CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSYTEM
MINUTES OF MEETING HELD
August 17, 2023

Summarized Minutes of the regular meeting of the City of Fort Pierce Retirement and Benefit System August 17, 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
Comm. Michael Broderick	City Commission Member
Wendy Rydzewski	City of Fort Pierce General Member, Vice-Chair
Kyle McCarthy	Police Officer Member
Keith Stephens	U.A. General Member
Johnna Morris	Secretary/Treasurer

Guest by Conference Call:

Attorney Jim Walker	Attorney for the Retirement Board, Advisory

Absences:

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 Aug 17, 2023, the first item on the agenda being the "Roll Call".

ITEM NO. 3 ~ COMMENTS FROM THE PUBLIC

Mr. 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

Mr. Mika said consideration of minutes, any discussion?

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

ITEM NO. 5 ~ ATTORNEY'S REPORT

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

Mr. Jim Walker said thank you Madame Chair. There are no new legal developments to report to the board. We have neither sued nor been sued, nor have any claims been asserted against the system. I did submit a written report to the members of the board attempting to summarize all aspects of the National Association of Public Pension Attorneys conference. This report discussed a new law that is now in effect here in Florida, Chapter 2023-28, which re-iterates the value and the necessity of basing investment decisions on pecuniary factors as opposed to any particular social, government, or environmental calls that don't have a connection with our beneficiary centered standards. Everybody's been provided with an opportunity to download that statue. After July first of this year, all new contracts and renewal of existing contracts with our investment advisors and managers are to include a certain language and certifications consistent with the new statutory requirements.

ITEM NO.6 ~ PUBLIC HEARING ON BENEFITS APPLICATIONS

None

ITEM NO. 7 ~ OLD BUSINESS

None

ITEM NO. 8 ~ NEW BUSINESS

Mrs. Paola Cardenales said Last quarter the Board approved increasing the upper-level band for the real estate allocation to 15%. We have updated the IPS, I need to send it to Johnna and Attorney Walker to review. Let's move on to what happened in the market this quarter. We saw moderating inflation, there were a lot of conversations about what the Fed was going to do, were they going to continue to raise rates. There were a lot of mixed messages from the Fed during this period. We saw them stop for one month and then they came back and raised it 25 basis points. Equities keep indicating that there's not going to be more hikes and that in 2024 we will see those rates going down but, bonds are still pricing additional hikes at the end of the year. It's been one of the most aggressive hikes in history, and the market is still trying to determine what the Fed's going to do, but we saw moderating inflation because of all these hikes. The CPI June number was a 3% year-over-year change. July was 3.2%, which was higher than June, but it's still in moderation going down. If you think about last year, we were at about 9% levels, which was unprecedented. If you remember at the end of last year, Weston and I came and said we may see negative GDP and we've been surprised that even this year it has still been positive. Moderating compared to what we've seen in the last few years, but still seeing a strong economy. We had the debt ceiling saga, finally we have that behind us, but that brought up a consequence. You heard about Fitch downgrading the US Treasuries from AAA to AA Plus. This is not the first time the US treasuries have been downgraded, S&P did it back in 2011.

