

CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSSYTEM MINUTES OF
MEETING HELD SEPTEMBER 18, 2024

Summarized Minutes of the regular meeting of the City of Fort Pierce Retirement and Benefit System September 18, 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
Comm. Arnold Gaines	City Commission Member
Comm. Michael Broderick	City Commission Member
Johnna Morris	Secretary/Treasurer
Keith Stephens	U.A. General Member
Barbara Mika	U.A. Board Appointed Member

Guests:

Attorney Bonni Jensen	Attorney for the Retirement Board, Advisory
Westin Lewis	Callan, LLC
Paola Cardenales	Callan, LLC
Dean Papas	Pzena Investment Management, LLC
John Goetz	Pzena Investment Management, LLC
Grant Duncan	Brandes Investment Partners, LP
Brent Woods	Brandes Investment Partners, LP
Taylor Alan-Lee	Causeway Capital Management, LLC
Greg Squires	Causeway Capital Management, LLC

Recording:

Megan LeGrand	Executive Assistant to Director of Finance
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ITEM NO. 1 & 2 - ROLL CALL

Mr. Kyle MacCarthy called the meeting to order at 2:02 pm on Wednesday, September 18, 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 as there was no public, **Mr. MacCarthy** closed the comments.

ITEM NO. 4 ~ CONSIDERATION OF MINUTES

A motion was made by **Ms. Johnna Morris** and seconded by **Comm. Arnold Gaines** 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.

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ITEM NO. 5 ~ REPORT FROM THE BOARD ATTORNEY

Attorney **Bonni Jensen** is still negotiating with Ceredex.

ITEM NO. 6 ~ PUBLIC HEARINGS ON BENEFIT APPLICATIONS

Mr. MacCarthy opened the public hearing for the request for retirement from Karen Murphy 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 Comm. Gaines and seconded by Comm. Michael Broderick to approve the 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 Lenard Owens 15 years and 8 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 Comm. Gaines and seconded by Comm. Broderick to approve the 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 Howard Kubitschek with 28 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. Barbara Mika and seconded by Ms. Morris to approve the request. All those in favor of the motion signified by saying aye. There was no opposition, and the motion was carried unanimously.**

Mr. MacCarthy made the Board aware that the request for entering the DROP program from Michelle Kubitschek of the City of Fort Pierce had been withdrawn after the agenda had been posted.

ITEM NO. 7 ~ OLD BUSINESS

None

ITEM NO. 8 ~ NEW BUSINESS

Mr. MacCarthy and the Board welcomed **Westin Lewis** and **Paola Cardenales** to give their market update and review of the Retirement Fund's money managers.

Mr. Lewis started the update with confirming that the FED had lowered the rates by 50 basis points, which is the first cut the market has seen in 4 years. The portfolio is still showing record highs for the second quarter, but despite the changes to the FED's rates, there is no speculation a negative decline in the coming quarters. Emerging markets are showing a positive return whereas the developed markets are staying flat. For fixed income yields, the portfolio has shown a normal curve for the quarter, a slight positive slope.

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Ms. Cardenales brought the review of the Fund's money managers. During the quarter, the Fund had a 1.23% net of fees increase in returns, which is outperforming the benchmark set. The Fund is lagging the benchmark slightly, but the Fund is in a good place. Emerald has been outperforming both in the short term and the long term, overcoming their recent hiccups. Ceredex is showing a negative for the quarter, but their portfolio is still outperforming the benchmark in the long-term. William Blair has been lagging in their benchmark recently, but through talks with William Blair managers and Callan, there are no immediate concerns. Morgan Stanley had a better-than-expected quarter, but they are still struggling in the long-term benchmarks. Based on talks with the Morgan Stanley team in May, there is still no clear answer as to how they will meet their benchmarks, so the Board is going to be going forward with the interviews of three new companies. Causeway had an excellent quarter because of their exposure to emerging markets. Richmond Capital is finding more opportunities to invest and are showing outperformance regarding their benchmarks. Heitman is struggling in this quarter and in the short term, but the performance has come back around in the long term to meet the expected goals.

With no questions or comments from the board, **Ms. Cardenales** reviewed the process of how Callan, and then the Board, picked the three money managers that were going to be interviewed today.

