

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM  
MINUTES OF MEETING HELD  
May 17, 2018**

Summarized Minutes of the regular meeting of the City of Fort Pierce Retirement and Benefit System May 17, 2018 2:00 p.m., in the 2<sup>nd</sup> Floor Conference Room at City Hall.

Present:

Comm. Tom Perona  
Commissioner Reginald Sessions  
Keith Stephens, Vice -Chairperson  
Johnna Morris  
Brian Avilla  
Caleta Scott

City Commission Member  
City Commission Member  
U.A. General Member  
Director of Finance  
Police Officer Member  
General Member

Attorney Jim Walker  
Christina Paz

Attorney for the Retirement Board, Advisory  
Retirement Clerk

Guest:

Cody Chapman  
Weston Lewis  
David Bernard  
Sean McDermott  
Robert Duwa  
Paul Lundmark

Callan Associates  
Callan Associates  
Morgan Stanley  
Morgan Stanley  
William Blair  
Richmond Capital

Absent:

Nina Penick

U.A. Board Appointee

Recording:

Queen Thompkins

Executive Assistant to the Director of Finance

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM  
MINUTES OF MEETING HELD  
May 17, 2018**

**ITEM NO. 1 & 2 ~ ROLL CALL**

**Comm. Perona** called the meeting to order at 2:03 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 MAY 17, 2018**

**Comm. Perona**, the next item was the approval of the summarized minutes of May 17, 2018, and asked if there was a motion to approve the minutes. **A motion was made by Ms. Caleta Scott and seconded by Ms. Johnna Morris to approve the summarized minutes of May 17, 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 he has nothing to report but is happy to entertain any questions.

**ITEM NO. 6 ~ PUBLIC HEARINGS ON BENEFIT APPLICATIONS**

**Comm. Perona** opened up the public hearing for comments on the request for Retirement (DROP Program) from Jackie J. Bea with 10 years and 2 months of service with the City of Fort Pierce. He asked if there was anyone here who would like to publicly comment on this request. Seeing none, **Comm. Perona** closed the public hearing. **Comm. Perona** opened up the matter for the Board. **A motion was made by Ms. Caleta Scott and seconded by Mr. Brian Avilla to approve the request for retirement from Jackie J. Bea.** **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 Frank Cox with 12 years and 3 months of service with the Fort Pierce Utilities Authority. 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 by Ms. Caleta Scott and seconded by Mr. Keith Stephens to approve the request for retirement from Frank Cox.** **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.**

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM  
MINUTES OF MEETING HELD  
May 17, 2018**

**Comm. Perona** opened up the public hearing for comments on the request for Retirement (DROP Program) from Samuel L. Smith with 16 years and 9 months of service with the City of Fort Pierce. He asked if there was anyone here who would like to publicly comment on this request. Seeing none, Comm. Perona closed the public hearing. Comm. Perona opened up the matter for the Board. **A motion was made by Ms. Johnna Morris and seconded by Ms. Caleta Scott to approve the request for retirement (DROP Program) from Samuel L. Smith.** 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 (DROP Program) from Todd A. Warner with 25 years of service with the City of Fort Pierce Police Department. He asked if there was anyone here who would like to publicly comment on this request. Seeing none, Comm. Perona closed the public hearing. Comm. Perona opened up the matter for the Board. **A motion was made by Mr. Brian Avilla and seconded by Ms. Caleta Scott to approve the request for retirement (DROP Program) from Todd A. Warner.** Comm. Perona asked for any questions or comments on this request before the motion was called. **All those in favor of the motion signified by saying aye. A poll was done of each Board member. There was no opposition and the motion was carried unanimously.**

**ITEM NO. 7 ~ OLD BUSINESS**

None.

**ITEM NO. 8 ~ NEW BUSINESS**

**a. REVIEW OF PERFORMANCE EVALUATION FROM CONSULTANT –  
CALLAN ASSOCIATES**

**Comm. Perona** welcomed Mr. Weston Lewis and Mr. Cody Chapman.

**Mr. Chapman** thanked Comm. Perona and said they will try to be mindful of the time for your investment managers. Working from the Executive Summary; on page 2, just a couple of comments on what's going on in the world and the drier economy; the GDP continues to be strong here in the U.S.; 2.3% in the first quarter, almost 3.0%; revised upward in the 4<sup>th</sup> quarter; unemployment continues to come down; it's the lowest it has been in a couple of decades; getting real close to full employment, if we are not already there. We are starting to get pockets of industries and sectors where there is a shortage of labor. That's giving the Fed continued encouragement on moving interest rates higher; continuing to move to a more normalize interest rate environment; targeting Fed Fund range of 1.50% - 1.75%; probably a couple of more hikes coming this year; maybe 2 or 3 in 2019; maybe 4, depending on where you are looking for your data. Inflation is something we are starting to see; 2.4%+ as of March (year-over-year); corporate earnings are still very strong; consumer is still very strong and when we look abroad, we continue

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM**  
**MINUTES OF MEETING HELD**  
**May 17, 2018**

to see strong GDP growth; from the Euro zone, we seeing some strength in Japan and China as well and continue to see unemployment going lower in the Euro zone. Overall when we are looking at the global economy, they had a little bit more volatility this year.

**Comm. Perona** asked is there an overall target they are trying to get to; 2.5% or 3.0% in the next couple of years.

**Mr. Chapman** said yes, the heights has been 25 bases points; I think you will continue to see this. I think that's a reasonable target, maybe even a little bit higher. What you've seen on the short end, you seen the rates come up; on the long end you're actually seeing rates be pretty anchored. Long term rates are more driven by market expectations of inflation. One if the things we're looking at Euro curve has gotten a little bit flatter than it was. It still has some steepness but whenever you start to see the Euro curve start to flatten out, that's probably where we would have some concerns. For you all as long term investors, higher rates aren't such a bad thing. You can get more bang for your buck from your bond portfolio and if that's the case, you don't have to your equity portfolio work quite as hard. On page 3 we will talk about equity market for a second. We did have a lot of volatility back in February; even some in March as well. We had 6 days of movements greater than 2% during the first quarter versus zero 2% swings in all of 2017. The volatility you saw in the first quarter is not necessarily abnormal; the lack of volatility in 2017 was more abnormal. It's been awhile since we've been reminded how volatile the equity market can be. The market was down a little bit for the quarter. That was the first in a couple of years; S&P 500 down 80 bases points; small caps stocks were down about 10 bases points. There was a pretty string difference between growth and value. Growth stock were up between 1.5 to 2.5% for the quarter. When you look on the value side, you were down 2.5 to almost 3%, depending on the capitalization segment. That's driven a lot of growth and a lot of earnings expansion we have seen over the years; coming from some of those growth sectors. Looking abroad, results were down but overall not all that bad; EAFE down about 1.5% in dollar terms but down about 4% in local currency terms. You have the dollar depreciating relative to most currencies and that's been the trend over the past few years. Page 4, just looking at interest rates briefly, if you look at the top right, you can see rates on the short end and the immediate part of the curve, were up from year end but, rates on the long in of the curve. Interesting, with all of the volatility that we saw in the first quarter, generally that's been an environment where you would think that bonds would be a safe haven. I've seen how that highlight some of the risk going forward if you have rates moving upward but you also have volatility with the equity markets. There may be moments; this was the case in February your bond portfolio is not as helpful during volatile markets as maybe you would expect. When you think about your portfolio, you don't have a lot of diversifying assets like hedge funds and private equity. Hedge funds, in particular, had a good first quarter with all of the volatility coming back and having some exposure to strategies that are less reliant on upward sloping markets. Keep that in mind when you're thinking about things like your asset allocation, your performance relative to peers. Page 6 is just a quick summary of your investment portfolio as of March 31<sup>st</sup>; down a little from December 31<sup>st</sup> where you were just north of \$200 million; at about \$195.6 million through March 31; that was about \$1.5 million of investment losses and then about \$4 million came out of the portfolio for benefit payments. On page 7, looking at your total fund results; down 71 bases points for the quarter; that was right in line with your policy target.

