

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
November 16, 2017**

Summarized Minutes of the regular meeting of the City of Fort Pierce Retirement and Benefit System November 16, 2017 2:00 p.m., in the 2nd Floor Conference Room at City Hall.

Present:

Commissioner Tom Perona, Chairperson	City Commission Member
Johnna Morris	Director of Finance
Keith Stephens, Vice -Chairperson	U.A. General Member
Brian Avilla	Police Officer Member
Caleta Scott	General Member
Nina Penick	U.A. Board Appointee

Attorney Jim Walker	Attorney for the Retirement Board, Advisory
Christina Paz	Retirement Clerk

Guests:

Cody Chapman	Callan Associates
Weston Lewis	Callan Associates
Steve Longcar	Ceredex Value Advisors
Joseph Garner	Emerald Advisers, Inc.
Anne Westbrook	Heitman
Jennifer McCracken	Heitman

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 2:03 p.m., the first item on the agenda being the “*Roll Call*”.

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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.

ITEM NO. 4 ~ APPROVAL OF SUMMARIZED MINUTES OF OCTOBER 19, 2017.

Comm. Perona, the next item was the approval of the summarized minutes of October 19, 2017, and asked if there was a motion to approve the minutes. Ms. Nina Penick had one correction to the minutes. On **Item No. 5 – ATTORNEY’S REPORT**, in Ms. Penick’s comment, the word “abandon” should read “abandoned”. **Item No. 8a – APPROVAL OF THE FISCAL YEAR 2017-2018 PROPOSED BUDGET**, it should read “Michele Harris” instead of “Michelle.

An amended motion was made by Ms. Nina Penick and seconded by Ms. Caleta Scott to approve the summarized minutes of October 19, 2017.

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 was no news to report. The updated edition of the Retirement Board’s handbook has been prepared and distributed. I am happy to entertain any questions.

Comm. Perona asked if all the amendments and changes have been updated.

Mr. Walker said yes.

ITEM NO. 6 ~ PUBLIC HEARINGS ON BENEFIT APPLICATIONS

Comm. Perona opened up the public hearing for comments on the request for Retirement from Vincent O. Sanchez with 15 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 motion was made Ms. Nina Penick and seconded by Ms. Caleta Scott to approve the request for retirement from Vincent O. Sanchez.** 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

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ITEM NO. 8 ~ NEW BUSINESS

a. REVIEW OF PERFORMANCE EVALUATION FROM CONSULTANT, CALLAN ASSOCIATES

Comm. Perona welcomed Weston Lewis and Cody Chapman from Callan Associates. We have a new member and I would like for you to explain to Mr. Avilla what's going to happen in the next 45 minutes so that he will understand what's going on.

Mr. Lewis said, briefly I will tell you what we do. We try to help this Board make wise fiduciary investment decisions that are formed by data and research and that is essentially why we are here. That usually takes place in four stages; No. 1 is making a strategic plan; No. 2 is finding managers to implement that strategic plan; No. 3 is monitoring and evaluating; are they underperforming or outperforming; what is the reason why. No. 4 is education and research. That's really what we bring to the table. Twice a year you all hear from your investment managers directly. Both them and I figure out what worked; what didn't; make sure they are doing what you hired them to do. There are three hear today; your two Small Cap Equity managers and your real estate manager. You can listen and ask questions for understanding. Most of all we want to know are they still sticking to the discipline that we hired them to do.

Comm. Perona said as you go through the Pension Trustee Program, you will learn more about the words they use, some of the graphics, and they are going to assume you know everything, but if not, stop them because they want to make sure you have a comfort level with them. Comm. Perona released the floor to Mr. Chapman and Mr. Lewis.

Mr. Chapman said he will start with the Executive Summary. Page 2 of the Executive Summary gives you a brief overview of where we are today with the global economy; the second straight quarter better than 3% growth. That accounts for the impact from the activity from the two hurricanes we had here in the southeast. Fourth quarter numbers are pretty strong to start with as well, so that's a positive sign. That's being driven by a number of things; manufacturing is showing a lot of signs of strength in developed markets, numbers are strong across the board; also favorable, economic data coming out; inflations continues to be pretty low; Core CPI is 1.7%; Headline CPI a little bit higher at 2.2% as of September; unemployment fell to 4.2% in September, but posted monthly job losses for the first time in seven years. Outside the U.S., growth continues to improve. Not quite as strong as hear in the U.S. but Euro GDP was up by 2.5%; growth continues to be relatively strong in China. If no questions concerning global economy, we will go to page 3 to talk more about equity markets. Here in the U.S., markets continue to be stronger; S&P 500 is up 4% for the quarter; better than 14% YTD; Small Caps up by 11% YTD; developed markets represented by MSCI EAFE up better than 5% for the quarter and up 20% YTD; emerging markets outperformed developed markets; MSCI EM up 8% for the quarter and up 28% YTD. As we start to look at your performance, keep in mind you have a little bit of an underweight to non-U.S stocks. When you start looking at some of the peer rankings, some of your peers that have more of an allocation to stocks outside of the U.S. have seen a better performance, so that's going to drop some of the relative rankings. China is up almost 15% for the quarter. On page 4 we will talk about