Mr. Lewis did confirm that their team is comfortable with all three managers to handle the funds.

Mr. Keith Stephens wanted confirmation that a decision needed to be made today.

Mr. Lewis did request that the Board decide today so that Callan could start the necessary processes.

Comm. Broderick asked if Mr. Lewis and Ms. Cardenales had a professional opinion as to who their pick would be for this Fund.

Mr. Lewis did confirm that he had one manager that he had ranked above the other two, but he did not want to say which one before the interview process in case it changed the minds of the Board.

Comm. Broderick is concerned that the Board would be making their decision based on the personalities of the money managers, which would not be fair to the Fund itself.

Mr. Lewis countered that all the managers are competent at what they do and would be a good fit for this Fund, regardless of who is chosen. He goes on to say that there may be one company that is showing the best numbers in the time frame being looked at, but over a long period of time, they are all showing about the same. He asks the Board to look at the risks that each company takes. Every portfolio is going to lag at one time or another, it's all about how much they change versus the benchmark set.

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Ms. Cardenales does remind the board that Brandes is based on a different benchmark than Pzena and Causeway, which is something that they were looking for to compliment William Blair's portfolio.

Comm. Gaines questioned why the Board was going through the process still if Morgan Stanley was showing a positive quarter.

Ms. Cardenales responded by explaining that while their quarter was good, the managers are still not meeting the expectations set in the long term. They are still lagging the benchmark, even after changing their team up. There is no set strategy for improving going forward, which is why Callan is bringing these options to be their replacement.

Comm. Gaines brought a question to the Board about why they are going through the interview process with these managers instead of going on the advice of the Callan representatives. His concern is about his experience with being on the Board for a short time and making a big decision like this.

Mr. Stephens suggests doing what was suggested by Mr. Lewis, to listen to the information that the managers provide, ask questions about information they are unclear on, and come back to commentary after. The Board can confirm their speculation and questions with Callan after the interviews as well.

Ms. Cardenales suggested that the Board listened to the managers talk about their people, their processes, their performance, and their philosophies to help in comparing the managers and use that information to make a decision.

Atty Jensen reminded the Board that Callan brought three managers that they know will get the job done. So, while it may be a difficult decision, there is no wrong decision. At some point, the manager will underperform. It is up to the Board to make the decision now based on whose practices they understand more to help with the comfortability of weathering the storm with that manager.

Mr. MacCarthy welcomed Dean Papas and John Goetz from Pzena.

Mr. Dean Papas began the presentation with introductions of himself and John Goetz, who is one of the founders of Pzena. He gives an overview of the company, stating that when you hire Pzena for one portfolio, you hire the entire company. The investment team is made up of 30 people who are all analysts. The firm is using the same process created by the founders in 1996 with little changes. The strategy brought before the Board is one that started in 2014 and has 4 portfolio managers. There are \$2.2 billion in assets with 11 accounts and 9 clients. The strategy has a flexible exposure to emerging markets, giving it the ability to change exposure as needed.

Mr. John Goetz is one of the founders of Pzena and former chairman of the Investment Advisory Committee at the State of Florida Board of Administration. The

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original idea of the investment policy was to systematically underpay for stock in a company to enhance the long-term return. They are only looking to buy stock when a company is in trouble. All the analysts look at their current stock prices in comparison to historical cash and earnings power, the perception of the public for driving the price down, and the actual reason why the price is falling.

Every company in the world is modeled with a financial model automatically by the software Pzena uses. It uses historical and filed financial data to show what the company should look like in the future, without using artificial intelligence, and ranks the companies from cheapest to most expensive in any geographical interest. If there is an interesting company that catches the attention of the managers, they give that to the analysts who will then spend the next two weeks researching why the stock prices have fallen, if it is a temporary or permanent problem, and if the company is a salvageable project. Analysts will talk to former employees and industry experts before going to current management to determine if the issue at hand is being acknowledged or is in the process of being fixed. If the company makes it through the screening process, the upper management will take a step back and make sure that they are looking at this with an unbiased lens and they are not missing a big negative that wasn't explored or jumping the gun because of unease in the market. He reminds the Board that their firm is not always right. Their stock does reflect a 3-4% outperformance, which he states is relatively good in the equity world.

