

GENERAL RETIREMENT SYSTEM
and
POLICE and FIRE RETIREMENT SYSTEM
BOARD OF TRUSTEES
CITY OF GRAND RAPIDS
MICHIGAN

MINUTES
JOINT MEETING
JUNE 15, 2016 – 8:08 a.m.
233 East Fulton

The meeting was called to order by Chairman Hawkins. Other members present: Mr. David Tryc, Mr. Craig VanderWall, Mr. Martin Timkovich, Mr. Thomas VanderPloeg, Mr. Philip Balkema, Mr. William Butts, Ms. Jane Hofmeyer, and Mr. Phillip Mitchell. Absent: Mr. Jon O'Connor.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Mr. Charles Groeschell and Mr. Jeffrey Simmons of Baird Advisors, and Mr. J. Christopher Doell, Mr. Steve Yoon, and Mr. Lawrence Fumarolo of Northern Trust Asset Management, and Ms. Sara VanderWerff, City Comptroller.

Mr. Balkema made the motion to excuse the absence of Mr. O'Connor. The motion was seconded by Mr. Tryc and carried.

There were no public comments regarding agenda items.

Mr. Butts made the motion to approve the minutes of the Joint Meeting of May 11, 2016. The motion was seconded by Mr. Balkema and carried.

Mr. Charles Groeschell, Managing Director and Senior Portfolio Manager, and Mr. Jeffrey Simmons, CFA, Managing Director and Senior Portfolio Manager, of Baird Advisors (Baird) presented their firm's annual report to Trustees. Mr. Groeschell noted that Baird was founded in 1919 in Milwaukee and has total assets under management of more than \$41.0 billion. They have a disciplined, research driven approach. Baird has 3,300 associates and 2,085 employee shareholders. He noted that Baird is ranked #1 overall "important small-/mid-cap research advisory firm" in Greenwich Associates survey and has been designated for the 13th consecutive year as one of the Fortune 100 Best Companies to Work For. Mr. Simmons reviewed Baird's investment philosophy and outlined their investment process, which is twofold: 1) to structure portfolios to achieve the return of the benchmark for each client (accomplished by a duration neutral discipline); and 2) to add incremental value through a bottom-up, risk-controlled process. Baird seeks to utilize a holistic approach in order to achieve the optimal portfolio structure. Baird's internal research and security selection are the primary drivers of incremental return as they identify value from the bottom up. Mr. Groeschell provided Baird's perspective on the current environment and noted that the U.S. economy continues to have moderate growth, consumer inflation is well below the Fed's 2% target, Europe still is encountering slow growth and disinflationary pressures continue despite extraordinary ECB stimulus, China's transitioning economy continues to slow, and the recent market turmoil is shifting the Fed's thinking to fewer rate hikes. The risk environment remains elevated. He noted that with respect to U.S. Treasury yields in 2016, rates are falling on global growth concerns and elevated risk environment, so U.S. Treasuries are attractive to global investors. The U.S. is experiencing a modest pick-up in wages and corporate credit fundamentals are generally solid despite the fact that leverage has increased. Currently there is a liquidity-challenged secondary market. Mr. Groeschell provided Trustees with a market outlook by stating that there are attractive portfolio yield advantages over respective benchmarks, the portfolios are positioned to modestly benefit from the flattening of the yield curve and benefit from spread sector outperformance, and Baird continues to focus on risk control.

Mr. Simmons reviewed the City of Grand Rapids Retirement Systems' objectives, risk controls, portfolio guidelines and characteristics, and provided the following return statistics for the portfolios:

	<u>General Retirement System</u>	<u>Police & Fire Retirement System</u>	<u>Barclays Aggregate Index</u>
2003 (Mar.-Dec.)	3.25%	3.25%	2.60%
2004	4.88%	4.88%	4.34%
2005	3.13%	3.15%	2.43%
2006	4.75%	4.77%	4.33%
2007	6.15%	6.07%	6.97%
2008	-1.10%	-1.56%	5.24%
2009	9.52%	10.22%	5.93%
2010	9.98%	9.81%	6.54%
2011	8.06%	7.83%	7.84%
2012	7.00%	7.13%	4.22%
2013	-1.56%	-1.51%	-2.02%
2014	6.99%	6.99%	5.97%
2015	1.01%	0.99%	0.55%
2016 YTD	3.74%	3.78%	3.43%
<u>Since Inception</u>			
Cumulative Return	88.75%	88.67%	76.37%
Annualized Return	4.94%	4.94%	4.40%

Ms. Korzen asked Mr. Groeschell to speak about the potential of switching the Retirement Systems' portfolios from separately managed accounts to one of their funds. Mr. Groeschell reviewed some of the benefits to switching and noted that the returns could potentially be slightly higher; however, the fees associated with the fund may be slightly higher than current fees. The benefits are not overwhelming; however, Mr. Groeschell noted that he could provide further information to Ms. Korzen and Trustees. Ms. Korzen stated she could ask Wilshire Associates to provide an analysis to Trustees as well. The report was received and filed by Chairman Hawkins.

