

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM  
MINUTES OF MEETING HELD  
April 20, 2023**

Summarized Minutes of the regular meeting of the City of Fort Pierce Retirement and Benefit System April 20, 2023, 2:00 p.m., in the Commission Chambers at City Hall

Present:

Barbara Mika	U.A. Board Appointed Member, Chair
Comm. Arnold Gaines	City Commission Member
Wendy Rydzewski	City of Fort Pierce General Member, Vice-Chair
Keith Stephens	U.A. General Member
Johnna Morris	Secretary/Treasurer
Kyle McCarthy	Police Officer Member

Guest by Conference Call:

Attorney Jim Walker	Attorney for the Retirement Board, Advisory
---------------------	---

Guest

Paola Cardenales	Callan Consultant
Rick Ford	Callan Actuary

Absences:

Comm. Michael Broderick	City Commission Member
-------------------------	------------------------

Recording:

Junelly Sebastiano	Executive Assistant to Director of Finance
--------------------	--

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

**Mrs. Barbara Mika** called the meeting to order at 2:00 pm on Thursday April 20, 2023, the first item on the agenda being the “Roll Call”.

**ITEM NO. 3 ~ COMMENTS FROM THE PUBLIC**

**Mrs. Mika** said next, we will move on to comments from the public? Seeing no public, we will move on to the consideration of minutes.

**ITEM NO. 4 ~ CONSIDERATION OF MINUTES**

**Mrs. Mika** said consideration of minutes, any discussion?

**A motion was made by Mrs. Wendy Rydzewski and seconded by Mrs. Johnna Morris. All those in favor of the motion signified by saying aye. There was no opposition, and the motion was carried unanimously.**

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM  
MINUTES OF MEETING HELD  
April 20, 2023**

**ITEM NO. 5 ~ ATTORNEY'S REPORT**

**Mrs. Mika** said, next, we move on to a report from the board attorney. Mr. Walker?

**Mr. Jim Walker** said thank you Madam chair, I am pleased to report that no specific legal concerns have been brought to my attention. Nevertheless, I would be delighted to entertain any questions or comments.

**ITEM NO.6 ~ PUBLIC HEARING ON BENEFITS APPLICATIONS**

**Mrs. Mika** said we'll move on to public hearings on benefit applications. We will open the public hearing for the request for Retirement from Frank Ferrick with 22 Years of service with the City of Fort Pierce entering DROP. Seeing no public, we will close the public hearing and open it for discussion.

**A motion was made by Mrs. Morris and seconded by Mr. Keith Stephens. All those in favor of the motion signified by saying aye. There was no opposition, and the motion was carried unanimously.**

**Mrs. Mika** said we will open the public hearing for the request for Deferred Retirement from Jessie Bernard Bryant with 7 years of service with the City of Fort Pierce. Seeing no public, we will close the public hearing and open it for discussion.

**Mr. Walker** said madame chair, are we going to be addressing James Ippolito?

**Mrs. Morris** said no Attorney Walker, he had requested that it be pulled. He is not going to defer his retirement.

**A motion was made by Mrs. Morris and seconded by Mr. Kyle McCarthy All those in favor of the motion signified by saying aye. There was no opposition and the motion carried unanimously.**

**Mrs. Mika** said we will open the public hearing for the Request for Deferred Retirement from Mark Duffany with 12 years and 2 months of service with the Fort Pierce Utility Authority. Seeing no public, we will close the public hearing and open it for discussion.

**A motion was made by Mrs. Rydzewski and seconded by Mr. McCarthy. All those in favor of the motion signified by saying aye. There was no opposition, and the motion was carried unanimously.**

**Mrs. Mika** said we will open the public hearing for the Request for Retirement from Tracy Telle with 18 years and 3 months of service with The City of Fort Pierce entering DROP. Seeing no public, we will close the public hearing and open it for discussion.

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

**April 20, 2023**

**A motion was made by Mrs. Morris and seconded by Mr. Stephens All those in favor of the motion signified by saying aye. There was no opposition and the motion carried unanimously.**

**Mrs. Mika** said we will open the public hearing for the Request for Retirement from Richard Peterson with 9 Years of Service with The Fort Pierce Utility Authority. Seeing no public, we will close the public hearing and open it for discussion.

**A motion was made by Mr. Stephens and seconded by Mrs. Rydzewski All those in favor of the motion signified by saying aye. There was no opposition and the motion carried unanimously.**

**ITEM NO. 7 ~ OLD BUSINESS**

None

**ITEM NO. 8 ~ NEW BUSINESS**

**Mrs. Mika** said next, we will move on to new business, we have our quarterly update from our consultants from Callan: Rick Ford and Paola Cardenales.

**Mrs. Paola Cardenales** said we didn't get a chance to meet in February due to some logistics, so we are providing you with an update as of December. It is a bit old, but I just handed you out an update for 03/31. Weston and I will be here again next month to give you a full detail of the most updated performance. A few months ago, we talked about the Asset Liability Study, we have included an additional document in the package. Rick is going to walk us through that, and then we are going to see the results specifically for your plan. Rick is one of our Actuaries at Callan, I am going to let him introduce himself.

