. He said when he came on board; the Board adopted a rule amendment providing that it was to be represented by either the City Attorney or the City Attorney's designee. It was considered that was compatible with the code provision since the City Attorney and his designator are centrally alter egos of each other. Mr. Walker said since the code does require that the Board be represented by the City Attorney, and since the Commission is currently dispose to go in-house, that would require an amendment of the code. In the event the Board determines that it wishes to recommend to the Commission a change to that provision, he does have a proposed draft of an amendment to the code that the Board being in a position to consider.

Comm. Perona said the position of Board Attorney has gotten to be one that has to have an immense amount of experience and at least a network to be able to know where to go get the answer. He said that Mr. Walker has proven his knowledge and has kept the Board navigating through these mind fields lately. Comm. Persona said he is very impressed with this type of service the Board has gotten. He said from his standpoint, he would like to continue this and if it's the Board's direction he is willing to speak to the Commission concerning the Board adopting this proposal.

Mr. Nieves said due to the fact that we already have a standing code and in the event we hire a different attorney, which would soon come, would that still be standing? He said if that is the rule now; the City Attorney, whether it being he or she, decide to remove Mr. Walker, that would put the Board in harm's way in the event the City Attorney decides to remove him because of that code.

Mr. Walker said that is the rule that says that; not the Ordinance. The Ordinance says that it must be the City Attorney. He said it would also require a rules change as well. Since the immediate focus is one the Code of Ordinances, Mr. Walker said this is what he is immediately focused on.

Mr. Nieves said the Mr. Walker that this is for his protection and the protection of the Board as well.

Mr. Walker said he appreciated that. He said the proposed amendment would provide that the Board would be represented by the City Attorney or such other counsel as the Board might choose upon approval of the City Commission. Ultimately it is the City Commission that would obtain the last word.

Comm. Perona said Mr. Walker attends all of the updated conferences and stays in line with Mr. Lynn. He said this type of dynamic is proven to be the strong asset for this Board. Comm. Perona said when you have good service; and he feels comfortable in doing what the Board is doing; a lot has been done in the last two years; a lot of changes have been made, even to the Board's portfolio; it is very important that the Board enter into these things with the legal guidance of someone savvy of the issues that are in front of the Board. Comm. Perona said he would like to keep this. He said he doesn't know where the future of our legal services for the City of Fort Pierce is going to take us so he would like for some things to remain the same as much as it possibly can. Comm. Perona said getting ahead of it now before the Board chooses an in-house attorney will probably be the key to the Board's success. Comm. Perona asked would the Board have to do to adopt this.

Ms. Johnna Morris asked Mr. Walker if they would have to do a RFP. She asked if the Board can just say that Mr. Walker is the Board's choice.

Mr. Walker said he believe the answer to Ms. Morris's question is yes. He would need to verify it.

Comm. Perona said there are other Boards that choose their counsel accordingly. He said he knows that Civil Service Appeals has done this in the past. Comm. Perona said we are talking about a very defined and specific type of legal representation and that expertise is something this Board should be able to identify and retain accordingly.

Ms. Hurtubise said the Board really can't control what the City Commission does; they can certainly recommend approval of this Ordinance but it is up to the City Commission to decide. She said assuming the City does indeed bring in an in-house City Attorney; that City Attorney is going to be really busy. She would be much happier having someone with the expertise of Mr. Walker representing the Board instead of someone coming in. Ms. Hurtubise said Mr. Walker services the Board well and she doesn't know if the Board would receive the proper attention from another attorney that has other priorities.

Mr. Keith Stephens asked Mr. Walker how many years he has been representing this Board.

Mr. Walker said he has been representing the Board for 18 years.

Mr. Stephens said he has been on the Board a little over a year and the experience Mr. Walker has with this Board puts a lot of value in him.

Comm. Perona said the only thing he has to be cautious of is, let's not put Mr. Walker in that position right now. He said let's talk about 15 to 20 years from now. How would this Ordinance stand up to the benefit of the community? Comm. Perona said he is sure Mr. Walker is going to tell him that the Commission at any given time could change that Ordinance to go back to whatever they determine is the right path for them at that moment.

Mr. Walker said the Commission is the boss.

Comm. Perona said anything that the Board does now, the Board's recommendations can be undone if Mr. Walker steps down or retire. He asked if he could get a motion from the Board to make the recommendation to the Commission to adopt accordingly. **A motion was made by Mr. Nieves and seconded by Mr. Fidge to forward the draft with the recommendation to the Commission. All those in favor of the motion signified by saying aye. There was no opposition and the motion was carried unanimously.**

Mr. Walker said it is understood that there be a motion to draft of the Ordinance with a recommendation to the Commission. He personally thanked the Board for the support and confidence reflected in this vote.

Comm. Perona said hopefully they can insulate this group and make sure that no matter what happens citywide, the Board is doing their job and doing it effectively. He said not only what the Board does here with the oversight of Mr. Walker, the Board's money managers, and the advisors accordingly, the Board is working in the right format.

