

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
November 17, 2016**

Summarized Minutes of the regular meeting of the City of Fort Pierce Retirement and Benefit System November 17, 2016 at 2:00 p.m., in the 2nd Floor Conference Room at City Hall.

Present:

Commissioner Tom Perona, Chairperson	City Commission Member
Keith Stephens, Vice -Chairperson	U.A. General Manager
Johnna Morris	Director of Finance
Rodney Nieves	Police Officer Member
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

Absent:

Commissioner Reginald Sessions	City Commission Member
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Recording:

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

Comm. Tom Perona called the meeting to order at 2:00 p.m., the first item on the agenda being the “*Roll Call*”. Comm. Perona said he will have to leave at 3:00 p.m. and at that time Mr. Keith Stephens continue the meeting.

ITEM NO. 3 ~ COMMENTS FROM THE PUBLIC

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

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ITEM NO. 4 ~ APPROVAL OF SUMMARIZED MINUTES OF OCTOBER 20, 2016.

Comm. Perona, the next item was the approval of the summarized minutes of October 20, 2016 and asked if there was a motion to approve the minutes. Ms. Nina Penick had two corrections to the minutes; on Page 3, second paragraph, line five, “**Ms. Car**” should be read “**Ms. Caleta Scott.**” On Page 7, third paragraph, second line, “hourly” should be replaced with “average.”

A motion was made by Ms. Nina Penick and seconded by Ms. Caleta Scott to approve the summarized minutes of November 17, 2016.

All those in favor of the motion signified by saying aye. A poll was done of each Board member. There was no opposition and the motion was carried unanimously.

ITEM NO. 5 ~ ATTORNEY’S REPORT

Attorney Jim Walker said there is very little this month. The Robert Creswell hearing has been deferred until January. Mr. Creswell’s attorney has filed a legal memorandum setting out his client’s position. The Board will be copied with that before the hearing. Mr. Walker said if there are any questions, he will be happy to answer them.

Comm. Perona said he will meet with Mr. Walker prior to that just to make sure the hearing goes accordingly. He asked if this is a quasi-judicial hearing.

Mr. Walker said yes it is.

ITEM NO. 6 ~ PUBLIC HEARING ON BENEFITS APPLICATIONS

Comm. Perona opened up the public hearing for comments on the request for Retirement from Marc D. Meyers with 11 years and 5 months of service with the City of Fort Pierce He asked if there was anyone here who would like to publicly comment on this request. Mr. Meyers was present and informed the Board that his last name was spelled incorrectly. Comm. Perona made note of the incorrect spelling of Mr. Meyers and the correction be made. Comm. Perona closed the public hearing. Comm. Perona opened up the matter for the Board. **A motion was made Mr. Rodney Nieves and seconded by Ms. Nina Penick to approve the request for retirement from Marc D. Meyers.** 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. A poll was done of each Board member. There was no opposition and the motion was carried unanimously.**

Comm. Perona opened up the public hearing for comments on the request for Retirement from Edward W. Becht with 12 years and 11 months of service with the City of Fort Pierce. He asked if there was anyone 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**

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motion was made Ms. Nina Penick and seconded by Ms. Caleta Scott to approve the request for retirement from Edward W. Becht. 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. A poll was done of each Board member. There was no opposition and the motion was carried unanimously.**

Comm. Perona opened up the public hearing for comments on the request for Retirement from James A Cozine with 18 years and 10 months of service with the City of Fort Pierce Police Department. He asked if there was anyone 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 Mr. Rodney Nieves and seconded by Mr. Keith Stephens to approve the request for retirement from James A. Cozine.** 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. A poll was done of each Board member. There was no opposition and the motion was carried unanimously.**

ITEM NO. 7 ~ OLD BUSINESS

None

ITEM NO. 8 ~NEW BUSINESS

**A. REVIEW OF PERFORMANCE EVALUATION FORM CONSULTANT –
CALLAN ASSOCIATES**

Comm. Perona welcomed Mr. Cody Chapman and Mr. Weston Lewis to the Board meeting to present our third quarter report.

