

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM  
MINUTES OF MEETING HELD**

**March 18, 2021**

Summarized Minutes of the regular meeting of the City of Fort Pierce Retirement and Benefit System  
March 18, 2021 2:00 p.m., in the Commission Chambers at City Hall.

Present:

Caleta Scott, Chairperson  
Brian Avilla, Vice-Chairperson  
Keith Stephens  
Javier Cisneros  
Johnna Morris  
Comm. Tom Perona

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

Christina Paz

Retirement Clerk

Attorney Jim Walker

Attorney for the Retirement Board, Advisory

Guest by Conference Call:

Weston Lewis  
Cody Chapman

Callan Associates

Absent:

Comm. Jeremiah Johnson

City Commission Member

Recording:

Queen Thompkins

Executive Assistant to the Director of Finance

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

**Ms. Scott** 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**

**Ms. Scott** said 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 JANUARY 21, 2021**

**Ms. Scott** said the next item was the approval of the summarized minutes of March 18, 2021, and the Board asked if there was a motion to approve the minutes. **A motion was made by Comm. Tom Perona and seconded by Mr. Javier Cisneros to approve the summarized minutes of March 18, 2021. 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. 5 ~ ATTORNEY’S REPORT**

**Mr. Walker** said I’m happy to advise that our little ship of state continues to float serenely on calm waters, at least to the extent that it is my privilege to be aware of these matters. I’m happy to entertain any questions or comments by the Board.

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

**Ms. Scott** opened the public hearing for comments on the request for Retirement from Daniela H. Stout with 20 years of service with the City of Fort Pierce Police Department. She asked if there was anyone here who would like to publicly comment on this request. Seeing none, Ms. Scott closed the public hearing. She opened the matter for the Board. **A motion was made by Comm. Tom Perona and seconded by Mr. Brian Avilla to approve the request for retirement from Daniela H. Stout.** Ms. Scott 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.

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**ITEM NO. 8 ~ NEW BUSINESS**

**a. ANNUAL BOARD EDUCATIONAL SESSION FROM CONSULTANT - CALLAN ASSOCIATES**

**Mr. Cody Chapman** said good afternoon to the Board and Weston Lewis is also on the phone as well. I think most of you heard his voice as well. Sorry to not be with you all for yet another meeting. We're certainly somewhat optimistic about the potential to see you all at a meeting in the near future. We're just over a year now and working from home. I think last Friday was one year anniversary for Callan for physically working remotely, but we're We look forward to hopefully seeing you all a little bit later in the year, probably the November and February meeting in particular. In terms of the agenda, we talked Queen and Johnna. Our intent for this meeting was to review for performance. You all will likely recall that we did not be with you all back in February, so the objective for this meeting was actually to review performance. Given that we're almost at the end of the first quarter, Weston and I thought it would make sense to provide you all with more updated performance to the end of February. While we're reviewing the quarterly performance, we'll provide you with a flash report and then as it relates to the education, we had talked with Queen and Johnna that we would present that to you all at the August meeting. If that sounds okay to you all, I'll have you go to page 136 of your pdf. To give you a little bit of an update to the fourth quarter, we saw really strong returns for markets across the board in the fourth quarter as growth continue to take hold. We continue to see progress on the vaccine front. I think that was encouraging to investors; that they were able to get those vaccines approved and that sentiment has carried over to the first quarter. After a really strong recovery in the second half of the year, we had a bit of a slow down in the fourth quarter, not on an absolute bases but relative to what we saw in the third quarter. We did continue to see a little bit of recovery. Employment continue to continue to trim lower. Some of the harder sectors, travel, retail, and leisure have certainly continued to see very slow up check in terms of job returns that I think are looking more optimistic in 2021, so that's something we're going to keep an eye on as well. To start, 2021, I can give you a quick broad market update and then we will talk about your portfolio specifically. Markets continue to move higher at the start of the year. We did see some negative returns in January. The Dow and S&P were both down between 1 and 2% during January. Small Cap stocks were actually up a bit and then outside of US, negative returns in January as well. February was actually fairly strong. The Dow was up about 3.5% the S&P was up about 2.75% and Small Cap stocks were actually up about 6% in February. That continued a very strong trend. Small Cap has been a bit of a lagger early in 2020 but actually rebounded in the fourth quarter we saw a tremendous rebound in Small Cap stocks. The Russell 2000 in the fourth quarter was actually up more than 31% and that was the best return on a quarterly bases that index has recorded. That actually puts Small Cap stock ahead of Large Cap stocks fir the full year 2020. Fast forward, through March we continue to see very strong returns. You've seen the S&P 500 up about 4.4% and Small Cap stocks up about another 6% in March through yesterday the 17<sup>th</sup>. To highlight where we are year to date, the S&P 500 is actually up about 6% while the Russell 2000 is up about 18.5%. Really strong returns, particularly from Small Caps. One of the things we have seen, and I think you all have heard this trend with your managers as well as from us, that for the past several years growth has been tremendously in favor relative to value. That hand full of large tech stock that's been driving a lot of the S&P 500 returns slowed down somewhat in the fourth quarter and particularly year to date. If you look at