ITEM NO. 8 B. ~ REVIEW OF PERFORMANCE EVALUAITON FROM CONSULTANT – CALLAN ASSOCIATES

Mr. Cody Chapman said he wanted to start with comments on what happen in the markets. He said that Mr. Stephens mentioned there was a lot of red. Mr. Chapman said it would certainly back with the quarter on just about everything negative, it had made in China sticker on it. He said it being the world's second largest economy there were a lot of fears that their economics slow down would derail a fragile recovery but the U.S. as well as other developed countries. Mr. Chapman said this is one of those quarters where they come to the Board and while the data is already stale there has been a big bounce back in October. He said for this window of time that they are looking at we want to keep in mind some of the things that did occur. Mr. Chapman said as we look at the U.S. economy, we were in second quarter and growth was revised up sharply from where it was in the first quarter of the 3.9%. In the first quarter we are looking at .6% GDP growth. It appears that the economy really started taking off and getting underway. Advance estimates for third quarter so far are coming in around the 1.5% range. We are still in this low growth environment; there may be some seasonality in the numbers. Mr. Chapman said as it relates to what the Federal is going to do, that seems to be a talking point for just about everyone. He said it appears in December a lot of people were surprise that September was not the time where they took us off this zero interest rate policy. Mr. Chapman said it appears that December is the time where they will begin to wean us away from a zero interest rate environment. He said a lot of active managers are saying it is a difficult marketplace; just giving low interest rate to separate the good companies from the bad companies and weed those out. As we think of negative quarters, the S&P was down 6.5%, international market was down, depending on developed and including emerging markets north of 10%. In most market pullbacks active management tends to do well. It can be either a cash drag what they have in their portfolio; it could be what they have screened out more quality companies; this however, was not your grandfather's market pullback. Areas like small cap growth; the median managers were down about 11.4% and the Index was down close to 8%. He said usually those numbers flip flop so it is surprising to see a lot of active managers struggling during this time period. Mr. Chapman said as you talk to your managers today, both of them seem to be shielded from that phenomenon and did well in the third quarter. If there were two words just to caption what happened in markets across the board, being a fixed income, domestic equity, international equity; it's all about risk off. Investors seem to steer away from risky assets and with fixed income; there was a flight quality to where higher quality corporates underperformed treasuries. Interest rates came back down and dropped on the longer end of the curb. In terms of a merging market, some of the things that are occurring there, equities of merging markets were down meaningfully more than equities of non-U.S. developed Europe, Japan, and a lot of that had to do with things going on. Brazil was downgraded; one of the rating agencies downgraded their debt to junk status. They are still technically investment prey because it's 2 out of the 3 rating agencies. If another one downgrades Brazil, they will technically be rated below investment grade. Their equity market was down 30% in U.S. dollar currency. Losing about a third of their market value in a single quarter is pretty significant. You have China, I mentioned, slowing their economic growth; their equity market results showed some of the expectation for slow growth. Then, you think of Russia as we think of the bricks; Russia continues to struggle; big oil exporter; tied to energy in their markets pulled back a bit. India is down about 6% for the quarter and dollar current. It was a difficult quarter all around.

Mr. Stephens said Mr. Chapman mentioned that it's coming back. His understanding is that it has not only come back, it's above what we actually dropped in general terms.

Mr. Chapman said yes, in general terms he believes the indexes are back to positive for the year. He said it varies which day you look at. We have recovered all of the back quarter on a year to day basis. Mr. Chapman said this is a big quarter end for the Board because it is their fiscal year end.

Mr. Cody Chapman said starting with the Executive Summary, close to the line we are still under our real estate target. He said the commitment will be made and that capital will be caught up eventually to get the Board where it needs to be. He said on Page 3 of the Executive Summary you will see one year of all attribution cuts. Mr. Chapman said looking at the column that says Actual Returns, for the last year we return at 1.76%. He said the Target Return for the quarter was 0.44%. We outperformed the passive target by 1.3% over the last year. Mr. Chapman said if you notice the Manager Effect column is strongly positive. The Active Managers added 1.8% to total performance and the Asset Allocation was lightly negative. He said if you look at real estate, the target return for real estate was 12.8%. Mr. Chapman said real estate is still relatively new asset class for the Board, they added it to be a diversified and give exposure to something that would move a little differently in the stock and bonds. There is target return for Domestic Equity close to zero. Target return for International Equity is almost negative 12% and the target return for real estate is 13.8%. He said the underweight to real estate relative to your target, having that real estate exposure, is actually very additive of all portfolio which is your best returning asset class over the last year. It is worthwhile. Heitman is a little behind the benchmark but overall, just have that real estate exposure has been very additive. Moving to Page 4, Mr. Chapman said as of September 30, the Board stood at $172.0 million; that down about $13 million from the previous quarter. Page 5 gives you an idea of your results relative to peers over time. On the top chart you can see a second percentile of the last year; fifth percentile of the last five years. The table below on Page 5 summarizes some of the numbers in more detail. He said the last five years, 9.3% for the Total Fund; last seven years, 8.9%; all very strong results relative to peers and your past year target. Mr. Chapman said on Page 16 the top chart shows your results relative to peers. For the quarter you are in the second percentile; the last three years seventh percentile, and the last 10 years second percentile. You did have some red numbers for the first time in a long time for the quarter. Next we will look at Morgan Stanley strategy. This is their emerging market product; a very good quarter for them; fourth percentile; outperformed by 3.95%. Mr. Chapman said as it was told to the Board in the past, the portfolio added from this strategy has been very skeptical. He said growth in China is fueled by creditor and historically that is not a good way for an economy to grow over the long term. There has to be good, tangible, current to the economy and not just driven by credit. China has been very underweight. There have been periods when this has hurt them. This quarter has helped them quite a bit. This is why you see strong outperformance almost 4%. Mr. Chapman said quite a bit. That is why you see strong performance; almost 4%. He said quite a bit of that is being underweight to China. Mr. Chapman said if your fast forward to the fourth quarter and it’s likely that underweight to China has hurt them because while China was in a bear market in the third quarter, they rebounded strongly and now back in the bull market in the fourth quarter. He said it is very likely the strategy may underperform for the fourth quarter, depending on how the year finishes out. Long term results are strong; last five years 1.2% over the benchmark after fees. He said on Page 60 looking at William Blair’s international growth strategy, this is another manager that the Board will hear from so he doesn’t want to get too much into the attribution but a very strong quota for them; outperformed by more than 2%. Over the last year they have performed by about 6%. Mr. Chapman said this is another strategy where George Gregg, retired at the end of 2013; he had done a great job for the Board; had a very strong track record. We came to you; we talked through issues and you all made a decision to stick with this new portfolio management team and see how they did. That has paid off very well. They had a good year in 2014 and year to date 2015. It's nice to see that that team has started off well. They have been with you all almost 12 years now. You should look at these numbers because they represent the dollars that you all place into this fund. The long term result means a little bit less just because that track record wasn't achieved out of the team that's in place now. Since you all hired them they've added a little bit more than 1% net of fees over the benchmark.

