Summarized Minutes of the regular meeting of the City of Fort Pierce Retirement and Benefit System October 18, 2018 2:00 p.m., in the 2nd Floor Conference Room at City Hall.

Present:

Keith Stephens, Chairperson	U.A. General Member
Caleta Scott, Vice-Chairperson	General Member
Comm. Tom Perona	City Commission Member
Brian Avilla	Police Officer Member
Nina Penick	U.A. Board Appointee
Attorney Jim Walker	Attorney for the Retirement Board, Advisory
Christina Paz	Retirement Clerk

Guest:

Cody Chapman	Callan Associates
Weston Lewis	Callan Associates
Steve Loncar	Ceredex Value Adivsors
Mark Schlegel	Emerald Advisers, Inc.
Joseph Garner	Emerald Advisers, Inc.
Ed Rieger	Heitman

Absent:

Johnna Morris	Director of Finance
Commissioner Reginald Sessions	City Commission Member

Recording:

Queen Thompkins	Executive Assistant to the Director of Finance

ITEM NO. 1 & 2 ~ ROLL CALL

Mr. Keith Stephens 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

Mr. Stephens, 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 SEPTEMBER 20, 2018

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

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

ITEM NO. 5 ~ ATTORNEY'S REPORT

Mr. Walker said there really isn't too much to report. The good news is vesting ordinance passed; the bad news is that it was discovered omission of a line that's should have been crossed out that wasn't and it needs to be fixed. It will be going back before the Commission and will delay final approval of the ordinance. The ordinance remains retroactive.

Comm. Perona asked if there's going to have to be two readings.

Mr. Walker said from his part; the City attorney's position, the title actively reflects what was intended.

Mr. Stephens said from his understanding it was taken care of.

Mr. Walker said he is happy to amend his report accordingly.

Ms. Penick asked if the Utilities Authority receive notification to revise the contribution amount for the employee plus doing a retroactive adjustment. I don't want to do it before we are supposed to.

Mr. Walker said that is a question for the Board secretary.

ITEM NO. 6 ~ PUBLIC HEARINGS ON BENEFIT APPLICATIONS

Mr. Stephens opened up the public hearing for comments on the request for Retirement (DROP Program) from Tyrone D. Campbell 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, Mr. Stephens closed the public hearing. He 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 Tyrone D. Campbell.** Mr. Stephens 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. Stephens opened up the public hearing for comments on the request for Retirement (DROP Program) from James A. Gordon with 24 years and 1 month of service with the City of Fort Pierce Police. He asked if there was anyone here who would like to publicly comment on this request. Seeing none, Mr. Stephens closed the public hearing. He 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 James A. Gordon.** Mr. Stephens 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. Stephens opened up the public hearing for comments on the request for Retirement (DROP Program) from Shari G. Franco with 22 years and 9 months of service with the Fort Pierce Utilities Authority4. He asked if there was anyone here who would like to publicly comment on this request. Seeing none, Mr. Stephens closed the public hearing. He opened up the matter for the Board. **A motion was made by Ms. Nina Penick and seconded by Ms. Caleta Scott to approve the request for retirement (DROP Program) from Shari G. Franco.** Mr. Stephens 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. Stephens opened up the public hearing for comments on the request for Retirement from Oscar Trinidad with 9 years and 3 months of service with the City of Fort Pierce Police Department. He asked if there was anyone here who would like to publicly comment on this request. Seeing none, Mr. Stephens closed the public hearing. He opened up the matter for the Board. **A motion was made by Comm. Tom Perona and seconded by Ms. Caleta Scott to approve the request for retirement from Oscar Trinidad.** Mr. Stephens 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. Stephens opened up the public hearing for comments on the request for Retirement from Delvin Hart with 12 years and 5 months of service with the City of Fort Pierce. He asked if there was anyone here who would like to publicly comment on this request. Seeing none, Mr. Stephens closed the public hearing. He opened up the matter for the Board. **A motion was made by Ms. Caleta Scott and seconded by Comm. Tom Perona to approve the request for retirement from Delvin Hart.** Mr. Stephens 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