Mr. J. Christopher Doell, Head of Relationship Management, and Mr. Seung Yoon, Second Vice President and Associate Relationship Manager, of Northern Trust Asset Management (NTAM) presented their firm's annual report to Trustees. Mr. Fumarolo noted that NTAM's previous relationship manager, Mr. James Dominguez, has left the firm. Mr. Doell noted that NTAM has \$900.0 billion in assets under management as of March 31, 2016, with \$419.3 billion of that amount in global index products. Mr. Doell reviewed NTAM's organization, people and process. Mr. Yoon reviewed the following returns for the period ending April 30, 2016:

	<u>1 mo.</u>	<u>3 mo.</u>	<u>YTD</u>	<u>1 yr.</u>	<u>3 yr.</u>	<u>5 yr.</u>	<u>10 yr.</u>
NT S&P 500 Index Fund	0.40%	7.09%	1.79%	1.35%	11.35%	11.10%	6.90%
S&P 500	0.39%	7.05%	1.74%	1.21%	11.26%	11.02%	6.91%

Mr. Doell provided Trustees with a copy of NTAM's investment strategy commentary and their weekly economic commentary. The report was received and filed by Chairman Hawkins.

Mr. VanderPloeg next reported on the recent Operations Committee meeting. He stated that the current contract with The Northern Trust Company (NT) for custodial services is due to expire September 30, 2016. The Retirement Systems has been with NT for 15 years. He stated it is not feasible to conduct an RFP for custodial services at this point, so the committee is recommending renewing the contract with NT for three years with no fee changes and explore an RFP for custodial services in the next few years. Mr. Balkema made

the motion to approve the contract extension fee renewal request as written in the proposal by the Northern Trust Company for custody, investment management services and benefit payments, subject to legal review. The fee structure for the aforementioned services remains unchanged and will cover the period October 1, 2016 – September 30, 2019. The motion was seconded by Mr. Tryc and carried.

Mr. VanderPloeg next addressed the recent RFP that was issued for investment consulting services. He stated that the Retirement Systems received responses from 13 firms; some of the firms were specifically solicited by the Retirement Systems while a few firms found the RFP on the Retirement Systems' website. The committee reviewed the responses by the 13 firms and narrowed down the search to four potential candidates. The four candidates are: 1) Meketa Investment Group, 2) New England Pension Consulting, 3) Willis Towers Watson, and 4) Wilshire Associates. The committee decided not to make a recommendation in order to ascertain whether or not the entire Board wishes to continue the RFP process and set up interviews or if they are content with the relationship with Wilshire. The firms seem to have comparable fees, resources and expertise. Mr. Balkema asked if the three other candidates represent firms in the Michigan area; Mr. Michaud stated they do. Mr. Timkovich commented that none of the firms seemed clearly better than Wilshire. Mr. Balkema asked what length of time was specified in the RFP. Mr. Michaud stated that three years was the time frame specified in the RFP, suggesting that since no candidates provided a demonstrable difference from Wilshire, perhaps Trustees should stay the course with Wilshire for one more year and then see if there is a change. Mr. VanderPloeg stated the committee contemplated that idea; however, what if there are some significant changes in Wilshire. Mr. Timkovich stated that Trustees would probably not be having this discussion had Wilshire not lost two of their investment professionals. Mr. VanderWall stated that the Retirement Systems have not conducted an RFP in a number of years so perhaps it would be prudent to follow through and interview the four firms. Mr. Michaud commented that while the time frame would be a three-year contract, there would more than likely be verbiage in the contract that states the contract would be immediately terminable if there are significant issues. He stated that while most candidates indicated their proposal would be valid for 60-90 days, most firms are willing to extend the terms if Trustees wished to discuss this issue further; due diligence is critical in the RFP process. Chairman Hawkins agreed that it would be prudent to assess the firms' qualifications in an interview; in case something should change with Wilshire the ground work will have been laid to pursue another course of action. He suggested scheduling a meeting in July with the four candidates; a decision would not necessarily need to be made right away, but at least they would have met with the firms and could pursue finalizing candidates down the road if necessary. Mr. Mitchell stated that the four candidates are very competitive. Mr. Balkema asked that if interviews are going to held, is it possible to request that the individuals responsible for servicing the account would be present at the interview; Ms. Korzen said yes. Mr. Butts was encouraged by the large response. Mr. Timkovich stated his opinion that holding interviews may be wasteful of everyone's time unless they are ready to move away from Wilshire. Mr. VanderPloeg commented that he is not beholden to Wilshire and if another firm is significantly better than Wilshire then they would be worth pursuing. Mr. Butts stated that Trustees have started a process and they should follow through with the interviews as this would serve as ground work in case something changes with Wilshire in the near future. Ms. Hofmeyer stated she was comfortable with continuing the relationship with Wilshire. Following Trustee discussion, they decided to hold interviews on July 27, 2016 with Meketa Investment Group, New England Pension Consulting, Willis Towers Watson, and Wilshire Associates. Ms. Korzen will coordinate the details with the firms.