We have different agencies that rate the debt from the government, we didn't know how the market was going to react. If you look at the market that week of August 1st, there was a bit of volatility but, the weeks after, it was as if nothing had really happened. A lot of the performance that you will see from your managers this quarter was driven by artificial intelligence topics. Growth stocks were very strong during the quarter, international equity markets were up, but not in the same capacity because the artificial intelligence aspect is being driven a lot by the US. If you look at the right-hand side of page 4 you will see equities, the Russell 3000 for the quarter was up 8.4%, S&P 500 was up 8.74%, and the Russell 2000 was up 5.2% versus global equities. The MSCI World index was up 3% and small caps on the international side, up 2%. The magnificent 7 stocks: NVIDIA, Meta, Amazon, Tesla, Apple, Microsoft, and Alphabet are driving a significant amount of the performance on the S&P 500. It's one of the periods where the S&P 500 has been concentrated in a certain number of stocks. If you think about the performance as of June, the YTD was 16.9% positive return for the S&P 500. 80% of that return was driven by these seven stocks, which is concerning because at the if you have a large CAP growth manager, they're going to probably struggle over the long term. The Emerald fund has done a great performance on the small cap side, but it's a separate area from large cap stocks and that's why they've been shining in that sector. If you had a large cap growth active manager, most of them are struggling and we have had a lot of conversations with our clients on whether it's time for us to go passive and or keep believing in these managers. When you talk to your managers next quarter, a lot of the performance of your growth managers is going to be driven by what happened with technology stocks. The market has shifted from 2022 to 2023. The market has recovered most of the performance at lost. If you think about performance, is that if you lose 50% on a stock, you're going to have to produce 100% of return to go back to the levels where you were. Even though we're seeing stocks recovering, it's still going to take time and performance for them to come back. Small cap stocks underperform large caps and growth keeps driving perform. Global equity, I know that we've had conversations about China and your allocation there. If you look at the emerging markets' results, they struggled a little bit, but were still in positive territory. A lot of this performance was driven by China and for different reasons, Evergrande is struggling again, population of China is lower, and the growth of China is slowing down. Their central bank cut rates slightly, it's a lot of things happening in China. On the bright side though, once we talk about Causeway, your emerging markets manager, they have people who are looking at different stocks in China and they look at specific sectors that helped them outperform this quarter. China as an economy is struggling in how the world is perceiving them, but there's still a lot of opportunity within the country for your managers to add value. If Taiwan gets invaded, from a performance perspective alone, your manager is doing a good job of selecting the right sectors to add value to the portfolio. On the real asset side, it was a mixed bag, real estate continues to struggle. That's the one that probably matters to you all because you have investments with Heitman. What drove performance on the real estate side was valuations. If interest rates go down when they are doing the valuations, they are going to come back to their present value in a lower amount. Incomes in general have been positive for your real estate managers and across the board with other managers that our clients have, but it continues to be something that over time, depending on how the economy continues to behave. Housing, for example, is very strong, there's a lot of different expectations, it depends on where we are talking about. In real estate we talked about office, one of the sectors that is struggling a lot, but they're balancing that out with housing and storage space. It's part of the diversification, we're going to be talking about your fiduciary duties. You want to make sure that you're able to pay your participants, but it's about monitoring how your managers are doing and making sure that they're also diversifying within their investment. That's the update that I have on the markets, any questions?

Comm. Gaines said with the China and Taiwan back and forth, are there any safeguards just in case the president of China says, ‘let’s goes into Tawain’?

Mrs. Cardenales said you can’t necessarily have a safeguard because nobody knows if and or when it’s going to happen. We talked about that last year; Russia was a different scenario because not a lot of American companies are tied to Ukraine. In the case of China, even if China goes and invades Taiwan and we get rid of all our Chinese securities with Causeway, the effect on American economy is going to be greater than what we could think. You are concerned about the direct exposure in China, it would be maybe putting some guidelines on the Causeway investment and limiting them from investing in China. However, the relative return versus the index that they had, was driven by Chinese stocks. There's a possibility that it could happen, but I think we would see some early signs, Weston and I are keeping an eye on what's happening.

Mr. Walker said Madam Chair, may I piggyback on my question. This a foreseeable contingency, the fact that China may invade Taiwan and it's equally foreseeable that would have a drastic effect on the value of Chinese equities given the prospect of sanctions. To your knowledge, do the investment managers have a trigger mechanism that would be pulled automatically?

Mrs. Cardenales said not to my knowledge. Going back to Russia as an example, they have boots in the ground, not all of them, but the international ones. Some of them started to see ahead of time that the possibility of Russia invading Ukraine was significant, and then the PM decided to pull the trigger and liquidate the securities before the stock market was shut down. It is at the discretion of your manager but if they can see signs of something happening, your PM’s have the authority to destroy it. To my knowledge, I don't think that's an automatic thing. Page 6 shows the current allocation versus your target allocation. The key item on this page is changing the upper band for it. Your current band is at 5% to 12% allocation to real estate, we moved it to 15% and we'll see that change in the next quarter’s report. Under domestic equity, you're overweight versus your target and that respective overweight is going back to fixed income. If equities outperform that’s going to drive performance at your total plan level, because they are performing well, and you have more money allocated there. In this case, for fixed income you were underweight, but your fixed income managers underperformed equities, so that was a good decision at that total plan level. It was not a tactical decision, it's just the way that we've been taking money out of the managers. That's what attributed to the total return, that's the key driver for the quarter. The next page shows the market value, on a dollar -basis, of the changes in the returns and performance from last quarter to this quarter. The plan added $7.6 million during the second quarter, so your net assets at the end were $231.2 million. Positive returns from an absolute basis overall for the plan. Before paying any fees, the fund returned 3.42 %. If you look at it from a net of fee basis the fund returned 3.34%, this is still ahead of the benchmark and the CPI. Your objective on your IPS is to measure the total plan performance versus the CPI plus Five. It's been very tough to beat because of where inflation has been over the last year, but now that it's coming down, it's more of a fair assessment versus that index. Versus the CPI and your total fund benchmark your outperforming over the short term. If we focus on long term, three-five years, you are underperforming on both periods and there's a couple of reasons for that. In 2018 and 2022 equities struggled, 2022 equities and fixed income struggled. Fixed income has been returning very low yields over time. What has been driving the relative on their performance over the three years is in part because of your international equity managers. Morgan Stanley and William Blair both struggled during different periods during these three and five years and that is still weighing on returns for those two periods. More recently, the overweight to real estate has been hurting and affecting those returns overtime. If we focus on the last five years, that accounts for part of 2018 and in 2018 equities struggled significantly. It's not necessarily bad that you are underperforming your index, your performance on an absolute basis is still strong. Even over 10 years you're in line with your benchmark, so there is no concern there if we can explain where the underperformance is coming from. In this case, we know that William Blair and Morgan Stanley really struggled one year. We know what happened in international markets, and that Morgan Stanley allocates to quality stocks and how they position themselves. There's no real concern from a total plan perspective and your returns are still strong and we just wanted to highlight that. On the short-term domestic equity, equities were very strong, especially on the S&P 500. Your Emerald fund, that's your small CAP manager, they've been doing a fantastic Job over the short and long term. They've had some periods where they have underperformed and we've talked about them, especially when growth has struggled. Growth has been the main driver of performance across the board, they have been able to capture a lot of that performance. Even over the five years, they're still outperforming your benchmark. On the value side with Ceredex, it's been a challenge for them because value has been out of favor for quite some time. However, from an absolute perspective they posted positive results. Even over the long term, the advantage of having this mix of growth and value is that when growth is out of favor, value is expected to be in favor and that's when they've been able to shine. They are a little behind if we compare versus the Peer group, but we are not concerned because over the 10 years, they're above that peer median. Your SSGA, S&P 500 and S&P 400, no concerns there. If they follow the index, we are happy with what they're doing. They're doing it at a very cheap fee, we renegotiated it last year. You guys are doing a good job having a low fee with those managers, that's the part that you should be concerned about. On the international equity side, Morgan Stanley has been doing a great job recovering those losses that they had over the last three years. Last year, they outperformed the MSCI EAFE. From a peer group perspective, they are going to be behind your peer median and it's OK. There are different ways managers invest in international equity. In your report, you see what they're allocated to. There are options to allocate by stocks, country, or sector. Depending on what the strategy of your manager is, it varies, and the universe becomes very broad, so it's not necessarily that we need to be concerned about it, but again it's something to highlight because it goes versus your IPS. William