When looking at risks, the firm does consider the volatility over the last 12 months. A higher volatility may indicate that there is a bigger problem than they discovered in their research. There is a lot of diversity in the portfolio to minimize potential risks due to an over allocation in certain interests. The firm will rotate analysts between portfolios every three to five years to continue to have a fresh set of eyes looking at the stocks and making sure that everyone is continuing to learn the markets and the stocks to utilize them to their highest potential.

The goal of the portfolio is to buy the stock as cheap as possible and then sell it once it meets the previous average selling price. Typically, there is a three to five year holding period to meet that expectation.

Mr. Dean Papas goes into detail on how the portfolio manager is responsible for picking the companies that looks interesting, and the analysts are then responsible for doing the research. The analysts are not compensated based on the performance of stocks that they cover, giving them the ability to delve into the reasonings behind the down swing of the company's stock and if those companies can manage to pick it back up to normal. He states that the investment process truly starts with the interview process.

Mr. Stephens questioned what happens when the stock is still in the portfolio after five years.

Mr. Goetz responded that while that outcome is not ideal, it does happen that the stock doesn't move the way the firm planned. When it does, the team comes back together to take another look at the stock to see if the issues found before are still there, or if

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something else has arisen and is holding the company back. Over the next 18 months, they carefully monitor that stock and company. He does say that they do not hold stock for 5 years, that if they must get rid of the stock for equal pricing, they do.

Seeing no further questions from the Board, **Mr. MacCarthy** thanked Mr. Papas and Mr. Goetz for their time.

Mr. MacCarthy welcomed Grant Duncan and Brent Woods from Brandes Investment Partners.

Mr. Grant Duncan began the presentation with introducing the team and the firm. He praises the firm for celebrating their 50th year in the industry, crediting their success to being 100% owned by the employees which enables them to think in the long term for their investment decisions. When looking at the other managers being presented to the Board in correlation to William Blair, Mr. Duncan brought data showing the monthly average over the last 10 years and how each firm handles outperformance and under performance. He credits their outperformance in the Value market when markets are down with the conservative nature of the investments of the portfolio.

Mr. Brent Woods takes over with stating that there is a tendency in the investment industry for people to overthink what they do. With respects to their firm, they keep it simple. They take the time to learn the details of a company, their fundamental attributes, and what they may be worth to a long-term owner. The firm tries not to look at what something may be worth in three months or how it may trade in a year, but in how it will perform for someone who will own the stock for the length of their career, spanning decades. He does credit human nature to driving the stock prices, and those price drops can provide the portfolio with great opportunities. The firm spends a lot of time considering and researching the balance between value and performance.

When looking at the team for Brandes, there is a lot of diversifications in language and culture, giving them more knowledge in a wide range of regions and industries. The research and ideas are brought by the analysts and researchers to the investment committee, who then decides how to move forward. The committee is responsible for building the portfolio with high margins of safety and balanced risks. There are no minimums needed for this portfolio, meaning there is more flexibility with being able to change their over- and underweights wherever the market is leaning. The portfolio being presented to the Board has been in existence since 1990. Except for this current year, it has outperformed its benchmark on both a gross and a net of fee basis.

Seeing no questions from the Board, **Mr. MacCarthy** thanked Mr. Woods and Mr. Duncan for their time.

Mr. MacCarthy welcomed Mr. Taylor Alan-Lee and Mr. Greg Squires from Causeway Capital Management.

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Mr. Taylor Alan-Lee began the presentation with giving a background of the firm, which had been founded in 2001 and is owned by current and former employees. The firm integrates qualitative research with quantitative research, using computers to calculate risk-adjusted returns over full market cycles. Causeway not only works with public pension plans, but also private corporations and programs, many of which have been with the firm for over 10 years.

This portfolio has between 40 – 80 stocks in the developed markets at any given time, with a 2–3-year investment horizon as well as 120-200 stocks in the emerging markets with a 1–2-year investment horizon. This gives flexibility to their allocations to be under- or overweight against the benchmark at different times. While there is a quantitative aspect to the portfolio, there is a lot of fundamental review that goes into balancing the risks associated with the computer models.