Comm. Perona said this is not the same team but there are still some philosophical movements inside there so a percentage of it is not the same team.

Mr. Chapman said that was true. He said it is still important to look at because that's the alternative that the Board has experience and that's what you have experience with the firm. Mr. Chapman said there is a lot of continuity. William Blair generally has pretty well turnover. The long-term numbers do matter. Lately there has been more focus on the short-term just to see how this new team is.

Comm. Perona asked if they watch the new team for a couple of years and if it seems to have somewhat of an echo of the past, you assume they have picked up where the other has left off.

Mr. Chapman said yes. He said to go back and touch on something said earlier; the continuity and the philosophy; George Gregg got Simon Fennell to take over and George is very concern about his legacy as he's leaving the portfolio. Mr. Fennell is picking up where George left off.

Comm. Perona said the Board had Mr. Chapman to look at them very carefully. He said he remembered the time of the transition. He said the Board talked about it openly about what was happening and that they would do a probationary period. Comm. Perona said the Board is feeling more comfortable as they go along.

Mr. Chapman said when you look at your total fund results and why they are so good relative to peers; you really have to put, at some point, in terms of sticking to what you know; U.S. equities, U.S. Bonds, International Equities; just recently adding real estate, after a lot of consideration. Mr. Chapman added that the Board has been patient with the managers. He said this is evident with William Blair. The Board took the time to look through the issues. You didn't make a quick decision and this paid off. Mr. Chapman referred to Richmond Capital Management on Page 67. He said this is your core bond manager. It was a good course for them; outperformed by 23 basis points; last year outperformed by 50 basis points. Both of those are in the top core percentile.
This is, for lack of a better term, probably the most boring part of the portfolio. This is very traditional, very much "help you sleep at night" type fixed income. It is not a sit and forget portfolio but this is the type of bond strategy that gives you that anchor where it helps you

manage volatility when you have down quarters like what you went through recently. Mr. Chapman said the Board has been with Richmond Capital Management for 25 years now. Over that time they have added 58 basis points access in terms of over the benchmark. He said they will end with real estate which is Page 72; Heitman is the money manager. For the quarter they return 3.1% versus the benchmark at 3.4%. Over the last year, return 4.12% versus the benchmark at 13.8%. There was a little bit of a slow start for them relative to the benchmark. Keep in mind that the first quarter that you had with them was a little negative as they got the account up and running. Mr. Chapman said if you look at last year's benchmark return at 13.8%, that's not really a sustainable return for a core of real estate. Over time that's a little bit higher than what we think you should expect for a core of real estate. He said to some extent he is comfortable that Heitman underperformed a little because it has been a very strong upward market for real estate. Mr. Chapman said one of the things this portfolio builds around is having an income advantage over the index, so they want their properties to through off more cash flow than the average property index. For 2015 they are projecting a 5% yield on the portfolio. That's very helpful for income purposes. He said he believes the Board elected to have this dividend paid in cash and not reinvested. That cash flow is helpful for benefit payments. It's nice to have that income component when fixed income rates are so low. Mr. Chapman said to some extent he understands why they underperformed. He said it has only been a year; obviously no issues with the team. He said there is nothing the Board has to do but over time they would like to see some outperformance and we think as real estate normalizes, Heitman are in a good position to outperform. The portfolio self-storage is one of the features the Board likes. This is one of the reasons Heitman was hired; something they do a little differently than what you see with other managers; they utilize it more. That segment of the portfolio is actually up 21% every year. It's nice to see that the things that they think will add value have been working well. Mr. Chapman said they have produced a page that shows investment policy statement objectives. Not all those, except for one; with Morgan Stanley, you have as one of the goals to outperform in a role of a three-year period, the median manager. They are in the 68 percentile; still outperformed the index but, not quite what you wanted to see relative to other managers.

