CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
February 15, 2018

Summarized Minutes of the regular meeting of the City of Fort Pierce Retirement and Benefit System February 15, 2018 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
Nina Penick	U.A. Board Appointee
Attorney Jim Walker	Attorney for the Retirement Board, Advisory
Christina Paz	Retirement Clerk

Guests:

Weston Lewis	Callan Associates
Cody Chapman	Callan Associates

Absent:

Commissioner Reginald Sessions	City Commission Member

Recording:

Queen Thompkins	Executive Assistant to the Director of Finance

ITEM NO. 1 & 2 ~ ROLL CALL

Comm. Tom Perona called the meeting to order at 2:02 p.m., the first item on the agenda being the "*Roll Call*".

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 JANUARY 18, 2018

Comm. Perona, the next item was the approval of the summarized minutes of January 18, 2018, and asked if there was a motion to approve the minutes. A **motion was made by Ms. Nina Penick and seconded by Ms. Caleta Scott to approve the summarized minutes of January 18, 2018.**

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 Mr. Armstrong and I were late in being able to connect on this Rule that was discussed with the last meeting that would implement the Board's decision to set certain actuarial parameters on Section 13.33 that Mr. Armstrong had recommended. He and I did finally get together; he reviewed the proposed draft of the Rule and had a few tweaks proposed to be implemented or incorporated and I have now prepared draft language for the Board's consideration. Again, I'm sorry this comes at the last minute. I'm happy to entertain any questions.

Comm. Perona asked the Board members if they've had a chance to go over this item. He asked Mr. Walker if it was up for consideration.

Mr. Walker said that depends. The Board may easily choose to do nothing at this point and take the extra time to review it just to make sure there's a high comfort level. Otherwise, the Board may alternatively submit it for a first approval. I don't think we're probably subject to the public participation rule in that respect since the final decision wouldn't come until the second "reading".

Comm. Perona said I received this earlier. I don't know if the rest of the Board has. I'm familiar with it but, if you are not familiar with it; and you want to review this over; it takes two readings. We can have a first reading on this now and discuss it in detail if we have to in the next meeting or we can look at it over the next 30 days. Comm. Perona asked Ms. Morris if there was a time constraint on this.

Ms. Morris said we discussed it at the last meeting when Mr. Armstrong was here and it's not going to go into effect until October 1.

Comm. Perona said he thinks the documents are pretty much the direction of the Board. I will entertain any motions or suggestion. A **motion was made by Ms. Johnna Morris and seconded by Mr. Keith Stephens to approve the Board Rule 17(d) under Code Sec. 13-33.**

Comm. Perona asked if there were any further discussion on this.

Ms. Penick said she has a question. I would like to take more of a look at this. Rule 17(a); it says by-annually, "by-".

Ms. Morris said it should read "bi-".

Comm. Perona said we will have another look at this at the next meeting, but, basically it does reflect the direction of the Board.

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. 6 ~ PUBLIC HEARINGS ON BENEFIT APPLICATIONS

Comm. Perona opened up the public hearing for comments on the request for Retirement from William Brooks with 29 and 11 months of service with the Fort Pierce Utilities Authority (DROP Program). He asked if there was anyone here who would like to publicly comment on

,he matter for the Board. **A motion was made Ms. Nina Penick and seconded by Mr. Keith Stephens to approve the request for retirement from William Brooks.** 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 Paul L. Madsen with 20 and 3months of service with the Fort Pierce Utilities Authority (DROP Program). 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. Keith Stephens and seconded by Ms. Nina Penick to approve the request for retirement from Paul L. Madsen.** 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 Eileen Snoberger with 25 years of service with the Fort Pierce Utilities Authority (DROP Program). 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. Johnna Morris and seconded by Ms. Nina Penick to approve the request for retirement from Eileen Snoberger.** 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 Larry W. Tyndall with 10 and 5 months of service with the Fort Pierce Utilities Authority (DROP Program). 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. Caleta Scott and seconded by Ms. Nina Penick to approve**

the request for retirement from Larry W. Tyndall. 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