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the Fixed Income environment; not a lot of changes shown in the chart at the right of the page; the yield curve from June 30th to September 30th, but if you look back at the line from a year ago you will see changes the rates a little bit higher across the board. High yield corporates outperformed investment grade; Bloomberg Barclays High Yield Corporate Index up 2% for the quarter; up 7% YTD; Bloomberg Barclays Corporate Index up 1.3% for the quarter; up 5% YTD. Pages 5 and 6 are just a brief summary of your asset allocation. Page 5 shows you are pretty close to your strategic allocation target; a little bit underweight to fixed income, which is helpful because your overweight have to domestic and international equity which have performed much stronger. Page 6 is just a brief summary of the breakdown of your managers in adding more detail; total fund increased by \$2 million over the quarter to \$192.9 million as of September 30, 2017; \$6.6 million in investment return. Page 7 takes a look at your performance. We'll start with the Total Fund. For the quarter you were at 3.5%; slightly ahead of your total fund benchmark; up 3.7%; that puts you in line with the median manager; last year about 12.2%; slightly behind the benchmark and 52nd percentile; in line with your policy target slightly behind in your Callan Public Fund; looking at long term results last five years of 9.7%; of last seven years of 9.8%.

Mr. Lewis said he will mention a couple of stats from your big report. Cody mentioned that the allocation difference relative to your peers; this is not necessarily to say that you should be allocated like your peers but it's something that we typically like to come tell clients that if you have a bias, and it's fine to have one, but you need to understand what that bias is and confirm it from time to time because from our side of the table, when it's an unintended bias, that equates to what we call a surprise and we don't like surprises. Understand you're underweight to international equity. Relative to your peers, if we are looking at your target allocation of 48%, where does that put you all relative to your peers. That's in the top decile. If you want to say there are 300 or so public plans in our database that we are looking at, 90% of them have a smaller domestic equity outpatient than you do. Let's say the same thing for international equity you're in the 80th percentile, of those 300 plans approximately 80% have a higher international allocation than you do. Over time the last five years, it has been a huge tailwind. The next five years, we really don't know what the future holds, but we can look at valuations abroad and we can say, you're getting the same dollar earnings for a lot cheaper, but buying a company that just domicile outside of the U.S. They may derive their revenues from a lot of U.S. consumers, but it is a fact that nine domicile companies are cheaper than U.S. base companies right now. If we were to provide a clean sheet recommendation on what you would look like, rather than you being at 48% U.S. equity, you would be at 38% U.S. equity. Rather than at 15% non-U.S. equity, you would be at 25%. For a lot of clients, you are taking a step far. We would be happy with anything that moves you in that direction. If it's a midpoint of those two of where you are now versus where our clean sheet recommendation is, we are fine with that, but clean sheet; our recommendation is somewhere in the 38% U.S. equity and 25% non-U.S. equity.

Mr. Chapman said where you are currently, if you would look at your equity mix is, 75% U.S.; 25% non-U.S.; global market weight would be about 55% U.S.; 45% non-U.S. So the number that Weston referenced would get you to 60/40. Still overweight to the U.S. but less overweight than where you are currently.

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Comm. Perona said he can't remember changing the allocations. He asked if we have done that.

Ms. Morris said yes.

Mr. Chapman said the last time we did an asset liability study was when we started it was in 2011. When we started the asset liability study in 2011, we made a recommendation to consider real estate and at the next meeting we did an education session. It's been six years so you can consider doing a full asset liability study. I can forward that document to you as a portfolio. That is kind of a separate project. We would rather not have you all pay for a project that is going to give you just recommendation.

Comm. Perona asked how do we approach that. We want to take cautious moves that are sensible and we rely strongly on your recommendations. If we are going to have a discussion about this, is this something we can do at Board level. Would you have to be involved in this? If we have your recommendations, then this Board could make some kind of decision on how to do that. Is that the process?

Mr. Chapman said we would be involved as much as you would like for us to be. To your point there's nothing wrong with where you are currently. You have exposure to the non-U.S. stocks. There are plenty of reasons to have an overweight to U.S. equity. We want you to understand how you are different from your peers as Weston said. You all have been fortunate with some really strong performance on absolute basis and also relative to your peers. It's more of us wanting you to be aware of how you are different from your peers and where you would be clean sheet.

Comm. Perona asked if a formal recommendation could be made to this Board. At least we would have that as a consideration so we will know what perimeters to work within in a discussion.

Mr. Walker said he is looking at our investment statement and the asset allocation set out at page 4 or 178 and for the comment on referring to the 15% and an allowable rating of 12-18%; are those the numbers you are talking about?

Mr. Lewis said correct. We are encouraging you all to rethink it before it gets to what is currently in your policies.

Mr. Walker asked what number would be recommended as a substitution to replace the number that is currently set out here.

Mr. Lewis said for the first one, a clean sheet recommendation is 25% and that can have a range from 3-5% in terms of a range from either side is reasonable.

Mr. Walker asked between 22-28%.

Mr. Chapman said yes.

Ms. Morris asked Mr. Lewis and Mr. Chapman if they were making this recommendation just to make us relative to our peers.

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Mr. Lewis said not to make you just relative to your peers but because when we see something that has run as far and as long as the U.S. Equity Market has run, we look at it and say it's been great but it's time to take some chips off the table. Cody mentioned the market weight; when you don't know what the outcome is going to be for U.S. or non-U.S., typically we would say if you don't have an edge on the market, invest like the market. You don't have any informed judgement going in, invest like the market. Callan typically recommends an overweight to U.S. Equity to the tune of about 5%. That is because we believe there is a little bit of currency risk that is not factored into the international markets. We typically say it's fair to have some level of a U.S. or a home country bias here. Relative to other consultants, I would say that we are probably U.S. centric. The main thing that we are coming to you today for consideration is not necessarily the types of peers but is to understand we have a bet on here; do we still think this bet is a winning bet and from where we stand, we look at valuations; those tend to be a better indicator of future returns than a lot of other metrics and a kind of longer returns; where's the market value. We are looking at valuations on U.S. stocks relative to non-U.S. stocks.