**Mr. Rick Ford** said unlike Paula, I am not a field consultant. I work in our Capital Market Research Group, there are about 10 of us in the firm. We set our Capital Market assumptions and we do asset liability projections for defined benefit pension plans. Whether they be private or public we will help firms put together their asset allocation strategies. The last thing is called a Manager Structure, we will work with our manager research group to structure those managers in the right manner so that you have a well-balanced portfolio in the aggregate. I am referred to as a specialist, we like to see our clients do an Asset Liability Study every 3-5 years. Hopefully you will see me in another 3-5 years after we've done this. If any questions come up along the way or any other projects that require our group, I will most likely be the one that will work on it. I'll work side by side with Paola and Weston to make sure that any of the specific things with respect to the way you all operate that we make good consideration of that as we are doing our work.

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

**April 20, 2023**

**Mrs. Cardenales** said I am going to refer to the 4<sup>th</sup> quarter performance review, the executive summary. Last year we came and spoke to you about inflation, interest rate hikes, and the war in Ukraine. There was an additional topic at the end of the year, the opening of China. We talked a lot about China last year, seeing how it impacted your portfolio. We reassessed and had confidence that the emerging markets allocation that you have is appropriate and the exposure wouldn't have a major impact if something were to happen. That was a topic that came up last quarter and it is going to shape how international equity markets behave going forward. It is going to try to recreate some relationships that were blocked during COVID with China. There are also conversations about bringing back some of the production that has been done in China and offshore and bring it back to the United States. We are going to see changes with international markets in the next few years. The other topics that we had were the banking system, the FED keeps hiking rates. They increased the rates by 25 basis points. It was interesting because we met with a lot of your managers for another client and at that point the FED hadn't decided. They were saying that 'it would be a huge mistake if they do it', 'we don't know what is going to happen.' They ended up easing the number of increases that they were making, but it was something that the chair decided to do. It shows that they are willing to tackle inflation and we see the results and it seems that it is working but it is having other impacts, like the banking system. We talked about growth for the economy, the latest number that we have as of the 4<sup>th</sup> quarter was 2.7%. Weston and I came and talked about the first two quarters last year and it was negative growth for the US. The third quarter was positive, and we were talking about probable negative growth for the US in the 4<sup>th</sup> quarter. Surprisingly it came back positive, which is good news for everybody because everyone is worrying about having a recession. That doesn't mean that it is not going to happen, but it is good to see that the economy is still strong despite inflation and everything else that is happening on the macro side. Talking about inflation, the latest number that we have is 5% as of March. Last year, Weston and I kept talking about numbers at the 7-8% rate. It seems that the efforts from the FED are helping ease inflation concerns, however the labor market and consumer spending are still strong, so it's still a challenge. They are still trying to slow down inflation, but it is going to take a little bit longer. If we look at performance, the correlation between equity and fixed incomes was very high. When they moved down, all of them moved down. At the end of the year, if you look at the YTD number you are going to see double-digit negative results, with some exceptions. It was a tough year, however if we look at the results for the last quarter, we have seen a lot of positive results. We still see that correlation between equity and fixed incomes but they're going up again. The differences that we have seen are growth and value; the theme now is that growth is outpacing value, while at the end of last year, value was outpacing growth. Small caps outpaced large caps but at the beginning of the year, large caps outpaced small caps. It has been an interesting dynamic, but this is going to bring opportunities for your managers to find new stocks, new ways to add value and recover that money that they lost last year. That is on an absolute basis, if you look at your managers on a relative basis, they are performing as expected. Over the long term, they have been providing you with the results that you are hoping for. If you focus on the 4<sup>th</sup> quarter, it is going to be painful because it is a full year of performance that is impacting us in the long term. They are still

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

**April 20, 2023**

outperforming your benchmarks for the most part. It is something to keep in mind when Rick speaks, I know there are some topics that we wanted to address with the ALM, which is going to be the allocation to real estate, your allocation to fixed income or where to allocate more assets to get potentially more return. If we move to page 7, your assets as of the end of the year were at around \$213 Million dollars, in March your assets went up to \$223.7 Million dollars. It has been a strong quarter, it was interesting because we saw January being very strong, February posted negative returns for most of the asset classes that we saw, and March was a mix. Finally, once you look at the full quarter, we saw positive results for your managers and that is reflected in the market value that you will see next quarter. Moving on to the Total Fund Chart, the aggregate of all your managers weighted based on the policy that you have in place. You can see the results across different time periods. If we focus on the last quarter, the fund is going to be slightly underperforming. That was mainly driven by the allocation to real estate because real estate struggled during the last quarter, you were overweight. If you remember at the beginning of the year, it was a bright spot. As the other asset classes were struggling, the assets for those managers were declining but then the asset value for your real estate funds were increasing. When real estate declined during the last two quarters, that impacted your fund in a negative way. From an absolute perspective, it is still providing strong returns with a return for the quarter of 6.1%, but on a relative basis it is still lagging. However, if you compare yourself versus your peers, you are still above median for the quarter. If we look at the 10-year column, your fund is still lagging a little bit but very strong returns. Rick is going to talk about that 10-year plan rate and how your plan is expected to perform and if it is going to be able to provide you with the returns that you need to achieve the actuarial rate of return that you have set up for the plan. The total fund is not meeting expectations, CPI has been very high. When we have a CPI +10, over the three-year period, it is going to be very hard for the total fund to beat that benchmark. That doesn't mean that it is a concern, it is just a matter of relative performance and who has been impacting your return. It has been a tough market; it's been the worst 10 years for international markets that we have seen. We are expecting a reversal but in the meantime all those items have been hurting the performance of the total fund over the three-year period and long-term period. You have two objectives for each one of these managers. One is on the relative performance, relative to the benchmark and another one is relative to peers. The Russel 2000 Growth: last year it was very hard on growth stocks, they did a great job, and they met their objective for the rolling three-year period but when you look at the comparison versus the peers, they haven't met their objectives. If you focus on Emerald, and you look at their details they are providing very strong results for the long term. They protect the capital in the downside, even though they declined in performance they didn't lose as much money as your benchmark. When we have a market where growth is very strong like this first quarter, they are not going to capture the whole outperformance. If you look at the 03/31 data you will see that dynamic on a quarterly basis, nothing to be concerned about. Ceredex: similar story, it was a good year for value and the manager provided really good results at the end of the year. For the last quarter (4th quarter), they had a performance of 14.1% versus 8% from your index. If you look at the long term, they are outperforming significantly so they have been doing a great job for you. Last year there was a period

