

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
MAY 19, 2016**

Summarized Minutes of the regular meeting of the City of Fort Pierce Retirement and Benefit System, May 19, 2016 at 2:00 p.m., in the 2nd Floor Conference Room at City Hall.

Present:

Johnna Morris	Director of Finance
Rodney Nieves	Police Officer Member
Keith Stephens, Vice -Chairperson	U.A. General Manager
Nina Penick	U.A. Board Appointee
Caleta Scott	General Member
Attorney Jim Walker	Assistant City Attorney, Advisory
Christina Paz	Retirement Clerk

Guest:

Cody Chapman	Callan Associates
Weston Lewis	Callan Associates
Sean McDermott	Morgan Stanley
David Bernard	Morgan Stanley
Paul Lundmark	Richmond Capital Management
Bob Duwa	William Blair

Absent:

Commissioner Tom Perona, Chairperson	City Commission Member
Commissioner Reginald Sessions	City Commission Member

Recording:

Queen Thompkins	Executive Assistant to the Director of Finance
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ITEM NO. 1 & 2 ~ ROLL CALL

Mr. Keith Stephens called the meeting to order at 2:00 p.m., the first item on the agenda being the “*Roll Call*”.

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ITEM NO. 3 ~ COMMENTS FROM THE PUBLIC

Mr. Stephens, 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 MARCH 17, 2016.

Mr. Stephens, the next item was the approval of the summarized minutes of March 17, 2016 and asked if there was a motion to approve the minutes. Ms. Nina Penick had corrections to the minutes from March 17, 2016. On Page 5, paragraph 2, line 11; the word “its” should read “their.” On Page 6, paragraph 2, third line; the word “election” should read “elected.” On Page 9, paragraph 7, line 2; the word “pole” should read “poll.”

A motion was made by Ms. Nina Penick and seconded by Mr. Rodney Nieves to approve the summarized minutes of March 17, 2016.

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

ITEM NO. 5 ~ ATTORNEY’S REPORT

Attorney Jim Walker said he has an agenda item coming up on the agenda to report and he will wait until the appropriate time to present his report. He doesn’t have anything else to report at this time. Mr. Walker said he would be happy to respond to any questions or comments from the Board.

ITEM NO. 6 ~ PUBLIC HEARING ON BENEFITS APPLICATIONS

Mr. Stephens opened up the public hearing for comments on the request for deferred retirement from Michelle Arbuzow with 7 years and 2 months of service with the City of Fort Pierce. He asked if anyone would like to publicly comment on this request. Seeing none, Mr. Stephens closed the public hearing. Mr. Stephens opened up the matter for the Board. **A motion was made by Ms. Johnna Morris and seconded by Ms. Nina Penick to approve the request for deferred retirement from Michelle Arbuzow.** Mr. Stephens 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.**

Mr. Stephens opened up the public hearing for comments on the request for deferred retirement from Ryan S. Moore with 5 years and 9 months of service with the City of Fort Pierce Police Department. He asked if there was any one here who would like to publicly comment on this request. Seeing none, Mr. Stephens closed the public hearing. Mr. Stephens opened up the

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matter for the Board. **A motion was made Mr. Rodney Nieves and seconded by Ms. Caleta Scott to approve the request for retirement from Ryan S. Moore.** Mr. Stephens 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.**

Mr. Stephens opened up the public hearing for comments on the request for deferred retirement from Steven C. Kilgore with 14 years and 9 months of service with the City of Fort Pierce. He asked if anyone would like to publicly comment on this request. Seeing none, Mr. Stephens closed the public hearing. Mr. Stephens opened up the matter for the Board. **A motion was made Ms. Johnna Morris and seconded by Ms. Nina Penick to approve the request for retirement from Steven C. Kilgore.** Mr. Stephens 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. A poll was taken of each Board member. There was no opposition and the motion was carried unanimously.**

Mr. Stephens opened up the public hearing for comments on the request for retirement from Jean A. Longcore with 9 years and 1 month of service with the City of Fort Pierce (DROP Program). He asked if anyone would like to publicly comment on this request. Seeing none, Mr. Stephens closed the public hearing. Mr. Stephens opened up the matter for the Board. **A motion was made Ms. Johnna Morris and seconded by Ms. Nina Penick to approve the request for retirement from Jean A. Longcore.** Mr. Stephens 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. A poll was taken of each Board member. There was no opposition and the motion was carried unanimously.**