Mr. Fidge said he was just listening to how they have been on watch for the last quarter or so. He said he was trying to remember from the last meeting.

Mr. Lewis said he thinks Mr. Fidge is referring to William Blair, the manager that has been on watch. There has been some turnover within this team. That happened prior. They have a B Team and just too many players, so it's natural that one or two would leave over time. This is where historically they have done a lot better in difficult periods. Up until this quarter there really haven't been many difficult periods. Lying in the benchmark when it's up quite a bit is what we would expect. He said he thinks Mr. Chapman said it well. You all have been patient with managers. That does not mean you have not held them accountable; you certainly have. We have performance expectation for them but when you go through a period where you are behind the 50 percentile, you ask yourself, is there anything that's change; you ask questions. In a lot of cases, no, it's just a function of the market and managers performance cycles.

Mr. Chapman said overall, very good results relative to their target and other public fund peers.

Comm. Perona said no red flags.

Mr. Chapman said not at all. The results are very good.

Comm. Perona said we are all happy to hear that. That is the intentions of this Board and the public scrutiny is waiting for us to be anything but that.

Mr. Fidge said speaking about Heitman again, as how system continues to improve over time; let's say we get closer to our 100% funding, is that something we can change our investment strategy? Let's say we don't have near-term expenses to worry about anymore because we are funded at something we can shift to because you can focus on long term funding.

Mr. Chapman said yes, you can easily switch to reinvesting the income that is being thrown off into the fund.

Comm. Perona asked if they would hold the money until they have found an investment core.

Mr. Chapman said instead of sending a check, they would reinvest that capital back into your superfund.

Comm. Perona asked if we were not totally invested now with the commitment.

Mr. Chapman said you still have about $3million. They will call probably the middle of next year.

Comm. Perona asked if that would get them up to their percentage.

Mr. Chapman said that would get you pretty close. It's a little bit of a moving target because market value is fluctuating. You made the decision to commit the capital two or three quarters ago. It is a bit of a moving target, but that $3million would get you fairly close to where you need to be.

Comm. Perona said that was good. He asked for the first money manager to be brought in for their presentation.

Mr. Steve Loncar said he is from Ceredex Value Advisors. He said Ceredex is the Small Cap Value Manager for the Board's account. He works with the portfolio managers in Orlando and he represents the firm for its clients. Mr. Loncar said Ceredex manages three Strategy Values; Small Cap Value is the one being discussed in this presentation. He said it is still closed; it has not been opened up to new investors. We set that closed in April 2012 and has remained closed to new investors. As long as you are current investors, you can make any changes that you see fit; add or subtract at your leisure. Page 5 discusses the investment process, which has not changed. We still have the three investment tenants, which are dividends, valuation, and fundamentals. Those remain in tack and haven't changed. Page 10 discusses the investment portfolio. As of September 30, the market value was a little over $6.7 million; cash was $183,000; below our 5% mandate, so we maintained full investment. On Page 11 is the quarterly cash statement for the quarter. There are not much of cash flow additions/withdrawals in terms of interest, gains, and losses for the third quarter. On Page 12 is the annual cash flow; one year look back from September 30 in terms of additions/withdrawals, so there was about a little over a million dollars withdrawn for some portfolio reallocation purposes; again interest and dividends, gains and losses are presented. On Page 13 shows in the past, in terms of overall history, the portfolio that we have had in terms of where the beginning market value was in original investment terms and where they are today; additions/withdrawals. In terms of the investment performance on Page 14, I am sure you have heard from your consultant that 2015 has been quite volatile from an equity perspective. We were not immune to that; from the perspective, we have seen some negative results but we have been able to soften the blow versus the represented benchmark as you can see on Page 14. The third quarter was bad for equities. We were down 7.73% which was less than the represented benchmark; the less of 2,000 Value which was down 10.7%. Again, not something we would like to show but again we were able to best it on a relative basis. We were able to post also 5.5% returns versus the negative returns exhibited the represented benchmark. We were able to, again, from our perspective we have had very favorable stock selection in areas of financials, particular insurance stocks; names like Stancorp Financials, HCC Insurance Holdings; Keep Smart, which is a basic public type storage facility that did very well in industrials. Interface Tile which is a corporate tile company, did very well; Herman Miller Desk and Office Furniture, lithium Motors and Guess Stores were some of the main contributors to the portfolio. The stocks that didn't do so well, as you can imagine, would be some of the energy names. We don't own that many. On Page 15 Sector Concentration Energy, a small segment of portfolio; we own a few stocks; Bristow, Carbo Ceramics, Tidewater; names that we've held for quite a while. Those are detractors from not only a quarterly perspective but also from a 12 month trail and perspective.

Mr. Chapman made a comment to Mr. Loncar that he mentioned Ceredex had a take-out during the query was pretty additive to performance.