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

**April 20, 2023**

where they were struggling, they were very apologetic to the board. They knew they were positioning their portfolio in a way that would benefit you the second half of the year and they did. Those results speak for themselves, nothing to be concerned about. On the large cap and mid cap index; performing as expected and in line with the benchmark. Morgan Stanley: they have been struggling for a few years over the long term. Their story goes back to 2021-2022, their performance was very challenging. The stocks that they were picking were not providing the performance that you were expecting, but they were still doing what they were hired to do. We are not concerned about that, but we wanted to make sure that they would come back on their performance. They proved over the last quarter that they can keep adding value, this improvement has been impacting long term. The struggle that we had last year with international equities was that the dollar was very strong. When interest rates go up, then typically the dollar is going to be stronger. When you convert the return from international equities from their local currency into US dollars, the returns that we see are going to be hurt. A few weeks ago, we had our national conference in Arizona, one of the key things that we had was international equities. They have been struggling, it's been a very tough market for all of them. We have had clients ask if there is still a position for international equities within the portfolio if the US has been very strong. There is a lot of key things as I mentioned, China reopening, countries trying to diversity where they have their centers for distribution and onshoring into their countries and improving supply chain. Not only for the US but other countries in Europe and in Asia are going to provide opportunities for your managers to find stocks. We met with one manager, very small cap focused, and he said that they have been finding a lot of opportunities in Europe on small-cap companies. It is shown to be a key theme, we have the other aspect of maybe internationals will never recover, but I think that the conversations that we had is that there is an opportunity going forward. We are expecting all these managers to add value going forward. Whenever we meet with them, ask them "how are you positioning your portfolio to take advantage of the current situation in international markets?" No concerns, I know there is a lot of red with Morgan Stanley and Causeway but over the long term they are performing fine. They may be off by a couple basis points here and there, but in general there is no concerns with your international managers. William Blair: we renegotiated some fees for them, and we completed the transition from the mutual fund to the CIT. Because of how markets behaved at the end of the 4<sup>th</sup> and 1<sup>st</sup> quarter, you were able to access and even lower share class than we had quoted initially. The final quote came at 69 basis points instead of 78, your original fee was 90 basis points. That is significant savings for the plans and when we did the math, it paid for the ALM that we did. They were a great team to work with, they did it very smoothly and worked with the Callan team to complete it on time. Richmond: we talked about them, and we even modified their goal last year. It is a very conservative portfolio on fixed income. It has been very hard for fixed income to add value over the last few years given where interest rates were. That theme has changed a little bit and you are going to see it again on the report that Rick has. Yields are higher, and they have opportunities to provide you with more income. That doesn't reflect the change on the pricing of the securities, but at least the yield that you are expecting to get is going to be a little higher. However, it is worth noting that since they are very conservative and core invested, they are going to have

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

**April 20, 2023**

treasuries and corporates, but everything is going to be above investment grade and very secure assets. If you look at other areas in the market; high yield, bank loans, and credit, they may add more value until we start seeing some defaults. In the meantime, we are expecting them to add additional value. When comparing to peers, Richmond is probably going to look less attractive because of the nature of the fund. That does not mean that they are not doing what they are hired to do. One of the options that we are going to talk about is, is it worth it for the board to look at a core+ option. Do we want to expand the universe for your fixed income manager, give them the opportunity to invest in below investment grade securities to get the potential of additional returns or is it something that you are not comfortable with. Heitman: your real estate fund, they had a period a few years ago where they were struggling significantly. They haven't been able to fully recover over the long term, however they have been doing a good job for your portfolio. Real estate: if you remember at the beginning of the year, it was a bright spot. In the 3<sup>rd</sup> and 4<sup>th</sup> quarter, real estate struggled because usually when you value properties, the impact of the economy takes a little bit to hit those securities. Now that we are in the 3<sup>rd</sup> and 4<sup>th</sup> quarter, the valuations of the buildings, storage units and student housing are coming down, so now they are being impacted in the results. We've had conversations with different asset managers, some of them say they are over that hump. We saw the 1<sup>st</sup> quarter still having some issues for some managers. Even for Heitman, they underperformed but that is still reflecting 12/31 valuation. We are hoping that the next several quarters we will see an adjustment. We still see that real state adds value, it is a good diversifier, and it adds value to your portfolio. We talked about reinvesting the dividends or taking them as a check and using them to invest somewhere else. Now with the results of the 4<sup>th</sup> and 1<sup>st</sup> quarter, your assets are down again within ranges. I think it is worth it to have real estate in the portfolio, but do we reduce, keep, or increase the allocation. We will talk more about it when Rick talks about the Asset Liability Study. Long story short, no concerns with your portfolio even as of 03/31, good results. Your managers have been able to recuperate some of the losses from last year. We will touch base with more details, next month.