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM**  
**MINUTES OF MEETING HELD**  
**May 17, 2018**

When you look at your long term results, continue to be very strong; last year up 3.10%, well ahead of your target. Short term, a little bit of volatility but long term results continue to be very good for you. On page 9, we will start with Emerald, your small cap growth manager; challenge quarter for them; down 1.7% versus the benchmark; up 2.3%; very difficult quarter for them; stock selection within a few sectors; Health Care, Producer Durables, Consumer Discretionary were all very challenged. When you add it all up and you look at the long term results, and they've been with you for about 14 years now; very good results; well ahead of the benchmark for all the periods you see listed on the page and very strong results relative to peers; difficult quarter but no long term concerns. Page 10, Ceredex is your value peering within small cap, so they balance out Emerald; challenging quarter for them as well; down about 3.6% versus the benchmark; down about 2.6%. When you look at the long term results were very good for the last year; 5, 10, 15 year results all well ahead of the benchmark and peers. They've been with you all for about 19 years now and have outperformed the benchmark about a little bit more than 3.0% per year since you hired them. Another portfolio where there is some challenge; volatility during the quarter, but when you look at the long term results, I think we are still very comfortable with Ceredex. Pages 11 and 12, these are your index funds; they continue to track their benchmarks closely in an attractive fee, so no concerns there. Page 14, we'll talk about Morgan Stanley and they are here today, so we will let them talk about what's been driving performance. The first strategy on page 14 is the Developed International strategy that focus on the EAFE universe, the mostly developed markets. This strategy has a pretty good track record of when markets are volatile and are down, generally outperforming and you saw that here in the first quarter; they were down 1.1% versus the benchmark down 1.5%, and another very volume tenured manager for you all; been with you more than 26 years now and when you look at the long term performance, it's been very favorable for you relative to the benchmark and peers. Page 15 is the second Morgan Stanley Emerging Markets strategy. This strategy has been a little bit more challenged relative to the benchmark and peers. You can see performance has generally around or slightly behind the benchmark and peer results have generally been median or third quartile. They also had a little be of a personnel change during the quarter. This strategy breaks out different regions and has lead portfolio managers dedicated for different reasons and one of those is Asia. The lead PM for the Asia segment of the portfolio is leaving the firm as of Jun 30<sup>th</sup> to take an academic position so, not going to a competitor, not retiring; just going to a more academic position. They have identified a couple of replacements, May Yu and Amay Hattangadi. We'll let Morgan Stanley talk more about those individuals and share some background on them. The lead PM of the strategy, Ruchir Sharma remains the lead portfolio manager for the overall strategy. He's been on this strategy for many years now; he's the PM we talked about has been underweight to China. We will let them talk more about the personnel changes. It's not one that we're terribly concerned about, we would like to see more from a performance perspective. They have been underweight to China. That has been a very strong head wind for them. Eventually you are paying for active management and paying for a manger that's going to outperform the benchmark. We would like to see some improvement from the strategy in the near future or you may want to talk about some different options.

**Comm. Perona** said it's good that we go to the long term performance before we start getting comfortable. Now, we are getting into one where we really don't have long term performance; that can tell you that they did it for you before; when you get those questions like that, my question

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM**  
**MINUTES OF MEETING HELD**  
**May 17, 2018**

was going to be when should the flags pop up? I've been on this Board the longest and I can't remember firing anybody. I'm not saying do that today; it's just that this is a conversation I would like for us to have to eventually get some type of feel of, should we wait until you say this would be a good time to start looking at that. I would rather we be able to look at the performance for a long period of time and develop a feel that this is the time that we should start talking about making a change.

**Mr. Chapman** said he think they are pretty close to that. I think this is an opportunity you have them here today to hear what's been driving the performance. It's going to be China; I can tell you that. The question is whether or not you feel like that's a viable reason for the performance; how they've positioned the portfolio is reasonable given their thesis. At this point, it's time you see some better performance or we need to think about some action.

**Comm. Persona** asked if the emerging markets doing well across the board.

**Mr. Chapman** said they are. Being up about 23.5%, they are probably your best performing managers of last year. It's not kept up with the benchmark, which is almost 25.0%; in the last 3 year, 8.5% vs. 8.8% for the benchmark. On an absolute basis, it's been pretty good.

**Comm. Perona** said normally what we would do at this point is to take a look at the long term performance to be able to get comfort in that; look at the long term performance and if it's not there, we hear the "knock at the door."

**Mr. Chapman** asked if there were any questions on Morgan Stanley.

**Comm. Perona** said normally when we see a quarter or even a year where we've had difficulty in performance, we just don't react immediately because we always go back to the historical record and it shows that over a period of time we are all human beings and we are going to make mistakes.

**Mr. Chapman** said if we were sitting here six months ago, the long term numbers looked a little better and they were at a point where it wasn't great but it wasn't worth making a change either. With the last couple of quarters; they did outperform this quarter but, the numbers.

**Mr. Stephens** asked if there was something we can do. Can we put them on watch?

**Mr. Lewis** said they are on watch now.

**Mr. Chapman** said this is your chance to communicate with them directly. It's very reasonable to say we would like to see the performance improve for the emerging markets.

**Mr. Lewis** said the other issue is they manage \$1.4 million for you, which is very little. Even if they were knocking the cover off the ball, it wouldn't make a huge difference, and if they are under performing, it's not making a huge difference. For every penny in this plan, we have a responsibility to do what's best for the participants and the beneficiaries. You go through certain costs to replace the manager.

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM**  
**MINUTES OF MEETING HELD**  
**May 17, 2018**

**Comm. Perona** said our Board would rather do the right thing, no matter what and that's our charge, even if it cost more to do it, as long as it's right when it's all over with. You will have to tell us what the cost and the procedure is.

**Mr. Stephens** asked because it's \$1.4 million, is that small for them?

**Mr. Chapman** said you are invested in mutual funds, do it's a very large pool of money that you alongside of a lot of investors. I don't think it's a lack of attention. There is one other thing we should think about. William Blair is your international growth manager. William Blair has a benchmark of the off country world SUS index. That is developed plus emerging markets. Essentially they, as the manager say, we want to be overweight or underweight emerging markets depending on our research. With Morgan Stanley you have that broken out in two separate pieces. You have the developed market piece which is EAFE and you also have the emerging market piece which is just emerging markets. To Weston's point, you all are somewhat underweight; emerging markets, the size of that allocation but, your Board has effectively taken on that decision by having an EAFE manager and an emerging markets manager, and this on the value side so, pairing that with William Blair. One option would be to say we want to take these two Morgan Stanley mandates, potentially combine those into a more SUS oriented product. Then, you all aren't having to make that developed vs. emerging decision; you're giving that lever to the manager and that's one less manager you are opt to monitor. What it probably means is Morgan Stanley developed portfolio, which has done very well for you. It's returned 9.9% vs. the benchmark at 5.6% for 26 years. You may part ways with a manager who has done very well for you; that's an option, or we can do an emerging market search and replace them.