Mr. Loncar said yes, that one was Stancorp Financial which was one of their largest holdings. It was a long-term holding; well over five years we have had in the portfolio. They happen to get a very attractive offer from a Japanese insurer that was too lucrative to turn down. That was a very additive benefit to the portfolio. Unfortunately, we had to sell that to the Japanese insurer and add another company. We have actually added another insurance-type company called Primerica. We have replaced Stancorp Financial with Primerica. The long-term results you see on Page 14 also are fairly attractive from the three month to the inception date numbers. We have been able to post some fairly competitive returns versus the benchmark. I am sure my colleague, Mr. Weston Lewis, can give the competitive analysis in terms of where that ranks. I think we have been able to be very competitive from a long term and short term perspective. It can be volatile at times. This was a good period that we have been able to post for the portfolios. We hope to continue that, but there will be other periods where it may not be as great as this is. Certainly markets aren't steady. They can be volatile but we always look to post the best results we can, following the investment process as best we can on a day in-day-out basis.

Mr. Loncar asked the Board if there were any questions about what he just discuss; the team, the portfolio; the results

Comm. Perona asked the Board if they had any questions.

Mr. Lewis asked how the portfolio is doing in regards to weights.

Mr. Loncar said if you look on Page 15, financials have been an extraordinary heavy weight within the loss of 2000 Value Index; as of 230, it was also almost 44%. We are an underweight financials which we have been for quite a while. The two largest underweights within financials are Small Cap banks. We think there are too many Small Cap banks within the United States, so we haven't change that philosophy. The view is that we have reached our over values from a valuation perspective. We have three tenants that we talk about; dividends, valuations, and fundamentals. They clearly make the dividend component no problem check. When get down to the valuation perspective, that's where we see valuation as a concern. We do have a few, that's not to say that we hate all weights; we do have a few; Parkway Properties and Post Properties are the two weights we have going into the portfolio. For the majority, the benchmark has about 15% weight.

Comm. Perona thanked Mr. Loncar for his presentation and asked for the next presentation.

Mr. Joseph Garner from Emerald Advisers, Inc. said he was happy to report that it has been a very good year so far. He said they have done very well since their last visit. Giving a quick rundown, we visited everything from dog food companies to technologies across the board. On Page 12 you will see the performance report and we are happy to report on the year-to-date basis, we are up 6.15% versus our benchmark which was down almost 5.5%. The third quarter was a challenging quarter. For the Small Cap growth area, around 13%, we were able to navigate that relatively well; not happy that we were down, but were down much less than the benchmark was at 9.66%. As you can see for the one-year, thee-year, and five-year since inception, again we are happy to report we are way ahead of the benchmark in those particular areas. On Page 14 it shows how we are doing against our peer group, SCG Universe, and exceptional happy to report that for a three-year, five-year tenure basis we rank in the first percentile of the peer group. That is very hard to get to number one and it is even harder to stay there. We do our best to stay there, but we are happy to let you know that we are able to be at that level. On the next page of the portfolio shows how we have done on our up market and out down markets. In our up markets we have been able to capture about 100% of the upside in the market and in the down markets we've only captured 88% of the downside, so we've been able to do well in our up markets and down markets again. We are trying very hard to have that continue. On Page 17 and 18 is an overview of what has been going on during the third quarter. We like to think the market's growth as climbing up a wall of worry during the quarter. A lot of that was related to what was going on overseas, particular in China where some of the growth and some of the ripple effects that it had both currency-wise as well as impacting companies that is actively importing and exporting out of the Asian region. We still see softness in Europe. The commodity industries are happened relatively weak. As I am sure you know, with oil being where it is and other commodities like steel and metals have also been depressed which as a ripple effect on the industrial area of the economy as well. Healthcare was particularly challenged during the third quarter. On Page 18 you will see how we performed on a sector basis. You can see that the longest negative gray bar for the benchmark was healthcare and we were able to significantly outperform that. We outperform in healthcare when it was strong. We were also able to outperform it during the third quarter. I think one of the keys to that is earlier in the year we went to an underweight position in the healthcare sector and the biotech industry. I think that prove to be a well-timed move.

Mr. Lewis commented that he remember in one of these meetings a couple of years ago, Mr. Garner mentioned he hired some individuals who has good characteristics where they had an MBA and also the technical training in biotechnology.

