

Summarized Minutes of the regular meeting of the City of Fort Pierce Retirement and Benefit System October 17, 2019 2:00 p.m., in the 2nd Floor Conference Room at City Hall.

Present:

Keith Stephens, Chairperson
Caleta Scott, Vice-Chairperson
Mayor Linda Hudson
Comm. Tom Perona
Johnna Morris
Brian Avilla
Nina Penick

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

Attorney Jim Walker
Christina Paz

Attorney for the Retirement Board, Advisory
Retirement Clerk

Guest:

Cody Chapman

Callan Associates

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 2:00 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 19, 2019

Mr. Stephens, the next item was the approval of the summarized minutes of September 19, 2019, and the Board asked if there was a motion to approve the minutes. On page 2; paragraph 5, the word “extension” should be “abstention” and the word “conscious” should be conscience”. On page 3, paragraph 8, the word “gate” should be “gain”. **A motion was made by Mayor Linda Hudson and seconded by Ms. Caleta Scott to approve the summarized minutes of September 19, 2019.**

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

ITEM NO. 5 ~ ATTORNEY’S REPORT

Mr. Walker said we had a claim against Ricky Brown for failure to pay a promissory note. An effort was made to resolve that with him. I had scheduled a couple of office appointments for him and contacted him and he never showed up. We have proceeded to final judgment and obtained a judgment for the unpaid principle, the interest cost, and attorney’s fee for the \$11,306. There is a reimbursement demand for an overpayment made against the account of George Collins for \$894 and another such demand for reimbursement arising out of an overpayment on the account of Alice Butler for \$460. That concludes the report. I will be happy to entertain any questions.

Comm. Perona asked if we have a Judgement and how do we perfect the Judgement.

Mr. Walker said first it gets certified and then we record it. We take the recorded copy and we lodge that with the Sheriff’s Department. At that point, it’s ready for collection. The final judgement required the judgement debtor to furnish us with a statement of assets so we will go with that. Typically, one sits back for a while because if the judgement debtor has any property, as Mr. Brown does, typically, they end up coming to you to clear the record. That way you don’t have to run up the meter with collection activities.

Comm. Perona asked if interest still accrues.

Mr. Walker said yes.

Ms. Penick said I don’t know what the nature of those payments were but, have any corrective actions been taken to ensure that doesn’t happen again?

Mr. Walker said very respectfully, I would defer with great pleasure to our Board secretary.

Ms. Morris said the retiree was deceased and we weren't notified timely as we were supposed to be. Once we found out, we did stop the payments.

Comm. Perona asked how it was caught.

Ms. Morris said Christine normally looks through the obituaries, trying to see if something happened.

Comm. Perona said it wasn't through the family.

Ms. Morris said no. That's what happens if the family does not notify us. We have to try to go back and try to catch the cost. Now is the time when we do our annual updates.

ITEM NO. 6 ~ PUBLIC HEARINGS ON BENEFIT APPLICATIONS

Mr. Stephens opened the public hearing for comments on the request for Retirement from Laurie Aguila with 16 years and 8 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 the matter for the Board. **A motion was made by Comm. Tom Perona and seconded by Ms. Johnna Morris to approve the request for retirement from Laurie Aguila** 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 carried unanimously.**

Mr. Stephens opened the public hearing for comments on the request for Retirement (DROP Program) from Atiliano Garcia with 20 years of service with the 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 the matter for the Board. **A motion was made by Ms. Johnna Morris and seconded by Comm. Tom Perona to approve the request for retirement (DROP Program) from Atiliano Garcia.** 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 carried unanimously.**

ITEM NO. 7 ~ OLD BUSINESS

None.

