

Summarized Minutes of the regular meeting of the City of Fort Pierce Retirement and Benefit System Thursday, May 16, 2024, 2:00 p.m., in the Commission Chambers at City Hall

Present:

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

Guests:

Lindsey Garber	Attorney for the Retirement Board, Advisory
Weston Lewis	Callan, LLC
Paola Cardenales	Callan, LLC
David Bernard	Morgan Stanley Investment Management
Taylor Alan-Lee	Causeway Capital Management
Paul Lundmark	Richmond Capital Management
Cliff Kalish	William Blair & Company
Kyle Concannon (dial in)	William Blair & Company

Recording:

Megan LeGrand	Executive Assistant to Director of Finance
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Absent:

Comm. Michael Broderick	City Commission Member
Comm. Arnold Gaines	City Commission Member

ITEM NO. 1 & 2 - ROLL CALL

Mr. Kyle MacCarthy called the meeting to order at 2:02 pm on Thursday, May 16, 2024, the first item on the agenda being the “Roll Call”.

ITEM NO. 3 ~ COMMENTS FROM THE PUBLIC

Mr. MacCarthy opened for comments from the public. Seeing no public, **Mr. MacCarthy** closed the comments.

ITEM NO. 4 ~ CONSIDERATION OF MINUTES

A motion was made by Ms. Johnna Morris and seconded by Mr. Keith Stephens to approve the minutes from the last meeting. All those in favor of the motion signified by saying aye. There was no opposition, and the motion was carried unanimously.

ITEM NO. 5 ~ REPORT FROM THE BOARD ATTORNEY

Atty Lindsey Garber gave an update on the IRS 1099R for disability and confirmation that it doesn't currently affect the retirement plan.

Form 1 is due to be filed July 1st online.

The Ceredex contract is being updated. There were a few revisions Bonni is making, and a phone meeting is being held the week after this meeting to go over and finalize the contract.

A memo was sent out for the future meeting schedule that Bonni is available for the rest of 2024. Only two dates need to be changed going forward.

At the behest of Ms. Morris, Atty. Jensen is going to be reviewing the retirement plan to make sure everything is tax compliant with the IRS. There will be an update in the fall as to whether any changes need to be made.

ITEM NO. 6 ~ PUBLIC HEARINGS ON BENEFIT APPLICATIONS

Mr. MacCarthy opened the public hearing for the request for retirement from Joyce Kobbe with 17 and a half years of service with the City of Fort Pierce entering DROP. Seeing no public, the hearing was closed and the request was opened for Board discussion. **A motion was made by Ms. Morris and seconded by Mr. Stephens to approve the retirement request. All those in favor of the motion signified by saying aye. There was no opposition, and the motion was carried unanimously.**

Mr. MacCarthy opened the public hearing for the request for retirement from Ramon Perez with 22 years and 9 months of service with the City of Fort Pierce entering DROP. Seeing no public, the hearing was closed and the request was opened for Board discussion. **A motion was made by Ms. Barbara Mika and seconded by Ms. Wendy Rydzewski to approve the retirement request. All those in favor of the motion signified by saying aye. There was no opposition, and the motion was carried unanimously.**

Mr. MacCarthy opened the public hearing for the request for retirement from Robert Dale with 29 years and 5 months of service with the City of Fort Pierce entering DROP. Seeing no public, the hearing was closed and the request was opened for Board discussion. **A motion was made by Ms. Morris and seconded by Mr. Stephens to approve the retirement request. All those in favor of the motion signified by saying aye. There was no opposition, and the motion was carried unanimously.**

Mr. MacCarthy opened the public hearing for the request for retirement from Deborah Faniel with 8 years of service with the City of Fort Pierce entering DROP. Seeing no public, the hearing was closed and the request was opened for Board discussion. **A motion was made by Ms. Morris and seconded by Ms. Rydzewski to approve the retirement request. All those in favor of the motion signified by saying aye. There was no opposition, and the motion was carried unanimously.**

Mr. MacCarthy opened the public hearing for the request for retirement from Valente Sirmons with 27 years and 7 months of service with the Fort Pierce Utilities Authority entering DROP. Seeing no public, the hearing was closed and the request was opened for Board discussion. **A motion was made by Mr. Stephens and seconded by Ms. Mika to approve the retirement request. All those in favor of the motion signified by saying aye. There was no opposition, and the motion was carried unanimously.**

ITEM NO. 7 ~ OLD BUSINESS

None

ITEM NO. 8 ~ NEW BUSINESS

Mr. Westin Lewis and **Ms. Paola Cardenales** gave an update on the current market as well as a money manager review.