Mr. Cody Chapman thanked Comm. Perona for having them here. He will start with the Executive Summary. Mr. Chapman said there are also some of the money managers here to present their report. Starting on Page 2 to give a quick economic update, Real GDP increased to 2.9% for the third quarter; up 1.45 from the second quarter. Consumer spending remained robust at a growth rate of 4.3% while residential investment slowed. Inflation remained subdued. Core PCE Index +1.4% as of September, below Fed's 2% target but highest in six months. Core CPI +0.2% as of September, matching headline inflation. Euro zone economies remain weak but positive. Euro zone unemployment remains elevated at 10%; Euro zone GDP +0.3% in second quarter, down from first quarter's 0.5% print; talks surfaced late in the quarter of ECB tapering bond purchase program earlier than expected. Fed leaves Fed Funds rate unchanged; market pricing in roughly 50% chance of Fed hike before year-end. Looking at Page 3, small capitalization stocks outperformed; S&P 500 +3.9%; +7.8% year-to-date; Russell Mid Cap gained 4.5%; +10.3% year-to-date; growth exceeded Value modestly across market capitalizations, helped by Tech and less exposure to Utilities and Telecom. Low quality outperforms high quality; Dynamic (low quality/high volatility) outperformed Defensive (high

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quality/low volatility) by a wide margin; Russell 1000 Dynamic Index up 7.6% versus Russell 1000 Defensive Index up 0.6%. Real Estate became the 11th top-line sector in GICS, representing 3.1% of the S&P 500. In the International Equity developed markets outperformed US; MSCI EAFE: +6.4%; +1.7% Year-To-Date. Best performers were Germany (+10.0%) and Austria (+16.7%). The worst was Denmark (-6.3). The emerging markets surged for the quarter; MSCI EM: +9.0%; -16% Year-To-Date. Brazil continued to rebound +11.3% for the quarter; +62.9% Year-to-Date. Russia and China were also strong; +8.4% and +13.9% respectively. Turkey lagged at -5.3%; +6.1% Year-to-Date; Indian +5.9%; +7.1% Year-to-Date. Moving to Page 6 summarizes where you are in assets as of September 30, 2016. The total fund increased by \$5.5 million over the quarter to \$182 million as of September 30, 2016. Taking a look at Page 7 of your performance, in the middle of the page you can see as a good quarter on an absolute basis; up more than 3%, almost 3.2%. The Total fund underperformed the benchmark by 0.45% for the quarter. Total Fund performance relative to the benchmark and peers has remained strong over time. Current Quarter Target equals 33.0% S&P 500 Index, 27.0% Barclays Aggregate Index, 15.0% MSCI ACWI ex US Index, 10.0% NFI-ODCE Equal Weight Net, 7.5% S&P Mid Cap 400 Index, 3.85 Russell 2000 Growth Index and 3.8% Russell 2000 Value Index. Moving forward to Page 9 on Emerald Advisors and we won't spend too much time on them because they are here to give their own presentation. Emerald outperformed the benchmark by 1.07% during the quarter and underperformed by 6.75% over the last year. Emerald has strong long-term returns well above the benchmark over longer time frames. Positive contributors at the sector level were the Healthcare, Technology, Consumer Discretionary, and Utilities sectors. All posted a positive contribution to return. The primary detractors were Materials and Producer Durables. Next is Ceredex which is your Small Cap Value Manager. They are also here to give their presentation, so we won't spend a lot of time on them. Ceredex had a little bit of a tough quarter; underperformed the benchmark by 2.81% for the quarter and outperformed by 3.09% over the last year. Long-term results are strong. The fund has outperformed the benchmark for all trailing periods shown. Underweight positions in Utilities and Real Estate and an overweight position in industrials contributed positively to performance. Detractors during the period were stock selection in the Industrials, Financial Services and Information Technology sectors. Moving on to Page 14, we have Morgan Stanley Developed International Equity. The fund underperformed by 3.7% for the quarter and underperformed the index by 1.96% over the last year. The long-term performance remains strong. Underperformance for the quarter was driven by poor stock selection in Consumer Staples, Materials, Industrials, Financials, and Healthcare. On Page 15 is the other Morgan Stanley Emerging Markets Equity Strategy. The fund underperformed in index by 0.29% for the quarter and underperformed by 1.55% over the last year. The long-term results remain above median, outperforming the index and peers over the past 19 years. Stock selection in Consumer Staples, Healthcare, and IT contributed most to returns, while stock selection in Financials detracted. Moving to William Blair International Growth Equity on Page 16, the fund underperformed by 1.34% for the quarter and underperformed by 2.62% over the last year. The long-term performance remains strong, as the fund has outperformed for the trailing three and five years. Stock selection in Consumer Staples and Financials drove underperformance for the quarter. On Page 18 show Richmond Capital Core Fixed Income had a good quarter. They outperformed by 12% bases points. Richmond