a. UPDATE ON THE CHANGING OF THE VESTING REQUIREMENT

Comm. Perona said this came up at our Strategic Plan this week. We may have a problem and we are opening it up for discussion. I know that the Mayor hinted to the fact that she would be a little more pleased with an 8 year but, again, there's an assumption that there's a dramatic savings to the City of Fort Pierce; the difference between a 10 and an 8 or a 10 and a 5; I would rather see what the financial impact is. We know what the benefits are. We have figured out that there is some problem with retention and recruitment because of the 10 years. The biggest thing we have to offer is the Retirement System and yet, you have to be here 10 years and when you're talking to a 25 year old, 10 years is a long time.

Mr. Stephens said when you're talking paying benefits, our selling points has always been benefits. You take benefits away but the pay really doesn't change. If someone's looking at staying here or going over there and they don't see the upside here and they can make more money, its pay me now. That's one thing I keep hearing from everybody and people will literally chase a dollar and I don't mean dollars, I mean the dollar; one dollar if they think it benefits them over all, even if the benefits might not be as good.

Comm. Perona said think back to those of you that were here when we had the pressure on us for pension reform, not only the State was mandating some things, but everybody had to demonstrate that they were doing something in their pension plan so show that there was some consideration of saving. We responded; I think the Commission gave us our marching orders and we did so. Out of all those things that we changed, this vesting time, is it the least financially intrusive to what we are trying to accomplish?

Ms. Morris said it is. The savings that we were going to generate were not going to be immediate; it was going to be long term because the person has to stay in the System longer to even vest, which means with the calculation of the benefits and them being in the System for an actual benefit it had to be on the back end. Now we got employees that are coming in and they are not staying as long, which means it's hurting the System because 10 years is a long time to have to wait for a benefit. I'd rather go ahead and take what I've already put in and leave as appose to; 5 is not so long to stay and say I'm already vested; I can go ahead and stay. Even if they leave their defer and leave it in the System, that's better, but waiting 10 years, they don't have the option but to take it out. It's hurting the System.

Comm. Perona asked Mr. Avilla how it affects this from a recruiter's standpoint.

Mr. Avilla said it definitely affects him. We battle the tri-county areas for salary. If you look at my recruiting brochures, the No. 1 thing that we promote in there is our 100% after 25 years because of the 185 that we also put in to it. When the 35 and above see it, they're sold, but 90% of my applicants are below 35 and they are not sold. If I go to the vestation; once I give them that explanation of the 5 years instead of the 10 or vice versa, I may be able to hold them. I definitely believe it would be a good holding point for us. Unless it's going to be a dramatic effect to our retirement fund, then may be not such a good idea. We want what's best for the fund.

Mr. Stephens said we just have to decide, once we get the numbers, how one outweighs the other.

Comm. Perona said before we do that I would rather get our marching orders officially from the Commission on us to be able to do that rather than just us taking that task on. I'd rather the Commission tells us; we'd want you to consider; give us an idea of what the financial impact is to the System if we look at the 5 year, 8 year, and 10 year. That's going to cost us some dollars because we are going to have employ Mr. Armstrong to be able to do that. So that we are not spending the money, I would rather it come from our appointed authority to be able to do that. Would you say so Johnna?

Ms. Morris said we can get directions from them. In the past, any changes we've had, taken any consideration, we've taken the impact statement along with them so they can financially see what the impact is going to be.

Comm. Perona said in his mind, our System is running very well; we're in the top 90% funding. If it's not broke, I don't want to fix anything. I need direction from somebody to tell me to get involve with this; to spend money; to be able to look at what we can do. Obviously, it may have an effect to us.

Mr. Stephens said he understands Comm. Perona separating it, but one of the reasons we all have general members and representation and then we did do the due diligence, which I like your idea of the beginning; you wanted us to do the due diligence of going to each of the leaders of the three organizations and they have responded.

Comm. Perona asked Ms. Morris if we could get a cost on that.

Ms. Morris said yes.