Blair is going to be your growth manager. William Blair has this broader spectrum of where they invest across different growth stocks. Sometimes they do different swings, when growth was in favor a few years ago, they missed out on that upside and that's what has been hurting them over the long term. It is not that they didn't pick the right stocks, it was just a different type of growth stocks that they had, but no concerns. Callan thinks very highly of William Blair and the results over the short term have been strong over the last year and last quarter. On the fixed income side, Richmond, we've had several conversations over the last year. We changed their objective, their expective objective was to outperform the index by 50 basis points. They don't take any risk on any type of international bonds, they don't go below investment grade, they're a very secure fixed income manager. They haven't been able to outperform the index. After several discussions, we agreed that given where yields were, it was going to be very tough for them, so we brought the goal back to 25 basis points above the index over the last three years. They haven’t been able to reach that 25 basis points, but they are working their way towards that. Fixed income struggled during the quarter, but in the short-term Richmond was able to add value. Over the long term, even though they're still adding value on a relative basis versus your benchmark, they're still not meeting their goal. Heitman is posting a negative return for the quarter, but they are still outperforming the index. Over the long term there was an issue I believe in 2019-2020, where the manager struggled. The decisions from the prior board members took us here and now we're seeing that despite the struggles on the real estate market, Heitman is still doing a decent job. When they do the appraisals for their buildings, they come back low, but income keeps being positive, they're still getting money from the rentals, and they are using leverage to finance some additional acquisitions. No concerns from a high level, the real estate allocation is going to be struggling for a little bit because of how market conditions are behaving right now. One more thing, we added a new analyst that's going to be helping us out on this relationship. Just in case you see his name and I'm going to ask him to dial in to listen to these conversations. The next piece that we wanted to talk about this quarter is why we do these reviews, what you should be focusing on and why it is important. That helps you to see if Weston and I are missing the mark on something or if we're not reviewing something, you can also let us know what we need to do better. If we go to the next page, what is a fiduciary: somebody entrusted with discretionary authority or control that acts in the interest of another party. In this case, you all are entrusted with the assets for the retirement plan for the City of Fort Pierce, and you make decisions on that. However, there's different definitions across the different states. Everybody has different jurisdictions, if there's anything specific to Florida, Attorney Walker is always there to let you know. If you're responsible for managing and making decisions on the plan, you are a fiduciary and you’re responsible for anything that goes on with the plan. That’s why we encourage our clients to be very aware that if something goes wrong, there's a lot of considerations, because you have been making these decisions. You don’t have to have the best results, the whole point is for you to make sure that you have established processes and procedures that can show why you make decisions, why you stand in that position at that point, and why you are underperforming. We did the asset liability study, because we haven't done it in a while and that fell on Weston and I, we should have brought it up. These studies are supposed to be done every three to five years. If there's no need, it still needs to be done for you to prove that you're complying with your fiduciary duty. We have created this document that shows the last time you did your asset liability study, the last time you talked to your consultant etc. If somebody asks you, you have those documents to just show that you have complied with your fiduciary response. Next page, the 4 central duties of a fiduciary. 1) Duty of loyalty to your participants, 2) Duty of diversification ,3) Duty of care: acting with prudence and care and making sure that you're doing your due diligence with your managers and every provider that you work with. 4) Duty to follow planned documents. You have governance documents, the IPS, and you have planned documents for your participants. Making sure that you're following them, that you have them updated and that you're familiar with them. All of you, your managers, and all of us are fiduciaries on this plan. Everybody has different roles here and needs to understand what that role is and to what extent you are a fiduciary. Ensuring that everybody has the basic knowledge to make the decisions on behalf of these plans, and that's why we do a lot of these training. Prepare and periodically review the investment structure, the investment performance, and the investment policies. We do that every year for you, and even if we don't make any changes, we will still come and let you know. Diversify your portfolio, use qualified professional managers, and make time for meetings and monitor the activities of your managers. Having expert legal counsel, we have attorney Walker that helps us review documents and provides you with advice. These are key examples of what are your responsibilities and what you should be doing.