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the year to date return, the Russell 1000 growth is only up about 1.2% while the Russell 1000 Value is up about 7.7%. Information Technology is one of the best performing sectors in 2020, but if you at what's really been driving returns here in 2021 so far has been things like Energy which is up about 37% and Financials which is up about 17%. It's really been a pretty significant shift in terms of what's been going on in the Equity markets. Fixed Income has a similar story. The less well known story was how good returns were in the Bond market, so you were able to get better than 7% from the Barclay Aggregate Index which is a pretty significant result just given where yours were. I think we've talked about this with you all a number of times but, just given how quickly yields plummeted in the first half of the year you really saw some strong returns from Bonds. You also saw some depreciation as some of the corporate Bonds really perform well in the second half of the year as well. To start 2021 we've actually seen rates rise quite a bit on the longer end of the yield curve, to think maturity is 5 years and later, we actually seen some pretty significant increase in the interest rates. That's not necessarily a bad thing. For you all, long term investors are good because you can get more from your fixed income portfolio and get you more return objectives potentially with less risk. In the short run when we see rising rates, that is a headwind for Bond returns. We've actually seen negative returns from the Bond world start the year. In January Bonds were down about 70 bps and you were down about 1.5% in February. Year to date the Bloomberg Aggregate is down about 8.4%. Some pretty significant rotations in the fourth quarter and into the first quarter in terms of what's been working and what the market leaders and laggards have been. That's something we're keeping an eye on. Let me stop there and see if you have any questions about the broad market before we talk about your portfolio. On page 136 of the pdf, just a quick summary of where you all are as of February 28; about \$234 million in assets. That's modestly from December 31<sup>st</sup> when you were at about \$132 million. We've seen about \$1.8 million in investment returns; almost \$234 million in total assets. Reasonably in line with your asset allocation target. We'll likely work with Johnna at the next point that she needs to raise some funds to trim some of that domestic equity and international equity overweight and potentially add a little back to your fixed income as well. The next page is a quick update on your performance. Year to date is the column I will focus on; the second column. Your total fund is up about 0.8%. That a bit behind your total fund benchmark at 1.7%. Looking at longer term, really good returns for this portfolio. If you look at the last one in three-year period; up better than 20.4% for the last 12 months and last three years, up about 9.8%, which is just a bit ahead of your total fund benchmark. Very good news in absolute returns relative to your benchmark as well, and then also relative to your return assumptions. If you look at your year to date performance, a couple of things stick out with the Domestic Equity portfolio. You can see that does trail the benchmark modestly for the year to date period. Very short period, but you can see that both Emerald and Ceredex both have widened their specific benchmark. We talked about Value being back in favor relative to growth, that's been the majority of the story with Emerald. They've had a lot of exposure to IT and Healthcare, and those are names that have been a bit of a lagger in the Small Cap world so far year to date. That being said, when you look at Emerald's portfolio, they were up over the last 12 months; right at 56%. That does trail the benchmark modestly at 58.9% but, given how strongly Small Cap growth stocks in particular went up over the last year. I think we're reasonably happy with Emerald's return. If you look at their long-term return results, they continue to be stronger relative to benchmark and peers as well. Ceredex is a bit of an outlier as well. You can see relative to the Russell 2000 Value that they've lagged a bit year to date. Ceredex is unique in some of their valuation and dividend focus within the small value part of the world. We did have a call with them earlier this year just to talk about what's been going