Comm. Perona said let's get a cost on that before we "pull the trigger" on anything. Find out the cost is. If it's inconsequential, then I don't have a problem with it. I know we're in response to all the appointing authorities and that's good. In the meantime, I will start by the next meeting, trying to get some formal direction from the Commission; that way, I'm happy with that saying, we wouldn't have done this but, you guys are the ones that made us do that. I don't want to spend anything; I don't want to change anything other than that which has been mandated by those people that we serve. I read everything but I would like somebody in authority to give us that direction.

Mr. Stephens asked, would you do that formally on that side or would you do it during your comment section bring that up that this came from the Commission to do so, because when it was

brought up at Strategic Plan, I'm not so sure I got a consensus on that. When I mentioned there's going to be a financial impact to it all, everybody kind if backs away from that.

Mr. Stephens said when you say impact, and obviously there's an impact, but we really don't know what that is.

Comm. Perona asked Ms. Morris if she could give him a price on that.

Ms. Morris said yes.

Comm. Perona said he will bring it up to the Commission. We have a meeting coming up next week.

Mr. Walker asked by the price, does he mean the charge that Brad Armstrong would impose to do the actuarial.

Comm. Perona said yes.

Ms. Morris said our impact statements usually runs between $500 to $1,500 for the impact statements. I will find out from him.

Comm. Perona said that would be inconsequential as far as I'm concern. We have enough to be able to do that. I still would rather the Commission weigh in on this and give us direction and we respond to them. I don't want to give any impression that we are leading this at all. We did the ten years based on recommendations from the Commission and from Human Resources.

Ms. Scott said as a Board member that is not vested even, I think it's really important to consider those employees that were coming into the City as you said who will walk away and take their money when something shines a little brighter. Everyone doesn't necessarily see their long term vision. I would be interested to find the numbers of employees and see where everyone is, and take a look at where we are. Today we just approved four people dropping in the UA. There's a change happening and we have to make sure that the younger employees are being considered. To say that it's not broken and you shouldn't fix it is not really encouraging to someone maybe sitting here who is not even three years yet.

Comm. Perona said if I can ask, are you a 5 year or 10 year vested?

Ms. Scott said I am a 10 year vested. I think that is important to consider. I think the Commission suggestion is important.

Comm. Perona said we are going to get direction from the Commission to do this. I just don't ever want them to think that we come up with ideas and push our own agendas because we don't. Our charge is to be able to operate the Retirement System and all forms of function in order to maintain the lowest cost and highest return. Other than that, changing it to accommodate recruitment retention has to come from people that empower us. If you can get somewhat of an estimate, I will ask the Commission for consensus to at least be able to get to that point and it won't happen within the next two weeks.

ITEM NO. 8 ~ NEW BUSINESS

a. ANNUAL BOARD EDUCATIONAL SESSION FROM CONSULTANT – CALLAN ASSOCIATES

Comm. Perona said we have Weston Lewis and Cody Chapman here today from Callan Associates. We have a little educational session and some updates. Comm. Perona gave the floor to Mr. Lewis.

Mr. Weston Lewis said he will start and say this will be somewhat educational. We will do the bigger education in August. We have a 2018 work plan. We put these together for every client. From our perspective, this is a good way to help clients remain focus on that fiduciary process of making a plan, finding managers to implement and monitoring and evaluating that, and finally documenting all three of those steps. As you think about what it means to you, this is a way for you to hold us accountable and make sure we are focusing on the tasks that are important to you and things you want to get done. This is your work plan. First, the capital market expectations; Cody is going to review those. Towards the end of our discussion, we will go over what we sent last night, which was some revisions in the investment policy statement. We usually look at it once a year but we don't make changes every year. This year there are likely to be some changes; want to get your comments and allow you all to react and also too, we ask the managers to sign off on it. We will go over it and bring it back at the May meeting; seeking approval then. Moving down to your Investment Manager Fee Review, some of our other public plans have; this is something that, maybe not new but, benchmarking your fees to something so that you can go to your constituents and say, we're getting a good bank for our bucks. This is the overall fee that we are paying; this is how it compares to other public plans, and I can confidently say that you all are paying a very good overall fee for what you are getting. Finally, as I mentioned earlier the Custom Board Education as part of our contract, we provide you with what is trending among public plans; we always value your input here, so if there are certain things; if you come to us and say you want to hear more about Hedge Funds; we're happy to address anything; otherwise we are going to bring you what we think is the most relevant to you all, and that will be formed by discussion we had or what we see others doing that you should consider; what we see others doing that you shouldn't consider. We have put that on the agenda for the August meeting.