ITEM NO. 8 ~ NEW BUSINESS

a. REVIEW OF PERFORMANCE EVALUATION FROM CONSULTANT – CALLAN ASSOCIATES

Mr. Chapman thanked Mr. Stephens for having them here. You have some of your managers here; we also have a search that we are going to go through. Starting on page 2 of the Executive Summary, the economy here in the U.S. continues to be very strong; unemployment is low through; lowest since 1969; inflation remained in check; Feds continue to raise interest rates. You've probably heard in the news these past few days, the U.K is trying to work through how Brexit will come to fruition. There's a plan in place but certainly anyone guess if that actually gets approved. I think you could see some volatility there if the current deal does not go though. Resolving that would be helpful for European economy. I think you've seen it hamper GDP a little bit already. Looking at Asia; Japan continues to improve but certainly demographic challenges there; China with the trade wars and all of the tariffs going on there; seen some volatility going on there. For the third quarter China was one of the worst performing markets; going to page 3, China was down about 8% during the third quarter on trade angst and a sell-off in tech companies. Here in the U.S, numbers were very good through September 30th; S&P up 7.8%; growth continue to be a very strong performer; through September 30th Growth was up 17% year-to-date; Value up about 4%. What our clients have been asking is what's going on in October; how volatility impacted that. During October the R1000 Growth was down about 9% in the month. Out of the tech names who have done well, sold off quite a bit; saw some losses there; small caps were down a little bit more; down about 11%; internationally developed markets were down about 8% and emerging markets were down about 8.7%. One of the unique things we've seen is, for October, bonds were actually down; 80 bps; down 2.5% year-to-date.

Mr. Walker asked if you see the yield curve inverting anytime in the near future.

Mr. Chapman said that's a good question and page 4 illustrates that. You can see how risen on the short end, which is where the Feds exerts the most control of interest rates. You can see going from the yellow to the red, to the green dots, the impact of the Feds raising rates on the short end. If you look towards the 30-year dot point, you can see that the rate of change to be quite a bit smaller. What that means is that the yield is flattening. When short rates are coming up and long term rates are staying the same, the yield curve is flatten; there's less curve. The Feds are going to continue to raise rates. You may see another one in December; you may see two or three next year, that's depending on the economy.

Mr. Stephens said a couple of months ago, we allocated some of our funds, which is a big deal for us; how is China going to affect us? It sounds to me the tariffs are doing what the government intended them to do; put hurt on China to make them come to the table a little more. We're hurting but are they hurting more? By the numbers, it looks like they are.

Mr. Chapman said it has had an impact on the Chinese economy. I think some resolution would be helpful for everybody. Your impact has been fairly limited. The majority of your non-U.S. exposure is developed; you have some with William Blair. Your direct emerging market exposure is fairly limited with the Morgan Stanley product; you do have some exposure with William Blair. It's not a major piece of a portfolio. Moving on to page 7; very good quarter for you relative to your peers and the benchmark up 3.6% versus your total fund benchmark at 3.4%. Looking out over the longer term results generally close to the top decile; the 3 year number is slightly behind; total fund benchmark but still in the top decile of your peers; very good results; long term to your benchmark; good performance relative to your peers. Pages 9 and 10, you have Emerald and Ceredex; both of those managers are here, so if it's alright with you, I will let them tell you how they got to the performance they achieved. From our perspective, performance has been very good. They've done a great job. Going to page 14 to talk about your international managers. Morgan Stanley Developed; this is your manager that focuses on developed markets outside of the U.S.; a little bit of a challenged quarter relative to the EAFE benchmark; only up 45 bps versus the benchmark at 1.4; looking out over the last year with relatively good results but the 3 year number is about 50 bps behind the benchmark; long term results continue to be very good, so no concerns here. Given the volatility that we saw in October, I would imagined that they made up a lot of the ground; that they trailed for the last quarter; they've generally been defensively positioned and historically their manager has managed volatile markets very well. Morgan Stanley Emerging Markets is on page 15; underperformed for the quarter; 2.8% versus the benchmark; down 1.1%. This is a little bit disappointing because this is a fund that has been underweight to China. That's been one of the headwind to performance and why we are talking replacements. In a quarter where China was one of the worst performers. Obviously the numbers from last year; pretty disappointing relative to the benchmark. Weston is going to talk about potential candidates to replace the strategy that's given. You've been very patient. That's been one of the hallmarks of your process and your success. At some point you do have to make that decision that a manager may not be able to add the value that we had hoped. Finally, William Blair International Growth; slightly negative for the quarter; trailed the ex US benchmark which is up 0.7%. Last year we had good results for them; 3 year number is a little bit behind the ACWI ex US; about 70 bps of underperformance. That does rank in the top peer groups. Last manger is Richmond, your Core Bond manager; good quarter for them; up 10 bps; benchmark up just 2 bps. You can see for the last year they are down a little bit; down 83 bps, but that is a relatively good result relative to the benchmark and their peers. When you look out over the longer term, one of your longest relationship, they've added a lot of value for you relative to the benchmark and generally have been very competitive relative to their peers. The last is Heitman, your real estate manager; they're here as well. We've just hit a 4 year history with them. Your total fund being in real estate has been a helpful allocation for you has diversified your portfolio a little better and given you some extra returns. Heitman is a little bit behind the benchmark for the last 3-4 year periods. They have a yield advantage on the benchmark. That means their income component is more robust than what you see from the index. We think that will be helpful. They also have a large subcomponent that's about a quarter of their portfolio. The absolute performance has been very good, relative to the benchmark; a little bit behind but not at a level that you should be concern. I know I went through this fairly quickly; is there anything you all would like to discuss in more detail? Overall, another positive quarter for you.