**Comm. Perona** thanked Mr. Chapman for clearing that up for him.

**Mr. Chapman** said it's a difficult decision. I think we been a little hesitate to make a change just because your developed portfolio has done so well. They don't accept new money into the strategy and there are a lot of people who would like to get into it.

**Mr. Avilla** asked if money couldn't be moved this money into the developed strategies from the emerging markets.

**Mr. Chapman** said they would probably take it since you are an existing investor but then you would have the emerging markets exposure.

**Mr. Lewis** said it is exposure on one hand but exposure that lagging the benchmark exposure.

**Mr. Chapman** said if there's not comfort after talking to Morgan Stanley, we can talk about a couple of options. For a lot of companies we have done something called international structure state where we say, here's what you have; here's how it lines up with the globe opportunity set; here's a few ways you can think about structuring it. That would be a separate project. That's something we could bring back at the next meeting.

**Comm. Perona** asked when we listen to the presentation and we hear some bad news, we're unhappy; we expect an increase in performance; how does that translate to the company? They're

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM**  
**MINUTES OF MEETING HELD**  
**May 17, 2018**

not going to go back and say, we're going to have to start making money or we're going to lose this client because we're a penny in the grand sea of their investment. It's basically the timing is right and everything works out properly; they see an increase; all of a sudden they're saved. If not, there's nothing actively they can do to change this, is that right?

**Mr. Chapman** said their incentive is to get it right. The PM, Ruchir Sharma and his team; you have their full attention.

**Comm. Perona** said they can't do anything different than what they are already doing to advance that. We are not going to change the way they operate or they function. Basically we would be giving them some form of warning. Things are going to have to change or we are going to be looking at other options.

**Mr. Chapman** said William Blair is coming in. Their performance has been very good. They were up 22 bases points vs. the benchmark; were down 1.2% so, good quarter for them. Their 1, 3, and 5 year numbers look very good. Richmond is also here; on page 18; your Bond manager; definitely will be the most exciting presentation of the group. No concerns with them as well; long term, very good results. They've done a very good job for you. They're managing the portfolio in a way that we think is appropriate; no personnel issues and the numbers have been good. Real Estate is the last one on page 20; Heitman was in line with the benchmark for the quarter; up about 1.9%. Looking out you have just a little bit more than 3 years performance with them; better than 9.0% per year. That's slightly behind the median and slightly behind the benchmark but overall, I think given where we are, I think we are okay with them being a little bit more conservatively positioned than some of their peers. I think this has been a decision that's really been beneficial for you relative to your total fund. Any questions on any of your managers before we bring them in? There being none, Morgan Stanley's managers, David Bernard, portfolio specialist on the emerging markets equity team and Sean McDermott, portfolio specialist on the international equity team introduced themselves.

**Mr. David Bernard** said he will start with the review of emerging markets. Starting with an update on page 7 on the business and the team in terms of our investment team within the firm; currently manages about \$26 billion. The bulk of that; the white center of the circle is in our core flagship emerging markets portfolio; that is the strategy that you all are invested in. Our investment team on page 8; we have a 25 person investment team; Ruchir Sharma at the top of the page is the head of our team. We are located in New York, Singapore, Hong Kong, and Mumbai. The center box is our portfolio managers and analysts. We are organized by country and by region and generalist by sector. In upcoming transition from a team standpoint to be aware of, Munib Madni, who is based in Singapore is going to be departing the team at the end of the quarter. Amay Hattangadi under India, who is currently in Mumbai will be moving to Singapore and becoming co-leader portfolio manager for Asia along with May Yu. May Yu has been with the team for about 15 years. He's retiring, going to pursue academic interest and Amay, one of our longest tenure investors; 20 years with the team; very successful track record in India; moving to Asia and focusing on the Southeast Asia markets in Korea. Currently the way we are structured, Victoria Lim is focused on the Southeast Asia country; Philippines, Indonesia, Malaysia, and Thailand. She'll continue

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM**  
**MINUTES OF MEETING HELD**  
**May 17, 2018**

focusing on that under the supervision and guidance of Amay. Victoria has been with our team for 7 years now so, she'll serve a Junior PM Senior Analyst type role. Amay is going to spend a lot of his time on Korea. Korea is a market where we've had distraction from a stock selection standpoint in the past. We are really looking to bring his focus on primarily turning around that stock selection in Korea and certainly overseeing Southeast Asia as well. Once he gets into place he's going to access resources and potentially hire an analyst to focus on Korea but, he's really going to be hands-on doing that initially. In terms of India with Amay moving to India, Swanand, who's co-portfolio manager for India will become the sole India PM and likely hire an analyst in India and Mumbai to support moving forward. On page 9 our investment process has two steps. We're combining a top-down micro country allocation with bottom-up stock selection in each country. Ruchir as the head of our team, he's doing a top-down micro assessment of the world and making a decision to be overweight or underweight country relative to the index based on the outlook for that country, and then our country regional PMs, Amay, for example, they're responsible for stock selection within those markets. Page 10, here we just plot the contribution of risk factors in emerging markets on the right vs. the developed markets on the left. You see on emerging markets, that blue line, that's the country risk factor. That really dominates in emerging markets, whereas in developed markets, sometimes it's country, sometimes it's style of value vs. growth, sometimes it's industry that really dominates risk. It's not just identifying opportunist but also our micro country process held us at risk in the portfolio as well. Page 11, our country allocation framework; these are our ten steps we look at when analyzing countries. We call them the rules of the road; factors like politics, credit cycles, inflation, currency, sentiment; all impact how we make our country allocation decision. Page 12, bottom of stock selection; we are core managers but we do have a growth and quality bias, so essentially our stock selection process is looking to identify underappreciated growth and really core to our process here is the belief that emerging market is not a country that you can invest in; it's not an access class you can invest in just by sitting at your desk, behind your computer screen; you really need to be on the grounds. Our PMs are constantly traveling to the countries that we are investing in; they're meeting with companies; they're meeting with government officials. That's the core of our generation process. We will not invest in a company before we meet the management.

**Mr. Chapman** said there was a question that came up about the transparency of data in the emerging markets. How do you address that question?