Comm. Perona said your recommendation is to take a good look at it and know that is probably the momentum that you would like us to follow. If to say that we do change that allocation and a couple of years down the line we're seeing something different, what would we have to do to change that if the recommendation comes to change it? Is it a big deal; is it not a big deal.

Mr. Lewis said it would not be a huge deal. There would be no additional managers; no new allocations; taking like largely from your passive providers and going to the legal funds. As you way the pros and cons, the consideration is that it will, on the margin, raise your fees because you are going from one of the cheapest asset classes to now one of the more expensive in terms of investment management fees.

Mr. Chapman said relative to the last time you made an asset allocation change which was to add real estate. That was a new asset class that you all were less familiar with. Once you made the decision, there was a waiting for Heitman to call.

Comm. Perona said maybe we can agenda this discussion until the next meeting.

Mr. Chapman said we will talk a little bit about Emerald, your Small Cap manager, starting on page 9. They are here today, so I will let you hear directly from them. As you can see Emerald outperformed the benchmark by 0.78% during the quarter and outperformed by 3.62% over the last year; very strong long-term returns well above the benchmark over longer time frames. One question you may want to ask is any valuations have gotten a little bit stretched in small cap growth as far as the most expensive place of the market. It's pretty easy to see when you look at the five year number; they are up 17% per year over the last five years versus the benchmark at better than 14%. Page 10 is Ceredex. They are the Value Small Cap to Emerald and they are also here today; a little bit more challenged recent numbers with them. Ceredex underperformed the benchmark by 0.85% for the quarter and underperformed by 9.64% over the last year; long-term results remain competitive o peers and are ahead of the benchmark; overweight and stock selection in Consumer Staples, stock selection in Health Care, and an underweight position in Information Technology contributed to underperformance for the quarter. Ceredex has a unique process. They focus a lot

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on dividends and that's been helpful, long-term. They've had some head-wins and we are going to challenge them on what's been going on in the portfolio; try to get more details. Pages 11 and 12 are your passive Mid Cap and Large Cap exposures. Nothing really to report there, other than to tell you those continue to do well as we expect. The fund continues to track the index closely at a very low fee. Page 14, we will jump into your non-U.S. managers. You have two firms you work with; Morgan Stanley that have a developed product and also an emerging market product. You also have William Blair, who combines emerging markets into one portfolio. The first one we will look at is Morgan Stanley Developed portfolio; a challenging quarter for them relative to the benchmark; fund underperformed by 1.82% for the quarter and underperformed the index by 0.25% over the last year; underperformance for the quarter was driven by an overweight in Consumer Staples and Health Care. This portfolio generally performs best throughout with the peers when an endow market. It focuses a lot on their defensive sectors, so it's in Consumer Staples; those types of names; the Nestles of the world. When markets are very strong as they've been over the past year within non-U.S. developed markets, sometime they do lag. We are not surprise to see when the market's up 19% and that they're only 18.9%; that's not terribly shocking. They do have a portfolio manager, Christian Derold retiring from the industry, effective December 31, 2017. They also announced the addition of Portfolio Manager Nathan Wong to its International Equity team. On page 15 is Morgan Stanley Emerging Markets. The fund underperformed the index by 0.98% for the quarter and underperformed by 4.41% over the last year; long-term results are in line with their peers although net of fee performance relative to the benchmark has been mixed; an underweight allocation to China and an overweight allocation to Pakistan and Indonesia contributed most to the underperformance for the quarter. As you recall earlier, when China's up 15% and represents 30% of the emerging market benchmark, that's probably going to cause some other performance in the portfolio and that's what we've seen for the quarter and the last year is about underweight to China; has been a pretty big headline.

Mr. Lewis said we typically show manager results gross of fees because the benchmarks are themselves, gross of fees, but this is a mutual fund that report net of fees, so this is a net of fee return. This one thing I do like to point out is that this Index is done pretty well. An index fund that track the index, that index fund is very likely to underperform that index too, because there are real trading cost that happen in the real world; rebalancing, whatever it may be; a company files bankruptcy; it kind of drops the index; a kind of implication whereas in the real world you own that company and you've got to figure out what to do with it.

Mr. Chapman said moving to page 16 we'll talk about William Blair. William Blair is a growth equity with Morgan Stanley having more of a value bias and again, William Blair also goes across both develop and emerging markets. A good quarter for them; fund outperformed by 2% relative to the benchmark for the quarter; a little bit behind over the last year but very strong long-term results; 3 and 5 year way ahead of the benchmark, and since you all hired them, very strong results. On October 16th, William Blair announced that International Growth PM Stephanie Braming will take a new role as global head of investment management. The firm also announced that Ken McAtamney, who currently leads the firm's international and Global Leaders strategies, will join Simon Fennell and Jeff Urbina in managing the portfolio. That period had done well. That 3 year number is largely the results of their efforts. The appearing of Simon and Jeff has done well.

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Moving to page 18, Richmond Capital is your Core Fixed Income manager; consistent process with them; generally overweight to corporate bonds; generally underweight with treasury somewhat; outperformed the benchmark by 0.08% for the quarter and outperformed by 0.60% over the last year; long-term performance remains strong as the fund has outperformed by 0.78% over the last 10 years; sector selection aided performance as corporate bond spreads narrowed during the quarter. Lastly, page 20 is Heitman, your real estate manager; Heitman manages a core of real estate portfolios; outperformed the index by 0.05% for the quarter and underperformed by 0.56% over the last year; outperformance for the quarter was driven by Industrial and Office properties. The 9.6% is a great results, even if it is slightly behind the benchmark, no major concerns and they are here today for a presentation. This concludes our remarks.