Comm. Perona said when you talk about the real estate investments, are they just revenues or does that also include the appreciation?

Mr. Chapman said it's both in the total return. What you have seen for a couple of years; in 2015, 2016, 2017 was that you were getting a good and better price appreciation. With core real estate, we think it's more return in two thirds income; less expenses and about one third price appreciation. For a couple of years they had gotten inverted where you were getting more from the price appreciation component. You've seen that a little bit less with Heitman the last year or so. That's always a subjective process; looking at property; appraising them; how often you do that.

a. ***REPORT FROM MONEY MANAGER – CEREDEX VALUE ADVISORS***

Steve Loncar said he wanted to start off with some housekeeping items. Ceredex is based in Orlando, FL; small cap value equity manager; no changes to the portfolio manager, Brett Barner; no changes to the investment team which is on Page 5; no changes to the investment philosophy. Behind tab 3 is the portfolio we manage on your behalf within small cap value. The equity value as of September 30 was a little over $8,137,812.43; cash is transactional nature; we tend to be fully invested, so cash for us; we usually have it down within 2-3% at times when cash is coming in and out of portfolio. It could get up to 5% but we like to not get to that level. Pages 12 and 13 shows your quarterly trailing cash flow statements. Page 12 is the quarterly; not much activity from a withdrawal standpoint but you see interest dividends realizing the gains and losses. Page 13 is just a 12 month trailing review from September 30th back one year; minimal withdrawals and again you see the interest dividends; realizing the gains and losses for the trailing 12 month period. Page 14 shows inception since our relationship in terms of the original investment. You can see the contributions, withdrawals, management fees, etc. and then the total investment earnings with income capital appreciation. Over our relationship since 1999 we've been able to generate almost $20 million in capital appreciation. On page 15; investment returns. The 12 month number as of September 30, the portfolio returned 13.84% versus the benchmark at 9.33%. In contrast to when I was here last year when we were trailing; 12 month timeframe are very different depending upon what timeframe you are looking at. When we were trailing as of September 30, we had subsequently a very strong fourth quarter which ending up realizing a very strong 2017. Just because we look at your fiscal year end, that timeframe sometimes doesn't match up in terms of how markets work. In this timeframe as of this 12/30, we've been able to close very strong results for that fiscal year. We try to look at it from a longer perspective. I know the Board looks at it from a fiscal year because you have budgeting from that point of view. Looking at the quarterly perspective, we are trailing slightly in the third quarter of this year; trailing by 7 bps. What worked for us was Consumer Staples; Consumer Discretionary where areas that worked; what didn't work was Health Care; Information Technology Materials. What worked was Staples, Financials, and Industrials. We've been overweight in Industrial for almost the entire period of your portfolio. We've been able to generate good returns for the trailing 12 month as well as financials where we are overweight insurance and asset managers; we're underweight banks. We've been underweight banks for quite a long period of time. We think they are overvalued. There will be times where the focus on small cap domestic banks will be negative for us. What didn't work was Consumer Discretionary; Materials. These were the two areas that did not work for the trailing 12 month period. I will stop here and ask if there are any questions with regard to returns as of September 30. In terms of page 16, you see your sector concentration in terms of where we are overweight and underweight, it really hasn't changed since I was here last year; maybe the names involved have changed, but the overweights and underweights are still relatively the same. We are underweight Financials; we are underweight small caps banks and we've been underweight for quite a long time. We are overweight Insurance and Capital Markets; we are overweight Industrials; names like Tetra Tech is an industrial name that we own as well as some staffing companies; some furniture companies. We're underweight Tech, although we've increased that recently. If you look at your top 10 that you may or may not know about; it's called Power

Integrations, Inc. In essence, not really much changes in regards people performance and philosophy; we talked a little about performance in terms of what it is now; longer term and come of the portfolio composition and it really stayed the same in overall composition with some minor changes in terms of names.

Mr. Chapman asked Mr. Loncar to talk about October value a little bit better.

Mr. Loncar said actually we were down in October; we were able to do better than the benchmark. That's owed to the fact in terms of our investment process. We tend to focus on higher quality type companies. October was a little volatile, so a lot of high valuation names got impacted. The markets were down in October; so were we, but we were down less. If there be no further questions, I want to thank the Board for allowing me to come and you may call me at any time if you do have questions I can answer. My contact information is in the front of the presentation.

b. REPORT FROM MONEY MANAGER – EMERALD ADVISERS, INC.