**Mr. Bernard** said it has been improving over time and we've seen the standard of data improve drastically over the last 20 years. In this asset class we really rely on institutional memory and we've been investing in emerging markets since 1986. Anytime we meet with a management team, our team writes a formal note. They send it out to everyone on our team. Part of that is the discipline of putting pen to paper, testing your investment thesis. It's also building on an institutional memory; we're going back the year after and saying, what did management tell us a year ago; what did they tell us 3 years ago; what did they tell us 5 years ago? Did they say margins were going to be expanding; we're going to be improve or are we expecting earnings growth to pick up? It's a real test for us in terms of management creditability to be able to go back and say, this management team has delivered in the past, this team has made promises that were outlandish and never delivered. It's about improvement of data over time in the last 20 years but it's also about doing

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM**  
**MINUTES OF MEETING HELD**  
**May 17, 2018**

our own work and having that institutional memory that comes with investing the asset class for 30+ years. Going to performance on Page 15, so far this year, the market is up about 1.5% this year for the first quarter; we up about 2.0%. Since I was here last year, it's been a fantastic year for emerging markets in 2017. Page 16 shows you the 2017 numbers; the EM net was up about 37.0% last and our strategy was just shy of that at 36.4%. We trailed by 9 bases points last year; 2017 was a historically narrow rally in the emerging markets. Last year, with that 37.0% return, only three countries meaningful outperform the Index; they were China, Korea, and Poland. The rally was even more concentrated from sector perspective; only one major sector meaningfully outperform, technology. Technology contributed to nearly 50% of returns from emerging markets last year; real estate also outperformed but, is a new sector; not a big part of the Index generally moved the needle. From an attribution standpoint on Page 17, the biggest detractor from our performance over the one year period from a country allocation standpoint was our underweight to China, given that China had very strong performance. The second part of the process is stock selection and you see on the far right-hand column on page 17 our stock selection in China was actually the biggest contributor return for last year, so that more than made up for the underweight from an allocation standpoint detracting. Other big contributors last year; stocks selection in Brazil; again India with Amay, a strength we want to carry over to Korea were strong contributor to returns; the single biggest detractor from performance was stocks selection in Korea.

**Comm. Perona** asked if there's been any changes as far as the philosophies; you're underweight to China; is China moving up or is everybody a little skeptical of the Chinese government?

**Mr. Bernard** said China is still our biggest underweight in the portfolio. It is also our biggest absolute position; China is almost 30% of the emerging market index. Even though we have a meaningful underweight in our country weightings on page 22, we are underweight by 800 bases points, 8%, we're still got 22% of the portfolio in China. It's a country that we are not ignoring by any means. Our biggest concern in China for years has been the debt situation and how quickly they accumulated debt to serve their political goal of doubling their economy by 2020. The pace of accumulation of that debt has started to slow down in the last year or so. We are watching what's happening from a government standpoint very closely because that's critical in China. What we saw last year was that the government's mandate was on stability. The Chinese government recognize the access in their economy. Now you are going to see it tightening as they try to work out some of these financial unbalances. I do expect that the market last year was really ignoring much of the issues in China; the debt issues. There are some great tech companies in China that we do own but is ignoring a lot of the other issues. To answer your question, we are not sort of chasing after the returns we saw last year. In our country analysis we're not just looking for countries that are growing at a high, what's critical is the delta; that acceleration of growth.

**Mr. Chapman** said with A shares coming into the market, China is 30% knock off; probably 40%, right?

**Mr. Bernard** said over time, yes. The first of China's A shares which are domestically listed Chinese companies stock is going into the Index on June 1<sup>st</sup>; they will be about 40 bases points initially and then later this year they are putting another 40 bases points in. It will be less than 1.0%

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM**  
**MINUTES OF MEETING HELD**  
**May 17, 2018**

initially. That's only at a 5% inclusion factor which essentially saying they are only putting in 5% of the market cap in. Over time there's certainly room for China's weight EM Index to grow. From this standpoint we currently haven't been investing in A shares in this portfolio. We do have the ability to. We do run a dedicated China A portfolio independently, so we have a long track record investing in the China A share category. We are well positioned and you can expect over time some portion of China A stocks put into this portfolio as well. To your question Cody, you look at how industries have evolve over time, I think in 5, 10 years, you might see EM ax China, and you will have a China manager and an emerging markets broadly because China is such a big wave in the Index and it's only getting bigger. Page 19 shows the number of countries outperforming the EM Index; at historically lows level last year; page 20 shows that same chart from a sector standpoint; sector is outperforming the EM Index. It's even more distinct; we've never had this low level of sector outperform the Index. Page 21 shows by stock, and even by stock, contribution was very much narrow; typically the five top stocks contributed about 13% of returns; last year the top five stocks contributed about 30% of returns last year. If you summarize it, 30%; really attractive returns dominated by a handful of large mega type tech companies in places like China and Korea. Country weights on page 22, again not a lot of changes from last year; that's typical with our longer term process; couple of things are new; Russia is up as an overweight. We talked about that acceleration of growth; in no way are we sort of embracing Prutin and what's happening in a political standpoint there but, it is a recognition that they have shown fiscal and monetary discipline in adjusting to lower oil prices; they've really tamed a chronic inflation problem and are some attractive bottom up stock companies that we're finding in the Russian market so, that now showing up on the overweight column. Malaysia is also an overweight that we added last year; Malaysia, Southeast Asia; fast growing economy; up 6%, and this is one of the cheapest currencies anywhere in the emerging markets; globally currency contributed about a third in emerging markets. Sectors on page 23; we don't target sectors; sector is an output of our country allocation bond of our stock picking. Generally the theme here is we are much more focus on inward looking sectors; sectors that are domestic demand oriented; things like consumer; financials, which are very much focus specific countries; we are cognizant of what's happening from a trade perspective; with trade slowing; de-globalization is the theme we've been talking about for years, but we generally position our portfolio away from countries and sectors that are more dependent on trade and global trade. Mr. Bernard asked if there were any questions. On page 27, noting 2017 emerging markets had their calmest year since the late 1990s. Not only was last year unique in terms of how narrow concentrate the rally was, it was also historically a benign risk environment and that's represented by this volatility chart on page 27; one of my favorite charts in the book is on page 28; here we show the maximum inter-year draw down. Last year the max draw down was just under 5%. The second lowest in the history of emerging markets going back to 1993. The median draw down in EM is 19%. Page 29 shows the leading sector becomes middling after such a high concentration. Moving to page 31, we do think that over the next 3-5 years emerging markets still is likely to outperform developed markets and the single biggest drive for that is the relative growth differential. It's plotted in the blue line. It's not sufficient just that emerging markets countries are growing faster than developed markets countries; that's nearly always the case. What the equity markets cares about is that gap between EM growth and DM growth. When that gap is shrinking, EM tends to underperform. On page 32, EM current account is in surplus; in reference to a rising

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM**  
**MINUTES OF MEETING HELD**  
**May 17, 2018**

interest rate environment in the U.S., the emerging markets broadly are in pretty good shape to withstand as long as the gradual well telegraph's rate hiking cycle; here just looking back, even a few years ago; 2012, 2013 only had the taper tantrum; the EM current account was in deficit; that now in surplus. Now it's dependent on foreign financing for their current account. On page 33, valuations tend not to matter; only when they are at extreme levels in emerging markets. Even after the strong performance, EM still trade at a discount of over 20% to developed markets. On page 34 and 35; going through these quickly; with the context of trade wars, which we're seeing in the news all the time, this is something we've been observing post 2008, global trade has been declining; we are favoring countries in sectors with higher percentage of domestic demand; page 35, the crust of the issue in Japan is how much debt they have and how quickly they accumulated that debt. The good news is, while it is alarming at 56%, last year when I was here, that chart was at 70%. The amount of debt is slowing somewhat but it is still at an alarming high level and we want to continue to see that come down. We are being selective within China; 35%; we are investing in stocks that can prey on the good parts of China; consumption, tourism, where we've seen massive expansion at 37%; transactions; payment systems; some of the tech companies in China; they've really done a great job capturing that. Page 38 and 39; Poland, again we talked about Eastern Europe last year; we continue to like that conversion story with broader Europe and Poland. Page 40 summarizes all of this because we do try to cover a lot quickly. Essentially, we believe that EM are in the early stages up an upturn given the strong economic outlook we see; our positioning is around convergence potential; places like Eastern Europe; low GDP per capita; places like Eastern Europe; low GDP per capita countries in Southeast Asia, and that some of these countries that have adjusted after commodity shock; Brazil, Russia, we are seeing that acceleration of growth; concentration has been very elevated; that's unlikely to persist; risk has been historically low; that's unlikely to persist. There are going to be opportunities now in some countries, sectors, and companies that were really overlooked over the last rally in emerging markets. Whether is financials, consumer, and increasing some of these smaller mid cap names that lag the really handful of mega cap companies that dominated returns last year. Mr. Bernard asked if there were any questions on emerging markets.

