

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM  
MINUTES OF MEETING HELD  
November 21, 2019**

Summarized Minutes of the regular meeting of the City of Fort Pierce Retirement and Benefit System November 21, 2019 2:00 p.m., in the 2<sup>nd</sup> Floor Conference Room at City Hall.

Present:

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

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

Attorney Jim Walker  
Christina Paz

Attorney for the Retirement Board, Advisory  
Retirement Clerk

Guest:

Cody Chapman  
Weston Lewis  
Steve Loncar  
Joseph Garner  
Anne Westbrook

Callan Associates  
Callan Associates  
Ceredex Value Advisors  
Emerald Advisers, Inc.  
Heitman

Absent:

Johnna Morris

Director of Finance

Recording:

Queen Thompkins

Executive Assistant to the Director of Finance

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**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 OCTOBER 17, 2019**

**Mr. Stephens**, the next item was the approval of the summarized minutes of October 17, 2019, and the Board asked if there was a motion to approve the minutes. **A motion was made by Mayor Linda Hudson and seconded by Comm. Tom Perona to approve the summarized minutes of October 17, 2019 with the noted corrections.**

**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 are no real legal issues to bring to the Board. The Board will recall we had a judgement of roughly \$11,000 against Ricky Brown. He has paid half of that to date. Last month he came and dropped off a check for \$200. He continues to make payments on the judgment. To briefly supplement what Johnna was telling us on her part last month on page 6 of an overpayment made to George Collins and Alice Butler; we’ve gotten about half of the overpayment from George Collins for a \$100 and nothing more on that. We understand that will be forthcoming soon. As to the remainder on Alice Butler, she was supposed to send in a check; we would be getting by now. We haven’t gotten anything. I don’t know if it was sent to the City directly or not. If we have not heard from either party by the time of next meeting, you will probably want to bring this back to the Board to look at. Nothing else to report to the Board.

**Comm Perona** asked if these were the only amounts owed to the Retirement System; any older ones that haven’t been collected. Does this sum up the issues that we have?

**Mr. Walker** said this sums it up to the issues that I’m aware of.

**Comm. Perona** said I know every year Finance does a really good job keeping up with this. We’re not set up to be a collection agency but sometimes that’s what we have to do. As long as we don’t have any older ones that need some attention; I’m sure we have a lien on those. Sometimes we change this Board out, a lot of times we have no institutional knowledge; we probably should

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perfect those liens and be able to make sure we make it whole in some form and I don't have any idea if those exist.

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

**ITEM NO. 7 ~ OLD BUSINESS**

None.

**ITEM NO. 8 ~ NEW BUSINESS**

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

**Mr. Chapman** thanked Mr. Stephens for having them here. We have some updates for you and also three of your managers are here to report. Starting on page 1, U.S. equity market expanded modestly in Q3, while non-U.S. markets suffered losses; S&P up 1.7%, World ex USA down 0.9%, Emerging Markets lost 4.3%. One-year results look weak, thanks to Q4 2018, but all regions are still up sharply y-t-d. Fed rate cuts, solid corporate fundamentals, and even lower unemployment propel U.S. equity markets in Q3; Value caught up to growth in September; Small cap declined and lags large cap again; Economic weakness, trade concerns hit developed non-U.S. and EM equities in Q3. Fixed income markets are having an “outlier” year. Investment grade is strongest performer in the U.S.; Credit spreads continued rally in Q3; Yield curve shifts lower across maturities; inverted from 3 month; 10 year in April, then from 2-to 10-year in August. Investment returns were positive for the quarter at \$1.7 million. The total portfolio is approximately \$203.7 million as of September 30, 2019. The Total Fund was ahead of the benchmark for the quarter and modestly ahead of the peer group median. Total Fund performance relative to the benchmark and peers has remained strong over time. The Total Fund Benchmark consists of 26% S&P 500 Index, 27% Blmbg Aggregate Index, 25% MSCI ACWI ex US (Net), 10% NFI-ODCE Equal Weight Net, 6% S&P MidCap400, 3% Russell 2000 Growth and 3% Russell 2000 Value. Moving to page 6 is Emerald Advisors Small Cap Growth. They are one of your money managers that are here today. Emerald has strong long-term returns well above the benchmark. Emerald underperformed the benchmark by 2.74% during the quarter and outperformed by 0.79% over the last year; underperformance for the quarter was driven by relative underperformance within the Producer Durables, Financial Services, Consumer Discretionary and Technology sectors. Moving to page 7, which is Ceredex Value Advisors Small Cap Value. They will also be reporting today. Ceredex outperformed the benchmark by 1.89% for the quarter and outperformed by 4.64% over the last year; long-term results are strong as the fund has outperformed the benchmark for all of the trailing periods shown. Stock selection within Information Technology and Industrials and an underweight Energy position contributed the most to returns. On page 11 is Morgan Stanley Developed International Equity. They will be reporting today as well. The fund underperformed by 0.35% for the quarter and outperformed for the year by 0.40%: Poor stock selection in Financials, Consumer Staples, and Healthcare weighed on relative performance for the quarter. On page 8 is the SSgA

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S&P Mid Cap. They continue to do what we expect and they are doing very well for you. Moving forward to page 11 is Morgan Stanley Developed International Equity. They underperformed a little bit by 0.35% for the quarter and outperformed for the year by 0.40%; poor stock selection in Financials, Consumer Staples, and Healthcare weighed on relative performance for the quarter. Page 12 is William Blair; fund outperformed by 0.55% for the quarter and outperformed by 0.08% over the last year; long-term performance remains strong, as the fund has outperformed over longer periods; the overweight allocation to the Information Technology sector and underweight allocation to the Materials sector were the largest sources of relative return for the quarter. Page 14 is Richmond Capital. Richmond underperformed for the quarter by 0.10% and underperformed over the year by 0.17%; long-term performance remains strong. The fund has outperformed for most of the time periods presented. Moving to page 16 is Heitman. They are also here for presentation. Heitman outperformed the index by 0.35% for the quarter and underperformed by 2.50% over the last year. For the quarter the Industrial, Office, Self-Storage, and Apartment asset valuations increased leading to relative outperformance.

**a. REPORT FROM MONEY MANAGER – HEITMAN**

**Ms. Anne Westbrook** thanked the Board for having her. I'm here to talk about Heitman American Real Estate Trust (HART). Heitman is based in Chicago; 50 year old firm. We currently managed \$44.2 billion across three complementary business units; \$34.8 billion in private equity, \$3.1 billion private debt, and \$6.1 billion in public equity. We have 37 partners from across the Heitman platform; own 100% of the company; 330 employees and 10 offices. We have offices in Europe and several offices in Asia, so we are a global and private investor. On page 4 is the Innovative Global Real Estate Solutions and it breaks down the different groups between North America, Europe, Asia, Private Equity, Public Equity. You will note on the middle left side globe the Heitman American Real Estate Trust Core, which is our largest private equity vehicle. Currently HART has \$12.6 billion in assets under management, that's gross; \$9.4 billion is our net asset value, we are 26% leverage. There is generally a 30% leverage limit on ODCE which is the benchmark funds. When we report these numbers, it's typically at the end of the quarter; this is at the end of the quarter. Typically, right at the end of the quarter, we pay down our line of credit. It's now down to about 24.5%. I would say it fluctuate between 24 and 26% as a general matter. Our NOI Growth (Net Operating Income Growth) is 2.2% which is a pretty solid number. We are expecting it to grow closer to 3 to 3.5%. That has to do with some fairly large leases and some of our buildings were free rent we're burning off so cash flow is picking up a little bit. We are 95% leased and the chart on the shows out performance to ODCE. During time periods we've always enjoyed a higher lease rate than benchmark. Our total gross return for the quarter is 1.78%; gross income return is 1.13% and gross dividend yield is 1.06%. Let's talk about performance. On page 6, the light blue portion of these bar chart is the appreciation component of the return and that's the light blue and the light gray for ODCE. The dark blue is the income portion; the dark gray is the income portion for ODCE. For the quarter we finished up at 1.7% and the benchmark was at 1.31%. You will note in the 1, 2, and 5 year timeframes we're lagging the index when it comes to total return. Keep in mind the two components, income and appreciation; we've outperformed the index on the income side. We've underperformed the index on the appreciation side. Our fund is designed to generate sustainable long term cash flow. Valuations can go up and down. Page 7 On