Mr. Mark Schlegel started off by introducing himself; he head up the client and business services for Emerald and Mr. Joseph Garner who is head research and one of the portfolio managers on the small cap growth strategy. I am new to Emerald; this year in February but am very familiar with Emerald. I will be talking about the performance from a high level and Mr. Garner will give a deeper overview of performance, sectors, and some of the names. This is definitely one of the quarters where, given all that's happened in the market since September 30. Brief update on the firm, on October 1 we closed our strategic partnership with 1251 Capital Group, and as planned, nothing was different on October 1 from September 30; no personnel changes. Taking a look at page 1, you started with $4.8 million in the account over the 14 years you've been a client; you added $1 million over that time period; you've taken withdrawals of $5.6 million; you can see the management fees taken out; moving to page 3 at the bottom, on the right hand size, over that time period we've made for Fort Pierce in both income and capital appreciation almost $11.5 million. As of September 30, we are about $10 million. At the bottom you can see assets as of October 31, $8.6 million. Going to page 13; we had a great quarter and a great year to date as of the end of September 30. You can see over the long term time period of working with Fort Pierce, you saw the $10.5 million of appreciation over that time period, but that comes up to be an annualized 2.0% above the benchmark over the 14 years since inception that we've been with you. For the third quarter the benchmark was up about 5.5%; your portfolio was up almost 7.0%; outperformance there and year to date up almost 15.0%; slightly below the benchmark. Fiscal year; one year trailing is going to be your fiscal year; we were up in the portfolio 23.6% versus 21.0%; about 2.5% outperformance over the benchmark during that fiscal year period. As of yesterday, quarter to date, the Russell 2000 Growth which is benchmark; down about 14.0% and your portfolio down about 15.5%. You can see the big swing since the end of the third quarter and that's across asset classes; since inception, numbers are 10.32% for your portfolio versus 8.6% for the Russell 2000 Growth; almost 2.0% outperformance. Overall, what's happened, you've got worries about China slowing, worries about the rest of the world slowing in terms of the economies and even the U.S. economy has been doing well comparatively with those economies slowing down, the fear is people thinking that's going to affect us at some point in our economy. On top of that you have the trade tariffs and what has been rhetoric up until the last several months but has now been actual tariffs inactive that's also part real and part perceive in terms of how much of an affect this is going to have; how much more tariffs is going to be put into place; you through in the rising interest rates that the Fed is raising which we haven't seen in many years and you've got a lot of uncertainty out there; markets don't like uncertainty, you start to see some selling that does accelerate. Those are all of the bigger pieces. The only other big picture I will point out is we saw an interesting research piece by one of the large investment banks in the last couple of weeks. They track all of the financial assets out there; not only stocks and bonds, commodities; everything around the world; real estate, and they've looked over the past hundreds of years, they've looked at it and through October of 2018 they're saying it's the worst year since 1920 for all financial assets. The way they look at that is how many are down year to date. What typically happens is you have these periods where the market is unstable and people look back and don't realize what's happening until you take a pause. Moving to page 14 just to point out on the right hand side, we've had 13 full calendar years with you all and we've outperformed 10 of those 13 years, so it's almost 8 out of 10 ratio. We not only well do well in up markets but we also do well in down markets. I will now turn the presentation over to Mr. Garner.

Mr. Joseph Garner thanked Mr. Schlegel. Starting on page 18, if you look at the second and third quarters, as you know we tend to do our best in fundamentals of driving the markets. We believe over the long term fundamentals are what matters most. During the second and third quarter we did relative well, not only in absolute bases but in exceeding the Russell 2000 Growth benchmark as well. In the last month and a half fundamentals haven't mattered as much. It's been a lot of those micro issues and fears that perhaps this second economic expansion period is coming to an end. We think the market will come back at some point and time. We will make sure we are taking the appropriate gains when it's time; we try not to take any unusual risks; staying very well diversified in the portfolio but trying to focus in areas that have the strongest individual company fundamentals in the portfolio. I can summarize the first few pages by saying it was a growth markets place; growth did better than value; that tends to be in our favor. We found in the third quarter that large caps tend to do a little better than small caps had been performing. That usually have been a head win for us but we still did well during the third quarter period. On page 20 you will see by sector on that kind of marketplace you would expect things like technology to be one of your best performing areas and it was. Energy was the big lager. That was probably our smallest sector waiting in the portfolio that help us as well with energy underperforming. On page 22 you will see bar charts by sector to see the biggest was Health Care. We had very strong second and third quarter in the health care sector. As you know, we have a very strong team in the health care space. We have a slow start in the year, particularly in biotech. Health care made up that ground and then some through the end of the third quarter. Consumer Staples has done well; both Consumer Discretionary and Staples. As you might expect from us, when we go into Staples, we're not hiding there; we haven't had much exposure to Staples for several years. We're finding companies that were growing very quickly were those that were, was trading at astronomical valuations; a little bit of outperformance in technology and utilities as well. Where we saw the greatest challenges were in Financial Services. On page 23, as I mentioned health care first, there were three names in our top five that were health care related companies; one was Rheta Pharmaceuticals. They have been developing treatments for rare forms of kidney diseases as well as other acute diseases. Patients that were on that drug for 52 weeks were seeing a significant improvement in their conditions and when they came off the drug after 52 weeks, they continued to see improvement for the next four weeks as well. They also showed some early data on treatments of other rare forms of kidney disease that were showing positive effects from the treatment. Their shares were up over 130% in the third quarter in response to that favorable data. Tandem Diabetes Care are the maker of insulin pumps and the industry leader, Mentronic ran into some issues with their pump on the marketplace; Tandem being the smaller, more innovative company came up very quickly from behind has now what is considered to be the highest quality pump on the marketplace. They saw their revenues up 60% during the third quarter. The third on the list, Teladoc Health, and we always bring a few of our internal researcher's portfolio. One in the back, you will see is Teladoc Health; before it was Telamed. They are building using your mobile device or computer; having an appointment with your via that way. That area of the market took off early this year. Two years ago they generated $77 million in revenues. We think they will be over $410 million in revenues. In the third quarter they had over 600,000 patient visits worldwide through that system. We also did well in the consumer space as I mentioned; five below in the consumer discretionary space. Consumer Staples is an area where we started to see a couple of interesting opportunities with Fresh Pet. If you go into Walmart, Target, or Kroger grocery store and you go into the pet food isle, you might see a refrigerator cooler; that's probably Fresh Pet because they've got 19,000 of those across the country. What they're selling is all fresh, all natural cooked food.

Comm. Perona asked what's the relationship in market between fresh food and frozen or dry food.

Mr. Garner said he has seen people look at the pet food market and say this is the new fourth category through the industry. You have your traditional dry Kibbles, you have the can wet food and a years ago you had your Blue Buffalo and others came out with a dry all natural type of food. This fourth category they are calling the fresh frozen. Fresh Pet has 50% share of that new category. Only 3% in all pet food in total; the industry leaders have 30%. That space which is growing very quickly, they're dominating that space. I think it's got a long ways to go in terms of adoption in the market share. On page 24, as we mentioned Financial Services was ahead. You might remember from past years we've been overweight banks in our portfolio; still a great time to be in the community banking business, particularly as they continue to gain share from the larger money center and the regional banks. You might know FCB Financial, Florida Community Bank that was acquired over this year and you say if they were acquired in the third quarter, why are they on your detractor's list. There were a lot of speculation in Q2; stock did very well in Q2. When the acquisition announcement came out in Q3, they were bought by Synovus and the price was less than what Wall Street were expecting; it was an all-stock deal and the Synovus shareholders didn't like it. Synovus shareholders had expected Synovus to sell. When they made this big acquisition, they saw that Synovus didn't plan to sell, so Synovus shares came down which brought FCB shares down even more. We have exit that position since the takeover; it is behind us but we are disappointed in the way it ended. We have two names on the list from the health care space. Clovis and Puma are both companies that are commercial stage oncology; cancer treatments on the market generating revenues. In the case of Clovis they did get an SEC fine for one of their existing products on the marketplace. That hurt the stock as well as the expectation that they would be selling as well and that obviously has not happened. They weighed on the stock. We have since then exited our position. In the case of Puma; similar story on Puma. The big issue there was while they had a good quarter in revenues during the third quarter, they stop reporting how many new patients they were putting tridoc. They were coming up on the one year anniversary of their watch and to keep the growth going, you need to have new patients coming to keep things going. We paired back our position as they reported the third quarter a few weeks ago, it became quite clear as their revenues had decelerated. They have not been able to do a good job replenishing that pipeline. The drug is still proven well to be effective, we think that's one that should have looked for an acquisition part. They just don't have the sales and marketing capabilities we believe to go out and replenish that pipeline. We have exited that position as well. USA Technologies has been a great growth story for some time. They do mobile payments and vending machine. Coke machine receive your credit card or use can use your coin to pay for it. Many of those systems are theirs, especially if it's a Pepsi machine. They made an acquisition earlier this year. Think there were some questions with the accounting; the auditors would not sign off on the year end audit at the end of June. When that news came out, it impacted the stock and here we are in November and we still haven't gotten those financial files. Instructure in the education space; I would just look at that as a little speed bump. They are the CRM system for your schools and colleges so teachers can manage their course work, their grade books, their attendance books; thing of that nature. On that system there was a company named Blackboard that owned that space for years. They went to private equity. They started doing a lot of acquisitions; have cut back on our RD spending; cut back on staffing in general; the product has become stale; the structure has got the newest, broadest set if functionalities, and I've been taking advantage of that at a lower price than Blackboard. So, that's really a lot of the portfolio dynamics on an individual stock basis. Going to page 27, you can see where we stand on a sector basis. We've been increasing grossly in the consumer space; low unemployment; increasing wage levels; high discretionary income; the consumer area we think is on pretty solid foot right now. Health Care again, we've seen a number of how their interesting companies less economically sensitive; doing well there. Where we haven't seen things strong; in the banking space with concerns about the yield curve flattens. It's been difficult for them to generate their interest mark. That's been a concern. We've been reducing some of our exposure in the financial services space and in the industrial. The area that is the biggest overweight is Technology. You'll see where 22.6%; the benchmark is at 59%. The Russell 2000 Growth Index is reconstituted every year in June. When they did it this year, they were a large one of technology companies; particularly software space; they've done so well over the last year, plus they moved up to mid cap, so the benchmark really dropped about 5% when it did that. Our overweight in June 30 did not look as big as it does in September. Page 28 shows our top ten holdings; again very diversified; Chegg, Inc. being the top largest company with 2.5%.