**Comm. Perona** said your outlooks is that compared to the performance that we've had in the last 3-5 years, things are starting to turn the way that you have perceived the markets; basically are going to play into a better performance over the next couple of years? Is that pretty much what's going on? We're trying to understand exactly where we are right now; where we've been. We just need to hear from you that this is something that's going to improve over a period of time so that we can maintain our position with you.

**Mr. Bernard** said are you talking from a relative performance standpoint or an EM as an asset class?

**Comm. Perona** said from an EM asset class.

**Mr. Lewis** said and as well as relative performance.

**Mr. Bernard** said from an asset class level, we do think that you saw the bottom of EM in February 2016, and post February 2016 you've had strong performance from EM as an asset class. We do

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM**  
**MINUTES OF MEETING HELD**  
**May 17, 2018**

think this is a multi-year trend. You got 37% from emerging markets in 2017; quite a strong return. I would say that over the next 3-5 years; in a short term; 6-12 months, we are not marking returns; any sort of bad news can happen, but over the next 3-5 years we do think that EM equities are going to outperform developed market equities because they are much earlier in the business cycle and in the economic cycle than the U.S., and in developed markets more broadly. I would expect when you look 3-5 years from now; at those 3-5 year numbers, you will see EM as an asset class outperforming developed market equities. I would not expect to see 37% year after year. Those are unusually high numbers from an asset standpoint; from a return standpoint. In terms of relative performance, we did slightly lag the Index last year. I would say the reason we lagged was because of how unusual the market was and that very countries and sectors were outperforming; we happened to be underweight China which was the biggest drive from a country standpoint. We also happened to be underweight technology from a sector standpoint which detracted from returns. In a more normalized marketing environment, we do have a broader array of countries and of sectors outperforming. That's when we are much more likely to generate Alfa. The only type of EM manager who would have outperformed last year had to be overweight China and overweight technology. As our investment process is focused on that 3 year time period, there will be short peers within that where we will lag, particularly if you have markets that perform as they did last year in terms of the return being just a handful of countries and sectors, and also importantly that risk chart that we showed, and you didn't have that drawdown; Even if you have a positive year from emerging markets, when you do get drawdowns along the way, that's when growth and quality characteristics can really outperform. We didn't have any sort of disruption in the market last year where our strategy on a relative basis could generate assets return. We are very confident in that in how our position and before we do think over that 3 year period, based on our country allocation, we don't think China and technology is going to continue dominating returns and we do think that the portfolio is likely to outperform.

**Comm. Perona** thanked Mr. Bernard.

**Mr. Sean McDermott** said he will touch briefly on our process and philosophy. I will update you on the team. On page 6, and I won't touch on all these pages because there's quite a few. Page 5 gives you an idea of what this team does. We are a bottom up stock picker with a high quality bias. We invest in a combination of high quality companies and what we call value opportunities. In order for us to be more weighted that way, you have to be paid for the increased risk that we're taking on because these are more sinkable type companies; you're not getting the steady compounding aid that you get from high quality companies. What we mean by high quality; we seek to generate long-term outperformance by investing in a combination of high quality compounders and value opportunities, the mix of which adjusts over time based on price and prospects. This is a high quality portfolio. It will shift between high quality and value opportunities based on price and prospects. Flipping ahead 2 pages; page 8 on the left-hand side, you can see the diagonal line; that represents the market and the diamonds are rolling 3 year returns on a quarterly basis. This show you how you would expect the asymmetry of this portfolio; how you can expect it to form. You can see the largest outperformance comes in more difficult challenging markets. Markets are down; you can see that on the left-hand side. Where you will tend to see the strategy struggle is when markets are going straight up momentum driven rallies and what you can from

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM**  
**MINUTES OF MEETING HELD**  
**May 17, 2018**

right-hand side; compound annual growth rate almost double the Index and then over four times the value since conception. Mr. McDermott asked if there were any questions on the process. Getting you updated on the team, going to page 19, William Lock has been with this team for a long time. He remains the head, with Bruno Paulson, the other managing director on the team. Christian DeRold was a long time member of this team; he joined the team in 2006; retired effective the end of last year. We announce the addition of Nathan Wong in July. He joined effective July 17. Alex Gabriele is on the team; joined July 17 and has been doing quite well since joining the team. Those are the updates on the team, everything else remains the same. On the right of the page, you can see assets under management; international equity \$13.2 billion; global franchise \$18.3 billion; global quality \$8.6 billion; total \$40.1 billion. The next page shows primary research responsibilities. With some of the changes going on, we took the opportunity to shift some coverages around and address some areas we thought we could do better in. Nathan Wong is working on industrials and technology. Alex Gabriele and Richard Perrot are also covering industrials. Nic Sochovsky joined us in 2015. We thought he was the best sell-side analyst for the team. He's been doing quite well with Consumer Staples. He also has Energy and Materials to cover. Going to performance on page 22; I've included two performance charts; one as of March 31<sup>st</sup> and the other, the end of last year. Looking at what's happened so far this year; 1<sup>st</sup> quarter was an eventful quarter; got the market going; still a risk environment; over 5%; the volatility trade in February where the markets pulled back quite a bit; things started to differentiate in March; from January through February, underperforming the first quarter and then things started to differentiate to the high trade in March; outperformed 300 bases points, which you can see us being up to about 40 bases points for the quarter; 13 for the year ending March 31<sup>st</sup>. Since the inception of your investment in this portfolio, at 420 bases points in performance. At the end of 2017, you can see the one year number; market was up over just over 25% last year. We actually outperformed by a little over 100 bases points and that's due to strong stock selection. That's the overall performance of the strategy. For the interest of time, you can see these next four slides shows you what countries and what sectors did well or how they performed. If you have any questions on that we can touch on it; I will go to the Attributions, which begins on page 28. As I mentioned before, strong stock selection is really driving our performance within the first quarter; particularly with Consumer Staples. Consumer Staples actually struggled within the first quarter; we're up just over on half percent and the market is down nearly 3%; that shows you the strong stock selection in that sector. Energy was another strong performer; the largest detractor to perform is Yen Hedge; in the first quarter that was given the weaker dollar. We have since taken the Yen Hedge off; we put that on back in 2013 and the way we think about hedging currency in this portfolio is more for defensive purposes. When we see a threat to the currency, that's when we put a hedge on. We've seen that threat decrease over the years; we felt it was no longer beneficial to hold the Yen Hedge. We took it off in April, we didn't roll it again in April; over that period of time it contributed 54 bases points. On the left-hand side you can see some of the individual stock selections; Shiseido; a Japanese cosmetic Consumer Staples company, which has done very well; Pernod, Fanuc and Kirin did very well for us. British American Tobacco was the top detractor in the first quarter of 2018, along with RELX, Reckitt Benckiser, Barrick Gold, and Nitto Denko. Going to page 32, it show you how this portfolio is position; very familiar shape to you for this portfolio, given its high quality bias; you can see the strong overweight of Consumer Staples. This portfolio is hugely tilted