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slight outperformed for the quarter and outperformed over the year by 0.19%. Long-term performance remains strong. The fund has outperformed by 0.68% over the last 10 years. Nest is Real Estate. Heitman is here today to talk about their portfolio, so we won't spend too much time on them. It was a very good quarter for them; eight full quarter of performance for Heitman. The fund outperformed the index by 0.52% over the last year; benefited from strong appreciation of its Industrial properties. Their last quarter return was 2.06%; last year was 10.21%; last two years was 11.29%. Page 21 summarizes your objectives. Richmond did not meet their objectives by outperforming BC Aggregate over rolling 3-year periods by 0.50%. They were only able to perform by 0.41%. Morgan Stanley Developed did not meet either of their criteria but they were close. With Morgan Stanley Emerging Markets, we ask them to outperform by 1.00% over a rolling 3-year period and they only performed by 0.90%. Mr. Lewis said we have the money managers here to make their presentation so he will not prolong the time.

Comm. Perona asked the Board members if there were any questions for Mr. Chapman and they had none. He asked Mr. Weston Lewis to bring in the first money manager for presentation.

B. CEREDEX VALUE – MONEY MANAGER PRESENTATION

Mr. Steve Loncar from Ceredex started his presentation by letting the Board know on Page 3 of the third quarter reporting Small Cap Value still remains close to new investors. On Page 5 of the report list the investment process which has not change nor do we expect it to change. Our focus is on Dividends, Valuation, and Fundamentals. We will skip a few pages and go to Page 10; showing a pie chart of the Board's portfolio and what we manage on your behalf. Ending market value as of September 30, 2016 was \$7,609,552.6; a little over \$727,600 in cash; cash value is 3.6%. Page 11 shows a third quarter account activity summary and Page 12 shows the annual statement of account activity summary for the last 12 months. Page 13 is the Inception to Date Reconciliation showing Total Assets as of September 30, 2016 of \$7,609,552.61. Page 14 is the Investment Returns through the end of September 30, 2016. The third quarter was not a very good quarter for us. It was a reverse of what we seen in the first half of the year. From year-to-date to September 30, 2016 your portfolio returns were 22.21% and the Russell 2000 Value was at 15.49%. Through September 30 we have done fairly well compared to the benchmark now. Going to Page 15 we are underweight in some of the defensive areas; underweight real estate; underweight utilities; we have a minor underweight in Consumer Staples. Energizer has done fairly well in your portfolio in terms of investments. Mr. Loncar ended his presentation and asked if the Board had any questions.

Comm. Perona thanked Mr. Loncar for coming.