Mr. Walker said in the educational section of your report, it speaks on investment manager objectives. There are a lot of “not met” on your report. Are you satisfied that we have addressed each of those today in your report?

Mrs. Cardenales said when we talk about the total fund, your objective on the IPS is against the CPI +5. Inflation has been very high; this is a non-investable benchmark; you cannot invest in inflation. It's very unprecedented but it's coming down, it's going to be more measurable to realistic expectations going forward. Even if it's not met, we can explain what happened. Most of the “not met” are versus the peer group. We are not necessarily concerned with the not met, but if you keep looking at five years and 10 years, most of these managers are still outperforming versus the peer group. I think the basis of this is, you don't need to be the best at everything, you just need to understand what is driving the lack of achievement against these goals. Even if we see a lot of “not met” the long-term performance is still within expectations for what your manager should be doing.

Mr. Walker said to clearly state my understanding of your response, none of these 'not met' are viewed as cause for present concern by Callan in terms of the performance of the manager and the board's investment standards?

Mrs. Cardenales said yes, no concerns. If it helps, we did that review on Richmond when we had concerns about the goal that you had set for them, we brought it to the board and we expressed our concerns. There's no concern from Callan, but when there has been concern, we will make sure to bring it up.

ITEM NO. 9 ~ CONSENT AGENDA

None

ITEM NO. 10 ~ CONSIDERATION OF ABSENCES

None

ITEM NO. 11 ~ BOARD MEMBER COMMENTS

Mr. Mika said are there any board member comments?

Mr. Keith Stephens said Back in 2012 they were trying to make pensions more viable, and one of the things they required was the rolling average 300 hours of overtime, it got implemented in 2013. The other one was that you can't sell your vacation and sick time toward the calculation of retirement, anybody hired after 2011 couldn't use whatever their balances were then. One of the things that people were trying to do was change the 5-to-10-year vesting period. We were able to do a study with our actuary and we're able to get that changed back to five years as a board. There are a few other things that to my understanding have movement behind them and I'd like to talk about them. We had a limit of $100,000, nobody can make more than $100,000 and my understanding is there may be a proposal out there for that. Personally, I'm for that because it's kind of an antiquated number. Based on salaries now, the people that are making that amount of money are contributing more to the plan also. Another one, they can't get more than 75% of the member's final average compensation. What you're telling me is that a person can't work over 25 years. Let's take a 20-year-old, they're telling you that at, 50 years they're done. We're losing 20% of working years, we're having a hard time getting people to work. When they get all their experience, and we really need them, they're going to move on. I'm not saying that is the way it is all the time, it's something I want the board to think about. If we considered and saw how much that would cost us and we took it to the city Commission. You would have somebody that could work 38 years and that gives us people. Which brings up DROP, it was made for succession. Some people aren't using that as it should be, that's my opinion. I don't know how this would affect us. I saw numbers recently, in Florida. There are three open jobs for one person. Out of the roughly 300 employees we have, we have 47 open positions. I am not saying this is the reason, but we don't have positions that are paying towards retirement, that's a problem for the retirement system. We need to be supporting our retirement system through the employee contributions too, it's not all that investment. I don't know how y'all feel about us discussing some of these things that happened and if you all want to look at them.

Mrs. Morris said to address some of what you brought up Keith. At the next meeting we will be discussing two ordinance changes that the commission has discussed. One being the extension of the drop from the 5-8 years. I'm in agreement with most of this, and I was not consulted on this next matter. We will be discussing changing the limit on those that are hired after 2012 , still 75%, but a change in the cap to $115,000. The way it is written now is going to have to be addressed every so many years because the cost of living increases annually. The cost is not cheap for these actuary to do these impact studies, and the IRS already puts a cap on the limit. There are not too many people in government that are going to meet that cap, it just makes it administratively an issue to have to address it every year.

Comm. Gaines said I did not hear that. As far as the comments about retirement and the age group, are we saying that at that age group, we are telling people 'This is it' as far as your benefits? If you made it that far, at that age, with 30 years of experience, and you're willing to work another 10 years, that's a benefit. I would love to have that discussion. I need to sit down with you to know what we need, as a fiduciary of this board and that board I need to be on the same page to make sure I'm doing right for both positions.