Mr. VanderPloeg next addressed the renewal quote for the Fiduciary Liability insurance policy for the Retirement Systems for the period 07/01/16 – 06/30/17 from Arthur J. Gallagher. The premium for the policy, if renewed with the same terms, would increase from \$16,760 to \$17,458 (a 4.2% increase) for the Police & Fire Retirement System and from \$17,993 to \$19,036 (a 5.8% increase) for the General Retirement System. He noted that Ms. Sally Corbin from Union Services also provided three alternative quotes for fiduciary liability insurance; one from Ullico (\$25,592 for the General Retirement System and \$22,599 for the Police & Fire Retirement System) and two from Euclid. Euclid offered two options: one with government indemnification and one without. The policy with the indemnification clause is effective immediately whereas the one without it there is a waiting period for the company to ensure that the Retirement Systems would be indemnified because they are a government agency. The coverage with the indemnification clause would be \$21,582 for the

General Retirement System and \$19,915 for the Police & Fire Retirement. The policy without the indemnification clause would be \$15,214 for the General Retirement System and \$14,858 for the Police & Fire Retirement System. The committee recommended changing the agent of record to Union Services Agency and select the Euclid policy without the indemnification clause. The coverages are the same as the current policies and Euclid's ratings are very high. Mr. Michaud has reviewed the proposed policies as well. Mr. VanderWall made the motion on behalf of the Police & Fire Retirement System to change the plan's agent of record to Union Services Agency and to purchase the Euclid policy with non-indemnifiable only coverage as outlined in their proposal for the period 07/01/16 – 06/30/17 for \$14,858. The motion was seconded by Mr. Balkema and carried. Mr. Butts made the motion on behalf of the General Retirement System to change the plan's agent of record to Union Services Agency and to purchase the Euclid policy with non-indemnifiable only coverage as outlined in their proposal for the period 07/01/16 – 06/30/17 for \$15,214. The motion was seconded by Mr. Timkovich and carried. Mr. Tryc questioned why Gallagher has only presented the Retirement Systems with one choice when there are clearly more options. Ms. Korzen stated she was unsure, but perhaps Gallagher only deals with the one firm. Mr. VanderPloeg stated that the committee is also recommending to change the Business Owner's policy to Union Services Agency. The cost is \$637.00 which would be split evenly per System and there would be a refund from the current policy for the portion that was not used as the premium has been paid through the end of the calendar year. Ms. Korzen noted that the policy through Union Services Agency is about \$200.00 less. Mr. Timkovich made the motion to switch the current Business Owner's policy to Union Services Agency as outlined in their proposal for the period 07/01/2016 – 06/30/2017. The motion was seconded by Mr. VanderWall and carried. Trustees thanked the committee for their hard work on these issues.

There were no public comments on items not on the agenda.

Chairman Hawkins disclosed that a number of Trustees attended a dinner last evening with Mr. Groeschell, Mr. Simmons, Mr. Fumarolo, Mr. Doell, and Mr. Yoon. In addition to himself, in attendance was Mr. Mitchell, Mr. Timkovich, Mr. Tryc, and Ms. Korzen.

The meeting adjourned at 9:21 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, August 17, 2016, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems