

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
August 16, 2018**

Summarized Minutes of the regular meeting of the City of Fort Pierce Retirement and Benefit System August 16, 2018 2:00 p.m., in the 2nd Floor Conference Room at City Hall.

Present:

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

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

Guest:

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| Cody Chapman | Callan Associates |
| Weston Lewis | Callan Associates |

Absent:

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| Commissioner Reginald Sessions | City Commission Member |
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Recording:

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| Queen Thompkins | Executive Assistant to the Director of Finance |
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**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
August 16, 2018**

ITEM NO. 1 & 2 ~ ROLL CALL

Comm. 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 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. There is a correction on Page 5 of the spelling of Comm. Perona name; it should read “Perona, not Persona. **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 wanted to update the Board with the NAPPA meeting. It was a very educational function and it’s nice to try to bring some of that information back to the Board. I have also given each Board member a USB Drive with the information on it. If you have any questions, feel free to let me know. Just a couple of notes; I’ve often thought that it would be very nice for the Board members themselves to go to FPPTA to bring back a report about what’s happened there; what they picked up. I would be very curious to know these things. I would like to encourage our attendees to go there on behalf of the taxpayers to help us maximize the benefit of those that attend this, with summary reports.

Comm. Perona said that’s a great idea.

Mr. Walker said another thought comes to mind because this is stressed so much at NAPPA, is that there are significant security concerns as we well know with electronic data and this Board does have a fiduciary duty to insure the safety of that information. I’ve often thought that it would be prudent practice to, maybe, ask a representative, an IT representative to come in and brief the Board about what is done to protect the integrity of this information.

Comm. Perona asked if there was any discussion about home rule as far as pension policy. We’ve been attacked before. Home rule seems to be affecting municipalities’ pension systems. It has in the past and I know that our folks from the City right now, unless they have come back, they are

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
August 16, 2018**

at legal cities and this is one of the big issues. Home rules tend to change the game on us sometimes without us participating.

Mr. Walker said that's mostly just a State based concern. It wouldn't come up in a National Conference like NAPPA. Once upon a time, as you are aware, all the laws were passed in Tallahassee and with the advent of the 1968 Constitution it was adopted own rules which provided that the municipalities themselves add primary regulatory oversight for their own jurisdictions and, that's what's stated expressly pre-empted some specific subject areas. I would expect that such a topic would come up at the FPPTA before it came up at NAPPA.

Comm. Perona said at the National it should have come up a long time ago. We have some of our States that are not doing too well in their pension systems. The City of Miami v. Miami Firefighter and Police Retirement Trust Plan; that was an interesting letter and I had a thought also, maybe for future discussion about having Commissions on this Board, basically wears two hats. There may be some conflict; maybe that's something we can think about. I find that sometimes; we investigate and determine certain actions should happen in our advisory capacity; send that advisory to the Commission, I would have to vote on it again, obviously, but I have already kind of pulled the trigger; much like my counterpart, Comm. Sessions; we've already pulled the trigger on it and it's like telegraphing what we have already decided. It seems to be somewhat of a conflict at times. Still, without any type of ethical repercussions by wearing the two hats as we make decisions.

Mr. Walker said there's no conflict Mr. Chairman, as long as you remember you are sitting here wearing your Board hat. Your duty is to the entire System and not merely the City or any other second group.

Comm. Perona said that means he can vote both ways; look at it from the perspective of the City as far as fiduciary responsibility as an overseer of the budget versus what's best for the Pension Plan for the employees.

Mr. Walker said every Board member here carries, to an extent, attention between his or her role here on the Board and whatever group that sent that individual here, just like Mr. Keith, undoubtedly has the interest of the Utilities Authority well in mind. However, as the Board member, we each understand that our duty is not owed to the City, it is not owed to the general employees, it is not the police officers, or the employee of the UA. It's owed to the entire System in the municipal as a whole.

Comm. Perona said he appreciated Mr. Walker's thoughts on this. It makes me feel a little bit more at ease.

ITEM NO. 6 ~ PUBLIC HEARINGS ON BENEFIT APPLICATIONS

Comm. Perona opened up the public hearing for comments on the request for Retirement from Frank Amandro with 25 years of service with the City of Fort Pierce Police Department. He asked

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
August 16, 2018**

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. Nina Penick to approve the request for retirement from Frank Amandro.** 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 Tina Attey with 6 years and 4 months of service with 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 Ms. Nina Penick to approve the request for retirement (DROP Program) from Tina Attey.** 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 Harry J. Aguila 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. Nina Penick to approve the request for retirement (DROP Program) from Harry J. Aguila.** 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 Charles H. Davis with 25 years and 1 month 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 Ms. Caleta Scott and seconded by Ms. Johnna Morris to approve the request for retirement (DROP Program) from Charles H. Davis.** 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 Lamanda K. Czarnecki with 15 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. Johnna Morris and seconded by Ms. Caleta Scott to**