Mr. Stephens opened up the public hearing for comments on the request for retirement from Kathleen Grace with 9 years and 2 month of service with the City of Fort Pierce Police Department (DROP Program). He asked if there anyone would like to publicly comment on this request. Seeing none, Mr. Stephens closed the public hearing. Mr. Stephens opened up the matter for the Board. **A motion was made Ms. Johnna Morris and seconded by Ms. Nina Penick to approve the request for retirement from Kathleen Grace.** Mr. Stephens 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. A poll was taken of each Board member. There was no opposition and the motion was carried unanimously.**

**ITEM NO. 7 ~SECOND READING OF CHANGES TO RULE 6 RELATING TO
CERTIFICATION OF BOARD MEMBERS**

Mr. Walker said the Board approved a draft amendment previously, spelling out a change to Board Rule 6 relating to education of Board members. It involves primarily creation of a new subsection concerning certification by adopting such amendment

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expressing expectation of Board members achieving their maximum potential in terms of taking advantage of the educational opportunities as a certified pension trustee. At the March meeting, it was as expression of the word “maintain” be added to the draft to make clear that not only were Board members expected to obtain a certification but that they were expected to maintain the certification. The Rule formalized the existing practice providing for payment of the cost for individual Board member education. The Rule is subject to further discussion and any further changes the Board members think might be necessary is ready for final adoption. It will be incorporated in an updated membership manual that is in the process of being prepared and will be handed out at the next meeting.

Mr. Stephens asked if a motion needed to be made concerning the changes made to Rule 6.

Mr. Walker said he would recommend Mr. Stephens call for a motion and after a second takes place any further discussion be allowed.

Mr. Stephens opened up the matter for the Board. **A motion was made Mr. Rodney Nieves and seconded by Ms. Nina Penick to approve the changes made to Rule 6.** Mr. Stephens 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. A poll was taken of each Board member. There was no opposition and the motion was carried unanimously.**

Mr. Walker said he would like to congratulate the Board for setting the standards for education.

Mr. Stephens asked Mr. Walker to explain to the Board what the situation is concerning his position with the Board. He said this will be done during the Board comments.

**ITEM NO. 8 ~REVIEW OF PERFORMANCE EVALUATION FROM
CONSULTANT – CALLAN ASSOCIATES**

Mr. Stephens open the floor for Mr. Weston Lewis and Mr. Cody Chapman.

Mr. Weston Lewis said for the benefit of Ms. Caleta Scott he introduced himself and Cody Chapman to the Board. He said they work for Callan Associates and have been working with this Retirement Board for about 30 years. Mr. Lewis said there is a full agenda and the money managers are waiting to give their presentation. He said when they met with the Board in February, the market was tanking. Through the first six weeks the S&P 500 was off to its worst start in the history of the S&P 500 Index. Fast forward to the end of the quarter, the markets gain all of it back and then some. On Page 2 of the Summary you will see that advance estimate for real GDP growth in the US for the first quarter of 2016 was +0.5%; fourth quarter of 2015 GDP revised upward to 1.4% from initial estimate of 0.7%. Inflation remained below the Federal’s 2% target for the Personal Consumption Index. On Page 3, looking at the International Equity, developed markets trail US but the dollar weakness helped to mitigate losses. The MSCI EAFE Local had a 6.4% loss and the MSCI EAFE US\$ had only a 3.0% loss. Emerging markets was

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the best performing area of the market for the first quarter. The Emerging Index was up close to 6%. On Page 4 you will see Barclays U.S. Aggregate index returned 3.0% for the quarter. Investment grade corporate bonds underperformed in January and early February before rebounding with oil and stocks through quarter-end. Financials underperformed Treasuries while Industrials benefited from a rebound in commodity prices. Barclays High Yield Index was up 3.4% for the quarter but fell roughly 5% through February 11 before retracing losses. The Yield Curve shifted down, which means as long term investors, you can expect a lower return going forward. The best thing that could happen is for this Yield Curve to rise whereas you have been investing in higher rates going forward. Mr. Lewis said he will turn it over to Mr. Cody Chapman to talk about the performance of the Retirement Board's money managers.