**Mr. Ford** said let's flip to the Executive Summary. I want to make sure that you know that we went through your plan and analyzed a lot of stuff. We have concluded that you can stay where you are, your allocation is fine. Using our most recent capital market assumption over a 10-year period, we are expected to return to 6.9% and your discount rate is 7 ¼%. It is well within reason; your actuary will use a longer period. If we use our 20- or 30-year assumption we get 7.1-7.4%, everything is copacetic and right in line where it needs to be. What we did was collect all the information from your actuary and plan participants, we have them strip out all the personal information. We don't know names, socials, we just want male, female, age, expected benefit and that sort of stuff. We build out a liability model and the first thing that we do is make sure that we match what your actuary is saying. We never get it exactly right, but we go within 2% and then we scale everything so that it matches your actuarial report. Your actuary was a phenomenal partner, they got us all the information on time. They gave us some pointers on the nuances with respect to the drop and some other things. We think that you can stay where you are, and if you stay you have an option then to

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

**April 20, 2023**

take that 27% of fixed income and invest it on some additional asset classes. Primarily some higher yield and some bank loan type, basically moving just a little bit down on the credit scale. While that will increase your yield, it will also increase your risk of default but that is why you hire an active manager. Their job is to analyze those credits and make sure they are buying ones that are less likely to default than others. Then the other option would be to take 7% of your fixed income, move that back up into equities and take a higher risk position. At the end of the day, you put in contributions, they earn money, and they pay the benefit payments and the expenses of the trust. You are monitoring the expenses, moving to lower class vehicles and you are managing that part of it. Then the benefit is defined, there is a formula, you plug everybody's information in and out comes the number. Depending upon your date of hire and other things that is going to drive what your benefit is. Then there are some caps in there, I think one is capped at 75% of pay, the other one has a full cap at 100% based upon when you are hired, so we take all that stuff into account. We have the starting asset value that ties out to the most recent valuation, which was 09/30/22 and we had the assets. We knew the asset value, so we went ahead and just forced the model to land at that point and then we turned on the simulator and we allowed things to fluctuate. I am going to walk you through one trial, if everything comes through, which we know is not the case, but it will give you an idea of what life will look like. When we get to the end, we will see some charts with a bunch of dots on them. Those dots represent different portfolios, and we try to distil all your alternatives into one dot on a chart. The assets have been jumping around quite a bit. When we get in here and we look at what we project assets to be next year, its already off. I can tell you that, but all the differences, when we look at the portfolios, the Deltas will move in tandem. We want to have an idea what the range of results could be over time. You're already trending in the right direction. Is the funded ratio going up over time, if it's flat, and if it's going down, what's causing that? Do we need to do anything, do we need to fix anything? Nothing here needs to be fixed, the funded ratio is trending level and then taking off over time. We are projecting off the lowest point that we could Jump off because of the way the markets were in the starting point of the valuations. You start at 9/30 because Florida tells you you're starting at 9/30, right? So that's where your valuations are.

**Mrs. Cardenales** said this ties into what we see every quarter. Rick is going to talk about the range of potential outcomes, Weston and I talked, this is probably not the worst outcome that we projected when we ran that analysis several years ago. Be patient with what you've done with your asset allocation. It is providing to pay for benefit payments and to keep a funded status that's reasonable. This is how it ties into what we talk about every quarter. We model from the best case to the worst-case scenario and none of what we saw last year was the worst-case scenario that was modeled. Even though it was tough, it wasn't the worst-case scenario. Keeping that long term view, that's what's brought us where we are, but this is where the results for the next 10 years will make sense.