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
August 16, 2018**

approve the request for retirement (DROP Program) from Lamanda K. Czarnecki. 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 Non-Duty Disability Retirement from Matthew Spivey with 10 years 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 Mr. Brian Avilla to approve the request for Non-Duty Disability Retirement from Matthew Spivey.** 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 Non-Duty Disability Retirement from Robyn Curley with 17 years and 3 months of service with 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 Mr. Keith Stephens and seconded by Ms. Nina Penick to approve the request for Non-Duty Disability Retirement from Robyn Curley.** 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. QUARTERLY REVIEW OF PERFORMANCE EVALUATION FROM CALLAN ASSOCIATES

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

Mr. Chapman thanked Comm. Perona for having them here. Mr. Chapman said he will start on page 2 of the Executive Summary. The U.S. economy continues to be on very strong footing; looking at that from a GDP perspective, better than 4% in the second quarter; revision higher in the second quarter from 2.2%; unemployment continues to be very low as well; down to 3.8% in May. That's the lowest in almost 20 years; very close to full employment, if we're not already there; actually starting to see some signs of labor shortages in a lot of industries. We're also starting to see some signs of inflation; those numbers are starting to pick up a little bit; headline CPI 3%

CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
August 16, 2018

in June, as a result, the Feds continue to raise interest rates higher; that's going to continue to be a theme throughout the year into 2019; steadily moving towards normalization with interest rates, especially on the short end of the curve. The dollar was beneficiary with higher rates here in the U.S. relative to abroad as well as strong economy; the dollar has been gaining relative to most foreign currencies. That was a little bit of a head win for international markets but, something to note going forward. We've gotten a lot of questions about trade wars and Turkey recently. Those are certainly, from the trade war perspective, concerning but, as of yet, I don't think it's made a major impact but certainly the trend may not be going in the right direction ; doesn't seem like things have been resolve just yet. That's something we will keep an eye on. Turkey is something you may have seen in the news recently; the lead of employment about 40%. There've been some trade comments on both sides of that conversation as well. That one is probably more limited in the fallout. Turkey is only about 9 bases points to global equity market index. If it's just limited to Turkey, that's not necessarily a large problem but you do have some European banks that may have some exposure to lending in Turkey and obviously, that may get a little bit of a head win. A brief outlook on growth abroad, Euro zone bankers trimmed their outlook for growth in 2018 to 2.1%, down from 2.4%, given weaker economic data. China has slowed down a little, although still fairly high growth relative to the rest of the world. On page 3, we will talk a little about equity markets; small caps where the best performers here in the U.S.; up almost 8% for the quarter; large caps up 3.5%; growth continues to outperform value; a theme we've been hearing for quite a while now, and the bottom of page 3 we got some returns from some of hot flying tech stocks that you might be very familiar with. You can see how strongly some of those names have performed. Amazon alone is about 50% return of investment year-to-date. Certainly the rest of the economy is doing well but not as well as the tech sector. Looking at international equity as we mentioned earlier with the dollar strengthening, that was a little bit of a head win for results here in the U.S.; in dollar terms EAFE was down 1.2%; local markets up 3.5%; emerging markets challenged as well with rates rising here in the U.S. and some of those emerging markets were down about 8% for the quarter. On page 4, just a quick look at Fixed Income; pointing to the top right chart, looking back a year ago and looking back at the previous quarter, rates are higher across the board; especially notable on the short end of the curve with the Fed raising rates. One thing you may begin to hear some noise in the Financial Press is this idea of the yield curve inverting; that means short term rates come higher that long term rates and that's historically been a sign of a recession on the horizon. The timing is not always certain but generally within 18 months is kind of the rule of thumb if the yield curve emerges, you'll see a recession within 18 months. We are not there yet; short term rates are still lower than long term rates but, the Fed is going to continue to likely raise short term rates, so you may see the yield curve get even flatter; that's some to keep an eye on. Looking at a couple of segments; corporates have had some head wins; corporate bonds have been challenged YTD; down about 3% and down about 1% for the quarter; spreads have widen out a little; you see some volatility there; overall it has still been a very strong sector for the last 3 or 4 years. Page 6, just a quick summary of your asset allocation as of June 30; right at \$200 million that you are responsible for overseeing; that's about 4.3% in investment returns. On page 7, we'll take a look at performance; very good quarter for you; up 2.2%; relative to the benchmark; up 2.8%; very good results relative to your peers; ranking in the top decile and very good relative to your benchmark as well. Looking out over the long term results continue to be in the first and

CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
August 16, 2018

second decile; very strong results relative to your peers and also very positive results relative to your benchmark; well ahead for all the peers you see there. You all again, have been patient; had a couple of managers that have seen some volatility; been patient and we'll point out a couple of those that bounced back. On page 9 we'll talk about Emerald; it's one of your small cap growth managers. You'll recall they had some challenging performance last quarter; were down quite a bit relative to the benchmark; they bounced back a good bit in second quarter; were better than 2% ahead of the benchmark last year; the results way ahead of the benchmark and if you look at longer term, very good results relative to the benchmark and very competitive relative to their peers. We did want to point out one item with Emerald; during the quarter they announced they had entered an agreement with 1251 Capital Group which is a financial services firm. 1251 Capital Group is going to take the majority stake at Emerald; they were previous employee held, so 1251 took a large ownership stake in the firm. All of the key employees remain with the firm. It's intend that the firm will still manage themselves; being in charge of their business but they will have some sort of profit sharing arrangement with 1251. This is something that we are going to keep an eye on, but for now, the investment professionals that have been responsible for performance is still there; there have been no changes to the team; no layoffs or anything like that. I wanted to make you aware of it; we are not recommending any action but certainly wanted you to be aware of at this time.

Comm. Perona said drove that merger; that purchase; realizing profit or is it just protecting assets or trying to expand or, what's behind it all?

Mr. Chapman said they have some professionals that have been very successful and were reaching the later stages of their careers and things like this is often an attractive source of liquidity for some of those senior professionals to get some liquidity; I think that would be it; likely they will assist somewhat with marketing, distribution, and things of that nature. I would say liquidity is one of the big selling points there.

Mr. Lewis said liquidity and distribution were one of the reasons that they gave and kind of being able to partner with somebody who has experience and can share some ways for them to be more efficient and combat in the middle office areas; be that human resources; be that compliance and those types of functions or they can become a little bit more efficient there.

Mr. Chapman said the team that makes the decisions is still intact so I think for now we are comfortable with it but it's worth keeping an eye on. Page 10 is Ceredex, your small cap value pairing with Emerald on the growth side; good quarter for them; is ranging near the top decile of the peer group and have the benchmark results for the last year also in that top decile and better than 3.7% ahead of the benchmark. Ceredex went through a little bit of a bumpy period in 2016 and the first half of 2017 but they've turn that around nicely; your patience once again is well earned; long term results continue to be very good. Page 11 and 12 is just your Index funds; Mid Cap 400 and the S&P 500 does continue to be just what we expected which is very low fee benchmark exposure. Page 14; we will start looking at international equity, Morgan Stanley; good quarter for them relative to the benchmark; better than 1.3% ahead and good results relative to peers; last year still modestly behind the benchmark; in line with peers. You will recall that

CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
August 16, 2018

generally when markets are challenged or down slightly, Morgan Stanley has been a fairly good performer and we saw that again this quarter. They've been fairly conservatively positioned; fairly defensive with how they set up the portfolio but when you add it all up, the long term results continue to be very good, so no concerns here and nice to see they had a positive quarter even if the absolute numbers weren't all that high. Morgan Stanley Emerging Markets on page 15; a little bit of a different story; challenged quarter for them; underperformed the benchmark pretty substantially; were in the bottom quartile of peers. Last year you can see about 6% behind the benchmark and the long term results are underwhelming as well. A lot of this is being driven by being underweight to China. China has been a large and growing segment of the emerging market index; they've generally been underweight; China have also been underweight in technology; kind of as a result. This is the one we've talked about action may be needed. This is something we would like to discuss a little bit more with you all. You've been patient and I think by now you've heard the message we encourage patience but at this point I think we have a good bit of data that results haven't been as good as we would have hoped; a couple of options.

Mr. Lewis said the one option is to continue with this status quo; keep hoping that it gets better. One of the things that Cody mentioned we'd hope to have been better; we've talked about value versus growth and how growth has really been in favor over the past several years. This is more of a growth centered fund and really should have caught more of the upswing. They are underweight to technology in China and it makes sense given that they've felt like it would pose some risk but, I think it's one of those gambles where they've been wrong and as you think about the potential snapback and the stray and things like that, if value does return it, it make not share in the upswing of that value cycle. From a fit standpoint; from a performance standpoint, we do think that you would probably be better served elsewhere; looking for another fund in the emerging markets. It's just a \$1million; we scratch our heads and say it's exposure but at the same time, every penny counts. It's a function that if we don't feel a lot of conviction in this fund, we owe it to you to bring that message forward and that's how we are. In conversation with our research team there's just not a lot of conviction here. I know that you all have held them for a long time but in the numerous of changes of this fund, it's hard to defend the results given that they are a growth manager. Your existing structure in international, you have William Blair that manages both developed and emerging markets more that growth manager and given that this is a lot older, you have Morgan Stanley in the developed, which is a value type manager; they do have more of a quality value vent, and then you have this kind of an oddball Morgan Stanley which is another growth manager to take on the emerging market piece. We thought you could rip up that structure and do it single manager that does developed and emerging or you could wipe out the developed market Morgan Stanley; all this just seem like you're creating bigger problems to deal with a very small problem. We think the more efficient thing for you all to do is to probably look at other candidates out there. We went through a couple of names in our databases and what would pair well with your existing Morgan Stanley; because they are value managers, they don't look a whole lot better. On the margin they are better but at least we can explain they had value head win. I just wanted to give you that going in; if you did an emerging markets manager search, you're not going to look at the numbers and say this is a whole lot better. Given the pairing of Morgan Stanley with this and that duplication on the growth side with William Blair, you could potentially find a better manager.

CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
August 16, 2018

Comm. Perona said we've been looking at this for a while. In that last quarter you'd expect to see a bigger uptake at least. Most of the other ones that were lagging behind and when you don't see that, it becomes more of a strategy problem than anything else. If the strategy is off, I don't care what you say or what happened in the last 4 or 5 years, we are not doing China. That will effect; it's only a million dollars but it's more than a million dollars because that's available revenues that should be coming into our fund on an annual basis and it's just not there. We all have a fiduciary responsibility. Can you take us through what that process would be like and maybe some of the expenses because that's the point I get to.

Mr. Lewis said that's one where we talk to our internal folks and say this is a million dollars; I can't in good fiduciary conscience come to you all and charge our regular rate for a search. Traditionally our search rate is \$40,000. That's 3% right off the bat that you would be sinking into that. What we propose is doing more of a mutual fund type search that is \$18,000. The process would be; we would come back to you with 3 or 4 candidates and we could either go over those and bring them in; interview them like you all did with the real estate search or we can make the decisions here based on the criteria we give you but, we'll give you a comprehensive evaluation that will allow you to look at the candidates side by side and make that relative valued judgement. We know you all well enough that you like to see your managers once a year; it could be worth bringing them in; making sure that can articulate that process; making sure they can help you understand what they're going for; look you all in the eyes and be comfortable with what you are selecting. It seems to be a process that has worked for you all over time. You have managers that have home around for quite a while and that's a good thing. If you are going to engage in this partnership, I would prefer you go into it knowing full well what you are getting into and a lot of times you get that meeting face to face. Bringing you all our evaluation, all of our names go through what we have is a manager search committee. These are not just 3 or 4 kind of funds that Cody and I like. These are funds that have gone through our manager search committee and if they say, we think that these fit the profile of clients more broadly. That's a peer review mechanism to make sure it's not just us bringing you what we think is our favorite. This is our firm's best thinking in terms of the names that we will bring.

Mr. Walker asked if you took China out of the equation; off the table, you have sense of its performance then?

Mr. Chapman said China has become such a large weight, it's hard to separate it out; north of 30% of the index now. For this quarter it was some China but it was also India, South Africa, and Poland. It hasn't been just limited to China. There've been some other challenges as well. I can't give you an exact number.

Mr. Walker said what I'm hearing is that it's mostly China that's being blamed for the long term underperformance. When I think China, I think South China C; I think of a heavy burden of municipal debt that they have; I hear of quiet concerns that have been expressed from time to time; about the accuracy of their data. The question is, from a fiduciary standpoint, if we got a manager that one infers, is holding China off at an arm's length, is that unreasonable?

CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
August 16, 2018

Mr. Chapman said that is a fair question. For the last 15 years, they've given you better than 10%. That's not quite what the benchmark has been but there is the question of, did you get a return that close to the benchmark while also managing risk. With China, certainly some of the concerns you mentioned, we've talked about this in the past, the PM for this strategy is very skeptical of the data coming from China; some of the liability; some of the credit things you've mentioned. It's a fair question to say, can we live with debit performance. No action is not necessarily a bad decision. We just want you to be aware that the drivers of the performance and that from a research perspective, it's less compelling from what we see in other products.

Mr. Stephens said he was kind of agreeing with him; only because, like you say, you really don't know how this trade war is going to affect. There's a lot of information; you don't know what's good; what's bad. Do we put money up front now or is another quarter too much to wait? Are things going to start settling out in another quarter?

Ms. Morris asked Weston and Cody if they've spoken with them concerning this; have you reached out to them to see what their plan is moving forward.

Mr. Chapman said they have not spoken with them since they were here with you all.

Mr. Lewis said other than to ask them why the numbers they put in your last report were wrong. We have not spoken to them directly. They know their performance is unacceptable; below par and below the standards in what clients have set forth for them.

Mr. Chapman said you may see better performance for a quarter but they didn't get in this hole by one bad quarter. The long term numbers are going to be what they are for a while. If the short term numbers start to improve, then maybe you'll say we'll be patient a little bit longer. It's just one data point out of 12 from one data point out of 20.

Mr. Stephens said you did say that it isn't like there's a superstar out there that we are going to jump on.

Mr. Chapman said the managers that have the best results now have a very different looking portfolio than what Morgan Stanley has, which is heavy into China; heavy into tech.

Mr. Lewis said there are a lot of managers that complained about the concentration of tech in the benchmark. As we look across the universe, think about the numbers; what would be a compelling replacement here; not a whole lot better and for a lot of defensible reasons. With this one, it's a lack of conviction in going forward than it is in being concerned about what has happened in the past.

Mr. Stephens asked if you've had the same people controlling this fund for all that time.

Mr. Lewis said yes.

Comm. Perona said there's a difference in managing risk and avoiding risk. It seems like they've been avoiding risk instead of managing risk.

CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
August 16, 2018

Mr. Chapman said just something for you all to keep in mind, if we come back next quarter and performance isn't better, we're prepared to take steps with you all if you want to be patient a little bit longer. It's not a significant source; it's not bringing your total fund returns down. If patience is preferred, that's a reasonable course as well.

Comm. Perona asked how long the transition period is.

Mr. Chapman said this is a mutual fund so, it can be sold in a couple of days and then rebought. It's more of your meeting schedule as well as our timeline for putting it together. I know you all meet monthly so we could potentially be available for something like this.

Comm. Perona asked, on that particular issue, are we good with waiting until the next quarter? I'm comfortable waiting another quarter. As far as I'm concern, that's the strategy that we've always taken. This is the third time we've looked at it. In the meantime we are losing valuable revenues that we have fiduciary responsibility. I do think there is better way to do this; to manage risk and to take advantage of some of the opportunities that are out there. That's just my opinion. I don't want to lead this. Does anybody have a different thought?

Ms. Penick said she certainly go along, but I also want to listen to other consultants who have publicly thought about this longer than we have. If they are coming to us and telling it's time, it's probably time to do it now; they're willing to compromise on their fees to help us out.

Comm. Perona said in that process, it is the will of this Board to do that, the next process is that you would send us back to your team; come up with 3 potentials and we would have to make a decision; do we actually want to meet them all or can we just do this through portfolios?

Mr. Chapman said it's up to you all how you are much comfortable. It' like Weston said, we'll generate a certain book; kind of like our large quarterly report; has all the data points; summarize it down to the top 3 candidates; talk through broadly with you all; the pros and cons of each, then decide if one stands out to you; on paper make a decision or you may want to bring in some firms to have face to face interviews.

Mr. Stephens asked how big this fund is. I was just curious.

Mr. Lewis said it wouldn't matter at all. I'm surprise they send somebody to see you all for a million dollars and I think that's a recognition of the long term relationship that you all have had. Over time, the Morgan Stanley that you had on the developed size that was really your entrée into international investing, this is split off from that.

Mr. Walker asked if it was said that they are here.

Mr. Chapman said this team is based out of New York.

Mr. Walker said he meant here today to make a presentation.

Mr. Chapman said no.

CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
August 16, 2018

Ms. Scott said she thinks what should be done is to go ahead and activate Callan to go ahead and do the search; bring it back to us at the next meeting. That's an opportunity for us to say, do we stay with Morgan Stanley and actually have a true picture of what else is out there. We need to look at things at one time because we have the impending 18 months coming up possibility of some sort of recession; we don't want to wait until we get closer down that line in making decisions then.

Ms. Morris said she is listening to the recommendation from our consultants and that's what we've hired them for; to give us recommendation as to how we should move forward with this. I'm kind of thinking as far as moving to hastily as well. The people of this team had been the one that have been on it for some time. In a situation like this, that's what we hired you for; for us to rely on the recommendations that you all make to us. As Caleta said, we can ask you to do it and make a decision based on what you bring back.

Comm. Perona said we did task Callan to do this because we've been talking about this now for the last 3 or 4 sessions. This is a very small part of our portfolio. I think it is a good practice for us to be able to go through it. I would join with the consensus to do this. **Comm. Perona** asked how long would the search take.

Mr. Lewis said they could have it ready in a couple of months. If you all wants us to come outside of the time the managers meet, they can do that.