Comm. Perona said it seems like we talk about Chegg every year; it seems like a company that keeps on going and going. They're finding more ways to use the product, especially in Florida with all of our problems with things dissolving. Are they still pretty stable?

Mr. Garner said that was one of our top contributors in the third quarter I did mention; had very good financial results through the first nine months of the year. What's interesting with them going into the next year is they've done very good taking market share from their other computing composite decretive; those who don't, they make decking boards but they don't use wood. They use recycled plastic. You don't have the maintenance and they last longer; you can curve these boards and make some cool designs. Where they see the big opportunity, composites are general; only about 30% of the decking industry. Wood is about 70%. While they think they can gain share against those other composite makers, they've got higher quality product that they sell often times at a lower price than their peers because their cost structure is so much better. Wood per linear foot is about 75 cents; their low end product has been $2.25; about three times the difference there. They've always felt that if we can get close to $1.50 a foot and when you look at the price of a deck, that's mostly labor; now you're talking in many cases a $1,000 or less for the cost of the materials; wood versus composite. That's really it for my presentation. Thank you for allowing us to give this presentation. I'm happy to take any question you may have.

c. REPORT FROM MONEY MANAGER – HEITMAN

Mr. Ed Rieger introduced himself to the Board. I am here representing Heitman, a real estate specialist in Chicago. Going to the first slide, just a very brief overview about Heitman. As I said, we are a real estate specialist, headquartered in Chicago and global around the world but the fund that you are in is a U.S. fund and the entire team is based in Chicago. One thing that is different from last year is that it is 100% employee owned to date. We previously had been 50% owned by Old Mutual Asset Management; we had the opportunity to buy ourselves back, so we took that opportunity and now control our own destiny so to speak.

Comm. Perona asked if the acquisition cause any type of financial pressure to Heitman as far as it relates to us.

Mr. Rieger said no. The only real difference financially is today we now have some debt on our data sheet. We took bank loans; essentially pretty straightforward; very attractive rate; five year term; the business is operating almost exactly as it was previously. The Old Mutual partnership is purely a financial partnership. They contributed really nothing to the strategy of the firm. On slide 7 is a profile of the fund you're investing in, HART. We call it Heitman America Real Estate Trust. HART is a core open end real estate fund that invest in high quality, well leased, and stabilized in producing commercial properties here in the U.S. The fund stats on the right; the fund total size to date, which has grown of the last several years is up to at a gross asset value of almost $12 billion. The leverage used in the fund, as you may know many real estate funds, if not all or most, use some form of leverage. This fund is leveraged at 26% and I want to make one more point about the conservative of the fund; many of our competitors in this same core opening space will do development, which can be a riskier proposition. This fund has never invested in development. Moving to side 9 which is the team. The firm supporting HART; the blue box in the middle of this page is the HART team. Blaise Keane continue to be the Senior Portfolio Manager and happy to report there were no departure from the team. We are continuing to add resources to the team. Moving forward to slide 10, which is the fund performance summary. Your more specific performance is toward the back of the book; there's one of your account statements there. Essentially this is how the fund has performed since its inception in 2007. The far right is that inception return versus the ODCE Index, so that is the relative core opening fund index which is comprised of 25 light funds, one of which is HART. The dark blue bars on the left of each of these columns is your income return for the fund and the lighter blue bars is appreciation return that the fund has generated and the grey bars are the index. Overall, you can see we are beating the index. The middle of this page coincide with the initiation of your investment in HART. You had pretty good timing here. You are essentially about the five year mark, so if you look at the size of these bars, you entered at a pretty good time; since inception return is 10.4%. Last year we might have had a box on the right side of this page that showed you what our expectant return for 2018 would have been and it would have been a more muted return; 6.5 to 8.0% was our projection, thinking that while income might have stayed pretty equal, that appreciation might tell all a bit as pricing in the real estate market has continues to rise up, that has not been the case. Appreciation has prized on the up side. The one year of almost 9% on a gross basis; I think 2018 when we get to the end of the year will be somewhere in the 8.5%. The core real estate market continues to perform quite well. The long term expectation for this year's asset class should be somewhere between the 7 and 9% return; fairly conservative; lower leverage; core property type. That should be the long term expectation. We've had a period here when you look at that five year number where you were coming out of recovery; out of the global financial crisis off the very low bottom, you had very outsize returns for several years; that was an anomaly; you should not expect those returns over the long term, but an A+ return over the last several years is fairly attractive as well. The next page is also in the theme of performance. It highlights our income emphasis in the fund and the consistency of our income outperformance versus the index. For 31 consecutive quarters we have produce more income this fund than the index average. That speaks to the conservative nature of having very well leased. If you look at statistics, higher leasing numbers than the index, higher quality leads us to this better income stream and market system income stream. If you have further questions, there's slides further on in here that get more into sector allocations and the types of things we are investing in. The typical fund in this area is investing in the four primary property types; commercial offices, its retail which is essentially shopping malls, its industrial warehouses, and apartments. One that we do that is a little different than others and it's starting to creep into the index more now is we've added a fifth category of self-storage. It's an area that we have been investing in for more than 20 years now. We have deep experience and expertise in this area. It has added great value to the fund and we think it actually bring some defensive characteristics to the portfolio and I will point out in this, a couple of what you might consider specialty sectors, which would be medical office and student housing. If you look at our numbers, they're subsets of medical office; a portion of what we report as office and student housing is a portion of our apartments. We have allocation to those as well. We call those delinked to the economic cycle because they are less linked that way. What we anticipate as a slowing economy as we move forward here, we have built into the portfolio defensiveness and adding to these types of areas. Storage is something we've always done and has been in the portfolio for a long time. Medical office and student housing is more recent.