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on within the portfolio. One of the things that have been a bit of hinderance for them just how strongly some of these names with zero or negative earnings have rebounded here as the recovery has taken hold. They don't have a lot of more speculative names in their portfolio. A lot of names that have benefited from monetary stimulus that we've seen, have really benefited within the Index but aren't necessarily the type that means Ceredex holds. Having spoken with Ceredex, we're comfortable with the performance pattern. The types of names that have rebounded since the start of the fourth quarter really aren't the type of names that they should be buying relative to their process. While it's been a bit disappointing relative performance, I do think that it's understandable, and it's something that we'll correct over time. If you look at their longer-term results, I think there's reason to optimism, and despite some of the challenge the near term has presented. Just going down the page, International Equity; a bit of a lagger to start the year as well. However, if you look at the longer-term 12 months and 36 months periods, International Equity has been a nice source of value add to you all. You can see Morgan Stanley did trail the EAFE a bit for the year to date period. If you look at the longer-term returns, the last 3 years, ahead of the benchmark and very competitive relative to peers. Causeway has been another source of good returns more recently; up almost 6% year to date. That's a good bit ahead of the Emerging Market benchmark at 3.9% an about 1.4% ahead over the last year; up almost 38%. William Blair a bit behind to start the year relative to their benchmark. Certainly, if you look out over the long-term, really exceptionally did well to their strategy over those one and three-year periods. Fixed Income, we talked about this a little earlier; some negative returns to start the year for Richmond; just modestly behind the benchmark for the year to date period, but still better had for the one and three-year periods relative to their benchmark. Heitman is one that you all have certainly been keeping a close eye on. We don't show the monthly results there. They only produce quarterly returns, and that's consistent with what we see from the real estate universe, that we did include monthly return for the benchmark. We did see some improvement from Heitman in the fourth quarter. If you go back and look at their returns through 12/31, they were actually up about 1.9% in the fourth quarter, relative to the benchmark, up 1.2%. That actually put them in the top of their peer group. You all are well aware of the challenges with Heitman, and we spoke about them quite a bit, so won't rehash all that here, but it's suffice to say that we did see some encouraging results in the fourth quarter, Now, they certainly have a lot of work to do to bring those returns up to where you want them to be long-term. We did see some relative improvements in the fourth quarter, and I think that's an encouraging start to 2021. Let me stop there. I know that was a lot of information in a fairly short amount of time, so let me see what questions you might have about performance.

**Comm. Perona** said I can't help but think about how the world's going to change with this pandemic, and you know where office was a big component years and years ago. Long time ago malls were a big deal and we've already talked about that and Heitman's investment in the assets of malls. Now offices seem to be somewhat of the same conversation going forward, and I don't want to overreact but, are all these real estate companies are having problems with this at this time, because, they're heavy in commercial office space in relationship to other things like warehouse and residential?

**Mr. Chapman** said real estate is one I think is going to trend. It does take longer for trends to really start to emerge within the real estate world just because of some of the valuation lag and the time it takes to shift in and out of properties. You do see a bit of a lag in some of the those; how the trends move during short