Mr. Stephens said he see on Research and Education; you see all these workshop and I just recently received an email from someone at Callan; obviously that's a long way to go; I think the next thing you all have is in San Francisco. Is there a benefit to us to do that or with what we have to do with our CEU's with FPPTA? Does that really cover us and we get to see different things there or is it a benefit to go to any of those things?

Mr. Lewis said there are a couple of different pieces of education that we offer. There is usually a 3 hour workshop in the morning and it's for all clients. It could be a define contribution theme and that would be less relevant to you and your position here. I would argue that the Callan College is probably what we would consider to be a good use of your education funds and the time spent. We do those throughout the country. We have not done one in Florida for some time but, we would consider bringing, potentially, one to Florida if we can generate enough interest from some of our

other plan sponsors down here. That is a 1½ day more intensive course on the whole fiduciary process of what I mentioned; writing investment policy statement, documenting all these things, making a plan, and the theory that goes behind asset allocation; all those things are covered, so that's far more educational.

Mr. Chapman said the one in Atlanta would be the closest one they've done.

Mr. Lewis said we offer CPA continuing education credits as well.

Mr. Stephens said FPPTA would have to tell us that they would count that towards ours.

Comm. Perona said he doubt that seriously because they like the finance.

Mr. Chapman said the other thing that's in front of you is a Capital Market Projections. Those of you who have been on this Board for a while know this is something we do every year. We make 10 year Capital Marketing projections for all major assets classes, risk returns, and correlations and that's what you see in the green box at the top left is our projections for the next 10-years for all of the major asset classes. The first bar is your projected return and the bar below that is the projected standard deviation. These are the mid-point range. For ever asset class we come up with a range of 10-year return outcomes and the number you see on the graphic is the mid-point of the range. It's a return projection but it's still an outcome of projections we're looking at. These have not change at all since last year for our public market; equity, both U.S. and abroad did not change from last year. Fixed income did not change either. I'm not going to read all of these because they are pretty much self-explanatory. What maybe more of interest to you is, if you look at the other side of this graphic, the bottom right we show how these returns have changed over top. You can see starting with the top blue line; that represents Private Equity. Back in 1998 we had Private Equity at north of 12% for a 10-year return. That's come down pretty substantially along with all the other equity markets. You can see, equity returns, we brought those projections down pretty significantly over the last 15-20 years. That's been the case for the Bonds somewhat as well. If you look to the left of that graphic, you can see historical returns for several of these asset classes. For the Russell 3000 we are projecting 6.85% for the next 10 years. That compares with historical results; you can see 8.6% for the last 10 years; 10.25% for the last 15 years, and 9.7% for the last 25 years. We are projecting lower returns for equity lower than what we historically got. The same thing with Fixed Income; you can see the last 25 years 5.5%; we're projecting 3% for the next 10 years for U.S. Fixed Income; expecting lower returns than what we've seen historically. Going back to the first page at the bottom, you can see the return expectations for various mixes. What you all struggle with is, having to take more risks. If returns are going to be lower, then you have to have more in return-seeking assets to reach your return parties. You can see at the top those two green bars, returns and risks projections for various targets from 4.5-5%; all the way to 6.5%. Looking at that 6.5% return bucket, you have to take quite a bit of a risk. That includes a lot of equity; very little fixed income there in the orange, and substantial allocations to Private Equity, Hedge Fund, and Real Estate. That may sound dim and gloom; don't take that away as a message. We're still optimistic about the economy and equity markets and all the asset classes. This is somewhat of a result of where we are with valuations, also with interest rates; trying to be realistic about what we can expect given the length of the bull market we've had over the last 10 years;