ITEM NO. 8 ~ NEW BUSINESS

a. QUARTERLY REVIEW OF PERFORMANCE EVALUATION FROM CALLAN ASSOCIATES

Mr. Cody Chapman thanked the Board for having him here today. You have a Q2 report in your packet through August. Results through Q2 were positive. We started to see a little more volatility

in July and August; a lot of concerns about the soaring economic growth in Europe; certainly the lack of resolution about Brexit contributes to that; continue trade war with China; some resolution there would likely be positive, and then more recently tension out of the Middle East with some sudden concerns about some oil supplies; also saw the Feds cut rates in July for the first time since late 2014; also had another rate cut earlier this week; potentially one more, maybe by the end of the year; maybe early next year, but certainly it appears the Board of Governors are a little bit more mixed on where the next move might be and the timing of it. I think that was in response to some softening in economic growth; starting to see some manufacturing slow down a bit; not a lot of inflation, so I think that contribute to the rate cut as well. Growth here is better than most of the rest of the world, but it's showing some signs of slowing down. All of that contributed to the little volatility that you saw in July and August. Assets for your portfolio as of August were \$201.4 million; down slightly from about \$202 million at June 30th. During the month the new emerging markets manager, Causeway was funded; working with Johnna on working out all the paperwork and the funding there so the Morgan Stanley mandate to terminate it was transitioned during the month. On the first page of the August document is a summary of your assets through August 31st, again, \$201.4 million through August 31st, that's slightly down from \$202 million as of June 30th; about \$650,000 in negative returns. You go forward one page, we will talk about your portfolio results. Your portfolio was down about 88 bps during the month. That was 11 bps ahead of the target, which was down at 1% for the month. Looking out over all the recent periods you see on that page; good results relative to the benchmark; slightly behind on that last 12-month number; 1.6% versus the benchmark at 2.3%. The following page has longer term results; 3, 5, and 10-year results are well ahead of your benchmark. Let's talk a little bit about your managers. Starting at the top of the page; Domestic Equity was down slightly more than the benchmark. For the month, looking out over all the recent periods you see reasonably good results relative to the benchmark ahead for most of the periods. Emerald, which has been one of your strongest managers over most of the recent periods, was down a little bit more than the benchmark; Russel 2000 Growth for the month. Small Cap stocks sold off strongly during August, given the volatility with trade and uncertainty there. You saw small cap stocks sell off quite a bit in August. If you look at the long-term numbers for Emerald; continue to be very good; one of your best performers; absolute and relative bases. Moving down, Ceredex is the value peering to Emerald. They were ahead of both of their benchmarks for the month; very good recent results relative to the Russell 2000 as well as the Russell 2000 Value Index. Always hate to see red numbers, but certainly nice to see they protected your capital better than the benchmark over most of the recent periods. If you look at the longer-term results, they continue to add value for your all net of fees. On the international side, your managers were a nice source of outperformance. For the month your Non-US managers were down about 80 bps; that compared with the benchmark being down right at 3.1%. Again, always hate to see negative numbers but, good to see that your managers protected better than the benchmark. Both of you managers added value here; Morgan Stanley was down 69 bps for the month; that was ahead of the MSCI EAFE Index which was down right at 2.6%. You all recall that Morgan Stanley has very high quality portfolios and positioned more defensively for several years now; focusing on high quality portfolio and that's really paid off for them when you look at all the recent periods here, and if you look at long term results on the following page, those continue to be very good versus the benchmark as well. William Blair is your other international manager; they were down 76 bps versus the benchmark, down more than 3%; continue to see good results for them over the last year. All the recent periods you see very good results. Their focus is on high quality names has been a favor and has added a lot of value. If you look at the long-term numbers