Mr. Cody Chapman said on Page 5 it shows that you have been keeping your Actual Asset Allocation very close to your Target Asset Allocation. He said you are a little overweight to real estate. There were some calls from your real estate manager, Heitman, earlier in the year. What has happened is real estate performed so much better over the last year than any other asset classes. At the end of the quarter, we helped you advise \$172.6 million in assets. On Page 7, for the quarter, you actually showed your benchmark about 42 basis points. The total fund underperformed the benchmark for the quarter but outperformed for the year. The total fund performance relative to the benchmark and peers has remained strong over time. Moving to Page 9, we will start with Emerald. Emerald is one of your small cap growth managers. They underperformed the benchmark by 0.93% during the quarter but outperformed by .192% over the last year. Emerald has had strong long-term returns well above the benchmark for all periods; relative underperformance with the financial services, producer durables, consumer discretionary and utilities sector led to fund trailing the benchmark. Moving forward to Page 10 to talk about Ceredex, they focus more on value security. They look for companies that are not necessarily growing as fast but are trading at a discount from what they think the company is worth. Ceredex outperformed the benchmark by 6.8% for the quarter and outperformed by 8.7% over the last year. The long-term results are strong. The fund has outperformed the benchmark for all trailing periods shown. Looking at the returns on Page 14 for Morgan Stanley International Equity Strategy and the EAFE benchmark; EAFE was down 3% for the quarter. If you go to Page 15 and look at Morgan Stanley's Emerging Market product, you will see this product was up 4.6% and emerging markets were up as a whole, about 5.7%. The fund underperformed the index by 1.14% for the quarter but outperformed by 2.93% over the last year. Long-term results remain above median, outperforming the index and peers over the past 18¾ years. Underweights in energy and materials to go along with poor stock selection in IT and financials led to the fund underperforming the benchmark. The emerging markets have returned a -2.5% and the benchmark has been down -4%. On Page 16 it shows that William Blair had a bit of a tough quarter. The growth has been in favor of the international markets over the last couple of years. The fund underperformed by 2.8% for the quarter and outperformed by 1.0% over the last year. The Long-term performance remains strong; the fund is above median for most observed time periods, greater than one year. The primary detractors to performance were underweights to energy, materials, utilities, and telecom services sectors and the overweighting to consumer discretionary. Moving on to Page 18 to Richmond Capital shows a slight underperformance for

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the quarter; 2.93% versus the benchmark; just a little more than 3%. Long-term performance remains strong. The fund has outperformed by 0.7% over the last 10 years. The portfolio was defensively postured from a duration standpoint and underperformed the benchmark for the quarter as a result. On Page 20 we will talk about real estate. At our last meeting we talked about real estate having performed north of 14% over the last year, and Weston and I told you that pace was somewhat unsustainable for core real estate, only to be proven wrong. Heitman produced another quarter of 3.5% return which average out to 14%; fifth full quarter of performance for Heitman. The fund has outperformed the index by 0.50% over the last year. On Page 21, it summarizes all of your money managers objectives. As you can see, some of them were not met. Mr. Chapmen said this concludes his summary and asked if the Board had any questions.

Mr. Stephens asked if the politics is this wide open, how it would affect our investments.

Mr. Chapman said one thing that gave him concern was the threat to default on the national debt; that's generally not a good thing.

Mr. Stephens said he just wanted to know how it was going to affect either way.

ITEM NO. 8a. ~ REPORT FROM MONEY MANAGERS

Mr. Sean McDermott introduced himself as a Portfolio Specialist from Morgan Stanley and **Mr. David Bernard** who is also a Portfolio Specialist from Morgan Stanley. Mr. McDermott made the Board aware on Page 9 of the new Portfolio Team they now have at Morgan Stanley. Starting on Page 15 the chart shows our Asymmetric Return Profile; strongest outperformance in down periods; weakest relative performance in concentrated, momentum-driven "up" markets. On Page 19 Mr. McDermott says it shows that the performance returns reflect the average annual rates of return. The first quarter this year shows that we are up about 88 bases points. Looking at 2015 we outperformed by 200 bases points. During the fourth quarter we underperformed by 151 bases points. Moving to Page 25 Sector Attribution first quarter 2016 shows the largest contributor to performance was Consumer Staples. Consumer Staples was consistently overweight in that Sector. If you look to the left of Page 25, you will see our top five relative contributors with Barrick Gold at the top of the list with +93bps and our top five relative detractors with Credit Suisse Group leading the list with -57bps. Continuing to Page 26, again Sector Attribution – 2015 shows at the top of the list is Consumer Staples; sector performance portfolio is 11.63% and the index is 8.75%; total returns for sector performance portfolio is 1.17%; index -0.81%; total performance attribution is 1.98%. In consideration of time, we will go to Page 29 and it shows that Consumer Staples and Health Care are our two highest quality sectors and they represent over 45% of the portfolio. Looking further down you will see that Industrials is our largest underweight. Where we are overweight is in insurance companies.

Mr. David Bernard thanked Mr. McDermott for his presentation. He said he will give a similar update on the Emerging Market Equity team; reveal key performance over the last year and then finish up with an outlook the asset class in our portfolio positioning. Moving to Page 8, it shows

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our Emerging Markets Equity Team which consist of Global Macro team, our Portfolio Specialists, our Thematic Research team, and our Dedicated Traders team. Going to Page 11, you will see over the past one year period it has been a challenging year for Emerging Markets as an asset class. The MSCI EM Index is down 12%. Despite that challenging market, we were able to deliver relative outperformance of close to 300 basis points. The gross expense ratio is 1.49%. The net expense ratio is 1.25%. The net expense ratio is lower than the gross expense ratio because certain fees have been voluntarily waived and/or reimbursed. Page 12 gives you an Attribution Summary of what's been driving some of the performance of the past year. At the top of the list is China. The market has underperformed which has contributed to our performance. The bottom of stocks selection has also contributed to the performance in China.

Mr. Chapman asked Mr. Barnard what would it take for them to get back to a market weight.

Mr. Barnard said the number one concern in China was the amount of debt in their system; not just the absolute number of debt, but the pace of the accumulation of that debt. Over time which has been the biggest predictor of financial crisis is not just looking at the ratio of Credit to GDP but it is looking at how quickly that increased. The quicker that increases is a greater sign that you are going to have a nonperforming assets, nonperforming loans and crisis in the financial system. On Page 19 it shows the growth of credit to GDP and China; it plots out against the Euro Area and the U.S. The dark line is China's credit growth, which exploded in the financial crisis in 2008. If you look at that in the slope of the line in the Euro Area and in the U.S. during our own credit bubble leading up to the financial crisis, it makes it look as though nothing happened in the credit crisis in the U.S. So the scale of debt in China has been unprecedented. If you look at Page 23, it show both currencies; the Chinese currency in red and the other currency in blue. As the rest of the EM currency has depreciated and become more competitive, China's currency has appreciated. In our view the final "Show to Drop" is the Chinese currency depreciating to a more competitive level.

Mr. Chapman said thank you to Mr. Barnard for answering his question.

Mr. Barnard said going back to the Attribution Summary on Page 12 to highlight a few other contributors; India was a major contributor stock selection. Within India we own a company called Merico. It's a hair oil company; very unique to India. It's a small company; \$1.5 billion market cap and has really done well over the past year. Poland is also a major contributor. The biggest attractor was Korea. The other top attractor was Thailand. Moving to Page 18, for the first time last year China's working age population was negative. If you think about the drivers of GDP growth, you have working age population and you have productivity. When one of those factors is negative; working age population growth, it's very hard to achieve a high level of economic growth. Looking at the Valuation on Page 24, the MSCI ACWI is trading at a 30% discount to developed equities. That is below their long-term historical average of 20%. On Page 29, in our current Weightings, not surprisingly, China is our biggest underweight at 8%. We are seeing opportunities in Eastern Europe overweight at 4.7%. Philippines is also overweight at 2.8%. They have some of the most well rounded growth. Their growing economy is about 6%.

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Mr. Stephens asked if the oil prices will change their position on this.

Mr. Barnard said their view for the oil prices is linked to the China storage. China is the #1 consumer of oil now and they are the biggest swing for consumer. Unless their demand is going to pick up, we see oil remaining range bound in this sort of 35-50 range. We think it is near the top of its range now. That's more likely to go down from here. Mr. Barnard finished his presentation and thanked the Board members.

Mr. Paul Lundmark from Richmond Capital Management began his presentation by introducing himself. On Page 1 of the portfolio review, the left column shows the interest earned in the reinvestment of that interest. Ninety-two percent of your total return has come from that. That's really why your fixed income portfolio is never going to be as volatile as your equity, because if you look at the S&P 500, typically 70-80%, depending on the period of time, is going to come from price appreciation and the rest will come from dividends. Also, if you look at Withdrawals, we have been able to provide liquidity when you needed it as far as for pension payments or for asset allocation purposes. For the Portfolio Review on the right side of Page 1; two things to look at is the Portfolio Duration. That's the interest rate sensitivity of the portfolio versus the Barclays Aggregate. Right now we are defensive; we think that rates are low and the current environment is that we want to be defensive. Our band is typically between 80-110%. Right now we are about 88% of the index. We have a higher yield to maturity and that's because we have an overweight in non-treasure securities. We are overweight in Corporates which is our biggest overweight and we are underweight in treasuries. We have a very high Portfolio Review Average Quality which is AA-. If you go to Page 2; for the first quarter of 2016, we underperformed by 8 bases points. The reason is that rates fell by about 50 bases points and being defensive, that's going to hurt. What mitigated the underperformance was our overweight in short and intermediate Corporates which did very well. Another thing that mitigated it was we were able to buy some securities. If you look back at the quarters, January and February were kind of weak. You had troubles in China, you had oil in a freefall; you saw rates go down, but you saw Corporates spreads start to widen out and we decided to take advantage of that.