Mr. Greg Squires talks about the process of the firm. Causeway’s research teams create a bottom-up picture of a company and look at key aspects of it to see what’s driving the stock prices. They speak with current and previous employees and management teams, competitors, and industry experts. With a 2-3 investment horizon, the team is not focused on a quarter-by-quarter earnings basis, but how the stock is potentially showing a profit in the long-term.

The portfolio uses a risk-adjusted return ranking system. It is designed to keep the team engaged with stock pricing and being aware of how long the stock has been held for. A lower ranking score is motivation to find something of a higher ranking to increase profitability. It forces the sell mentality to keep the fluidity of the portfolio.

Mr. Alan-Lee covers the performance of the portfolio. Over the short- and the long-term snapshot, the portfolio is outpacing the MSCI ACWI ex US and MSCI ACWI ex US Value benchmarks.

Seeing no questions, **Mr. MacCarthy** thanked Mr. Alan-Lee and Mr. Squires for their time.

Mr. MacCarthy welcomed Mr. Lewis and Ms. Cardenas back to review the interviews.

Mr. Stephens said that, based on their presentations, he liked Pzena more than the other two. They seemed more people oriented, and he was impressed that one of their founders was in attendance. He was unsure about the dependence on the computer models of Causeway. He asked for more information from Callan that may have been missed from their presentations.

Mr. MacCarthy asked for clarification on the amount of time that Brandes has been associated with Callan.

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Mr. Lewis confirmed that their firm has covered Brandes for at least 10 years, and they have mutual clients with all the firms. He did remind the Board that just because certain portfolios work well for certain clients, doesn't mean that it will work well for this Fund. He started going over the pros and cons between the managers. Starting with Pzena, Callan likes their philosophy and their process. They have done on-sites with the team, and the firm is every bit as rigorous as their presentation said they were. The cons were that they were the highest priced vehicle with the highest risk.

Atty Jensen asked about the clients for Pzena.

Ms. Cardenales confirmed that for the presented vehicle for Pzena, there are 9 clients with 11 accounts, valued at \$2.2 billion.

Mr. MacCarthy asked about the price points between the firms.

Mr. Lewis answered the question about the price point, stating that only the management is set at 60 basis points. There is an administrative fee of 15 basis points, putting them at 75 basis points for a total amount. Brandes has an all-in fee of 45 basis points. Causeway has an all-in fee of 65 basis points. Morgan Stanley is charging the Fund a 75-basis point fee as of now.

Brandes has shown that their investment strategy, while an older model, is still lucrative, and they do it well. Mr. Lewis was incredibly impressed with the research Brandes went through for their presentation, looking through the previous Retirement Board minutes to determine what the City of Fort Pierce was looking for and bringing additional data on all the companies being considered to show why Brandes felt they were a better fit.

Causeway takes more patience to understand their processes and doesn't have the same outlook on value stock that the other two do. Their focus is going to be leaning more towards the large cap, and they are less true to value over time. As a firm, it has the potential to outperform the benchmark, but it may not be the best compliment for William Blair.

Ms. Morris questioned if the fees were able to be negotiated.

Mr. Lewis says that Brandes is already negotiated to the 45 basis points. Pzena is historically difficult to negotiate fees. He does not think they will budge. Causeway has the best opportunity to negotiate, but it may not happen.

Comm. Broderick agrees that Pzena had an excellent presentation.

Ms. Mika asked that since Causeway is a manger for the Fund already, how is this vehicle different from their current one.

Mr. Lewis confirmed that this vehicle is a mixture of the current model of emerging markets that the Fund is invested in as well as stock with developed markets. He states that currently, Causeway is the offset to Morgan Stanley's non-exposure to emerging markets,

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but that if the Board chooses another manager, they would be replacing both Morgan Stanley and Causeway in the portfolio.

Mr. MacCarthy asked for clarification on the similarities between Pzena and Brandes.

Mr. Lewis answered that they are very similar to each other in regards to team size, diversity, and philosophies, but their research is their main difference.

Ms. Cardenales agrees with Mr. Lewis. With regards to Pzena, the managers find the interesting companies and send the researchers to find all the details. With Brandes, the researchers can bring the ideas to the management team. The teams are relatively the same size, but it's how their ideas start that is different.