**Mr. Ford** said Paula, Weston, your actuary when they come in, they're looking in the rearview mirror to tell you what has happened. We're trying to get a good look into the

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

**April 20, 2023**

future just to make sure you're on the right path. Let's talk about what we are here for, there are multiple things that are going to affect how the plan operates. The money that goes in, you put in about \$6 million and the employees put in about another \$2 million. You have the benefits policy, so it's 3% of your final average pay. Then there's some caps on there, you've got a drop, right? We've modeled some of that, people are going to leave the system, we kept the active population level at 555 people. We looked back and said, 'here's kind of what the new hires look like', so we made-up a person and they magically entered the system as people left. Then, the investment policy, that's what we're here to talk about and that's the one thing that we can control. How can we change that investment policy and how does it change the future funded ratio, the market value of assets and all that sort of stuff? We are in a very interesting point within the capital markets, the yield curve is what's called inverted. Which means you can earn a higher rate holding a three-month T bill than you can holding a 30-year bond, that doesn't make a whole lot of sense. When we do our assumptions, we start with whatever the yield curve is as of 9/30. Then we say, what do we think it's going to look like long term? Those two lines on that chart represent where we are today and where we think the world is going to look like 10 years from now. The good news is the fixed income that you're going to be invested in, is already equilibrium so it's priced out properly or you should get some capital appreciation as rates come down and the yield curve goes back to normal. You paid for that last year when rates went up, so you're going to get some of that back when rates eventually go back to normal. That's our starting point, we start with an inflation of 250, our cash assumption is 275, which is up from almost zero this time last year. For our fixed income, were thinking it's going to be around 425, which is up from 1.75. What that means is fixed income is now an investable asset, it is a viable investment. You're getting some return over, so that that big loss that you took in last year, you're getting that back now because you're earning 3% more than you would normally. Our equities on the next page, we think you're going to earn about 7-725 and so that's up 50 basis points from last year. We increased our inflation assumption by .25% and then we thought that the equity market was overvalued last year, now that we've had seen the correction, we've raised our assumption by another 25 basis points. We went from 675 to 725. Those are the assumptions going into our model, plus the real estate assumption, that's where the 6.9 expected return on your portfolio comes from, a blend of those 3 assets classes. The risk of your portfolio in isolation doesn't mean anything, it's when you compare it to the alternative portfolios. Page 133, that's the starting point of our analysis. We'll show you the three-year historical comparison of all your start of the assets, the liability, and the funded status. Let's start with the actual accrued liability, it started at 239.8 and as of 9/30/22 our estimate is 267.1. When Brad comes back in here and he's collected all the data, I'll tell you exactly what that number is. This is a predictable number, so we just use the standard actual process to roll everything forward. That means if you had \$267 million, you would have enough money to pay off all the participants, if that money earned 7.25% every year here on out, you'd be able to pay all the benefits and not worry anything else. The market value of assets, that's the value in the trust. The actuarial value of assets, that's a smooth value. I want you to look and see what happened to the market value of assets last year, it went from \$246 down to \$201. You lost \$45 million, but the actual value of assets stayed basically flat. What's going on

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

**April 20, 2023**

there? Well, the actuary takes that loss, and he defers that over a four-year period. When you have gains above the seven and  $\frac{1}{4}$ , he brings the gains in over as well. That actual value of assets is going to be a relatively stable number and it's designed to be that way. The actual math is designed for the plans to be funded as a level percentage of pay every year, and this is a lot of smoothing to take out all that little market volatility, if you will. The unfunded liability is the difference between your actuarial value of assets in your accrued liability So it's going to be a little smooth out over time. You're \$40 million short as of right now, no big deal, everybody is short especially in most public plans or they have an unfunded and that's OK. There are various ways to attack that, some people set up dedicated smoothing bases or amortization bases and things like that. You're using the entry age normal method, which is the most common method. It gets blended in, and they come out with a number, and this is the percentage you pay. Then we have two funded ratios, the actuarial value, and the market value. The actuarial value is the actuarial value of assets with the accrued liability. The market value funded ratio is going to move a lot more than the actuarial value, we're going to show you both of those. If you want a real time measure, I will say use the market value. If you want to say, 'what's my actuary going to talk about', that's the actuarial value funded ratio. Our assumptions are on the right-hand page, we assume 6.9%, your actuary says 7 and  $\frac{1}{4}$ . I can tell you that we're both wrong, but these are two reasonable aspects and what this tells me is that we are in the ballpark, which is good. Our inflation assumptions are off by 25 basis points, no issues there. All that means is when he's doing his projections, he's going to inflate your salaries at 7 and  $\frac{1}{4}$ . Then, when he takes the cost and divides it by your payroll, it's going to be divided by an inflation number of 275 and not 2.5. We have a chart in here, I'll show you a comparison of the results under the different assumptions. So now on page 134, the stacked bars represent the number of people. The blue is the 555 people and as those people exit the system and go into inactive or retiree status, they go into the gray bar. The gray bars are slightly trending up over time, and that's what happens typically. Your employee headcount is going to be what it is, we just made the simple assumption to keep it flat. Then, the average age of your population is represented by the line to the right axis, that's trending up overtime. What's driving this is our new entrant assumption, we're assuming that the new entrance is older age than right now. Next, the accrued liability: the blue bar, that is what you owe, that's the present value of all the benefits that are owed. The lines at the bottom, that's a projection of the assets. The yellow line is your actuarial value of assets higher than the market value. That's because last year's losses are being deferred in. Now they converge in four years because this is assuming that you earned 7.25 every year, these are your actuary's assumptions. The market near actuarial value of assets converge to each other after four years because there's no gains or losses to smooth. Now on the next page, we're going to set the assets on top of the liability and we're going to come up with a with a funded ratio line. On page 136, this is on your actuarial value of assets basis. If you see the line, it goes down, kind of bottoms out in four years and then it starts to come back up and it ends up basically where it started in 20 years. The decline in the line, is those losses being recognized into the system over time. We're going to show you a chart of the market value funded ratio and it starts off much lower and follows the same pattern up. The assets are represented by the blue bar and the gray is your liability.