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C. EMERALD ADVISERS, INC. – MONEY MANAGER PRESENTATION

Mr. Kenneth Mertz, who is the Chief Investment Officer and Portfolio Manager with Emerald Advisors, introduced himself to the Board. Mr. Mertz said that Emerald is a \$4 billion firm. He said \$3.5 million of that money is invested in the product they manage for the City of Fort Pierce Retirement for the Small Cap Portfolio. Mr. Mertz said they have been very fortunate not having any changes in their firm. On Page 7 it talks about our Research-Driven Active Portfolio Management. We seek to maximize returns and minimize risks by capitalizing on the inefficiencies inherent in small-cap markets. Over 300 of the Russell 2000 companies were covered by two or fewer sell-side brokerage firms, compiled by FactSet as of October 13, 2016. Emerald is dedicated to intense fundamental, bottom-up research designed to identify unrecognized, under-researched companies; in-house fundamental investment research, which is the key to outperforming benchmark market indices; and industry and scientific expertise across all sectors. On Page 12 is our performance report. The quarter-to-date, we had a fairly good quarter of coming back from a very difficult first half of the year. One of the first factors of the year was the fact that we thought that interest rates were going to be raised a number of times; that would stifle the economy. For a performance on a year-to-date, our portfolio for you did a 2.65%; the benchmark did 1.55%, for the year-to-date we are 9%, and the benchmark is 9.1%. We are still trailing, but by 10 bases points. On Page 15, it shows we are in upper left-hand quadrant in terms of downside capture ratio and upside capture ratio, we have been able to produce whether the market has been poor for a quarter and produce positive results if the market was positive. On Page 22, on a relative basis, the portfolio trailed the benchmark for the first quarter as the positive contribution to return achieved in the healthcare, technology, materials and energy sectors was unable to offset relative underperformance within the financial services, producer, durables, consumer discretionary, and utilities sectors. On Page 23, the top five contributors are Cepheid, Sarepta Therapeutics, Inc., Veeva Systems, Inc., Trex Company, Inc., and Microsemi Corporation. Performance within the healthcare sector benefitted both as a result of the portfolio's relative underweight position, stock selection in biotechnology and the positive contribution from portfolio holding WellCare Health Plans. Beyond healthcare, relative outperformance within the technology and materials sectors was driven by stock selection within the semiconductor, computer technology, and building materials industries.

Comm. Perona let the Board know that he has to leave and Mr. Keith Stephens will be in charge of the meeting.

Mr. Mertz said Page 27 shows we did increase in our positioning in Healthcare; we increased our positioning in Technology; we decreased our positioning in Consumer Discretionary, Financial Services, Materials & Processing, and Producer Durables. The reason why we are still under in Producer Durables is because of a lack of earning growth that we are finding in those areas. Our market outlook rest in the fact that again, we see a greater growth rate in this quarter than we did in the previous three quarters. We think this economy could grow in this very quarter

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by 3.5%; that would help our growth companies. On Page 33, looking at market outlook; because earning growths has been the same for our small cap companies as its been for large cap companies; but large cap performance has done better than small cap growth; certainly this chart shows that the cheapest small cap companies are now the cheapest since 2003; comparing them to large cap companies. Mr. Mertz said he will close at this point for any questions.

Mr. Chapman asked Mr. Mertz talked about some investments he mentioned they made in the past.

Mr. Mertz said they have done well because they changed their positioning last year. He said Emerald had a very good run in the biotech area; up into the spring of 2015 we were substantially over-weighted, because of the valuations and the fact that the FDA didn't look quite as friendly to passing through new drugs; were making it a little more difficult. We decided to back off our decision, so instead of 3 or 4% over-weight, we went to a 3 to 4% under-weight. We did very well through the last year ending through June on the industry.

Mr. Weston Lewis introduced Shauna Dills, who is the Senior Vice President, Client Service & Marketing with Heitman.