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM**  
**MINUTES OF MEETING HELD**  
**May 17, 2018**

towards the higher quality companies because of all the risks in the market. Consumer Staples and Health Care is 50% of the portfolio alone. We are typically underweight in Financials; just a lower quality sector; dealing with regulatory environment within Financials; we're overweight insurers. Within the first quarter we did increase our exposure to European banks. That underweight in Financials has closed a little. The reason we did that, we bought four high quality banks in Europe; based on an interest rate play. Europe is behind the U.S. in interest rate normalization. Looking at the left-hand side you can see we are defensively positioned based on how we see things; 51% defensive vs. 28%; underweight cyclical sectors, 48% vs. 71.7%. On page 42, country weights results from bottom-up stock selection process; currency hedging primarily used for defensive purposes. Page 43, you can see how we are positioned based on revenue generation; where companies are doing their business; you can see this portfolio has, based on revenue generation, 33% indirect exposure to emerging markets. This is how we tend to look at a portfolio; from a regional perspective. On page 44 are the top ten holdings; they won't be no real surprise; you will find Consumer Staples, three health Care and one Tech company. Page 45 shows what we've been up to in the first quarter; gives you the initial purchases, in addition to final sales. You can see with where the market has been, our turnover is typically about 35%; has been much lower than that in the past couple of years; opportunities haven't been jumping off the page. That has increased in the first quarter; as I mentioned we took the opportunity to take up positions in banks; Henkel is a Consumer Staples company; it's really half a Consumer Staples and half Adhesives company and we like the Adhesive portion of the business much better because it has a 70% capital in returns. It's a stock we owned in portfolio before. I wanted to point out, given the banks allocation and some of these other moves that the turnover in the portfolio in the first quarter actually increased. **Comm. Perona** asked wasn't Shiseido a top performer that you just dumped.

**Mr. McDermott** said we didn't dump it; we did a reduction. All of these reductions is just taking from profit. We're looking for areas where we see better opportunities. Shiseido has gone straight up since we purchase it. Page 46, if you look at the left side, portfolio's premium on Forward Earnings vs. market is likely to be lower than shown in the chart, as market's forward earnings estimates are unreliable, often overstated; market has higher gap between reported (GAA/IFRS) and adjusted re-greed earnings than the portfolio; high quality companies are better at converting earnings to cash; free cash flow is a better indicator of valuation. Page 47 and 48 summarizes what I have touched on. What are we seeing out there right now; volatility getting back to more normal levels after long period of un-natural calm. We still think there is still plenty of political risk out there; the trade war with Trump and China; most importantly monetary policy. We are getting back to a tightening cycle here in the U.S. and Europe won't be far behind. For the interest of time, Mr. McDermott thanked the Board for their time.

**Mr. Robert Duwa** from William Blair said he will start with an update on the firm; slide 7 and 8; in terms of assets under management where it's \$64 billion in assets under management, that number would have been larger; if you look back to last year's number, our investment management business historically included two components. In institutional management business, which is what we are a part of and work with you, and a piece that focused on individuals and their portfolios. We made a business decision at year end to take that piece of focus on individuals and carve that out of environment; still in William Blair; the money didn't leave the

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM**  
**MINUTES OF MEETING HELD**  
**May 17, 2018**

firm, and just set up its own entity. You will see the assets go 70+ to 64. I don't want you to think that we lost \$8 billion or 10% of our assets. It's still at the firm; it's just shifted to a different business. Year-end international growth strategy on slide 8; it remains closed to new investors. We did open one new strategy at the end of last year; that is under targeted opportunities in China/Asia strategy, and you heard about emerging markets in a prior conversation, but this is a space that we've been active in over the past several years; open to dedicated strategy again at year-end. We had one back from 2011 to 2015; we think it's a very dynamic area of the market. From a team perspective on slide 9; a couple of things I want to make sure we are current on. I know Cliff had talked with you in prior sessions that we invited a couple of years ago as well as well; about the succession plan and transition of Jeff Rabeana. Jeff no longer shows on the page; 5 years ago in 2013, Jeff committed 5 more years to clients into the firm to ensure a proper succession of his responsibilities to new portfolio managers. So we successfully completed that transition and Jeff came off the team officially earlier this year. Performance has been strong for clients during that period and we've retained a huge portion of our clients during that period. Each year at the end of the year we add new partners to our partnership. We are a 100% employee owned firm; Olga Bitel, who has been with us for 8 years has been deemed partner. Under China Generalists, Vivian Thurston was named partner as well. Kwesi Smith took her role in consumer; Kwesi has been an analyst for 3 years on our team. Mr. Duwa asked if there were any question about the team. Going to page 19, you can see year-to-date the portfolio net of fees is up 44 bases points; the markets is up 45; we are kind of even. If you update that through yesterday, the month of May has been very productive; the portfolio was up 1.88%; the benchmark up 1.65%. That's interesting for a couple of reasons, most important being April and May are earning seasons when companies report their earnings. We are trying to buy really high quality businesses that are growth oriented companies that have positive earnings. If we have a good earning season; if our company tend to outperform and beat the estimates on the street, the portfolio tend to do well during that part of the year. If you look at our performance through the calendar, you'll see during the seat part of the year when earnings are important, our performance tend to pick up during that time period. Since we were here last year, the one year numbers are up 17.73%. That's a great absolute number for your fund. International markets have been a bit choppy the last the several years; some years lag; some years outperformance; good to see outperformance in the last 12 months. On slide 22, we are gratified to see; if you would look at the chart on the left, you will see the bars; if you add those up, the bottom line is that stock selection has been added to across regions and across sectors and how we've been positioned; or whether we're overweight or underweight in certain sectors or regions has been sort of neutral to a slight detractor. What we've really tried to do and execute in picking stock is working and adding value. In terms of what works and what hasn't, you see on the top five contributors and detractors, the market has been very driven by technology, so it's not surprising if a couple of IT names show up at the top of the leader board; it's also interesting some non-IT names in Ping An, Lonza, and Maruti Suzuki with strong performance. In terms of what hasn't worked, Petroleo Brasileiro, that's the energy company in Brazil; we did make money on it but things remain challenging in Brazil. There's still clouds of concern around Petroleo Brasileiro, so we exited the stock. Other notable ones are Subaru; we've made a lot of money in Subaru over the years. This is a longstanding holding. The reality is expectations got so high, they just couldn't keep up, so earnings began to disappoint; valuation got high; the stock is not cheap, so we look to

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM**  
**MINUTES OF MEETING HELD**  
**May 17, 2018**

going forward; still a tremendously strong company; very well franchised; still gaining markets strategy in the U.S.; given the price of the stock, probably have better opportunities. Going to slide 27, this would be where your investments are deplored; on the left, a couple of things here; we are overweight Europe; that's our largest overweight. What's driving that is for the last couple of years Europe has had strong PMIs, strong GDP, and strong earnings. Europe is several years behind us in the recovery of the global financial crisis from 2008. We are seeing good earnings bottom up from companies that are really high quality companies in Europe to invest in and it's a good opportunity for us to invest. In emerging markets we are seeing that the valuations are very reasonable and we are finding plenty of opportunities to find companies that have strong earnings trends, so we are overweight in emerging markets.