where interest rates are, and where we are in the economic cycle. Mr. Chapman asked the Board if they had any questions about the projections. If not, we will move to your Executive Summary. We will talk a little about what happened in the 4th quarter and we will also talk about year-to-date. It was another good quarter in terms of growth; GDP up 2.6%. That's higher than we've seen in quite a while. The Fed did raise the Fed Fund target at their meeting in December. That was the third hike; an interest rate for 2017 and the market is expecting that the Fed will continue that trend into 2018. We're looking at right now probable three rate hikes in 2018; continuing to move that short-term interest rate higher as the economy shows signs of strength. Through the end of the year inflation was fairly low; not a lot of pressure from wages; the PCE deflator, which is a very complicated measure that the Fed looks at but just consider it a kind of inflation gage; was up 2.8% year-over-year and that's above their 2% target. We are starting to see some signs of inflations. As you can see in the next bullet, unemployment is very low; approaching 4%; that's near a 40-year low for labor market; very close to full employment, if we're not already there. That's starting to exert some pressure on wages as well. I think with full employment being very close to achieved, you're going to start to see the Fed focus more on that inflation target and continue to raise rates to make sure we don't have issue on that inflation target. Looking outside of the U.S. Euro GDP growth up 2.7% so we ae ahead of the U.S.; ECB upgraded its 2018 forecast for growth from 1.8% to 2.3%; starting to see signs of recovery strength from Europe and the developed markets; Japan unemployment rate is even lower than ours at 2.7%; arguably a shortage of workers there, especially with the aging of the population. Year-to-date we've had more volatility and that's not terribly surprising; it's really a move back to more memorable levels of volatility; 2017 was an exceptional low year of volatility. The VIX, which is the Volatility Index, you may have heard in the news recently, has been around since about 1993. The average for the VIX is 20th. It's been around 10; maybe a little bit below for much of 2017 and we set a record number closes below 10 throughout 2017; abnormal low levels of volatility. What you've seen year-to-date probably more of what should be expected from equity markets. A lot of that driven by some inflation data that came that suggested that the Fed may be encouraged to raise rates a little bit faster. From a valuation perspective U. S Markets are fully valued. We are even a little bit above full value. Outside the U.S. valuation is a little bit better but still trending towards the high end of the rank; not surprising that market's slowed off somewhat, given the abnormal low volatility, the high valuations, and the developed lack of volatility we've had, it wasn't terribly surprising. I will stop there and ask if there are any questions.

Comm. Perona said in the back of my mind we are messing around with asset allocation a little bit more anticipation of non-U.S. markets, is that still a good profile and good strategy?

Mr. Chapman said it is. On Page 3 I will hit a couple of data points there. Valuations are better outside of the U.S. and international markets have been doing very well. On the right-hand of Page 3, for the year, EAFE which is developed markets was up 25%; emerging markets were up 37%. Those markets have been very strong and a little bit earlier in the cycle than the U.S. To answer your question, I think it is a reasonable time to have made that move.

Mr. Walker said, I was reading somewhere that the price of earning ratio for U.S. equities is now the highest it's been since close to 1929.

Mr. Chapman said it's certainly in the range of what we saw in the tech bubble. I don't know where we were back that far but, yes, earnings are a good bit higher, especially when you get what we call the sickly adjusted PE. We're at the very high end of the rank.

Mr. Lewis said he would challenge that one because if you said the highest since 1929 taking out the tech bubble, because the tech bubble was such a huge spike in valuations, it would be really hard to get back to that level. There are several different ways you can look at the valuations; are we going to use trailing price to earnings; are we going to use forward price to earnings; are we going to use the sickly adjusted. Your point is still correct in that this is one of the expensive markets that we've seen for the U.S. Is it more expensive than the late '90's, I would argue probably not. Is it expensive relative to history and a lot of history? Absolutely.