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

**April 20, 2023**

Your unfunded liability is represented by the chart right below. It represents the space between your assets and your liability. The good news is that as those deferred losses come in, the unfunded goes up and then your unfunded starts going back down, which means the math is working. You're earning enough to cut into that unfunded liability every year and that's why your overall funded ratio is going back up over time. All good things, we would love to see this. We have some public plans where the line just goes down and it continues to go down. That's because they're not putting in more money into the plan and it's just bottoming out. You typically see in that situation where the math works, the contributions requirements are getting very, very large, and that's what's propping it up. We're not seeing that here, the contributions that you're putting in are working perfectly. On page 137, what I did here is I took the contributions, and I broke them down into the cost that occurs every year, that 3% of pay that goes in, and then what's going to pay the unfunded. So, if you think about your mortgage and you got a principal payment and you got interest, right? If you bring in those two components, what you're doing as you're prepaying your mortgage, you're prepaying that unfunded liability down, which is good. We would like to see that the contributions are covering some of that unfunded and that's why their funding is going down overtime. Page 138 is going to be where we compare the actuarial value and the Market funded status. The market funded line is the lower line, we see that drop down. That's the difference between immediately recognizing last years' experience versus deferring it out. The assets and liabilities here, the unfunded is the exact same. The only difference is in those first four years. That's because we're assuming 725 every year, when we start letting things vary, the markets going to swing like this and the actuarial is going to be much tighter. The trust is here to pay benefit payments, about 8% of the assets are going out every year, your only earning 6.9%. It's not a problem for a couple of reasons. One is you're putting about 4% into the plan every year, so you're having to sell about 4% of the trust every year to pay for the benefit payments, but you've already put money in for that. This is not uncommon, all that means is that you have outflow. When Paula and Weston come in here on quarterly basis and talk to you about a manager that is above their target, that may be a place where you want to go take money from them to go to pay the benefits.

**Mrs. Cardenales** said when we talk, and you see a big outflow on that asset allocation page, that's typically where we work with Johnna to pull the assets from.

**Mr. Ford** said on page 140, this is where we look at the Callan and GRS assumptions side by side, and then we take the most conservative of both and we end up with two lines on the chart for the market funded ratio. We had the big drop in 2022, then if we draw a line on 2032, which is our ten-year forecast, there is about a 2% difference. Again, 6.9% versus 7.2% is not going to make a material difference over the forecast period. It does build out when we look at the next 20 years. Hopefully you'll see me a couple of times before then, and we'll monitor this as it goes through time. So that is 3 simulations, the main one that we looked at where all the assumptions from GRS came true. The news is good, the unfunded liability is going down, the funded ratio is going up. So now let's run 2000 of those, let's let the assets do well, Let's let it do poorly and then let's band everything into a range of results. What we're going to do is we'll take

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

**April 20, 2023**

the existing policy that you have and we're going to run that through. We're going to say, 'this is what life is going to look like if you don't do anything', and then the next step will be 'let's look at some portfolios to see if we can make things better'. Flip down to page 143, that's what we call a floating bar chart, and I'm embarrassed to say that the description is wrong, but just go with me here. The top end of the charts is usually good, that's a one in 40 event. The bottom charts, where it's red, are the bad things and we have it color-coded. If reds are on top, that means red is bad and, in the middle, that's the median. Our middle results should tie back loosely to what we just looked at. The first thing we do, on page 144, is project out the assets. First Year's wide, anywhere between plus 35 to minus 16.2 and that middle result of 7.2. 'Hold on. You told me it's 6.9%, I'm confused'. Part of this is modeling 2 different systems but this is just the wide range that you can get in any one single year, and this is a one-year return. All our assumptions are over a 10-year period. When you start linking things up (a good year, a bad year, good year, bad, bad) the fan will start to get smaller. All these returns are linked over time, that's what your distribution could look like over a 10-year period. But in any one year, the return could be as wide as that under year one, and our median is 6.9%. What's going on there, well, you have \$500, and you earn 50% in the first year, you have \$150 then you lose 50% the next, you're at \$75. You lost about 12%, that's what happens when you start linking stuff up. That is why the median is trickling down a little bit over time, those things being linked up together. We will look at the assets projected out over time. Why is it that that bottom red doesn't really seem to drop off, that's because when things go poorly you put a little bit more money into the plan. There's some support there, you have assets plus some contributions holding that up and we'll look at the contributions a few pages from now. The assets are only projected to grow at about 2.3% a year, that is because you're putting the 6.9%, you're pulling about 4% out every year. The assets are going to steadily grow a little bit over time around 2.3%. Then when we look at the next page at the actuarial value of assets, we're starting at that much higher base, and it trends down and comes back. Our actual value of assets is only going to grow 1.1% because we've got those deferred losses that are coming in. Then we will look at page 147, that's the liability. The liability has a much smaller distribution on the assets and that's because your actuary is using a discount rate of 7.25% across the board. Next time he comes he's going to talk about this thing called ASOP 4, Actual standards of practice #4, which is going to require him to disclose to you a different liability number that's going to move around. I'll let him talk to you about that, but for now, what you need to focus on is this liability of 7.25%. We take those assets; we lay it over the liability, and we get our funded ratios again. We look at the market funded ratio on page 148, We drew a line at 100% funded, and what this shows us is that over the next 10 years, you are most likely not going to be 100% funded. Unless you have good asset performance like in that top 25%. Now the good news is that the assets I've shown you here are lower than what she just said because we were projecting off the very bottom right. There's some conservatism built in here, but I would say don't expect to wake up and be 100% funded relatively soon, but you're trending in the right direction, and there's a chance. On the actual real value, much lower because we're trending down over time and in those up markets, the actuarial value of assets is not collecting all those gains. It continues to defer them, so it's a smaller value, but it's not as bad on the