Ms. Cardenales remarked on how the inflation rates and interest rates are still high across the market and how it affects the stock prices. There is no data as to when or if the interest rates will come down, only speculation. She did warn the board that in the previous year, there was speculation that the interest rates would come down, but they did not. The GDP is still showing growth economically, though it is moving slower in the first quarter than previously reported. US Markets were strong in this first quarter, the highest since 2019. Most of the markets the plan is invested in have made up the losses from the 2022-year end.

There is a recommendation to stay steady with the investments as they are outlined, with the continuing idea of finding a replacement for Morgan Stanley. The current markets are trending the way the managers have been expecting and adjustments are being made accordingly.

For the quarter, on a net of fee basis, the fund is above the benchmark, but is lagging slightly in the long term. William Blair and Morgan Stanley have not met their benchmarks, but William Blair is showing an upswing in their results. Causeway is showing positive absolute returns for the quarter, though it is trailing developed markets overall. Richmond has a negative posted result for the quarter but is outperforming their benchmark in the short- and long-term. Heitman has been struggling with interest rates and being unable to make transactions happen. Emerald is lagging in the quarter but outpacing in every other aspect. Ceredex is also outpacing their benchmark, and a lot of that is due to the results of the last three years.

Mr. Lewis segues into the International Equities Management Search. He goes through the process of how they start and filter their firm's manager search. There are four managers that Mr. Lewis and Ms. Cardenales have brought to the board to review. The recommendation is to narrow the search down to two or three candidates to be brought in at a future meeting to be interviewed by the board. The candidates are Acadian Asset

Management, LLC, Brandes Investment Partners, LP, Causeway Capital Management, LLC, and Pzena Investment Management, LLC.

Acadian Asset Management LLC is a very successful and highly profitable firm. It is a unique quantitative management style, using computers and AI to make all of the decisions. They use computer models with specific filters and characteristics and use that as their basis for buying and selling their stock. It makes their strategy highly diversified, but the AI aspect makes it hard for the firm to be held accountable for the decisions that are made. Currently, Acadian has the highest emerging market exposure.

Brandes Investment Partners, LLC is the opposite of Acadian. The firm has a selection pool of analysts that are experts in their fields and bring their ideas to the investment committee. There is more of a reliance on single stocks, which brings a certain risk to the strategy. There have been periods of time in the 10–15-year ranges where they have not hit their benchmarks. Brandes does have the lowest fee for service. The stated benchmark is the EAFE index, but they are swaying more towards the ACWI xUS index. They will have the lowest exposure to emerging markets.

Causeway Capital Management, LLC is already one of the fund's current managers. They have been a successful manager in the emerging markets category. Callan likes this firm and they like the strategy Causeway has for the large capitalization market, but there was some concern about whether they were a good fit for this fund. This firm takes a different approach. They mix developed markets and emerging markets in their portfolio and, unlike Acadian, use a traditional quantitative route of using computer models to find stock selections and humans to research those suggestions and make decisions.

Pzena Investment Management, LLC is mid/large cap, deep value portfolio firm. They are a much smaller firm, with only four main managers. Over the last several years, they have been more successful than their peers. Pzena has the highest fee for service.

Mr. Stephens asked for Mr. Lewis's opinion on which managers would have a better offset to compliment William Blair.

Mr. Lewis advised that having qualitative managers seems to be the best for this fund. It is hard to go to a quantitative manager and ask why their strategy is underperforming when the strategy is managed by a computer program. He does suggest interviewing a third manager just to get all the information, but his recommendation is to look at Brandes and Pzena.

Ms. Cardenales cautions that Causeway will be trending closer to the growth and large cap markets, which is where William Blair is currently. Brandes and Pzena will be geared more toward the value and mid cap markets where there could be more diversity for the fund.

The board agreed that the absent board members would have a lot of questions for the managers being considered. The board wants to meet with Causeway, Brandes, and Pzena managers to interview.

David Bernard came to give the report of the first quarter from Morgan Stanley. The EAFE index is up by 6% in the first quarter, with semiconductors and IT being the driving force behind that performance. The portfolio, however, is only up 2% on a net of fee basis. Some of the staples and healthcare stocks lagged significantly behind the index. For the year, the portfolio is up by about 8%, which is much lower than the 15% of the EAFE index.

In terms of performance, being overweight in IT stocks helped. The underperformance of the portfolio is due to financials. With stock like AIA and Prudential being the top detractors of that category, Mr. Bernard explained that two of the issues come from the portfolio's position with Asian life insurers and those stocks being hit with concerns about their China business as well as a European payments company which had a profit warning last year. The portfolio has exited that position, but it is a significant detractor for the year.