Comm. Perona asked if the economy is slowing are you as aggressive in these purchases and holdings in these major communities.

Mr. Rieger said we are a bit more diversified across cities and geographies. If you compare us to the index of the top ten markets; the top ten big cities, I think comprises something like 75% of the index and we are at 60%. We tend to diversify into some of these lesser secondary markets, which has not gotten over heated as some of these other markets. We are this year to date, HART has made almost $2 billion in acquisitions and we would not make those acquisitions if we didn't feel like we were getting a reasonable price for it. Despite what may be creeping up valuation in many places or some places in certain sectors, you're still able to find fair valuation in the types of property that we want to own and still maintain a diversified real estate portfolio.

Comm. Perona asked in your defense strategy is part of your plan is to sell off some of these holdings that may bring your number down.

Mr. Rieger said the strategy is based on long term hold. When we buy a property, it's got a 7 to 10 year hold, so the number of disposition that have been made in this fund over the course of that 11 year history have been few and far between.

Mr. Chapman askes Mr. Rieger to talk about the managing reflows and valuations.

Mr. Rieger said the cue, which those of you may not know what that means. It means how long you have to wait to get into the fund to place an investment. If you look on page 23, it is the summary of our cue, which is a combination of what our source of dollars that's invested into the fund minus the uses which is acquisition and property for redemption if any existing investors have redeemed. Today that cue sits at $276 million which is as low as it has been in some time. This essentially is about a one quarter weight. On average we invest $250 million a quarter.

Mr. Lewis asked can you count on your current levels leverage.

Mr. Rieger said it is 26% currently which is a little higher than it had been. Generally we are in the 22-23% range previously. We did some refinancing of some debt this year which we think is favorable for the fund in the longer term. We were able to extend the term on some loans. In other words, something that made the maturing in 2 or 3 years; we extended 10 years at still favorable rates. When you do that you have to pay a fee that goes with that and that gets factored into your current debt equation. That will probably roll off after this year and will probably regulate back down to below 25%.

Mr. Stephens asked the Board if they had questions and thanked Mr. Rieger for his presentation.