Mr. Garner said this wen extremely well. They were well pleased with that investment and when you are investing in young people like this, sometimes it takes a little while for you to get back up to speed. It really took about two years when we brought them onto our intern program. They came with great skill set. We've had a great relationship with the Penn State Hershey Medical School where they have a combination of PhD and MBA programs. They are coming to us with both scientific expertise and financial skills. We have always believed that you get the best performance in the healthcare sector where the science and the finances meet. They have done a tremendous job in terms of identifying a lot of the most attractive new drugs coming into the marketplace and medical devices. When you've had to assume that not only are you going to get approve for the drugs but they were going to have get very favorable pricing and face very little competition to meet the expectations that were being set forth. It has truly let us take profits and we redeploy those profits elsewhere in the portfolio; not really back into the healthcare area. You could follow up with the science of those companies by really understanding what the financial implications were. It helped us navigate away from some of the downside that was experience there. On Page 19 and 20 we talk about some of the specific positive contributors and negative ones. As I mention the sector basis did well in healthcare and also did well in financial services. That was our biggest overweight in sector basis and community banking specifically was our largest industry overweight; which worked out well for us during the third quarter. The reason is that we were in an environment where the bank balance sheets were as good as they have been in many years coming out of an industry downturn. Long growth is expanding at a rapid rate, particularly as we saw strength in both residential and non-residential construction. Many of the banks investing are commercial lenders so that non-residential construction strength was particularly helpful. Many of the banks that we have in the portfolio you won't mistake them for what you will see from the value manager. With the interest rate market as we are working toward seeing great increases coming at some point. The banks that are investing are almost uniform in a position for a rise in the environment and should do well if we see short term and long term rates begin to rise. I think some investors are looking for that to happen. We are starting to see the performance following the banking sector. In specific company basis two of the top five performers were in the healthcare space. You would have thought it was such a difficult quarter. In those two cases, Depomed, Inc. which is in the paying treatment industry; received a takeover bid from Verizon Pharmaceuticals. Depomed has fought that acquisition very aggressively, so when the market responded to the takeover bid, shock rising stock price; after doing some of our background work, we don't think this transaction is going to get done. We actually exited our position; took the gains where we got them on that acquisition bid. The deal hasn't been consummated. Both parties are still fighting very hard; stock is well below from where it was at the time they received the bid. That worked out well for us. Actually we are starting to consider we might want to go back because the stock has come back. ZS Pharma, Inc. which primary drug is for treatment of a disease called hypercalenia, which treats high potassium levels that are found in individuals who have hypertension, kidney disease, and other chronic diseases. Stock rose on that; that why we looked into it. We said that we think that deal is a high probability in getting done. There might be other potential bidders. We took some profits but left the quota position there. We are happy to report about a week or two weeks ago Astrazeneca came in with a higher bid; stock higher than it was originally. I expect at some point we will be taking our profits and I give our team credit; they did a good job on calling both of those situations. I consider Lending Tree to be a classic Emerald type of stock. Many of you are probably familiar with Lending Tree. Their core business made them very well over time because in that mortgage business you can search for competing bids; often finding ways to save money as you go through that mortgage process. One of the reasons banks love their site and go to them for leads on those borrowers is, they do a great job in sorting out the customers that fit best with those banks. It has the highest quality; highest conversion rates on those leads. What has really been interesting, they have taken this company from a 15% growth to what was a 60% growth in the second quarter and a 70% growth; in the third quarter is that the market for is called direct loans or peer-to-peer loans. If any of you are familiar with Lending Club & Prosper, Lending Club is now public. You can go on as an individual if you are looking to refinance your credit cards, build a deck on your house, or whatever you might be looking to do, and then they will score you at your credit risk, and other investors or people like yourselves can go to them and say, "I'd like to lend that person a $100 or a $1,000. Emerald are actually going on there and buying loans and getting higher yields at what has historically proven to be lower volatility rates than what you might see from your fixed income portion of your portfolio. The biggest problems those websites are having is they have ten times as much money looking to be lent as they do people looking to borrow. They need to fix that imbalance. They need someone like Lending Tree who can send borrowers in their direction. Lending Tree is the largest sources of borrowers. That business has been growing over 10% month-to-month; over 500% year-over-year growth in that particular business.

Comm. Perona asked, how do they make their money, is it fee base or commission?

Mr. Garner said Lending Club basically pays them for every lead that is directed to them. If you end up getting five bids, all five lenders a paying a fee to Lending Club for basically getting a shot at that borrower. As long as those banks are seeing that they are getting the kind of borrower that they want and those are converting to actual loans at a relatively high percentage rate, they are happy to pay.

Comm. Perona said that is a cheap market.

Mr. Garner said yes. In the case of Lending Tree, their brand recognition is much higher than Lending Club's is. The only financial institution we've seen in the country that has higher brand recognition than Lending Tree is Wells Fargo. That's their advantage. People love them they are comfortable dealing with them and that enables them to attract the borrowers for these lenders. Why I think it was a great Emerald idea, we got to know them relatively early. There are only three Wall Street firms that cover this stock and haven't done a very good job with it. They've totally missed misjudged that personal lending demand that's coming in the door. Out of the last eight quarters, seven of those quarters they have beaten Wall Street estimate by over 45%. We think where the estimates are set for next year they should beat those estimates by 50% for next year. It's been a great performer; we've provided a copy in the internal report for you. Those are the kind of companies we try to find with great growth stories, great business but Wall Street is really not pay attention and we can take advantage of it with our research. I won't go into much detail about Vonage, but many people know Vontage because of the commercials that they ran many years ago for the consumer business. That is still a good solid business; generated a lot of cash flow for them. If I was a value manager looking at them, I would say that I could get a 10% free cash flow investing in that consumer business which is interesting. What excites us is we've seen a growing trend that is big for its unified communications as a service. Over 90% of businesses are still running off of those PBX systems that are in the back closet. Most of them are very dated. We are starting to see more businesses that are migrated to the cloud, more flexibility, less capital intensive, lower cost most importantly, and that industry has been growing over 25%. Vontage has quickly become a market leader there, highest growth in the industry; growing almost 40% organically and with the profitability that they are getting from consumer business has been funding the growth on the business side against the wellness valuation in that unified communication space. Most people still think of them as the old consumer business and haven't realized the growth that's going on. The streak has started to catch on. That stock has done very well for us. On MicroStrategy Software Company many people I think might have left them a little bit for dead. They earn 44¢ a share last year. If you want to use big data to look at after retail, look at the customers and what they are buying, what the demographics are, who's buying what in the store, they can pull that data together for you. That new product should help them earn over $9.00 a share this year versus 44¢ last year. On the flip side unfortunately, it hasn't all been great performance. There was most specific sector that was particularly bad. A few of them were slightly under that stood out. Some of those detractors are Astronics Corporation in the aerospace industry. I think we are in a bit of a pause in the aerospace industry as we've been transitioned out of several older classes of aircraft, like the Boeing 777; moving into the newer generation. We've been pairing back our investments on Astronics. Trex