D. HEITMAN – MONEY MANAGER PRESENTATION

Ms. Shauna Dills thanked the Board for allowing her come and make the presentation for Heitman. She said taking a look at Page 4 it shows the Client Statement of Account. As of July 2015, the Board had committed to Heitman a total of \$17,000,000. City of Fort Pierce Retirement is participant in Heitman's dividend to reinvestment program. Ms. Dill said Heitman appreciates the Board's support and business and hope the Board is happy with what Heitman has been delivering in terms of return and income. Moving to Page 5 is the overview of Heitman; celebrating 50 years of investing on behalf of clients with an exclusive focus on real estate. At the end of third quarter we had \$36 billion in assets under management and that's spread out across out three line of business; private real estate equity, private real estate debt, and public real estate equity. On Page 7 shows everything we do within Heitman. We have \$32 billion in private equity and \$30 billion in North America. Going to Page 9 shows a high-quality, low-risk portfolio of stabilized, income-producing assets diversified by property sector and economic exposure. You can see the Gross Asset Value is \$8.6 billion and Net Asset Value is \$6.7 billion. The number of investments is 79; our number of properties is 225. We believe the high lease level of our portfolio contributes to the stable nature of the income; we are up 94% compared to our benchmark, the Odyssey, at 93%. Our leverage level is pretty conservative, at 22%, which I think is where the Odyssey is today. Our target is 20 to 25%. Total number of investors at the end of the third quarter was 98. Trailing One-year Gross Dividend Yield was 4.6%. Page 10 is a reminder of all the resources within Heitman that support HART. It is the flagship fund of our firm. On Page 11 is the Current Sector Targets and Allocations. We have always been overweight to apartments, always underweight to office, and have always had a dedication to

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self-storage allocation. Looking at the bar chart at the bottom of the page, with the dark blue bar being our portfolio's weighting, the grey bar being the benchmark weighting, the orange triangle is our historical average since inception in the fund, and the shadow bar is our target range. Right now we own 17 apartment assets. They are 94% leased and is about \$2.1 billion of the overall portfolio. Moving to office, we own 17 traditional commercial office buildings and we own medical office buildings. The portfolio is 94% leased which is about \$2 billion in gross asset value. Moving on to the industrial sector, we have a pretty neutral waiting to that right now. This has been the fastest growing property type for the last two years. Up until this year, we have only invested in four markets. Those are New Jersey, Los Angeles, Seattle, and Chicago. Those four markets are critical to the path of goods movement for retailers. They are near population center. Dallas would be the fifth market that we've added and we are making an industrial investment right now. We are under contract in our due diligence phase. We own 36 assets; 96% leased and it's about \$860,000,000 of the gross asset value. Moving into office, we own 7 traditional commercial office buildings and we own 16 medical office buildings; portfolio is 95% leased and about \$2 billion gross asset value. We have 12 retail properties; 96% leased; about \$2.2 billion of the fund gross asset value. Page 12 is our Fund Performance Summary. Our 2016 Return Expectations were 4.75% Income Return, 4.5-5.0% Appreciation Return, and 9.25-10.00% Total Return. Being mindful of the time, Ms. Dills ended her presentation.

Mr. Stephens thanked Mr. Cody Chapman and Mr. Weston Lewis for coming.

ITEM NO. 9 ~ CONSENT OF AGENDA

None

ITEM NO. 10 ~ CONSIDERATION OF ABSENCES

Mr. Stephens acknowledged the excused absence of Comm. Reginald Sessions. **A motion was made by Ms. Scott and seconded by Ms. Penick to approve the excused absence of Comm. Sessions.**

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

ITEM NO. 10 ~ BOARD MEMBER COMMENTS

Mr. Stephens asked Ms. Christine Paz if she had him down for the next upcoming school.

Ms. Paz said no she didn't.

Mr. Stephens asked if she could please put him down for the next upcoming attendance for the next upcoming school. He does plan to attend.

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ITEM NO. 12 ~ ADJOURNMENT

The next item was next month's meeting. Because there were no agenda items for the December 15, 2016 meeting, the meeting was cancelled. The next meeting is scheduled for January 19, 2017 at 2:00 p.m.

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.