Comm. Perona said due to conflict of our interest we need to spend the time that we need to spend on this issue without going through the other conversations. **A motion was made by Ms. Caleta Scott and seconded by Mr. Brian Avilla that we activate Callan to start the search for another Emerging Market Manager; coordinate with staff and bring it back as soon as possible.** 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.**

Mr. Chapman said due to the interest of time, we will head to your other managers; page 16 is William Blair; good quarter for them relative to the benchmark and just ahead of the pee group median; results continue to look pretty good relative to peers in the benchmark for the longer term one year number; 3 to 5, the numbers all look very good. There has been a little bit of turnover with this team over time with some of the portfolio management but, that's settled down and the numbers continue to be very good; we're happy to see that. Page 18 is Richmond Capital; just a quick summary on them; down slightly; that was better than the benchmark result; bonds were probably down across the board for the quarter and over the last year as we've seen rates rise which is a head win for bonds; good results relative to peers and the benchmark over time. They have been a very steady manager for you all; very high quality portfolio; very predictable and continue to have good results.

CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
August 16, 2018

Mr. Walker said in the area of bond investment, we hear increasingly of something called factor based investing and contrast to active management, do you have any thoughts about that, these are the current management style?

Mr. Lewis said factor based investing; and we are happy to do an education on this; is becoming more and more prevalent. Factor investing is that early human and how we view the rest of the world is like the dinosaur. It's his dissnotation of diversifying by styles and asset classes. Where factoring investing is taking off has been an equity type strategy. It is starting to move towards bonds and there are some earlier adopters; AQR, namely being one; tried to disrupt the factor world of bond investing. A lot of bond managers, yours included, still rely on some traditional tools of looking at companies and evaluating their balance sheet very closely and thinking, is this a good value; is this a good credit and make that determination as a human. With a lot of factor based investing, you're depending on a lot of quantitative numbers to help you make that decision. Where we stand is kind of neutral to all of it. In our mind factor investing is not a replacement for active management but it can be a supplement and in some cases clients have taken a stand and said, I want this to replace our active management entirely. There is a case to be made and not just more as a replacement for active management but there is a case to be made that really diversifying by the various factors in your portfolio. Let me give a quick example of what I mean; as you think of what drive the return of a security; it can be some of your micro factors, like growth and GDP helps drive the return of a stock and it help explain the return of a stock. That is a big micro factor. As you think of micro factors, those are little things that would potentially explain the return of security. The most commonly excepted ones are size; if you think of a small cap stock versus a large cap stock; small cap stocks save over time have outperform large cap stocks. That is factor that people would put into their portfolio to help them outperform. You have some quality factors; if you think of low debt within the market, people will try to favor those type of stocks as a way to outperform the market or take less risk than the general marketplace. We have a lot of practitioners now that are putting together all these factors into a portfolio and coming up with an active management, either supplement or an active management replacement.

Mr. Walker said thank you.

Mr. Chapman said, just to wrap up on page 20, Heitman is your real estate manager; positive quarter for them; up just shy of 2%; slightly better than the peer group median. This has been a very additive allocation for you all; up about 8.5% in the last 3 years and better than 9.25% for the last 3.75, which is since your inception number; slightly behind the benchmark, just given how strong the real estate has been, they are trying to be a little bit more conservative about the properties they go after, some of the valuation; slightly behind the benchmark but not something we are concern about given the strong absolute returns. Mr. Chapman asked the Board if they had any questions.

Comm. Perona thanked Mr. Chapman and Mr. Lewis for their report.

CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
August 16, 2018

Mr. Lewis said they sent the Board a policy statement and asked if the Board would like for them to cover that as well.

Comm. Perona said yes.

Mr. Lewis said this is another item they've talked about for a bit and we thought that maybe the best way to get you all thinking about it is to send you a redline of the changes. From a broad standpoint the policy statement is your playbook and in terms of what we see and what we recommend in policy statements, this have a lot of the characteristics we like to see; what is the purpose of the funds; the description of the roles and responsibilities; the performance objectives; all those types of things you have in here. A lot of the things that we are recommending you all consider are small changes but the one that I think will be of most interest is on page 4 where we have talked about the asset allocation and this notion of a home country bias and how much of a bias do you want towards domestic relative to international. You all have spoken with your managers; they've come in from time to time. A lot of the international managers are pretty optimistic about the prospects going forward but there are certain geo-political headwinds and issues Turkey, with trade wars; all of that good stuff. We understand how that can influence the mindset as you consider changes. However, we think the underlying fundamental of the companies that trade on non-U.S. exchanges remain pretty sound. We are recommending that you all consider and this is a change from where you are but you consider removing some, not all of the home country bias. If you think of the broad market cap; if you said, I just want to be entirely passive for all of public equity, you would end up with a portfolio that looked about 55% U.S. equity and 45% non-U.S. equity. Where you all are now is approximately 75% U.S. equity and 25% non-U.S. equity. What we are suggesting is that you move closer to 60% U.S. equity and 40% non-U.S. equity split. Still maintaining some home country bias but taking off the bet a little bit. In poker terms, you all have won a lot of big hands here. Maybe it's time to take some money off the table in terms of the advantage that the U.S. has had over those companies based outside of the U.S. What we've seen over the past few years has been; not unprecedented but it doesn't happen very often throughout history. We do recognize and believe that the growth opportunities in terms of economic growth in the U.S. is favorable relative to outside the U.S. What is different is that our companies here are price perfection. If we don't get that growth, it could be troublesome. Whereas outside the U.S. the expectation is not as high. It seems from our standpoint that you weigh those two out; if you don't know what the future looks like, you kind of diversify. That's where we coming at. We saying we don't know what the future looks like for either and you should like the market in those circumstances. We think it makes good sense; we've talked about this quite a bit but certainly want to hear from you all as to where you are on it.