Mrs. Morris said for clarification, the 75% wasn't discussed because that was changed in 2012. As Keith explained, it does need to be addressed. As the plan is, you can work 30 plus years or more, you are only going to get 75% as opposed to the 3 % multiplier that would have given you 90%. It becomes an issue of 'why would I', even though my wage would be higher, and if I work to 30 years my 75% would be higher, but you lose that benefit of the multiplier.

Comm. Gaines said I will make a way to get a better understanding and then I will bring that up back to the City Commission to look at that.

Comm. Michael Broderick said The information that we received is that by increasing the drop from 5 to 8 that there is a very negligible impact on the retirement fund. If that job is no longer contributing to the fund and those positions now become 1, 10 or 100, it's no longer negligible, it has a significant impact. That's an answer that I know we couldn't get without spending money on actuarial studies. Now my concern level is raised, based on Keith's commentary, at what point in time, do we say this is a negligible number, it's a negative impact on the overall fund, and potentially on all future retirees? That's something I think I'd like to gather more information on so I can digest that. I would like to become more educated. I share my fellow Commissioner concerns.

Mrs. Morris said just to clarify, based on our Actuary Brad, extending the DROP is not going to influence the system, it's going to influence the employer. That individual is not contributing to the system, and we are paying a pension and a salary. One of the factors that is used in our annual contributions rate is what our payroll number is, because in most instances they are the higher paid individuals in the system, they are driving up the annual contribution rate that the employer is having to make.

Comm. Broderick said, and I get that, we're not contributing to the system and at the end of the day it's going to have an impact. I've been in business a long time, no income coming in creates a problem on the expense side. My suggestion is getting that information to us individually, that way we come to that city commission meeting when this would be discussed. Having said that, I clearly understand the benefit of increasing the 5-year DROP to 8 years for longevity, experience, and seasoned personnel. We started mandating these people out the door, were losing some of the best from an experience level. 25-30 years of experience is not replaceable, so I understand the qualitative side versus the quantitative. I've talked to several department heads; the police department is down 14-15% where their numbers need to be for personnel. Keith your indicating, FPUA 15 % percent, overall, in the city I think its 9-10% and that is a problem, and it needs to be addressed.

Mrs. Mika said are these items going to be discussed with this board before they go to the commission?

Mrs. Morris said they will, attorney Walker is working on the ordinances, Brad is working on the impact statement. It needs to come before this board for discussion and approval, then we send it back, and the unions must ratify it and all of that.

Comm. Broderick said this process is prior to city commission, and it has been agreed that's the process its going to be adhered to?

Mrs. Morris said right, that's the process for all of that.

Comm. Broderick said I'm comfortable with that, and I will make comments on that to senior staff as well.

Mr. Stephens said as a fiduciary, I want this system to work. Think about this, instead of limiting to 25, we let somebody go to 33 before they went into DROP, that's adding 8 more years of a contributing employee and still limiting the 5 years. I'm just saying up to 100% and then they could go into DROP, obviously after 33 years nobody wants to keep working for free. Like Johnna said, you could work past 25 but you're working for 25 percent unless you're in DROP. We talked about it in generalities, we never made a consensus, and the consensus was not to go to 8 years.

Comm. Broderick said I think you have the perception that some action is already significantly down the road, it's not. This is just in working meetings, I think the participation of this body is of critical importance to the commission. As a matter fact, I can guarantee you that without information welling up from this source, I personally don't believe that the commission is going to be prepared to put this on an agenda. This is all going to be internalized, studied, and brought here for opinion and input and then it moves up the ladder. It is at ground level right now; I think there's been comment but no action it's the best way to put it.

ITEM NO. 13 ~ ADJOURMENT

Seeing that there were no further questions or comments. Mr. Mika adjourned the meeting at 2.30 pm.

ATTEST:

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Secretary/Treasurer	Chairperson

Note: These minutes are not verbatim, only important issues and motions are reproduced in writing for the benefit of the Fort Pierce Retirement and Benefit System members. The recording itself is the official record for the meeting. The meeting tape/cd is available.