d. <u>DISCUSSION ON THE EMERGING MARKETS MANAGER SEARCH</u>

Mr. Weston Lewis said we will now get to the search we did for you for the replacement for the Morgan Stanley Emerging Markets Fund. Very briefly I'm going to touch on our search process. This is something that came from Callan as a firm and represents our best ideas. Every manager that we bring to you all suggesting a recommendation has to go through one of peer review committees. In this case it was the managers search committee that signed off on these managers. We put these disclosures in the beginning of the book but in terms of this list, it came from a prescreen list that has already gone through our managers search committee. We had some conversation with our manager research teams; there were about ten on the list. We went through and said which ones best fit in what Fort Pierce is looking for; which ones complement the existing managers in the portfolio and don't give you duplication of what you already have. We came back with three managers; all three are more value focus. They try to select stock they believe are cheaper than the overall marketplace and would expect some height appreciation to come from the market, recognizing their true worth. We sent you a pretty thorough and long book; I'm going to try to summarize what we think are the most important points coming from the book. The three managers, Causeway, DFA, and Lazard. Causeway is not what you would call a household name. It's an employee owned firm based in Santa Monica, California. They managed about 58 billion in assets. The fund that we are bringing to you today is approximately 8.5 billion; sizable fund, reasonable asset on the management. There are a handful of ways to go about adding value investing in the emerging markets or developed international markets. You weight the country itself at a different weight from the benchmark or you weight a sector at a different weight than the benchmark, or you weight the securities at a different weight than the benchmark. This is what makes international unique, you can weight the currency at a different weight than the benchmark. Thinking through as to how Causeway add value, there's four primary areas. They're trying to add value through security selection. By finding the securities they think are going to appreciate most in the index or outside the index and overweighting those and relatively underweighting those that they think are the most expensive or not bound to appreciate more. They are what we consider to be a quantitative manager. They are screening using spreadsheets, databases, public available information to screen through and sort through a lot of data. They do an initial liquidity screen of about 4,000 stocks. From that 4,000, they say what names have enough liquidity to support sizable assets under management like we have. That gets the number of names down to about 1,200. They rank each one of these 1,200 names using a model that they've developed. This model is based on both bottom up criteria as well as top down criteria. When I say bottom up that includes things like how cheap is the stock, certain value factors; looking at things like earnings growth, price to books, price to earnings; those things that we think of as somewhat fundamental. They are also look at some kind of technical mere term momentum factors so you don't get caught with a lot of value stocks that are cheap for a very good reason. That's 75% of their value added. For the other 25% they are looking at top down things. Typically you will see about 100 to 140 stocks in the portfolio and they are targeting 4.5 to 5% of tracking error. Tracking error of 4.5 to 5% suggest pretty active management. Moving on to DFA; DFA is Dimension Fund Advisors. This is a household name with quite an extensive amount; a lot of their background is in academic research. It's fund by; one of the guy's name is David Booth. They were early pioneers of passive investing. They believe that passive investing could be improved by tilting stocks or tilting the index towards things they believe matter; being a little bit smaller cap; focusing on names that had a lower price. By weighting the index by criteria, this is what made them famous. This is a little bit quasi active and quasi passive at the same time. They are going to tilt the portfolio to a smaller cap as well as value. This portfolio is going to have over 2,000 holdings. This is a lot of holdings. They also have a profitability criteria they are looking for and this is a key point to make as you think about who you want. They limit the country exposure at 17.5%. China makes up almost double that at 33%. They are about half the weight in China currently. As Cody talks about China doing well, China not doing so well, this could drive some of the relative return of the portfolio potentially. Moving on to Lazard; Lazard is a publicly owned firm. They a little bit more of a household name; firm wise they manage about 250 million; within this fund it is 35 billion. This is the most fundamental manager out of all three. Whereas the first two were relying on a lot of spreadsheets; a lot of computer models and sophisticated data, they are relying on people to dig in; they do the screens up front, then on the back in they are relying on people to dig in and understand the balance sheets, understand the companies, understand that they believe is a good business. To determine if it's a good business, they are looking at return on equity, return on the assets, cash flow, and operating margins. Once the determine we like this business, they try to determine is it the right price. They are going to look for things like price to book, price to earnings, price to cash flow, and price to sales. They screen about 2,000 names down to 250 for that deeper dive to get to know the company and then they set a price target for each of those 250. If they think that a company represents a 20% discount to what their price target is, then that stock is eligible for purchase. You are going to see about 70% of names in this portfolio. So, Causeway going for a 100; DFA north of 2,000' Lazard is 60 to 80. Let's talk about the fees; Causeway is the most expensive at 115 bases points. That's 1.15%. Lazard comes in at 1.08%, and DFA is the cheapest at 0.57%. With that in mind, those are the three and I would prefer you all to think of who do I like; who is the best fit. Out of the three, one stand out in performance, which is Causeway. However, we think that any of these three would be appropriate. We think that the long term prospects for returns are in line with each other. What we are looking at right now, DFA is underwhelming and Lazard even more so. Causeway at least has some longer term returns above the benchmark.

Mr. Chapman asked if there were any questions about the three candidates. When you think about emerging markets, you have to think about China. It's 32.7% of the index. It's likely China is leaning more toward 40% of that index over time and may get there more quickly depending on performance. Causeway and been overweight to China. You need to understand the universe that you are investing in.

Comm. Perona asked if we're talking about a $2 million fund.

Mr. Lewis said $1.3 million.

Mr. Stephens said with the agreement from the Board to choose Causeway as the selection of the emerging market manager, a **motion was made by Ms. Nina Penick and seconded by Ms. Caleta Scott to approve the selection of Causeway Capital Management as emerging markets equity manager.**

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

Mr. Stephens said the next item is the Consent Agenda. **A motion was made by Ms. Nina Penick and seconded by Comm. Tom Perona 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

Mr. Stephens acknowledged the excused of Ms. Johnna Morris and Comm. Reginald Sessions. **A motion was made by Comm. Tom Perona and seconded by Ms. Caleta Scott to approve the excused absence of Ms. Johnna Morris and Comm. Reginald Sessions.** Comm. Reginald Sessions did not called concerning his absence from the meeting.

ITEM NO. 11 ~ BOARD MEMBER COMMENTS

None.

ITEM NO. 12 ~ ADJOURNMENT

The next item was next month's meeting. The next meeting is scheduled for December 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 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.