Mr. Lewis said we count it as a lot of research; not all of it is relevant to you and we recognize that, but when something is relevant, we want to bring that forward. Every two years we complete an investment management fee survey. How this is a little bit different from just going out and seeing what fees are paid in the marketplaces, the database has what the managers say that they charge for this product. We got out to the plan sponsors and say, what are you actually paying for this product. Think of it as the sticker price for this car versus what you actually pay to drive off the lot. We get some good data points from this to understand whatever plan sponsors are paying the median fee for public plans is 36 basis points. Note that you all are a \$200 million fund, +70% of the plan sponsors respondents to this survey were above a billion dollars. Your weighted average fee is 40 basis points, so you are in line; certainly considering your size, I would say you are very competitive. The bigger you are the less you pay for certain asset classes. A few other takeaways from this is that the median fees from when we last did this and look at this, and from the 2014 fees, actually you were stable if not increased for public plans. That was somewhat of a surprise to us because we have been hearing all this talk about the marketplace fee compression. It is happening, just maybe not to the degree that the managers are making it sound like it's happening. The primary reason why the fees increase for plans sponsors like yourself is because they are making asset allocation changes. Remember the one that we talked about before; you're going from a cheaper asset class; domestic equity to a more expensive asset class. That has driven some of the fees up for the plans; very much on the margin; I think from 2014 was one basis point for the median. Looking at what plans sponsors pay for each individual asset classes is domestic equity fees decreased from 38 basis points to 34 basis points. That is where you are seeing the true compression happen. That is driven by investors; now being driven more to passive investments. You all have always had predominantly used passive investing for your U.S. equity. For international equity median fees actually increased; median fees at 40 basis points increased to 45, and for fixed income, has always been low at 19 basis points, increased to 21. Largely that is a result of no yield environment; investors reaching for yield and going into either moving from core to core plus type strategies or looking at other things more exotic like bank loans, high yield, and things that can offer a little more octane in fixed income. The other takeaway from this is that, looking at practices for fee negotiations. Managers are becoming very use to prospects coming to them saying, if you want this business, you better cut your fee, and a good portion of them are doing that. What was surprising was how not many clients actually go back to their existing money managers and say, can we have a discount on fees. When we look at your fees for the two small cap managers, you're getting an excellent price. For the State Street, however, there has been a

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race toward zero for passive investment; that maybe something that you may be something you can consider negotiating down. Right now you are paying 5 basis points for your State Street fund; the going rate is probably somewhere between 2-3 basis points. The mid cap fee at 8 basis points for your passive mid cap is generally in line with what we've seen. Something to consider is there is some opportunity, especially in today's environment; to go back to the managers and say, would you consider something, especially if you've had these long relationships. When you set that relationship in place, the going rates for fees were arguably higher than what they are now. That's something to keep in mind and something we can help you do, if you would like.

Comm. Perona said absolutely. He thanked Mr. Chapman and Mr. Weston and asked for the first money manager to come in.

b. CEREDEX VALUE ADVISORS – MONEY MANAGER PRESENTATION

Comm. Perona asked Mr. Steve Longcar to introduce himself to our new Board member.

Mr. Steve Longcar thanked the Board for inviting him. He introduced himself to our new Board member, Brian Avilla. We had announced a transaction where Ridgeworth Investments, which was a wholly acquired diverse investment partner. That was announced late last year; that transaction closed at the end of May, beginning of June. What does that mean for the Board; how does that affect you. It shouldn't have affected you in any way. It was a corporate holding change where we were owned wholly by Ridgeworth Investments to now Vertis Investment Partners. There's no change to the personnel. The same managers from 1999 are still the same managers today. We have actually added to the staff; Jason Fraser and David Maynard. Moving to page 5 explains how we define ourselves. We are defined through traditional value managers. We look a value relative to the fundamental of each security we purchase. We pick your portfolio one stock at a time. What's different about us versus some of our peers is; #1 every security in your portfolio pays a dividend. There's no yield or threshold requirement; they just have to pay a dividend. We try to take as much emotion out of the process as we can. When we had security to your portfolio, we added price and valuation target to that. For small caps, we can't trade small caps stocks as we would like during volatile times. We have a longer time horizon for small cap stocks. We say 18 to 36 months; it could extend longer than that, depending in the fundamentals of the securities we buy. Equity investing is part art and part science. The science side is the data processing data gathering of information. The art side is we have our analysts do the work; they run their models and we come with this level of earnings that we say, what do we want to pay for that level of earnings; what's it worth; who owns the stock; do we believe that one sector should have a premium valuation over another. All of those objectives and qualitative type discussion is the art side of the equation and that is done between the analyst and the portfolio. As I mentioned the team you saw on page 4 is the discussion of two people; the lead PM and the analyst that is pitching that particular security for purchase or for sale in the portfolio. The analyst will make the case; the PM will push back; making sure how best he can poke holes in his or her argument to make sure that's worthy enough stock to be purchased in the portfolio. Lastly, our investment process is dividends, valuation, and fundamentals. That is an overview of our investments. If you have any