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the top row you will see what ODCE contributed 3<sup>rd</sup> quarter and in the trailing 12-month in terms of appreciation. You will see the overall HART portfolio for the 3<sup>rd</sup> quarter; had positive appreciation and trailing 12-month is negative. All of the negative exposure has come from retail. We do own some malls in our portfolio. The cash flow in our malls have been stable. We are slightly over allocated to retail and slightly under allocated to industrial. Industrial was a big contributor to the appreciation component of the return but not as big as the detractor of the portfolio. Moving to the next slide; this top chart show income return exceeds ODCE for 35 consecutive quarters. We are focused on delivering long terms sustainable income; not engaged in any growth development. We don't like to take that kind of risk. Our dividend yield is higher than ODCE's income return. We are happy about the durability and resilience of our income portion of our return. On page 9 this is a snapshot of the portfolio. Looking at the upper right side pie chart, 70% of our property type is conventional property type; office multi-family, industrial, and retail; 30% of our portfolio is in specialty real estate and that include self-storage, medical office, and student housing. The blue bars represent HART's investment in the particular sector. The student housing is imbedded in the apartment numbers and the medical office is imbedded in the office numbers. the little hash area represents the component that is student and apartment and medical office. The pink dart shows where ODCE is currently allocated and shows how we are allocated in relationship to ODCE. On the next slide is the Surveying Property Sector Trends. Apartment 21 assets portfolio update shows Strong leasing momentum across most of portfolio and student housing assets accretive to the fund; HART leasing at 94% and ODCE 93%; 41 assets in industrial; leasing spreads of 15-20% over T-24 period' creative investment efforts increasing allocation; percentage leasing of HART is 100%; ODCE 97%; 28 assets in office; T-12 normalized NOI growth is 3.7%; M.O.B. assets exhibiting near 5% income return; HART leasing at 95%' ODCE at 91%; 12 assets in retail; portfolio leasing stable, despite weak spreads; capital markets condition remains challenging; HART leasing at 95% and ODCE at 93%; 273 assets of self-storage; new supply moderating, expansions add revenue; portfolio being trimmed with assets sales. Looking at page 11, asset management achievements; 28 state expanding credit quality tenants at newly acquired office building in Boston; shops at Wailea densifying and improving asset including hotel use, resulting in greater NOI; Grand Lakes acquired industrial asset with forward premium, lease executed at closing; Storage Post II expanded self-storage asset by 37k SF enhancing NOI yield profile. On page 12 it shows the Capital Capacity Picture; primary sources commitments \$200 million; dispositions \$480 million; primary uses \$303 million in redemptions; acquisition \$215 million. Looking at page 13 Industrial Investment Activity; 3 HART industrial acquisitions; yield premiums achieved through structure; expand strategy in Dallas and Columbus; centrally located to logistic hubs; modern class-A facilities; leasing is 91%; position price is \$236.4 million stabilized NOI/Free and Clear IRR 4.9%/6.1%. We updated our valuation policy; modernized and made valuation policy more robust; added senior member of FO&A to valuation committee; engaged third-party group to complete debt valuations; incorporates best practices from the industry. Lastly, page 17 shows HART Statement of Account for the City of Fort Pierce Retirement and Benefit System; gross return 9.02%; net return 7.89%; gross multiple 1.40+; net multiple 1.34+. I think I will stop there and ask if the Board have any questions. Ms. Westbrook thanked the Board.