**Comm. Perona** said there was some discussions about China's debt situation and it's causing some conservatives in that particular region.

**Mr. Duwa** said if you look at China, you can take it apart in a lot of ways but, there's a new economy; there's an old economy; there are companies highly indebted; highly levered; the SOEs, so we are trying to stay away from those companies that are highly indebted; highly levered, or the SOEs; one's own by the government; we are trying to go for the newer economy; growth companies. Those stocks are not risk free, just to be clear. They are trading at very high valuations. Those are two of the largest companies in the market who have grown in some of the highest rates in the market, which is usually not the phenomena you see. Usually when companies get that big, it hard to continue to grow that fast, but they have been doing it. We keep a very close eye on them. Our analyst, Bill Benton, who covers technologies, has been doing it for 20 years, so he's very focused on making sure that he's got a beat on what's going on with those companies. On slide 33, in the middle, it shows the history of our exposure in Japan; the lighter blue line is the benchmark; the darker blue line is our portfolio. We've spent a lot of underweight Japan. You can see in the last year or so we've gotten more overweight. We are kind of neutral weight now. Here's what's going on in Japan, they've always been high quality management and good businesses in Japan, it's just that they haven't been run with the shareholder lends in mind. Some of the things we've seen are that the culture has been slowly changing and the companies are getting more focused on metrics secured from other European and U.S. companies in terms of return based metrics and cash flow are all I see. The Japanese government instituted an interesting exercise where they took their massive pension fund and preyed an Index of the top ROE firms in the Japanese market and in the Index, a bunch of assets to that. Going to slide 37, our view is that we've been in a really robust environment for growth investors for what we do. Growth has been accelerating across the globe, and you see on the chart on the right; the darker blue line; China is trailing off a bit; if you look at Europe; if you look at Japan; if you look at much of the world, it has been accelerating. Our view is that it's probably not going to continue to accelerate a lot, but the fact that growth has broaden and we have lots of places find it is really exciting for growth investors. We think there's growth out there; we can find plenty growth ideas and plenty growth opportunities and when you look at valuation, upper left-hand chart, you look across the lower set of numbers, you see Japanese market is trading at 14.5x earnings; Europe at 14.3x earnings; the U.K. about 14x earnings; emerging markets about 10.7x earnings, and the U.S about 16x earnings.

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM**  
**MINUTES OF MEETING HELD**  
**May 17, 2018**

If our portfolio manager invest outside of the U.S. for you, I would suggest if we have growth opportunities that are pretty attractive and we are investing that in price multiples that are significantly lower than the U.S.; it's probably a decent environment for non-U.S. portfolio returns relative to U.S. portfolio returns going forward.

**Mr. Chapman** asked you did see Simon and Ken cross number strategies, do you find they're pretty settle of the roles they will be taking or any other changes?

**Mr. Duwa** said referring to Simon Fennell and Ken McAtamney, the two PMs that manages strategy, I think they are very settle for the following reasons; they've worked together over a long period of time; they've managed the international leader strategy for several years.

**Comm. Perona** welcomed Paul Lundmark from Richmond Capital.

**Mr. Paul Lundmark** thanked Comm. Perona. I really appreciated your business; it's been 28 years. I want to go over a little bit as far as the organization. We've grown; about \$6.4 billion under management; up about \$700 million from last year when I presented. We've been getting a lot of new accounts. Things have been going very well as you can see; very experienced team. We are independently owned; we have 10 shareholders. Going to page 2, you can see our investment team. Some of us have been together for 15 years. We did hire a new portfolio manager, David Schultz and we hired a new business development person, Gregory Glatt. The main thing as far as with the investment team is that each of us have an equal vote when it comes to the four main areas of fixed income, which is duration interest rate sensitivity; whether we should be defensive or whether we should be more opportunistic as far as being long duration; our security selection, our sector allocation, and where we are positioned along the yield curve, so each of us have an equal vote. There is no star system and I think that really gives us a good opportunity for a very good discussion and I think a very good ability to make good decisions. Going to page 3; looking at the two different charts, you can see we started back in 1989 with \$12 million and if you go down, you can see you've made \$26 million in contributions. We've been able to provide over \$62 million in withdrawals for you. It shows we have the ability to provide liquidity when you need it, as far as for sector allocations. Go to the right side of the page, you can see the portfolio duration or the interest rate sensitivity. When the 10-year treasury was right around 1.35%, that's when we are at our maximum short. We usually keep our duration between 80-110% of the Index. As rates have risen, we're still defensive but we've taken a little bit of here because we think that with the 10-year treasury now yielding 3.1%, it presents a little bit better as far as reasonable value than when it was down in the lower ones. We still have a higher yield because when it comes down to it, if you look at the side of the chart; in fixed income the vast majority are over 90% of year return is going to not come from changes in market value, it's going to come the interest you received and the reinvestment of that interest. Having a higher yield important. We've been able to be defensive as far as our duration to the Index. Since we have more non-treasury in the portfolio, we are still able to provide a higher yield, but again, the average quality is AA; very good quality in the portfolio. On page 4, this is why you continue to retain us; if you look at the first quarter of 2018, we've outperformed by 12%; our April numbers came out and we outperformed by 10 bases

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM**  
**MINUTES OF MEETING HELD**  
**May 17, 2018**

points; year-to-date we are up 22 bases points; for the last six months we are up 23 bases points. A lot of that has come through being defensive in duration because interest rates have been going up. If you look at over the 1 and 3 year time of rising, we've been defensive in duration; that's definitely helped. Over weighting corporates, not so much as overall corporates, we've been overweight in short and intermediate corporates and we've been underweight in long corporates and that can hurt us a little bit, but overall, I think the overweight in corporate has definitely helped the performance. Once you start getting over the 5 and 10 year period, where I think we had the most value, is through our sector allocation. It's very difficult to know where interest rates are going, but I think by overweighting where we see value as far as whether it's for corporate or mortgages, treasuries or agencies, that's really where we add the value. You can see that we've done a very good job as far as providing value to the portfolio. Moving on to page 5, this is what your portfolio look like as of March 31<sup>st</sup>. You can see in the top box as far as on a credit quality perspective, we are overweight in BBB, but if you look at the interest rate sensitivity of the triple BBB, more of our BBB are in short and intermediate maturity corporates where underweight long BBB in the portfolios. Actually we have less interest rate sensitivity. In the names that we have are very well diversified in BBB. We have over 26 different issuers; very recognizable names; Citigroup, Capital One Financial, Fifth Third, Key Corp, Lincoln National, Halliburton; very recognizable names and very liquid names in the portfolio. Going to the bottom chart, it showing where the sector allocation is in the portfolio vs. the Index. We have 18.7% in Treasuries vs. the Index of 37.8%. Two years ago we only had 7.2% in Treasuries. We've actually been increasing the percentage because corporates have become less of a good value, so we've been actually decreasing the amount of corporates in the portfolio. We use treasuries as dry powder as far as for looking at once corporates start to widen out again is where we're start selling off the treasuries and buy more corporates. We also use treasuries for duration purposes. If we are looking at shortening in the portfolio, treasuries are a very efficient way to do it because of the difference between how much you can buy and sell them; usually less than a bases point; very efficient way to do it.