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questions, my information is on the front; you can contact me at your leisure to talk more in detail, as much as you would like about the investment process. Moving to page 14; it has been a difficult trailing month for the strategy. These kind of markets are difficult for us. We are value managers; we are looking for companies trying to lower into their value range. Small caps at this point and juncture are trading at very expensive levels in our opinion. When quality and valuation factors that have not been favored by the marketplace, this is a time period where we will not show well and that's seen by the 12 month figure. If this was last year at this time, you would have a vastly different return profile than we have here. You can see the longer term figures are fairly competitive from 60 to 120 month inception date figure. That's the entirety of our management profile with the Board. Moving to page 15, the Index is blue; we are in orange; we are severely underweight banks and we have been for quite a while so this is nothing new. That particular period from November 9th, going forward, being underweight banks has hurt the portfolio. We thought banks were expensive at that point and we still think they are expensive. Now they are even more expensive because banks are under the impression that we are going to get some significant tax reform. That's in the conference room in Washington, D.C. being argued right now. We believe it's expensive for small cap stocks, hence why we are still underweight. We have overweight to insurance and asset managers; we done very well with those. During the last cycle small cap energy stocks took a beating. If they survive, they have to recapitalize in business. Most of the small cap companies we own have cut their dividends. We own one and that was Bristol. Once a company eliminates their dividend, we sell that security out of your portfolio. Ultimately, we've had some bad stock picks; we've stuck with them. The environment has not been good for us in small cap value. We continue to believe that going forward we feel that stocks we own will be ultimately rewarded. For the quarter to date, the portfolio is down .41% but the market is down 2.46%. We believe the stocks that we own will ultimately see value by investors; three months, a better number; a positive 7.44% to the Russell 2000 value at 5.47%. The dynamics are there for the portfolio to do well. I will stop there; do you have any questions?

Comm. Perona said we are conservative and we want to be in the game long enough to be able to realize a profit trend. Let's say you get stocks that aren't paying dividends; you said that you eliminate them from the portfolio; do you do that strategically or pick them out right away?

Mr. Longcar said if a stock doesn't pay dividend, it not in our investment universe. If you are asking whether or not that is closing off our opportunity, sometimes you can make that perception. We don't own Biotechnology stocks because they don't pay dividends. They don't have sustainable cash flow and earnings because they are in a growth phase. We are buying stocks that are high quality that generate earnings, cash flow to pay those dividends and that are sustainable. We understand what we are buying; we like what dividend tells us. If you are going to pay dividends, you are committing to pay that capital to your shareholders. We only eliminate stocks if the company eliminates their dividend.

Comm. Perona thanked Mr. Longcar for his presentation.

EMERALD ADVISERS, INC. – MNEY MANAGER PRESENTATION

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Comm. Perona welcomed Mr. Joseph Garner and asked him to introduce himself to our new Board member.

Mr. Garner said he will start at the front of the book where they have some historical data on the accounts, starting with \$4.89 million, happy to tell you after the contributions at \$5.6 million withdrawal, and the management you see listed over time, that account has grown to over \$8 million. Taking a step back, Emerald is a small cap growth manager. Our firm is a little unique where as 100% of our employees is 100% of our company. As we do well for our clients, we do well for our employees. Our process has been in place since day one and it really involved getting out in the field and doing homework. Year end and year out, as the Director of Research for the firm, part of my job is to make sure they do our ten-step research process every day. We believe if we get the first four right, the performance will follow. The small cap market is a little bit new for our presentation; in the slide it talks about the lack of attention that the small cap end of the world gets. If you look at that chart, you see the S&P 500 on the left, you see the Russell 2000 which is the small cap benchmark on the right. Those large companies have an average of almost 20 sell-side analysts. Those are the Wall Street; the Goldman Sachs; the Merrill Lynch; how many of those analysts are writing about and putting ratings on those firms; for the small companies, it's a little less than 6. If you break it down, we look at in terms of what we call the highly efficient end of the market. We are pretty much everything that is to be known, is known. Out there, we have than 20 of those analysts following. There isn't really much that a small firm like Emerald could add to it. That's almost half of the large cap universe; it's 1% of the Russell 2000 companies we are looking at. If you flip that to the other side, what we consider the very inefficient where they are not pay attention, which is when they're five or fewer of those analyst; that's 3% of large cap market; not very much but it's over 50% of value market, and when you go out to their extreme and inefficient, which are when there's two or three of those, there's two stocks in the S&P 500. There are almost 400 in the Russell 2000. On page 9 is our team. The team has been with us a long period of time. You can see the tenure on the individuals and we are very happy we have been able to keep the core of the group. Page 10 is the important page in the book. This is our DNA; this is what we do every day and this is what makes us different. The most valuable steps are steps 2 through 6. We do over 2,000 company meetings a year amongst the people you see on the left side of the page. We're going to their headquarters, their distribution facilities, their retail outlets, their R&D centers. We want to get the elements as well as we possibility can. It helps when you have as many people as we do, which is unique for a firm our size and a small cap manager has; the 16 investment professionals because we feel we will cover all aspects of the market; whether its banks, consumer companies, biotech companies, energy companies, software companies; we have people that are following them and many of them have industry experience. We find you can't just take the company's word for it, so we spend a lot of time talking to customers; doing a lot of surveys; a lot of first hand results; what do they think about a product or service; we talk to their competitors because they will point you to the bad stuff. We talk to the suppliers to see if there are issues in the supply chain. We talk to distributors because they are selling everybody's products, to see how well things are doing. When we finish that, that's when our analysts will break out the spreadsheets and come up with their own estimates on where we think the revenues, earnings, cash flows of that company are going. We know how much work went into the process leading up to it, so we can put a lot of confidence and investing behinds those estimates that our analysts are coming up with