Going forward, the portfolio is shifting away from more expensive cyclicals and is investing more into defenses and energy and materials. There is now an overweight in energy, which trends show there is an improved outlook in this sector. The overweight in consumer staples has increased, making it 50% more than the index, while the overweight in IT has decreased slightly.

The Morgan Stanley outlook is cautious with going forward with China stock as there is a lot of uncertainty in both demand and potential overcapacity. The firm is looking for companies that are globally competitive in areas like staples and software.

Ms. Cardenales asked about how the portfolio will bring the performance back from the deficit of the last 10 years and adding value to the fund.

Mr. Bernard explained that the strength of the portfolio is through resilient earnings. The firm is looking for companies that will give more recurring revenues that will withstand something like what was seen during COVID, where this portfolio stayed consistently above the EAFE index. Mr. Bernard expects a market shift that could be beneficial to the portfolio based on historical evidence, but there are no guarantees. He states that the firm has more people on hand now to help with better stock selection. He explains how the sectors of investors have weekly meetings and collaborations to better their investment strategies.

Mrs. Morris inquired about when the changes to the firm were made and how much of the structure has changed.

Mr. Bernard explained that the changes weren't radical. Last year, they had one person leave the firm, and they hired two people to replace them. The year before, they had

the same situation. This last quarter, the firm has had at least two weekly team meetings about research ideas and portfolio management, and some of the sectors have had additional meetings with overlapping sectors to create a more creative thinking environment.

Taylor Alan-Lee came from Causeway Capital with the first quarter report. This was a challenging quarter for emerging markets overall. Looking at the performance, the portfolio is outperforming the emerging market index in the short- and long-term ranges. The firm uses Brazil as an example of how their marketing strategy works as the country is showing more economic growth and interest rates dropping. The stocks available in that country are cheaper and show a trend in a positive price momentum, making it appealing to the portfolio. The markets are looking positive going forward and the portfolio is predicted to outperform the index.

Paul Lundmark came from Richmond Capital with the first quarter report. With interest rates up, the treasury yields are up as well. This market is a good market for fixed income portfolios. Compared to December 2021, there has been about a 4% positive change in rates of returns. For the first quarter, and for the year to date, the portfolio is above the index. Most of this is due to overweight in corporate bonds that have done very well, which has been added to since the beginning of the year. The stock selection has been beneficial, citing that not having owned stock in any of the companies that had issues this time last year was good. Having an underweight in mortgaged backed securities helped with a potential drop in returns. Mr. Lundmark does remind the board that yields are a volatile market and the changes have been happening so rapidly that they don't want to take the risk of adjusting in a way that could negatively impact the portfolio. The stocks in the portfolio are typically selected to be of a higher quality to help mitigate the impact of the volatility of the market.

Cliff Kalish and **Kyle Concannon** came from William Blair & Company with the first quarter report. On a quarter basis, the portfolio is up by almost 2% versus the index. It is lagging in the 3-year report but outperforming in the long term.

Mr. Concannon explained that the outperformance of the quarter, which has continued from late last year, is due to an environmental shift in the market. The market has been focused on inflation and valuation performances, but there has been a shift towards earning trends. He does touch on the 22-23 calendar year returns where the portfolio and the index saw a huge hit because of certain companies underperforming in earnings for the year.

In terms of the current portfolio, the positive returns have been attributed to an overweight in sectors like IT, with semiconductor companies, and Industrials. Health Care stocks have boosted returns over the last year as well. Being underweight in financials, and particularly in banks, has seemed to hurt the portfolio a little bit. The portfolio is positioned to see growth. The market is trending in a way that promotes economic growth and healthy levels of inflation. The firm is looking to increase the exposure to Japan's market as it becomes more investor friendly.

ITEM NO. 9 ~ CONSENT AGENDA

A motion was made by Ms. Morris and seconded by Ms. Rydzewski to approve the consent agenda. 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

Ms. Morris informed the Board that both Comm. Gaines and Comm. Broderick had given prior communication for their absences. A motion was made by Ms. Morris and seconded by Mr. Stephens to excuse both members. 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

Ms. Morris brought up the upcoming conference and made sure all board members had a chance to look at their schedules and request to attend.

Mr. Stephens was appreciative of the addition of using the screens for the presentations as discussed in the previous meeting.

ITEM NO. 12 ~ NEXT MEETING

The next meeting is scheduled to be held Thursday June 20, 2024, at 2pm in the Commission Chambers at City Hall.

ITEM NO. 13 ~ ADJOURMENT

Seeing as there were no further questions or comments, Mr. MacCarthy adjourned the meeting at 4:12 pm.

ATTEST:

Secretary/Treasurer

Chairperson

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