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

**Mr. Joseph Garner** thanked the Board. We have been your money manger for 15 years, entrusting us with your original investment of \$4.8 million and we would like to say thank you; contributions are \$1 million and withdrawals is (\$6.6 million); total assets as of September 2019 \$8 million; total assets as of October 31, 2019 \$8.4 million; \$4.6 billion Firm-Wide Assets Under Management as of September 30, 2019. Page 6 shows assets under management in diversified SCG Strategy; total AUM \$4,098 million; Institutional AUM \$3,833 million; institutional accounts shows public plans/government at 77%; corporate 21%; Taft Hartley/Union 1%; Endowment/Foundation 1%; number of holdings 110-120; average position ½ - 2%; weighted average market cap \$2,734 million; 3-5 year projected Growth Rate of Portfolio Holdings 18.1%; gross performance Portfolio YTD 17.33; 1<sup>st</sup> year -8.33; 3<sup>rd</sup> year 11.97; year 5 11.90; since inception 10.25 Russel 2000G Total Return YTD 15.34; 1<sup>st</sup> year -9.63; 3<sup>rd</sup> year 9.79; 5<sup>th</sup> year 9.09; since inception 8.31. The market had much to contend with during the course of the third quarter as trade tensions with China escalated, bond prices rallied, then retreated and rallied again, the 2yr-10yr yield curve inverted then steepened, the devaluation of the Yuan, the persistent strength in the U.S. Dollar, global and domestic economic growth statistics that deteriorated, appeared to stabilize and then deteriorated again, forward earnings growth estimates that have continued to be revised downward, dissention within the Federal Open Market Committee regarding the future direction of interest rates, escalating social unrest in Hong Kong, and last but not least the late September announcement of a Democratic-led impeachment inquiry of President Trump. The fall-out of all of the aforementioned was a meaningful late quarter style rotation which pressured growth stocks and drove meaningful value outperformance. After lagging throughout the first eight months of 2019, Value stocks gained significant ground on their Growth counterpart. Value stocks surged driven by a meaningful factor rotation in the marketplace that took place during the month of September in which investors aggressively sold growth/momentum stocks and rotated to areas of the market that have underperformed and were more value in orientation. The abruptness and velocity of the shift was notable in its magnitude, with the Russell 2000 Growth underperforming the Russell 2000 Value by 596 bps for the month of September. The magnitude of September's relative outperformance pushed the Russell 2000 Value Index ahead for the third quarter returning (0.57%) versus the Russell 2000 Growth Index which declined by (4.17%). The Value rotation was particularly painful for the fastest-growing companies within the Russell 2000 Growth benchmark. According to a recent report from Steve DeSanctis of Jeffries, the top quartile of companies measured by sales growth declined by (10.09%) for the third quarter, meaningfully underperforming the Russell 2000 Growth Index total return of (4.17%). This represented a meaningful shift in trend as on a year-to-date basis through the third quarter, the top quartile of companies measured by sales growth has appreciated by 19.47%, substantially outperforming the Russell 2000 Growth Index total return for the period of 15.34%. Small capitalization stocks continued to underperform their large capitalization peers. Highest P/E and non-earners were notable underperformers during the quarter. Higher yield outperformed low and zero yield. At the sector level, utilities and consumer staples led, reflecting the market's more defensive posture, whereas healthcare and energy were meaningful laggards. The headwinds to growth and challenging stock selection within the Emerald portfolio led to the portfolio's underperformance relative to the benchmark for the quarter. At the sector level, relative underperformance within the