Mr. Bob Duwa from William Blair introduced himself to the Board and said he was standing in for Cliff Kalish, who had a family emergency and was not able to make the presentation. Mr. Duwa said going to Page 5 for a quick update, it shows our assets are at \$64 billion and the majority of that is in Global International Equity. US Growth Equity is at \$16.0 billion, US Fixed Income at \$1.2 billion US Value Equity at \$1.6 billion, Dynamic Allocation is \$2.5 billion and Hedge Fund Strategies is \$532 million. Under Global Portfolio Strategies, Focused Leaders International is \$3.6 billion, Emerging Markets is \$3.8 billion, and Global Leaders is \$2.5 billion. All Cap International Growth (Closed 6/12) at \$15.3 billion and Emerging Markets Growth (Closed 6/11) at \$4.2 billion. Small Cap International Small Cap Growth (Closed 3/11) at \$2.8 billion and Emerging Markets Small Gap Growth (Closed 10/13) \$1.2 billion; Targeted Opportunities International Developed Plus at \$1.6 billion. Mr. Duwa said moving to Page 24, just for characteristic perspective, this portfolio under Quality Cash Flow ROIC we have 37%

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advantage over the market. The 5-Year Historic Growth, which actually happened, is the best measure, we think; is up 37% advantage. If you look under Valuation the next 12 month P/E, your portfolio is about 10% more expensive in the market. On Page 27 International Growth – Style Leadership, looking at the chart on the right, in the first quarter January was a pretty normal month. The dark blue bars pointing up for quality means that higher quality companies outperformed low quality companies. Going into February and a few weeks in April, it got turned over and the lower quality Companies outperformed high quality companies. On Page 28, if you look on the right, the blue bars indicate best performing sector in 2015 to the worst. The worst two in 2015 were Materials and Energy. They are the best performing sector in light blue in the first quarter of 2016; Materials, especially the Mining Stocks. Mr. Duwa thanked the Board for their time.

Mr. Weston Lewis asked if the Board had any questions and there were none.

ITEM NO. 8 ~ CONSENT OF AGENDA

Mr. Stephens, the next item is the Consent Agenda.

A motion was made by Ms. Nina Penick and seconded by Ms. Caleta Scott to approve the refund of member contributions.

All those in favor of the motion signified by saying aye. A poll was taken; there were no oppositions and the motion carried unanimously.

ITEM NO. 9 ~ CONSIDERATION OF ABSENCES

Mr. Stephens acknowledged the excused absence of Comm. Sessions and Comm. Perona.

A motion was made by Ms. Morris and seconded by Ms. Penick to approve the excused absence of Comm. Sessions and Comm. Perona.

All those in favor of the motion signified by saying aye. A poll was taken; there were no oppositions and the motion carried unanimously.

ITEM NO. 10 ~ BOARD MEMBER COMMENTS

Mr. Stephens asked if anybody planned to go to the Annual Conference. Mr. Nieves said he was going. Mr. Stephens asked if he could pick up his plaque.

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Mr. Nieves asked Mr. Walker if we have a law firm or an attorney that is a litigator in the event of one of our financial companies is found to be in the wrong or mishandling of money.

Mr. Walker said we have never been in a position where it was necessary to get involved in any decision making regarding litigation. There are a couple of names that comes immediately to mind who he would highly recommend if and when the occasion should arise.

ITEM NO. 12 ~ NEXT MEETING

The next item on the agenda is next month's meeting. The meeting for the month of June was cancelled. The next meeting was scheduled for July 21, 2016 at 2:00 p.m.

ITEM NO. 13 ~ ADJOURNMENT

Seeing that there were no further questions or comments, Mr. Stephens made a **motion to adjourn the meeting**.

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

The meeting was adjourned the meeting at 3:53 p.m.

ATTEST:

Secretary/Treasurer

Chairperson

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.