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versus what Wall Street might be seeing. Many times there are big differences. Hopefully, if we are doing our jobs right, we're coming up with the insights that might spike growth opportunities that people just aren't talking about. Another important point is third party research; we save that for the end; we don't want our analysts to get caught up in the kind of group think of Wall Street. We want to be independent, and then we write up our findings and a couple of those are in the back of your book. I won't go into any details but they are certainly there for you to look at later. These are two relatively recent additions to the portfolio. One is Daseke, which is in the trucking industry, and we've certainly seen the freight fundamentals picking up quite a bit over the last year. We've seen the industrial economy getting better; that's an increase demand in the freight services with the hurricanes that you certainly know a lot about from this year; have caused a lot of disruptions out there and it caused a lot of needful things, like building and supplies to get into those markets; very tight market for truck freight transportation services and we're seeing rates go up significantly. As a result of, Daseke is kind of interesting. They're the only public company focused on the industrial flatbed market. You're driving down the roads and you see flatbeds; they're usually hauling some type of equipment or building materials; that's what they do. They're the biggest data in the entire country. They control 1% of the market. They have a strategy where they have been going in and acquiring a lot of these Mom & Pop companies; allowing them to keep their local brands, their local management; kind of keep that family environment together but under Daseke's corporate structure to utilize their back end technology system's benefit packages. Varonis is a cyber security company. It's an area we've focused on for a number of years. Their specialty is damaging a company's data. The two biggest area of risk; one is email; that's when people get into an organization. We've had proof point in the portfolio a long time; the leader in that space. Varonis is in managing the data in the house. A lot of your risk is the employees; who's accessing what data and what are they doing with it. That's what Varonis help track and it's in the area where you can't avoid spending in that space. We only see that spending going higher and they've got the industry leading products right now and we've seen very nice growth as a result of that. On page 12, once we do all the research, how does it get into the portfolio? I will just briefly say we are looking for companies that are #1 and #2 at what they do. We're looking for what we consider defensible barrier to hit you so they don't lose that market position over time and they are among the fast growers in the industry. When we find that, we are building a portfolio between 100 and 150 stock across all industries and sectors. We manage our concentration by how much we own in an individual stock industry or sector so that we don't get to out of kilter with that and keep a nice diversified portfolio for you over time and you see that in some of the holdings later on. We think we have done relative well and you will see that on page 13. On a year-to-date basis through the end of September, portfolio has generated a return of 19.9% versus 16.8% for the benchmark. It's been over been a relatively good year for small cap growth in general and we've been able to outperform that and we're happy to report. When you look over your 1, 3, and 5, your record since inception, again, nicely had the benchmark in each period and we are happy to report that to you as well. Jumping to page 18, giving you an idea of what's been going on in the small cap market in general; what you see in that chart with the yellow highlight is that, when you look at the Russell 2000 Growth relative to the 3rd quarter of the trailing year; very good numbers. We've seen an increase in economic activity, both domestically and around the world, resulting in those numbers. Value, which has been making up some ground there;

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growth have been outperforming some values and that's because the banks have been a little more challenged with where the yield curve is right now. Short-term rates have been going up; long-term rates have not been. With the large banks representation, the value index makes it a little bit trickier there. We've been able to navigate that relatively well. If you go to page 19 and 20, one of the healthy things about the market is you're starting to see some of the areas that were lagging, starting to catch a little bit. On page 19, you will see in the 3rd quarter, two of the better performing areas were Energy and Producer Durables, but when you go to page 20, those were underperforming areas on a year-to-date basis. So, we are starting to see some breath to the market. The fundamentals in those areas; energy with oil prices moving back up has been helpful out in the market and the manufacturer side of the economy has been getting stronger and that's been helping the Producer Durables space. Healthcare has been strong all year long. Without getting into any details on the next few pages, you can ask any questions you would like; I can tell you, this kind of breaks down where within the small cap market by different characteristics where we've seen performance; the higher the sales growth, the better. We tend to focus on the higher growth companies that have been good for us. Showing on the next page, it kind of goes in the middle part of the market; not the really small ones; not the really big ones in the small cap market; kind of in the middle market has been doing well. Foreign sales are the economy since Europe and Asia has been getting better. If you have representation there, you've seen that is a boost to your stock price. On page 24 the bar graph will show you where we've seen our best performance and underperformance by sector. Where we've had the most outperformance from the 3rd quarter was financials service industry and healthcare. A lot of that innovation has been helping drive our performance there; and utilities. The one point I will make on utilities is don't think of our utilities exposure as electric companies; water utilities. They are really telecom innovative companies that are more technology. We've had a little headwind in the portfolio Producer Durables; underperformed there and a little bit in the energy and consumer areas. Page 25 and 26 shows our outperformances and underperformances. On the contributors on page 25 gives shows where the outperformance has been driven and I mentioned earlier, Financial Services that outperformed, even though it's been tough with banks. Lending Tree is our largest holding in the portfolio; it's been a fantastic growth story. If you go back to 2011, this company had about \$50 million in revenues. They've taken that comparison shopping model in mortgages and have taken it to other lending categories. Whether it's credit cards, home equity loans, auto loans, small business loans, student loans, reverse mortgages; you name it, that's where they are. They went from \$50 million in revenues to \$254 million in 2015. This year we think they are going to come in at \$600 million. With that growth they are the largest online shopping site for mortgages. They are going to represent about 2% on mortgages originated in this country. Only 4% of online mortgages origination comes through online comparison shopping sites in total.