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producer durables, financial services, consumer discretionary and technology sectors offset relative outperformance within the healthcare, materials and consumer staples sectors. Performance within the healthcare sector, both the portfolio's relative underweight position and stock selection, contributed to the sector's relative outperformance. At the industry level, noteworthy performance was derived from holdings within the biotechnology and pharmaceuticals industries. Contributors Performance within the materials and consumer staples sectors also contributed positively to return driven by stock selection within the building materials and foods industries. The top 5 contributors to return is Trex Company, Meritage Homes Corporation Model N, Simply Goods, and Deciphera Pharmaceuticals. Detractors performance within the producer durables sector was the largest detractor to return for the period as a result of both the portfolio's relative underweight position and disappointing stock selection. At the industry level, performance within the back office, air transport and aerospace industries proved most challenging. Performance within the financial services sector was also a headwind to relative performance due to challenging stock selection within the financial data & systems and consumer lending industries. The portfolio also experienced stock selection-related challenges within the consumer discretionary sector, and more specifically within the education services, leisure time and diversified retail industries. Performance within the technology sector was similarly challenged by stock selection, as relative underperformance within the electronic entertainment and telecommunications equipment industries weighed on returns. Top 5 Detractors to return are Chegg, Pluralsight, Rapidy, LendingTree, and Green Dot Corporation.

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

**Mr. Steve Loncar** thank the Board. Starting on page 5. Our Firm Value Equity investing roots trace back to 1989; approximately \$9.1 billion AUM\* in three primary strategies; headquartered in Orlando, Florida. Our investment strategies assets large cap value \$3.1 billion; mid-cap value \$4.2 billion and small cap value \$1.8 billion. Principles that have enabled the approach to be successful are dividend orientation. Our Focus On Dividend Paying Companies With Good Capital Allocation Strategies Improves The Chances Of Successful Stock Picking; Valuation Approach- Our Focus On Low Expectations Stocks Improves The Chances Of Discovering Truly Undervalued Companies; Fundamentals- The Appropriate Value Of A Business Is Hugely Dependent On Fundamentals; Rigorous Fundamental Analysis Determines The True Value Of Companies; Active Management-In The Short Run Markets Are Inefficient; Opportunistic Investors Can Exploit Fear And Greed. Our Value Equity Strategy Approach is How We Define Ourselves- Traditional Value; Bottom-Up Stock Selection; Fundamental Research Focus. What differentiates us is Dividend Focus; Buy and Sell Decision Equally Important; Equity Investing Equal Parts Art and Science; Portfolio Manager/Analyst Dynamic; Stable and Seasoned Investment Management Team. Our process is dividends, valuation, and fundamentals. On page 9 is our Investment Process – Sell Discipline. Stock requires all three for purchase, but only one could trigger a sell: Dividend Policy Change- Eliminated –Automatic Sell, Cut unexpectedly – Reevaluate Fundamental, Cut expectedly –Retain; Relative Value Weakens- Stock Reaches its Previously Established Price Target, More Attractive Risk/Reward Prospect; Fundamentals Deteriorate- Cyclical, Structural, and Timing of Catalyst Extended. Moving to page 12 is your account activity summary – quarter. Ending portfolio market value ending September 30, 2019 is

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\$7.7 million; account activity summary – Annual ending portfolio market value September 30, 2019 is \$7.8 million; inception to date reconciliation total assets as of September 30, 2019 is \$7.78 million. Top 10 Holdings are Kemper Corporation, Power Integrations, Inc., Energizer Holdings Inc., First American Financial Corporation, SLM Corp, Physicians Realty Trust, Sabre Corp., Cubic Corporation, Children's Place, Inc., and American Eagle Outfitters, Inc.

**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. **A motion was made by Comm. Tom Perona and seconded by Ms. Mayor Linda Hudson to approve the excused absence of Ms. Johnna Morris.**

**ITEM NO. 11 ~ BOARD MEMBER COMMENTS**

**ITEM NO. 12 ~ ADJOURNMENT**

The next item was next month's meeting. The next meeting is scheduled for December 19, 2019 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:

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Secretary/Treasurer

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Chairperson

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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.