**Mr. Chapman** said it's a little bit of a trade off because if rates continue up, you would think yield advantage of corporate is helpful but I think what you are saying is the spreads being so tight has led you to be a little away.

**Mr. Lundmark** said there was opportunity back in February 2016 when energy credits widen out and we were able to take advantage of that. Since then, they've really been tightening in. In fact, we got down to a duration contribution bases of .3 years, which is the shortest we've been. That's been through underweighting long corporates. You will always see us overweight as far as on a percentage basis in corporates, because we see shortening intermediates corporates to break even. We don't see a lot of value in long corporates right now. If you look at the box on page 5, you can see we will always be overweight; we have 52% in corporates and that represent 78 different issuers or very well diversified; 70% of that 52% is in corporates that matures in 5 years or less. Short and intermediates corporates is where you are going to see the majority of our corporate exposure. We are a very well diversified in mortgages too, like in 30 year, 15 year, what coupon; we are underweight 30 year 3% mortgages just because of interest rates rise. They're going to

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM**  
**MINUTES OF MEETING HELD**  
**May 17, 2018**

underperform because they are going to lengthen out more in duration than other coupons will. Where we see value, we are kind of market weight in agency, commercial mortgage back securities and private label; back when they were cheap, we had our 10% overweight, but we just don't see a lot of value; we've just been market weight there. In the next few pages, when it comes to interest rates, we realize our role as far as fixed income managers and that's preservation of capital. The Federal Reserve is looking at increasing rates. They've done it here and if you look at this chart here on the bottom of page 6, this shows what the Federal Reserve is thinking. If you look at for this year, they're forecasting another two interest rates increases; in 2019 they're looking doing another three; 25 bases points increases. It's hard to predict where the course of interest rates are going. You would think the Federal Reserve would have the best idea where rates are going, and they've been notorious as far as being way too optimistic as far as their growth and the economy. I think they got a pretty good handle on it right now. The market is anticipating that we will probably see another 2, if not 3 increases of 25 bases points for the rest of the year. They are definitely saying 100% in June; 100% in September. The market is saying we don't know whether there's going to be another 25 in December or in January. The Federal Reserve has \$4.5 trillion in treasuries and mortgages on the balance sheet. They are not starting to reduce that. Where you're seeing deficits, you had a deficit last year of \$560 billion; the project deficit here is looking at about \$1.4 trillion by 2027. You are going to see a lot more supply out there. With that, there's going to be pressure as far as for rates to go up. We are 97% of the duration of the Index. Our rates are like 3.1% but if you look worldwide, that's pretty attractive when you compare to France; their 10 year treasury is 83 bases points; Spain is 1.4%; Switzerland is only .06%; Italy is 2.1%. They are below where the United States is. Going to page 7, it's tough to know where the course of interest rates are but, where we've been disciplined as far as trying to take advantage as far as the volatility; if rates go up, we'll take off. This shows that we've been defensive over the past 4 years. You could see as rates have changed, which is shown by the blue, you can see where we've changed our duration short vs. the Index. What this shows is that we've been able to take advantage of some of the volatility, so we've been able to add value to the portfolio through making decisions as far as with the changes in interest rates, as far as making changes in your portfolio. Going to page 8, we've been very discipline in our approach to overweight in the corporate sector. If you look at the chart, this show on a duration contribution basis, where we've been overweight vs. the Index. As you can see, pertaining to your question, spreads have gone down; we been taking off our duration overweight here. We saw an opportunity in late March, early April to add on a little bit; we've gone from .3 overweight to a .5 duration contribution overweight. On page 9; we look at the value in overweighting sectors; we really try to be very well diversified when I told you we have 79 different issuers in your portfolio for corporates, we try to reduce the company's specific risk in the portfolio. We have 137 approved credits, so we can look at diversifying even more portfolio when we looked to increase our corporate exposure. When you look at duration, it can be along the yield curve, where we see opportunities and where we had the biggest underweight. This was back when the 2 year treasury was yielding only a quart of a percent. Now it's up near 2.5%. As short term rates have gone up, that's where we've taken off our underweight. Thirty year treasuries have a duration of 20 years. You have to be sensitive to the fact that if interest rates go up, and the difference in yield between 10 year and the 39 year, right now is only 14 bases points. The yield curve could invert, meaning that short term rates could go higher than long term rates,

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM  
MINUTES OF MEETING HELD  
May 17, 2018**

so you could see the 2 year treasury actually yielding higher. Mr. Bernard said this concludes his presentation.

**Comm. Perona** thanked him. He asked the Board if they had any questions. Comm. Perona asked Mr. Lewis what they should do about Morgan Stanley; should they wait a couple of quarters to see if things changes.

**Mr. Lewis** said waiting and seeing, but he hate to put timelines on things. At some point you do have to decide, this is not the kind of return profile that we expected.

**Comm. Perona** said we have nothing to compare to, but you obviously have other money managers other than Morgan Stanley you could compare to. We have nothing to put in the backdrop and say, there's three other money managers from emerging markets that are doing quite well and have done well over the last 10 years. Do they exist?

**Mr. Lewis** said they do exist, but he would caution you, we don't want to get you to buy something high and then you are selling out of something kind of low. The thing that I would like to do is go back to our research team and really put this through to them and say, the client is tired of waiting; we've had some changes happened in the portfolio. This whole China theme is not played out here in the near term. What's our best course of action going forward? We have put this question to them recently. Ruchir Sharma is a pretty bright guy; you could give it a little more time. Cody mentioned in the last 2 years the performance has been not bad but just underwhelming. Calendar 2016 they return 6.7%; absolute bases not bad but when you compare it to the benchmark of 11.2%; not good either; 2017 they were at 35%; pretty good until you look at the benchmark which is at 37%. That's where a lot of the underperformances is coming from.

**Comm. Perona** said it could be the philosophy on China. They've developed a philosophy and they just stick to it, no matter what. Sometimes you're standing in the back waiting for things to go one way and the rest of the world is making a profit on it.

**Mr. Chapman** said ahead of the next meeting, maybe we could get a member to outline the research thinking on Morgan Stanley.

**ITEM NO. 9 ~ CONSENT AGENDA**

**Comm. Perona** said the next item is the Consent Agenda. **A motion was made by Ms. Johnna Morris and seconded by Ms. Caleta Scott 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**

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM  
MINUTES OF MEETING HELD  
May 17, 2018**

**Comm. Perona** acknowledged the excused of Ms. Nina Penick. **A motion was made by Ms. Johnna Morris and seconded by Ms. Caleta Scott to approve the excused absence of Ms. Nina Penick.**

**ITEM NO. 10 ~ BOARD MEMBER COMMENTS**

**Mr. Stephens** asked with what we approved last Board meeting, is that going to make the City Commission agenda?

**Ms. Morris** said it's going to make the June agenda.

**ITEM NO. 12 ~ ADJOURNMENT**

The next item was next month's meeting. The next meeting is scheduled for June 21, 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 4:22 p.m.

ATTEST:

\_\_\_\_\_  
Secretary/Treasurer

\_\_\_\_\_  
Chairperson

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

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM  
MINUTES OF MEETING HELD  
May 17, 2018**