Comm. Perona asked if they get their fees from the lender or the borrower.

Mr. Garner said the lender, so it's a free service for anyone like us and the lenders pay for the leads. When you get those five banks competing for you, they've all paid to be one of those five banks. They've been growing their business almost 50% this year. Many people thought with mortgage rates going up or with interest rates going up; mortgage rates haven't changed that much; that would be tough for mortgage lenders. Trex is another contributor that has been a great long-

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term performant for us. They make the decking and railing boards out of recycle products. The shrink wrap and grocery plastic bags, they are taking that and combining it with recycle wood particles and making deck boards out of them. While they have not had a LendingTree type growth in 2011, that about a \$260 million business that we think will be close to \$550 million revenues. A couple of others, we talked; biotech; two of our holdings there are biotech companies that have done very well for us. Puma Biotechnology, which during the 2nd quarter got FDA approval for a new breast cancer treatment drug called Neurolex. There was some survey data that came out that showed the available use of that drug. The other one is Sarepta. They've developed a treatment for Duchenne muscular dystrophy, which affects young boys. Usually by the time they are 10 years old, they can no longer walk and rarely do they live past 20 as their muscles begin to erode. What they've been able to do is slow the progression of that disease, so they are living longer with higher quality lives; able to walk longer and able to live longer. That product has been on the market since the beginning of this year. The demands for the revenues have been better than anticipated. It has been over a 50% growth opportunity. On page 26; some of them that haven't worked out; four of the five names are no longer in the portfolio today. MicroStrategy, which was a software company; business intelligence software, they came out with a new version of their software; version 10; just hasn't pan out the way we thought it would. They said, basically, we are going to have to do an increase on our investment sales in marketing to be able to realize that opportunity; increase cost structure a lot with uncertain returns. We said okay, we'll come back later. That stock was down about 30% in the quarter. Tile Shop Holdings is a retailer; building materials for your home for remodeling purposes; been a very competitive environment for flooring materials. Tile Shop Holdings has had two straight quarters and it looks like this is going to be the third of underperformance. We said we will step back and reevaluate as they address those issues. Profit margins for the industry have been getting squeezed a little bit. Spirit Airlines is another long time holding for us. We've done well over time but we ended up exiting during the quarter. One of the things that's been a little off is they're the low cost carrier. If you want to go somewhere; the lowest cost on the market. They will nickel and dime you on the fees. We took a step back from them. When they get back to a more normal environment, we may go back to them. The fourth one we exited was Hostess Brands; was down on 15% in the quarter. They went bankrupt a few years ago and there was a period of time you couldn't buy a Twinkie anywhere. A private equity firm brought them out of bankruptcy; brought the assets out so that they could try to fix the cost structure and bring the profits under the market. The next two pages show how we did in the second quarter, the end of the six month period. If you have any question, I would be happy to answer them. Page 29 shows you where the portfolio stands by the sectors during the period. You'll see our biggest overweights are in areas like Financial Services and Technology. We've been increasing our exposure to the industrial area with Producer Durables; still underweight. It's been a little hard to find companies that we can look at and say, there's persistent growth strategy, so that we will be able to find companies like Daseke. It's been a matter of find opportunities that we will consider to be good solid growth opportunities as we build up our exposure there. On page 30 is our largest holding; we've talked about them; many of them there. One of them is Chegg, which is our consumer area. Consumer has been a tough space. Amazon is hurting a lot of traditional retailers; restaurants have been slumping; apparels have been a tough space to be. It has been outside of those areas where we've seen our best success. Chegg is an example of one of those. The last one

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I'd like to make, if you see on page 31; I think it's an interesting time in the portfolio. We've got a good economic backdrop. You can see the projective growth rate for the stocks in our portfolio is 18.3%. It's higher than the benchmark; we would expect that we are looking for the best growth companies; we should be a little higher and I can tell you from our internal estimates are higher than 18.3%. That's the data base number; the average of all of those Wall Street analyst estimates; we think is better than 18.3% but we will go 18.3 number. Mr. Garner finished his presentation and asked if there were any questions.

Comm. Perona thanked Mr. Garner for coming.

c. HEITMAN – MONEY MANAGER PRESENTATION

Comm. Perona welcomed Anne Westbrook and Jenny McCracken and asked them to give an introductory of their company for the new Board member.

Ms. Westbrook introduced herself. She is with the service and marketing team; joining her is Jenny McCracken who is also on her team and works with her to cover the accounts in the southeast United States. Heitman is a 50+ year old firm. All we do is real estate. We invest across the risk spectrum in real estates; we buy core real estate in our flagship open end fund, HART. Moving to the next pages shows your statement of account and you will note that in 2014 we were fortunate enough to receive an allocation of \$12 million. We receive another allocation from you in 2016 for \$5 million and your current market value is \$21.5 million. If you look at the chart on the right, you will see the contributions and the growth in value. The growth return on your investment is 10.87%; net return is 9.71%; with a growth multiple of 1.28 and a net multiple of 1.25. For a core open end fund, these are returns and a lot of the big open end core funds have enjoyed very good returns over the last number of years. We have \$38 billion under management across private equity and debt and public equity. Public equity for us means real estate investment trusts. We don't invest in any other securities that are not real estate related. We have 364 employees and 11 offices with on the ground investment teams applying experience, knowledge, and disciplined processes to meet or exceed client expectations. We have strategies in Europe and Asia as well as the United States. There are 38 partners, meaning 38 members of the company own 50% of the company. We are in the process of acquiring 50% of the company which is owned by Old Mutual. That is expected to be completed by the end of the year or very early next year. These 38 principles will own 100% of the firm.