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

**April 20, 2023**

downside, and that's where you want it, because on the downside, contributions don't go negative. It is giving you that protection in down markets. On page 150 with, this is distribution of the difference between the actuarial value of assets and your accrued liability, it's trending down to the median over time, it's going up over the four years and then it's trending down, which is wonderful. The next page is the distribution of the potential contributions based on your existing contribution policy. It gets rather wide there by the by the 10th year anywhere from 5 to \$20 million. On Page 152 is the accumulated employer contributions, we just add up all the contributions that are going in by trial, rank them and sort them. About \$108 million, is your best guess of what's going to go into the plan for the next 10 years. We've developed this thing called the ultimate net cost, which is how much you put in versus what's still the unfunded position in dollars. We add that up, we take it back to time zero, we say 'this is kind of the ultimate cost of this plan over the next 10 years. Here's where your existing policy is, can we find something that's less expensive and has lower risk'. Typically, if you lower it, you may have to take on a little bit more risk and that's where the tradeoff comes in. That is if we do nothing, world looks good, so everyone should be silently patting themselves on the back. On page 154 are some alternatives that we wanted to consider. We're going to call it FI 27 because that's 27% in fixed income, the first thing we want to do was to take the real estate out. Let's show you the value of the real estate, and when we look at our points, the real estate point is going to be suboptimal to the other ones that we look at. Real estate adds value over the 10-year period. We want to make sure that you understand that it's there because it's adding value .FI 35 is 35% in fixed income, so we're adding more to fixed income, taking away some equity risk. Then F I-20, we're going to move more into equity. So, we're going to reduce the amount of fixed income. Then the FI 20 RE plus, that's where we're going to amp up your real estate a little bit more. The last one is a policy core plus, that's where we take your existing portfolio, do nothing to it except for fixed income and we add in some lower quality type securities that will enhance the yield to hopefully some marginal risk well. The mathematical statistics are on the table below that the two that we really want to focus on are the what's called FI 20, and the policy plus core which are the last one on the far right and two over from that. We don't think that you need to take on less risk at this point from a return standpoint, but we showed the FI 35 so you could see what the goal posts would be. The rest of these charts are going to be a certain metric at a certain time, and there could be some dispersion with them, but nothing magical because we're not looking at making major changes here because nothing is broken. On page 155, this is what the one-year return distribution looks like for any of the policies. FI 35 is the one that's the tightest which you would expect because it has the least amount in equity, it's the lowest risk portfolio for the lowest distribution of results. We look at 20, it's the lightest and when we look at the policy versus the core, your core plus is a little bit tighter distribution and essentially the same return 7.2%-7.3%. Those additional asset classes, although that adding more risk, they are enhancing the yield and making the distribution tighter. Same thing over a 10-year projection and then we will look at the assets on page 157. The line there represents the liability in the 10th year, the projected liability and so again about a one in four chance that the assets will be above that liability. Your policy plus core and your I-20 are going to have higher medians than where you are now. The median result is \$253

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

**April 20, 2023**

million for the policy for FI 27. For FI 20 it's \$259 and \$256 for your policy plus core. A slight improvement there with a little bit of extra risk, But the same downside. Now when we look at the market funded status, it says taking the assets of the liabilities, same result here. Your policy plus core gives you a slightly better median, 1% above, but a higher probability that you'll be over 100%. 21% versus 19% for the policy in the F I-20 is almost 23%, the best out there. On page 160, our ultimate net cost. it's what you put in and then we look at what's the unfunded status in dollar terms. We add those two together and then we take it back to present value, back to time 0. When we look at your policy, we take the middle point of \$98 million and the worst case of \$165 and on the next page we plot that into an XY framework. On page 161, we have a line here, this is called the zero line that runs from 100% fixed income all the way to 100% equity with the dots representing 10% equity allocation. This is where you are sitting, on this curve. We want to move in this direction, so this dot here is not on the curve, that's your no real estate dot. That's why you want real estate because you can get the same return or risk, by just moving one way. The real estate is not on the curve, simply by adding real estate, you can either reduce your risk or increase your return. That's the no brainer, that's why real estate is in there right now. If we were to add other asset classes, we could push this out as well, but we talked about that already. It becomes a risk-return tradeoff, all these things are efficient within each other, so whether you go to FI-20 or go to the core plus, the risk that you're taking is commensurate with the reward you're getting. It's an equal trade off, if you will, from the standpoint of your pension results. I don't want to say that I'm indifferent between FI, 20 or moving to core plus, right, but. You can go with both of those, whichever you decide or if you decide to stay the same. This analysis shows me that you're fine, there's nothing broken here. When there's nothing broken, it makes my job somewhat difficult because I'd like to come in and be able to show this chart and say you're here and all you must do is do this or that. That's a testament to what you're doing, what your actuary is doing, what you all are doing. Nothing is broken because of all of you. We looked at this chart a couple of different ways, what we see is that moving to the core plus does provide some increases in reward with very slight increase in risk. If you're going to stay at 27%, you should consider adding the plus sector. If you go to more equities, leave your fixed income the same because at 20%, the amount of the plus that you're going to add just isn't worth it.