Atty Jensen asked about the risk for Pzena and the small pool of clients.

Mr. Lewis speculated that there is always a risk, but the clients have been with them for a long time.

Ms. Cardenales refers to looking at the quarterly review and the 6-month review of Pzena and how it shows a highly volatile return showing. Their clients are going to be used to that volatility, so they are less likely to pull out of the portfolio.

Ms. Morris asked for the recommendation from Callan again.

Mr. Lewis confirmed that it was a difficult choice between number one, Brandes, and number two, Pzena. Before the meeting, they had leaned towards Pzena. After the interviews, they are leaning more towards Brandes based on the consistency of their returns and the research that had gone into today's meeting.

Mr. Stephens confirmed that he was unimpressed with Brandes' presentation but knowing that Callan was impressed with their research has him leaning towards them. Because the fees are so low, it may be the best option.

Ms. Cardenales reminds the Board that fees should be looked at as if the portfolio is able to make the money to cover the fees and pay into the Fund, it may be a good investment.

Atty Jensen said that's not a guarantee.

Mr. Lewis cautioned that you can't predict or control performance, but you can control fees.

Mr. Stephens said that the fees matter. A 26-basis point difference between the top two firms is a big difference.

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Comm. Broderick asked which way people were leaning.

Mr. Stephens says that if the fees are that close, Pzena is not expected to want to negotiate fees, and Atty Jensen is concerned about the amount of people in the Pzena portfolio, he is leaning more towards Brandes.

Ms. Morris confirmed that she is also leaning towards Brandes because of Callan's recommendation. She also likes the low fees, being employee owned, and being in business for a longer period.

Mr. Lewis reminds the Board that all the firms are employee owned. Pzena had their stock publicly listed for a while, and they were able to buy their stock back recently when it went to a lower price.

Mr. MacCarthy agrees Brandes seems to be the best fit. The cost of the fees is a big factor but knowing that they have worked with Callan for so long was a turning point.

Ms. Wendy Rydzewski agrees that Brandes is a good fit.

Ms. Mika agrees that Brandes is a good fit.

Comm. Gaines does agree with the Board, but he says that "you pay for what you get." If a firm says that they don't negotiate their fees because they believe their product is top tier, it may be best to look more closely at them. While it made him think a little harder about Pzena after Atty Jensen's concern with the amount of accounts and clients in their fund, he said that it looked like Pzena had the ability to make the money over what their fees would cost. He was also impressed that the former chairman of a state board would come to this presentation to close the deal. Morgan Stanley is being paid the same amount that Pzena is charging, and he thinks the risks may be worth the reward to the Fund. He does say that if the results are as close as Callan says, it may also be better to cut the costs where they can and go with Brandes.

Mr. Stephens agreed that the costs differences of 26-basis points is huge.

Comm. Gaines asked why were is such a big difference between all the companies.

Ms. Cardenales confirmed that it is because the 45-basis point price tag is a negotiated fee from around 55-basis points.

Mr. Lewis said that the industry relationship between consultants and portfolio managers is changing in a way that portfolio managers are creating a shared class for consultants and saying that clients of this company can pay this much, clients of that company can pay that much. Brandes has a classification for Callan clients that fits this relationship, so their fees are negotiated from their traditional prices. Pzena hasn't been consulted about doing the same, and he isn't sure that Callan has the same bargaining power with them to get this consideration.

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A motion was made by Mr. Stephens to hire Brandes as the Fund's International Value Manager in the CIT Class 6 with funding from Morgan Stanley and Causeway and was seconded by Mr. MacCarthy. All those in favor of the motion signified by saying aye. There was not opposition, and the motion was carried unanimously.

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

None

ITEM NO. 11 ~ BOARD MEMBER COMMENTS

None.

ITEM NO. 12 ~ NEXT MEETING

Next meeting will be held, Thursday, October 17, 2024, at 2pm in the Commission Chambers at City Hall.

ITEM NO. 13 ~ ADJOURMENT

Seeing that there were no further questions or comments. Mr. MacCarthy adjourned the meeting at 4:34 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.