on the following page, they also are doing very well relative to their benchmark. One manager is not on here because it was not a full month, is your new manager, Causeway. You'll start seeing their performance the next time we meet. For the month the strategy was down 4.4% and that was ahead of the benchmark which was down 4.8%. On the fixed income side, you'll see Richmond was up 2.2% versus their benchmark at 2.6%. You all know that Weston and I are not in the business of giving predictions and general hedge on our crystal ball. I will give you all a prediction. If you look at that last nine-month number, you will see that Richmond Capital, your bond manager, was up 10.7%. That's largely driven by the fact that interest rates have been coming down substantially over the past several months. When interest rates go down, that's positive for bond prices. When that happens, with rates falling, you're kind of pulling returns forward. So, the outlook for fixed income; when you have these periods where rates fall traumatically; it's generally that going forward, returns are likely going to be lower because you are starting from a lower yield. I predict that Richmond will not likely continue to give you 10.7%, just because where we are with rates. Certainly, they can go lower; certainly, are lower in much of the world, but just given where we are in the cycle, it doesn't feel like there's a lot of additional room for rates to fall; certainly, they could. We've made some progress with rates coming up; you're starting to get more return from your bond portfolio, which is good. With rates falling, we've moved back to an environment where you'll not likely get as much return from your fixed income portfolio as you have in the past couple of years. It was one of your best contributors. If you look at that nine-month period; even the twelve-month period, it's rare your fixed income portfolio is your best performer when equity markets have generally been well. One other manager we should talk about briefly is Heitman. You see that their return was zero for the month. This fund only valued quarterly, so we just keep it flat when we do these monthly updates. You may have noticed in the Q2 report that they had a negative return throughout the benchmark. They wrote down five of their mall properties; about 17% during the second quarter. I think you all wouldn't be surprised to hear that retail continues to be a challenging place to make money in the real estate market. We've seen this across the managers; writing down retail properties. There's nothing necessarily wrong with the properties they have. They're well leased; they are well positioned malls. That being said, it has pull down their short-term results; 3.2% for the last year versus 5.5% for the benchmark. Longer term results; the last five years it has been right at 8.1%, which is reasonably good relative to your other asset classes. It's been a good additional for you, but they have trailed the benchmark a little bit. The benchmark is at 8.8% over the last five years.

Comm. Perona said I read that, and I figured there are two effects they can have; one is through revenues, which this is not about. It is more to a true up to the current market conditions, which could correct the other way at a later time and I almost appreciate a company that will go ahead and self-analyze and say, rather than hit it all at one time, they basically are just managing their assets to the point where we can understand how it's being viewed and how the market is.

Mr. Chapman said it's been a challenge being in retail. I think you hit on a good point, which is they just look at their future revenues from these properties and say, they're well leased. We are going to continue to get cash flow but, we don't have a lot of pricing power to raise rents. The market is a little bit negative on retail properties in general so, the multiple a new buyer would be willing to pay is not as robust as it potentially has been.

Comm. Perona said the industry could change; we're talking about malls. We can come up with an idea of which we have done locally in a lot of times. The government is taking over a lot of

these things too that added value back to them and suddenly, it's a whole new ball game. I'd rather see it being a true up than it would be because of lack of revenue.

Mayor Hudson asked if it was only malls.

Mr. Chapman said it's about 18% retail. There's self-storage, multi-family housing, industrial, medical, and commercial as well. I think you hit on a good point. Equity markets are very liquid. Real estate by nature is not very liquid so these imbalances take more time to work through. To a point what you've seen is, there was probably an over supply of those types of properties. It take some time for those to be worked through and at some point you get to that market equilibrium, which I think we are getting closer to. I want to be mindful of your time, when you add it all up, you continue to be very positive on your portfolio. Certainly, we would like to see Heitman turn results around but, overall, you're still positive on their ability to add value for you all. All of you managers continue to meet our expectations. I will stop here and see if you have any questions.

Comm. Perona asked Mr. Chapman if he could briefly talk about; we added real estate into our portfolio, if I recall, had somewhat of a hedge against recessions and things like that, we wanted to make this a little bit sturdier and prop up what we had. We went through a very long process. I still believe it will add value and durability to our portfolios.

Mr. Chapman said you are almost at 5 years you've been in real estate. It's been a good addition to your portfolio; a return north of 8% over that time. The portfolio you have is grade A, well leased commercial properties; top ten type metropolitan areas. It's north of 95% leased with stabled leasing contracts. It should have some characteristics of fixed income. Every quarter should have some appreciation to give you some equity type growth but, over time we think it will be a nice addition to the portfolio that also give you some income and appreciation.

Mr. Stephens asked do you still feel good about international now than you did three months ago.