Mr. Chapman asked if there were any other questions. Just a quick word on Bond Markets on Page 4; top right-hand chart, you can see, interest rates have been moving up on the short end of the curve. That's largely controlled by the Fed. You can see year-over-year from the green line, which is 12-31-16 to the blue 12-31-17. Short-term rates have come up quite a bit. It has actually been a little bit different on the long end of the curve, which is more driven by inflation expectations than less of what the Fed is doing. You actually saw long-term rates come down a little bit and that was driven by the fairly low inflation numbers that we have much of the year. Year-to-date, one of the interesting things as the equity market was selling off late January, early February, generally we talk about equity an bonds having a little bit of negative correlation, so that when equity go down, bonds usually go up. We actually saw the opposite, bonds going down as well because the interest rates are rising so quickly. That was mostly due to some inflation data that came out that suggested that maybe inflation may be a little bit higher than we expected over the last couple of years and also the Fed may have to raise rates a little bit more quickly than expected. On Page 6, just a quick summary of your asset allocation so, largely in line with your targets; this is the first time you all have been over $200 million in assets. Congratulations on that. Page 7; just a quick summary of your results; very good quarter, up 4.3%; that was a little ahead of your benchmark; 3.9% was set for the benchmark; last year very good results; 15.6% versus the benchmark right at 15%. That placed you in the top half of your peer group. Looking at long-term return; very good results; 3, 5, and 7 years, all well ahead of the benchmark. The last 7 years you were in the top 9%; about 300 different public funds in this peer group. That puts you around the top 25 in the country. One thing we will point out is to your total fund benchmark, if you all were just passively invested in each asset class and you didn't use active managers that would have ranked in the 22nd percentile for 3, 5, and 7 years. What that tells you is that your asset allocations is the big picture decisions you all have made have been a favor. That's not surprising when you think about your portfolio is mostly equity, you have some real estate, and you have some bonds. Equity has been the strongest performer for the last 10 years. Moving to Page 9 to your equity results; Emerald Advisors is your small cap growth manager. They had a very good quarter; been a very strong performer to you all; very good results across all the time periods we've look at both relative to peers and the benchmark. Since you all hired them a little more than 13 years ago, they've outperformed more than 2% relative to their benchmark. Page 10 is Ceredex. You may remember Ceredex had a little bit of a challenging period post-election; 4th quarter of 2016 was tough for them an also the middle of 2017 was a little challenging for them as well. They had a

very good quarter during the 4th quarter; outperformed by more than 5% relative to their benchmark. For 2017 they strongly outperformed their benchmark. One of the things that has helped you all achieve such good results is being patient with your managers and not firing them when they have had one or two bad quarters. On Pages 11 and 12 we won't spend any time here. These are your two State Street Index Funds. Both of these continue to track the benchmark that you have given them; no concerns there. Page 14 is Morgan Stanley Developed International Equity. They underperformed a little bit for the quarter. For the last year they outperformed the benchmark by better than 1%; up more than 26% for the last year. You probably recall that generally Morgan Stanley is fairly defensive. They've been concerned about valuations a lot longer than a lot of others. In a year where the market was up so strongly for them to be up more than the benchmark was a really good results. You see that kind of sum in the 3, 5, and 7 year numbers, they've been a little bit more conservative, more defensive position against some of their peers. So, the peer rankings aren't quite as strong; no concerns there. While we are re this page, you all have some objective in your policy statement that we summarize at the end but, the two goals for Morgan Stanley are, first, for the three year period to outperform, making the top half of the peer group. They don't quite make that. They rank in the 68th percentile and they also did not outperform by 1% over the 3 years. They did outperformed but it was about 50 bases points; 41 bases points versus 50; not quite what we hoped for but not terribly concern either. The Emerging Markets portfolio is on Page 15. This is, again, Morgan Stanley and this is focused on the emerging economies; a little bit challenging quarter for them; challenging year as well. The portfolio was up 35% for the year. That did trail the benchmark, which was up about 37.3%. They've been underweight to China for several years now and you all have heard this thing before and China has been growing rather strongly. It's a large piece of the Index. When China is the best performer as it has been for the many recent periods, they are going to have a little bit of a challenge. The results are fairly average; kind of relative to all of your other managers. If you look longer term, in line with the benchmark; slightly ahead; these are net of your returns. They've done fine; managed the portfolio as you have requested but, the performance results haven't been quite as good as some of your other managers. We are not recommending any change at this time. Page 16 is William Blair. This is your growth manager to pair with Morgan Stanley on the value side, and William Blair can go across both developed and emerging markets. A little bit of a challenge quarter for them relative to the benchmark but still up 4.6% for the last year; very good results relative to the benchmark; up 29.5%; in the 32nd percentile of all the peer groups; good results for them in the 1, 3, and 5 years; year above the median manager for the peer group and well ahead of the benchmark. Moving on to Fixed Income, Richmond Capital; ahead of the benchmark for the quarter; 48 bases points versus roughly 40 for the benchmark; very good results long-term; they're ahead of the benchmark for all of the peers you see here and generally they've done pretty well relative to peers; that median or above for all of the long-term periods that you see here; very much a core exposure; they are overweight to credit; overweight to corporate bonds. Corporate spreads have gotten very tight and what that means is the discount relative to the treasuries. Corporates are being priced relatively close to treasuries, relative to the long-term average. Last is real estate; good results for Heitman; up about 6% for the year by trail of the benchmark 6.9% for the last year; completing longer term 9.5% over the last 3+ years; a little bit behind the benchmark. Heitman generally