Comm. Perona said it's really a shift from U.S. markets to the non-U.S. markets and that's where the biggest difference is.

Mr. Stephens asked if we did that a few months ago.

CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
August 16, 2018

Mr. Lewis said you all didn't do rebalance to it. I think it was a comeback with what this would look like in our policy statement and what the target and well as the ranges would look like. Keeping with a lot of your existing ranges, this is what we would suggest. The thing that we want to make sure you all understand is you would ask is would this increase our risk and the answer is no. We think it actually decreases your risk and the reason why is because you got a big bet on the United States economy and United States companies right now. If that doesn't pan out, that could be a risk. We are just taking away some of that and a reliance on U.S. names. From a modeling standpoint and you put it together and those mean variances optimizations; this is where we think is kind of a lower risk portfolio I keeping with a very similar expected return.

Comm. Perona asked Mr. Lewis if he was looking for action on that too.

Mr. Lewis said if you all are ready. As I mentioned, this is your playbook. I don't want to rush you all to make a decision. It would be great if we can get action on it. We've gotten your managers to sign off on what the policy is, so everyone should be good to go.

Mr. Stephens asked how many years we've been in a world economy.

Mr. Chapman said the global market rates have come down to 54%; the U.S. 46%.

Mr. Stephens asked what they were 20 years ago.

Mr. Lewis said 20 years ago it was a lot more Japan. It was about 50-50 about 5-6 years ago and now we've climbed up to 54%-55% of the overall market capitalization. That growth has come from price growth rather than a growth in the amount of revenues; a growth in the amount of income that was producing; it's been more of a price growth. I think back to what you all had and when we look at those long term numbers for you all, you've been so wildly successful. There've been a couple of things where I've scratched my head and said, how on earth did they get this approved. Things that you did were unpopular which was allocating anything to international in the 90's. We were going around to all of our clients and saying you need international. We hear you; thank you; we're not interested. After the tech bubble crashed, they said, can we talk about that international. You all went in; you didn't just go into international, you went into emerging markets and it was a very unpopular idea at the time. All of the emerging markets were a lot of risk and very little return but you did it. Some of those decisions long term has added a whole lot of value; less here recently, but over the long term, have added a lot of value.

Comm. Perona asked if Mr. Lewis was saying that it works in our strategy going forward.

Mr. Lewis said there are many ways you can rebalance. You could rebalance through flows. If we are talking about 10% differential that's \$20 million that would be going from U.S. to non-U.S. You are going to need \$3 or \$4 million for benefit payments over the next year. Some of that would be taking away from U.S.

CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
August 16, 2018

Mr. Walker asked what exactly do you mean by international in this context? For example, some of the major corporations U.S. sold over the years for tax purposes have transferred the corporate flag to low tax jurisdictions; IRA for example. If the allocations were rebalanced, would this give greater flexibility to chase after; for example, those former U.S. companies?

Mr. Lewis said that's part of it and once they shift their corporate headquarters generally outside the U.S., they would drop out of that S&P 500 Index and the S&P 400 Index. If you had active management there, they could potentially still pursue it but it's not going to be the S&P 500 Index.

Mr. Walker asked if now they are on the international side.

Mr. Lewis said yes. I do think that's an important point that you are bringing up. We pay a lot of attention to is Coca Cola a U.S. company or a non-U.S. company. Most of their revenue comes from outside the U.S. The same occurs overseas; Nestles sell a lot of stuff to U.S. based facilities. If you're thinking about where your risk exposures are, it's not always told by where you are invested; where you are deriving those revenues. From that standpoint you're diversified but you are paying a lot more for those same revenues and for the same earnings by being more U.S. focus than you would be.