Mr. Chapman said there's certainly plenty of things to look at and say Europe's tricky; parts of Asia is tricky. If you look at just the valuations that's where most of the opportunity is. There's risk on the growth side but I think you can say there's risk on the U.S. side with higher valuations. There is some opportunity there; you have good managers there but, you do still have that home country bias; you do still have more of your portfolio in non-U.S. equity.

Mr. Walker asked what's the difference between Heitman and a real estate investment trust fund.

Mr. Chapman said Heitman is considered a private REIT. I think you are referring to a REIT that's traded on a stock exchange. Heitman is structured as a REIT. It's just not publicly traded. Rather than see value on an exchange, you just get a quarterly statement. You can't just go out and buy this fund on an exchange like you can in some publicly traded REITs.

Comm. Perona said I assume the reason why we have some cash was basically with the transition so that we could purchase Causeway.

Ms. Morris said we have it sitting in our account until I do the transfer down to pay benefits. We still have some cash sitting. We earn more money there instead of me moving it to our bank account. I only move it as benefits are payable.

Comm. Perona said domestic equity is still about 50% of our portfolio which is 12% higher than our target.

Mr. Chapman said that's right. I think over time you continue to scale in that position with the rebalancing.

Mr. Stephens said he see where we are underweighted in Richmond in fixed income. If we go to meet our target, do we need to leave that target the same? How often do we look at our targets?

Mr. Chapman said I think you are talking about in depth study.

Mr. Stephens asked if 27% still a good target.

Mr. Chapman said I think it is. You all are very well funded relative to the large majority of public plans out there. I think you have taken risk where you are comfortable. Certainly, real estate was a step in that direction. It would be nice if your fixed income portfolio was giving you a little bit more return.

Comm. Perona said what we have is over \$100 million in domestic equity; 12% is \$12 million. Is that going to equalize on its own within a year or is it going to take more than that. If it does, is there anything else we should do?

Mr. Chapman said generally, we've worked with Johnna a couple of times a year. Do you have anything upcoming?

Ms. Morris said around October, November; at the beginning of the fiscal year we project we will need about \$7 to 8 million to fund our benefits.

Comm. Perona said you pulled it out of domestic equity and you will shortened that a little bit more.

Mr. Chapman said the majority of the proceeds will come from U.S. Equity.

Ms. Morris said yes.

Mr. Chapman thanked the Board for allowing him to come and will see you again in November.

ITEM NO. 9 ~ CONSENT AGENDA

Mr. Stephens 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. A poll was done of each Board member. There was no opposition and the motion carried unanimously.

ITEM NO. 10 ~ CONSIDERATION OF ABSENCES

None.

ITEM NO. 11 ~ BOARD MEMBER COMMENTS

Ms. Scott said she will be out on October 17 for a Conference.

Ms. Paz said she has registered three members for the FPPTA Conference that's coming up in October.

Comm. Perona asked Ms. Paz if she got RSVPs on the Richmond Dinner.

Ms. Paz said she didn't hear back from him.

Comm. Perona asked who else was going.

Ms. Scott said she was going.

Mr. Stephens said there is something coming up next month that has been talked about. In October we are voting. We've talked about whether it's one year or two years. Whatever anybody wants to do, it's fine. We had the discussion; the one or two years as chairman/vice-chairman. I like Comm. Perona's idea of moving things around.

Comm. Perona said the reason why we went into a rotation is because there's a difference from sitting in that seat and going through the process. It will bring you to a new level. Since all of us have committed to being certified, I felt it was important to go through this type of rotation. I believe the Retirement Board is going to be stronger for it. We will all be a little bit more knowledgeable for it; little bit more comfortable with it. We've had folks in the past sit here in this Board meeting and not say anything. That's not so anymore. Everyone has an understanding of what's going on and the City is better off for it.

Mayor Hudson said its personal growth too. It's a lot different when you are running the meeting.

ITEM NO. 12 ~ ADJOURNMENT

The next item was next month's meeting. The next meeting is scheduled for October 17, 2019 at 2:00 p.m.

The meeting was adjourned the meeting at 2:47 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.