Company is a fantastic company; was a large holding with a pair of percentage; the decline wasn't that large but the biggest issue they had were in recycle products for decking materials; labor shortages. The last one I touched on was Gigamon, Inc.; a Software Company that manages network craft and security; big issue in the marketplace; revenue were of over 50%; earnings went from being negative to being nice and positive in the third quarter. The other two were Life Science related companies; stub their toe on treatment **(?)** with some of the clinics that they were working with. We did pair back there, so we think that might continue for a while. Microgenics is a cancer drug. We didn't see any problems with their particular platform. It actually came out with its quarterly report with positive data for their cancer drug; using antibodies to combat the cancers. You will see data on the next few charts; second quarter, six months; relatively very pleased with the way those results turn out. On a portfolio basis on Page 23, you will see that we have been increasing our exposure. You'll see some modesty in the consumer discretionary sector; been more of a nontraditional consumer holdings as you've probably seen in the headlines. Retails have been a little of a challenge. The financial services incrementally added there. As I mentioned, we've been reducing exposure in healthcare. A lot of those headwinds that I talked about earlier on are in the industrial market, so we've been reducing exposure there. Technology is just a little bit of a profit. Utilities is not an area where you would see a big investment holdings for us, but that's where the classified Vonage and 8x8 similar company of Vonage as telecommunication encompass classified utilities. That's why you see it the way it is. Top ten holdings, again we took a relatively diversified across our top ten by sectors; largest holdings with a little less than 2.5% of the portfolio, so we are not taking any huge bets in any particular company in the portfolio. On Page 25 you will growth rates higher than the benchmark on a key multiple basis; slightly ahead of the benchmark. We are comfortable with that because of the higher growth rates that we are getting in market caps still from that small cap range and we want to be able to continue to stay there. That's the reason for capping the product. From an outlook basis, I's say that while there are some headwinds, some of the third quarter headwinds are likely to continue. We think the employment outlook remains favorable in the U.S. We think the valuations looking very attractive after the pullback into the market in the third quarter and innovation remain relatively high. We are actually pretty positive in what we think 2016 might look like for the small cap marketplace. That is kind of the update on the portfolio and I would be happy to take any additional questions that the Board might have.

Comm. Perona asked if there were any questions for Mr. Garner. He said the presentation has been very informative. It's good to have more of a ground level view of what's happening in that kind of manager position. Comm. Perona said the presentation was very good. It helps getting down on the ground level to see what the Board is doing and what they are involved with. It makes him feel that somebody is looking at all the nuances to make sure that we are active to the current markets. He says he knows that can get you into trouble from time to time.

Mr. Lewis said it is beneficial for the Board to see how they are going about adding value. He said it gets him a little bit worried and concern when Mr. Garner started talking about the peer-to-peer lending. Mr. Lewis said they will follow up on that and get the full story.

Mr. Stephens said it sound like he was looking from the mother company. He asked if that was Lending Tree.

Mr. Lewis said that was correct.

Comm. Perona said it's a world of a new age and you never know. That may be something that just takes off. He said it scares him because he is use to the old traditional ways of doing things.

Mr. Fidge said you also have regulations and plus, when you get involve in micro-lending, you are able to avoid some of the regulatory issues.

Comm. Perona said it's interesting how taking away the institutional lending is that competitive.

Mr. Lewis said to give everyone some comfort Emerald has managed a small piece of portfolio; they have remain true to their style. If they did do something, then you heard it today. They don't have big bets placed on anything. If something like Prosper Lending Club comes up with some disappointing results, it doesn't overwhelm the good that you have in the total portfolio.

Comm. Perona said they stay connected to these markets very closely. It's not like three or four months would go by and they won't react to it. They don't overact; they sometimes stick with some of their decisions in investments for the long haul because they see the value in it and that's pretty much what we do too. Comm. Perona told Mr. Lewis and Mr. Chapman that the Board appreciate them for coming here to the Board meeting.

Mr. Lewis said the Board is doing well and he just can't get over there are 300 or so different unique public funds that they look at. They look at returns and to see the Board is #2 out of those 300 or you are in the top six of those 300. He said that's impressive and that's over ten years. Mr. Lewis said he and Mr. Chapman keep coming with the report after every quarter and say, "They continue to do so well." He said Mr. Chapman "hit it on the head." The Board have kept it simple' you're active where it counts and you've made a plan and you stuck with that plan. That has made a difference.

Comm. Perona said it was said in some the discussion earlier, we know what works for us, somehow. We have come from all different walks. We have an attorney that works for us. There may be a change in the City but we don't want the change because we know that this is what's going to keep us successful and out of trouble. He said he's not happy that Mr. Lewis and Mr. Chapman are surprise to see this all happens; that's their job to do that. Comm. Perona said the Board is surprise that with all the moving parts, they are still able to provide this type of investment for the community.