manages the property trust fairly conservatively relative to the benchmark. Given the long run we've had in real estate, I think they're managing the portfolio fairly conservatively at the moment.

Mr. Lewis said there was an announcement made the beginning of the year on Richmond. One of the original founders, Mark Walker, has announced his intent to retire at the end of the year in 2018. I spent some time on the phone with Howard Boss, who comes here sometimes. He said I got this announcement to make; we're going to have a retirement this year. We will have plenty of time to meet with them to understand what he did, how they're transitioning. They have that runway to transition and he's been less involved in the investment process for quite a while so, this makes sense and this is a well telegraph transition. I just want to make you all aware of that. In the back of the report is a list of policy statement objectives. They originate from what we view as your play book. That the investment policy statement; given some of the recommendations you all have acted on with increasing international as a percentage of your total equity. It was a good chance to change this in the ranges. Also look at some other things in this policy statement that may be more cosmetic or it may be more material. When we think of these policy statements and what makes them effective, as I mentioned, this is your play book. This is where it allows you all as new Board members to come in and grasp what you are supposed to be doing; how we are supposed to evaluate our managers; how we are supposed to be evaluating our advisers. You all have a lot of the key topics and sections we like to see in a policy statement. There are a couple of things you could consider. The first thing is outlining the roles and responsibilities of the Board; what you all do as a Board; adding more detail about what you all do as Board members and monitoring the investments. The same thing for staff; same thing for consultants, and the same thing for managers, and we have a lot of language to go on which we can add to that. More is not necessarily better, so we'll provide you all with a sample of that if there is some interest there. On Page 4 we just changed the ranges to accommodate for the new allocations per a larger share of internationals; a percentage of equity and the ranges as well. One thing that you may want to consider is would you all like to see the benchmarks. Do you want to specify large cap stocks are measured by S&P 500? That is what we think of is a best practice. We took out emerging markets because that's more cosmetic on the bottom of Page 5 and some more cosmetics on Page 9. The bigger picture is we need to go out to all your managers as we do when there're changes made to this document and send this to them firs to say, would you agree to this? Is this still how you manage money? Are these still the typical characteristics? Is this still reasonable benchmark for you all? Should you be expected to outperform by 1%? It hits home with Richmond Capital. In the performance objective you want to see them outperform net of fees by at least .50 of 1.0%. When interest rate is 2.5%, that .50 of 1.0% is a big number. Just something to be mindful of; we will negotiate with the managers and get back to you. Plan on the May meeting and we will send a draft well ahead of the May meeting to be adopting something amended from this.