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periods. Heitman do have some challenges with some of small properties. I don't think that's any surprise. We certainly talked about. Retail has been a source of pain for the entire real estate universe. Heitman had a little bit more exposure there. I think going forward some of their differentiated strategies like self-storage, they continue to add value. I think they can go at differentiation; you seen that in the mall States where the really top tier malls have done pretty well. But some of the second tier types of malls have not done as well. I think you may see some of that in office as well, where there's some separation from top tier offices to more secondary properties. Just in terms of office, Heitman is under allocated there, so I think that the Index is about 34% in office, but it shows Heitman at 24%. If there is a bit of a sale off or some adjustment in the office, I think other real estate managers will benefit there. Just in terms of retail, they've gotten that piece. They were overweight, but with some of their sales and other adjustments, they've actually gotten that in line with the real estate benchmark at 15% and some of that is from properties I think as well. One of the other things I think we'll keep an eye on is the Industrial allocation. That's about 20% of the Odyssey Index. Heitman is a bit under exposed there. It's one that they've been adding to, so they started 2020 at about 13% in Industrial and that's up to 18%. They're still a bit underweight there. That's been one of the hottest property segment as retail income has really surge. There's been a pretty significant increase in Industrial and warehouse types of properties and the need for those. That's been a really hot area for market, and I think Heitman has benefited from adding to that allocation but they're also a bit underweight there. Comm. Perona, I know that was a lot of numbers I threw out there, does that adequately answer your question?

**Comm. Perona** said you did and thank you for that. We don't know where we're all going to end up at the end of this with what changes are going to stick going forward and what changes have been just been caused by the pandemic and the reaction to the pandemic. It's going to make it really hard for us to be able to watch the trends, especially in the real estate world, trying to come up with any type of major decision because it seems like they game changes almost every day I appreciate you giving us somewhat of a focus on watching those indicators that have merit at this moment and time. We're cautious enough not to overreact to these things. When I look through that and I saw it on the graph, I said if we were starting today with a read, our allocation would be completely different than what we have to deal with right now. Hopefully at the end of this long recovery, we will have something of value in comparison to hat the market is doing. I do appreciate you your insight on that and it did help. Thank you.

**Mr. Lewis** said If I could add just one small point on Heitman office exposure, think you all recall the number of conversations with the portfolio managers as well as given the performance. It's been a little bit overwhelming. Where they are invested in office and where they've rotated out, they have rotated more into the medical office property space. While they are looking at more of a market rate, they feel that medical office is going to be much to less dislocated. If you talked to an economist, you will note that they're of the same mind that the big high-risers in New York are going to be very disrupted while all this is happening, you start to see that. I do take some comfort in how; just like all retailers are the same, all offices are the same. I do think they're in a good position with the office exposure that they have and that it's more medical offices that people are still needing to go to. That's not a job you can do from home.

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**Comm. Perona** said just on clear how it compares to healthcare. Healthcare is hospitals and facilities more so than offices. Thank you.

**Mr. Cisneros** said he had a question or more like a comment. Comm. Perona mentioned about people working from home. I think for a small group of people in the United States, it's probably okay to work from home because they have an office and they have the infrastructure to be able to communicate out to the real world with the speed that they need or the access they need to computers, is there any insight on infrastructure improvements in our portfolio that would help lunge us into that realm of working from home or is that just too broad. The reason I mentioned that is because most people in the room probably know that FPUA is deploying broadband. That's a bit part of working from home; having the capacity to work from home. I'm just curious if you guys look at that or evaluated that. How does that play into the picture as far as real estate investment and commercial investment?

**Mr. Chapman** said I'll share a couple of ideas. There's been a few things. I definitely think we have expectations. Some amount of people of a higher percentage will work from home more now that it's been proven out in the pandemic. Speaking for Callan, I think that would be the case somewhat. Speaking for financial services more broadly, some have adopted it, some have not. I was reading in the journal and they were talking two years about when the firms would return to work and this kind of resonated with me. It's just that a lot of particular financial services is kind of predicated on an apprenticeship type model to where the way that our young associates really learn is by sitting next to us and being in the meetings, sitting side by side and doing the work. It's not often you think you're necessarily going to learn it in school, it more application. Apprentice type model, I think is replicate of working from home environment. I don't see that a lot of people would go away. I do think that there will be some who do work from home full time now relative to what they might have done had the pandemic never been a thing. Data has been a very hot commodity within the retail space, buying property and standing up a Data Center have been a pretty attractive part of the market. That is not as big a piece of the core real estate piece like what you all are invested in. It's certainly been one that has gotten a lot of interest just because there continue to be a need for a lot of data to power all applications you mentioned. Does that answer your questions?