Comm. Perona said if the Board members are in agreement with the amendment to the policy, he asked for a motion. **A motion was made by Ms. Johnna Morris and seconded by Mr. Brian Avilla to accept the Investment Policy Amendment as Callan has outlined.** 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.**

Mr. Lewis and Mr. Chapman thanked the Board for allowing them to come today.

b. REQUEST FOR PAYMENT OF ACTUARIAL COST IN REGARDS IN ODRO

Mr. Walker said we received a QDRO and it was determined since this was related to alimony; because it related to that, it qualified for eligibility be honored. Under the rule the petitioner the spouse of the retiree has to front the cost of the actuarial fee for determining how much is to be broken out of the retiree's benefit pursuant to the QDRO. In this instance the fee is \$550. WE have received request from the counsel for the retiree's spouse asking that \$550 be either paid by the retiree or alternatively the amount be withheld from the first payment made under the QDRO. I understand that the basis for this request is that the spouse may have a disability issue; financial issue. I did ask the counsel to provide further supporting information on that. I have not received a response so I cannot give the Board any additional information on exactly why there is this purported inability to front the actuarial fee that's required for processing the QDRO. I don't think that we are in a position to simply make the retiree pay; certainly not in the absence of any indication that the retiree is agreeable to that, nor do I think from an actuarial standpoint there is any ability to simply waive that fee. If the Board determine that there was a fair basis for offering any relief, I'm thinking that it would either be by allowing the payment of the fee on an installment

CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
August 16, 2018

basis or withholding it from payments made under the QDRO. In the absence of further information on that, I myself are not actually making any recommendation in that regard.

Comm. Perona asked Ms. Morris if we've ever done anything like this before.

Ms. Morris said not to her knowledge.

Comm. Perona said we are not obligated under any law or any type of employer contract to accommodate this.

Mr. Walker said no. She would have the option, if the Board said no, to come back on rehearing with more supporting information that might cause the Board to take another look at some possible means of relief. Saying no at this juncture doesn't necessarily close the door forever.

Ms. Scott asked if we could make a request for more information now without saying no.

Mr. Walker said that would be an option.

Ms. Morris asked if the information would be asking her to prove disability.

Mr. Walker said at least asking why she is unable to pay the fee.

Ms. Morris said the letter says that she's is on disability and she doesn't have the funds available to pay, so are we going to ask her to prove it?

Mr. Stephens said if she's on disability, she's on a fixed income. We already know disability isn't a big amount of money. For some people \$550 could be a lot of money. Does she have a right to this money; to this retirement?

Mr. Walker said for our purposes it's a valid order.

Mr. Stephens asked if there's a guarantee we are going to get our money back.

Comm. Perona said the function of being able to take the \$550 out of payment still requires staff time and it takes somebody to supervise it, that why I hate to do this. Unless there is some unbelievable situation out there; maybe if they produce their disability information.

Ms. Morris said maybe if the attorney pay it for her and then they take it out of her first check.

Comm. Perona said we have this unbelievable fiduciary responsibility that we can't be careless with our dollars. There may be in my mind that we make a mistake if we do this but there is no mistake if we do not. **A motion was made by Ms. Johnna Morris and seconded by Ms. Nina Penick to deny the request of Ms. Daisy Ricketts.** 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
August 16, 2018**

**c. CONSIDER PROPOSED DRAFT OF ORDINANCE FOR PURPOSE OF
MAKING RECOMMENDATION TO COMMISSION REGARDING
AMENDMENT TO CODE ON SUBJECT OF VESTING REQUIREMENT**

Comm. Perona asked if everyone had a chance to go over the ordinance and the Board said yes. He said it's now tangle into a whole another issue too with the 4 items we've discussed about the Police Department. Before, we tasked the City Manager to come up with a plan to help with retention with the Fort Pierce Police Department. One of the prongs happen to be the 5 year vesting. It's already accepted the fact that this is one of our initiatives which is going to help somewhat. The other three has to do with other stuff; there housing assistance and there' also a healthcare lowering of the percentage rate. These are the first steps to try to get competitive in that field. I think the largest one is the 5 year vesting. **Comm. Perona** asked for a motion. **A motion was made by Ms. Nina Penick and seconded by Mr. Keith Stephens that the Commission consider the adoption of this ordinance to final form.** **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. 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. Nina 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 acknowledged the excused of **Comm. Reginald Sessions**. **A motion was made by Ms. Nina Penick and seconded by Ms. Caleta Scott to approve the excused absence of Comm. Reginald Sessions.**

ITEM NO. 10 ~ BOARD MEMBER COMMENTS

Ms. Penick asked when does the certification periods begin and end.

Ms. Morris said it depends on when you were certified.

Ms. Scott said she will not be at the October meeting.

Ms. Penick said she's had some employees asking about the Plan Summary Report and if we still receive it.

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
August 16, 2018**

Ms. Morris said we do. It's down to one sheet now. That's what we did last year and we actually just finished it to send over. You should be getting it soon. You will also be getting the Milliman rollout. The employees not have the ability to go in and do a workup on their retirement.

ITEM NO. 12 ~ ADJOURNMENT

The next item was next month's meeting. The next meeting is scheduled for September 20, 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
August 16, 2018**