Comm. Perona thanked Mr. Weston Lewis and Mr. Cody Chapmen for coming.

Mr. Stephens said he has a question for Ms. Morris. You mentioned we obviously have to make payments to our retirees. Do you tend to pull and put it in a separate fund and we pay out of this fund, do you take that in disbursement once a year and put money in there based of what you believe it's going to be and you try to do it so you don't have to move money around; you try

pulling it off what we've done better on like real estate and it still keeps our allocation. Is that correct?

Ms. Morris said that correct. Once we determine what we will need annually, we reach out to Weston and Cody; they tell us where to pull the money from and we contact those managers and tell them we need to get some cash. We don't pull the money to our fund. We pull it and have it stored at our Sun Trust Custody account because it earns more money sitting in there's. We may pull about $3 million that we are actually getting ready to pull right now from the Custody account to make our payments up until April.

Mr. Stephens asked do we pull twice a year.

Ms. Morris said they let us know how much it is, but we take it and send it to Sun Trust and we move the money from Sun Trust to our actual checking account to make the payments.

Mr. Stephens asked how often do you pull.

Ms. Morris said it's usually once a year but in this case we're going to do twice because with the real estate they had to have time; we had to do a 90 day notice.

Mr. Avilla asked a question. I know with me being at the Police Department for the last 19+ years there've been very few people actually retired from our Police Department. However, I know the future because I'm the recruiter and I keep the statistic for our data for our employment. I know from present to the next 10 years we're going to have more high-dollar people retired. It's almost unbelievable. There's probably not going to be a person retiring from our Police Department that is not going to be making $80 to $100,000 between the two retirees for sure and I'm not worrying about the 185. How much would that affect the pension, because it's so heavy? It's going to be so heavy on our side for the first time since I've been here.

Ms. Morris said our System is based upon our actuarial assumptions that are based on an annual basis, so as long as we are putting in the actuarial amount that the actuarial tells us to make, there should be a pension for everyone in the System when they get to retirement.

Comm. Perona said it's only when markets go haywire across the board or the System doesn't fund it accordingly that we end up having some major issues.

b. DISCUSSION REGARDING RULE OF ACTUARIAL ASSUMPTION

[This was discussed earlier in the meeting.]

ITEM NO. 9 ~ CONSENT AGENDA

Comm. Perona said the next item is the Consent Agenda. **A motion was made by Ms. Morris and seconded by Ms. Penick to approve the refund of member contributions.**

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

ITEM NO. 10 ~ CONSIDERATION OF ABSENCES

Comm. Perona asked if Comm. Sessions had called to say he wasn't going to be at the Board meeting. It was said that he did not call.

ITEM NO. 10 ~ BOARD MEMBER COMMENTS

Ms. Scott said at the last conference meeting she passed her advanced course and is now certified.

Ms. Morris gave an update on our Milliman Program. It was supposed to be up and running this month, however, Mr. Armstrong came and we were going to change the mortality rates. They wanted to put in the new mortality table and the calculation, so been working with Mr. Armstrong to get all that information up and rolling. Once they're done with that, they said they would project may be in April. Also we're planning may be UA can send over employees. In August the City is planning a big educational session for our employees and it's going to be on benefits as well as our Retirement Program. We're going to do an overrun of our Retirement System, explain to them what their 3% multiplier means and things of that nature. Also our 457 Plan sponsors are going to be here and will explain what the 457 Plan is; why it benefits the employee to invest in and it will be done the same time as our open enrollment for our health and wellness as well. It will be done over at the Riverwalk and the Community Center.

Mr. Avilla said I made it through the first conference course. It was a lot to take in but I made it.

Comm. Perona said not to worry. They do repeat a lot of things so you will be able to get it.

ITEM NO. 12 ~ ADJOURNMENT

The next item was next month's meeting. The next meeting is scheduled for February 15, 2018 at 3:42 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 3:00 p.m.

ATTEST:

CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
February 15, 2018

_____ _____

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.