Mr. Lewis asked if there was going to be any debt involved.

Ms. Westbrook said they are taking on a very reasonable debt. The debt coverage is around six times. It's about \$100 million debt we are taking on. The page is our firm leadership. The Board of managers in the executive committee has been in place for a very long time. There's very little turnover. The next page is our global research team led by Mary Kudgin and advised by Kevin Warsh. Our research is active in the development and execution of all investment strategies. The next page is our client relationships; 60% public; 32% corporate, and 8% other which is

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foundations and endowments. The representative client list is on the right side. The source of most of capital comes from North America; also we do represent money from Europe and Asia investors. The next page gives you the full globe and spectrum of what we do in private equity, public equity, and debt across North America, Europe, and Asia. Heitman America Real Estate Trust is our flagship fund; our largest fund and is growing very quickly. Our current gross asset value is \$9.4 billion; net asset value is \$7.3 billion; number of investments is 82; number of properties is 247; leased percentage is 94%; leverage is 22%; number of investors is 124; trailing one-year gross dividend yield is 4.2%. The strategy of this fund is looking for very high quality Class A real estate in top domestic markets. What differentiates us from other core funds is our exposure to specialty which is medical office, self-storage, and student housing. On page 15 is our fund performance. On the left-hand side you'll see that our three month non-annualized return is 1.99% versus the benchmark of 1.87%; our current income is slightly higher; our current appreciation is slightly higher. Looking at our one year performance, we are higher in current income which is the dark blue bar; the appreciation is reflected in the light blue bar; our appreciation is a little bit below the benchmark. The reason for that is because our fund does not do any development of any kind. Heitman has been pretty significant outperformer since inception, which on the far right-hand side, you will see that, both from a net income standpoint and from an appreciation standpoint, we have beaten the index over 10 years and two quarters is what our inception takes us back to. In the box on the right shows our 2017 return expectations; 4.50-4.75% income return; 2.00-2.50% appreciation return; 6.50-7.25% total return. We have seen a tapering off of the growth in value. The good news is we've got long term leases. We think that net income is going to stay strong and the appreciation is going to be fairly similar for everybody. The next page shows our higher income return. For 27 consecutive quarters the income portion of our return has outperform the index. Some of these core open end funds focus equally on growth and income. We focus more on income and the stability of income. That's our DNA; that's our focus. The next page shows our current sector targets and allocations. The blue bar is where we are currently allocated; the solid grey bar is the index, and the hash blue bar is where we will be as a result of pending acquisitions and dispositions. If you look at apartments, we are slight sellers in apartments right now. We think there are some very good valuations in apartments and we are balancing our portfolio. The orange karat will show you where re average has been since our inception and the thin blue line box shows the general range of what we are targeting. We are trying to own more industrial asset class right now. It's extremely competitive and prices are very high. We are underweight to the index for office. We are a net seller of retail and there are some opportunities to sell retail. The retail that we do own is very stable; very high end; high quality retail. While we are a little overweight to retail right now, we do like our exposure there. We are 19% allocated to specialty to sell storage versus the index which is much lower. The next page is our geographical exposure relative to the index. We are a little less in the index west and east where prices tend to be a little higher and a little allocated to the Midwest and the south where we think there are some pricing opportunities in the market. The top ten market exposure shows HART 66% versus MSCI 75%. The next slide shows our rollover risk and this is the lease expirations in our existing portfolio and what exposure we might have there. In 2017 we had very low lease exposure. The purple reflects the lease exposure in retail. In 2018 we have a very large tenant which is Blue Cross Blue Shield in one of our Seattle properties; minimal single tenant risk in 2018; no tenant accounts for more than 1.4% of

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commercial NAV; greatest exposure in 2028 has exercised their five year renewal option. The next slide shows ae debt financing profile; loan to value, HART 22% versus ODCE 22%. As of September 30, 2027 of the \$118.5 million of debt expiring in 2018, \$75.8 million and 423 million have been refinanced to 496.4 million and \$57 million in years 2027 and 2029, respectively, subsequent to quarter end; ODCE equals NCREIF Fund Index; open diversified core equity as of June 30, 2027.

ITEM NO. 9 ~ CONSENT AGENDA

Comm. Perona, the next item is the Consent Agenda. No Consent Agenda.

ITEM NO. 10 ~ CONSIDERATION OF ABSENCES

Ms. Morris said she has not heard from Comm. Sessions. **Comm. Perona** said he did give Comm. Sessions a wake up call.

ITEM NO. 10 ~ BOARD MEMBER COMMENTS

Ms. Penick asked **Ms. Morris** to give an update on Millamen. I know you said it was for the retirees but it's for the employees as well.

Ms. Morris said that is right. If you remember, we voted to purchase this new platform that's going to allow our current members as well as our retirees access to information. It's going to be a great tool because a lot of times we have employees coming in that may want a work-up. Some of them may be close to retirement; some are not. We can't always accommodate them. Now this system will have all of that information included in it and they can make projections all own their own as to what their pension could possibly be; adding spousal information; security information; they can see where they are.

Mr. Avilla said this is going to be very helpful to him. When is it suppose to go live?

Ms. Morris said February is going to be our go live date. All options will be in.

ITEM NO. 12 ~ ADJOURNMENT

The next item was next month's meeting. The next meeting is scheduled for January 18, 2018 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 5:01 p.m.

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ATTEST:

Secretary/Treasurer

Chairperson

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