Mr. Walker said of the 300, it's interesting at the national conference you see that the funds go up bigger in size they acquire more in-house functions including investment management. Of those 300 municipal funds that you referred to, how many would you say are roughly comfortable in size to Fort Pierce where you have Boards that rely on outside managers?

Mr. Chapman said in funds your size, and I would say 5,000,000 and below, there's generally not staff dedicated to the investment function. It's generally Treasurer; HR benefits person that really oversee a lot of the administration of the plan. Some will hire third-party administrators to actually help. It varies in that regard generally when you get to 10,000,000,000 and above is where people will start insourcing some of the functions of investment management. Administration is a different thing and that's actually maybe outside of our scope as to what we see.

Mr. Walker said in that group of half a billion, how do we do?

Mr. Chapman said the Board is right in line with what the City give. All outsource just in terms of the investment management functions; you have a custodian you all use to do various things. Are you asking about the investment performance or the number of States?

Mr. Walker said the number of 300 municipal funds that you are including; you may be comparing us to New York City. How many are more comfortable to this City and in that group. How do we compare?

Mr. Chapman said in this report we compare you to the total group regardless of size. If you were the small to midsize, your performance is still very competitive. I would say the performance differences are negligible relative. It's still a pretty sizable group. It's that top 5% of the peer group that would be big enough to bring it in-house and make it cost effective. In terms of municipality it's almost all outsourced to consultants and external managers.

Mr. Lewis said he thinks that a good example is one that the Board is familiar with is the Florida State Board of Administration. They have brought a lot of management people in-house that are very robust staff; very sophisticated people to do it. There is a group that we know pretty well in Atlanta called Atlanta Capital. There was a gentleman from Atlanta Capital who came from the State Board Administration many years ago and was running an internal strategy for Florida. They figured out they were good at it and decided to take it on the road, and they have been one of the more successful money managers. There is talent there and they are able to fund that talent and do a good job at it. At your level, even if you found someone that was really good at it; could do it, you would never recoup that salary.

Comm. Perona thanked Mr. Lewis and Mr. Chapman for coming in.

ITEM NO. 9 ~ CONSENT OF AGEND A

Comm. Perona, the next item is the Consent Agenda.

A motion was made by Ms. Morris and seconded by Mr. Fidge to approve the refund of member contributions.

All those in favor of the motion signified by saying aye. There was no opposition and the motion carried unanimously.

ITEM NO. 10 ~ CONSIDERATION OF ABSENCES

Comm. Perona acknowledged the excused absence of Comm. Sessions and also Ms. Hurtubise had to leave early.

A motion was made by Mr. Fidge and seconded by Mr. Stephens to approve the excused absence of Comm. Sessions and Ms. Hurtubise having to leave early.

All those in favor of the motion signified by saying aye. There was no opposition and the motion carried unanimously.

ITEM NO. 11 ~ BOARD MEMBER COMMENTS

Mr. Nieves said apologized for missing the last two meetings; he had the dates mixed up.

Mr. Stephens commented that the last couple of months he has had some questions come to him concerning military buy back years. He said he knows you can buy up to four years, but the way it is, you can only buy three years and then the City does the work-up or the UA. Then goes another year and the employee has to pay to have the same work-up done for four years. Why we don't do four years from the beginning? If they want to do two and then change their mind, then yes, they should pay for the work-up. Why do we limit them to three from the beginning?

Comm. Perona commented that he doesn't know.

Ms. Paz said the fourth year has a lot of calculations in it.

Mr. Stephens asked what's the difference in the four years and the thirty years.

Ms. Paz said she can bring an example to the next meeting. We are not responsible for any part of it. You are paying for the whole entire costs.

Mr. Stephens said we do it already for three years. He said he understand if they came and did two years. If they did two years because this is all the money they had, and then they did ten more years and working, then decides they want to buy the other two years, my opinion is we should pay for it and we already do up to three years. For the first time let's do a work-up through the actuary like we always do; whatever they choose, whether it be one, two, three, or four years; if they come back a second time because they didn't take all four years, then they should pay for it. Now, if they want four years, the three years is calculated in-house and everything goes to actuary and they come back with a number that they have to pay and if they want the fourth year, they have to pay and he believes its $400. That's what has him confused. He does feel that if they want to do it a second time, they should pay for it.

ITEM NO. 12 ~ NEXT MEETING

The next item was next month's meeting. The next meeting was scheduled for January 21, 2016 at 2:00 p.m.

ITEM NO. 13 ~ ADJOURNMENT

Seeing that there were no further questions or comments, a **motion was made by Comm. Perona and seconded by Mr. Stephens to adjourn the meeting.**

All those in favor of the motion signified by saying aye. There was no opposition and the motion carried unanimously.

ATTEST:

__________________________ Secretary/Treasurer

__________________________ Chairperson

CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
NOVEMBER 19, 2015

Note: These minutes are not verbatim, only important issues and motions are reproduced in writing for the benefit of the Fort Pierce Retirement and Benefit System members. The recording itself is the official record for the meeting. The meeting tape/cd is available.