**Mr. Cisneros** said kind of sort of, not really but I appreciate the feedback.

**Mr. Lewis** said there's not a huge infrastructure. Maybe investment per say is what the managers are doing on the equity side. There are some work from home plays in the technology States that has done very well. Some might argue too well. From the real estate side typically, those plays are more directed in infrastructure fund and that's just not the area clients your size will go after. It's generally it's the mega plans, not to say that you should never look at infrastructure but it's just that the overall portfolio strategy has been the key. It's simple and really understands the exposures. Infrastructure has done well and continue to do well. It's not really a direct need that you all plan have really played.

**Mr. Cisneros** said thank you.

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**Comm. Perona** said do you see any long-term trends that would make us consider revisiting our asset allocation as we go forward? I know we're pretty much almost on point all the way through. I know that they're not stagnant. These are things that have to be revisited from time to time and this is probably the worst time in the world to be able to sit there and talk about long-term trends. I just didn't know if there was something that was out there that we needed to start taking a look at and probably getting our heads around a different idea.

**Mr. Chapman** said yes, your allocation is still very reasonable for what we understand your objectives to be. It has been a few years since we've conducted an asset liability safe for you all. So, that's something that we could put together at some point in the future. One of the things we've been talking to clients a lot about is what to do with the fixed income allocation. Our projection for fixed income has come down quite a bit from 2020 to 2021. We've brought our projections down a full 1.0% just in the last year just given how strong the returns were in fixed income. We took that projection from 2.75% to 1.75%. Standing back and looking at your asset allocation and you got 27% of your target, it's only going to earn what we think is about 2%, that's a bit of a headwind for the next several years in terms of getting to your return target. One thing that we've been talking to clients about is how do you get diversified income allocation. Do you look at things like higher bonds, do you try to look at global fixed income? Do you look at things like private credit that are more complex but have the potential for higher returns? I think that your allocation to Richmond has done well over time, but it is that fixed income allocation at 27%. I think a lot of clients are questioning how to resize that. Allocation, first of all, need to come down. Other alternatives like your real estate allocation is at a better substitute for the next several years so, it will be added to that. We just talked about some of the uncertainty in real estate as well. I think looking at the size of fixed income and the composition of it are things we can talk about. We can do that in the form of education. We can talk about asset, liability study; incorporate some material from your actuary. There's a number of different objectives there based on your overall concern.

**Comm. Perona** said great. Thank you for that.

**ITEM NO. 9 ~ CONSENT AGENDA**

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

**Ms. Scott** acknowledged the excused absence of Comm. Jeremiah Johnson. **A motion was made by Comm. Tom Perona and seconded by Mr. Javier Cisneros to approve the excused absence of Comm. Jeremiah Johnson. All those in favor of the motion signified by saying aye. A roll call was done; there were no oppositions and the motion carried unanimously.**

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

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**Comm.** Perona said the only thing I want to say is this is a kind of exciting time. I know this is kind of hard to take in all these facts and figures. The more your expose to them over a period of time, they start making some sense, and we're missing out a whole lot without having Weston and Cody standing right in front of us, because the will lead us around a little bit better than listening to them on the phone. If you feel like you're not understanding what's going, you're not suppose to. They're looking at this thing under a microscope and they will let us know if there's the first inkling of things going sideways. If you have a question at all that just sound stupid, please ask it because we all learn from that and that's how we grow. I've been a part of Retirement for 11 years and I fell like I'm just scratching the surface. They keep giving me things time. So just stick with it. I'm very happy with this group now. I think we're strong at what we do and at the end of the day, we're managing over \$230 million. I remember when it was down around \$140+ million, not that long ago. Things re moving in the right direction and it looks like we have our main goal of making sure that our commitment to our employees is being upheld.

The meeting was adjourned at 2:47 p.m.

ATTEST:

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Secretary/Treasurer

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Chairperson

Note: These minutes are not verbatim, only important issues and 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.