**Mrs. Cardenales** said you don't have to decide right now. I know there's a lot of information there. Take some time to review it, if you have questions, send them to Johnna and we'll either address them next month or respond over e-mail. To add a little bit to what Rick was saying, if we look at that page 165, we talked about FI 20, adding to equities. If we think from an implementation perspective and decided to add more to equities, you already have your existing managers in place, it would be just a rebalancing exercise. How do we transfer these assets and just add to equities and reduce the fixed income exposure. If we think about the core plus option, Richmond, which you've been a client of for several years, they don't offer a core plus option. The beauty of core plus is that you can either keep your core and hire high yield manager and the bank loans manager. That adds to your work of interviewing more managers and adds more to thing that probably you don't want to do because you have other more

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

**April 20, 2023**

important things to be doing. There are other managers that do a core plus option, but that would imply for you to do a manager search, find a new provider, maybe getting rid of Richmond, or maybe reducing the allocation and just adding that core plus piece. There are a few things to consider from an implementation perspective that if you decide to make a change there's some work to be done. if you decide to stay where you are, it's an easy decision, but as Rick said, it's not necessarily that the current structure is broken, and you all have been doing a great job. The job from everybody who's been participating in this in this board has been great. If you compare the results that we have for the last 10 years, this is kind of what you're seeing. I know it's a future forward-looking instead of backward looking, but still the results from the asset liability are pretty good when you look at the average results. It's not perfect, but It's it gives you an idea of how it's going to look like in the future, but it's just something for you all to consider what you want to do if you want to increase risk, take advantage of yields going up, getting additional risk when it's a good time to do it or you can just stay where you are. We will talk about it more next quarter, if you find anything that would be helpful for us to bring, that will make your decision easier, let us know we'll include it in our presentation. If we need to bring Rick back, we'll bring him back or we can dial him in. I think the only public service announcement that I have is we have our Callan college educational sessions. There's one coming up in May, I'll send the invitation around if you want to join, it's just two hours.

**Mrs. Morris** said quick question, just for clarity, Rick, I'm looking over our summary and our policy and the policy core plus is so close. Looking at the 10-year assumptions to the 30-year assumptions, they're almost mirroring each other with like a .1% of difference. Taking that into account, if the assumption is not going to change that much, what's the point to change it?

**Mr. Ford** said the reason you might want to consider this is, so that when they come in every quarter you have two more asset classes that are working to provide you with uncorrelated benefits. You have two more managers that should not act exactly like your manager that you have with respect to fixed income. A little bit more diversity and over a 10-year period, the impact would probably be immaterial, but it should make the ride a little bit smoother.

**Mrs. Cardenales** said if you consider these results, these are not accounting for active management. These are based on just assumptions for your indices. You hired all your managers except for SGA, their active managers, their job is to produce more return. So even if the difference here may be minimal, you are paying them to add more alpha to the standard return. That's the other consideration of adding some diversification.

**ITEM NO. 9 ~ CONSENT AGENDA**

**Mrs. Mika** said next, we will move on to the consent agenda.

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

**April 20, 2023**

**A motion was made by Mrs. Morris and seconded by Mr. Stephens All those in favor of the motion signified by saying aye. There was no opposition, and the motion was carried unanimously.**

**ITEM NO. 10 ~ CONSIDERATION OF ABSENCES**

**Mrs. Mika** said next, consideration of absences.

**Mrs. Morris** said Commissioner Broderick made us aware that he would not be in attendance today.

**A motion was made by Mrs. Morris and seconded by Mrs. Rydzewski All those in favor of the motion signified by saying aye. There was no opposition, and the motion was carried unanimously.**

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

**Mrs. Mika** said are there any board member comments?

**Comm. Arnold Gaines** said madam Chair, I just want to let you know why I was tardy. Fort Pierce had senior signing day for students that are going off to college and I had four kids that I coach and mentor that I wanted to be there for.

**Mrs. Morris** said Anna sent an e-mail out for anybody that wants to attend the FP PTA conference. It's not the school, but it's the conference that's in Orlando next month. She did send it out with the date that she needs to be notified by so that she can make the arrangements.

**Comm. Gaines** said I'll make myself available to go and I'll bring back a report and then we can go from there next year.

**ITEM NO. 13 ~ ADJOURMENT**

Seeing that there were no further questions or comments. Mrs. Mika adjourned the meeting at 3.33 pm.

ATTEST:

---

Secretary/Treasurer

---

Chairperson

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

**April 20, 2023**

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.