

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

MINUTES
JOINT MEETING
MAY 11, 2016 – 8:42 a.m.
233 East Fulton

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

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Mr. Marlin Pease and Mr. Alex Ford of Wilshire Associates, Inc., and Mr. David Hoffman and James Anderson of Gabriel, Roeder, Smith and Company.

Mr. VanderWall made the motion to excuse the absences of Mr. VanderPloeg and Ms. Hofmeyer. The motion was seconded by Mr. Tryc and carried.

There were no public comments regarding agenda items.

Mr. Tryc made the motion to approve the minutes of the Joint meeting of March 16, 2016. The motion was seconded by Mr. Butts and carried.

Mr. Marlin Pease and Mr. Alex Ford presented the quarterly performance report to Trustees. Mr. Pease noted that the U.S. stock market was up for the first quarter by 1.17%, although the year did not begin in a positive direction with the index falling 9% during the first dozen trading days. Large cap stocks outperformed smaller shares during the quarter while growth stocks trailed value stocks. The yield curve fell sharply this quarter and flattened with the 10-year Treasury hitting a low point of 1.6%. The 2012 and 2016 environments are the flattest the curve has been during the post-credit crisis era. The long decline in crude oil finally found a floor in February, providing a bit of upward support to highly-volatile global stock markets. Losses in China and Japan were offset by bull markets in smaller countries and Europe's overall economic malaise has been compounded by intense anxiety over the upcoming vote in the U.K. regarding continued participation in the European Union. U.S. Treasury yields plunged in the first half of the first quarter of 2016 as stock market volatility fed safe-haven trades into longer-term Treasuries. Credit spreads widened in the first half of the quarter on short-lived risk-off trading, but subsequently tightened, boosting returns. U.S. TIPS yielded strong returns in the quarter despite uncertainty over Fed policy and stubbornly low breakeven inflation. As of May 6, 2016 YTD, the S&P 500 Index was up 1.4%; the Russell 2000 was down 2.0%; the Wilshire 5000 was up 1.4%; the MSCI ACWI Ex-US was down 1.2%; the Barclays Aggregate was up 3.6%; the Barclays U.S. TIPS Index was up 4.4%; the Bloomberg Commodity Index was up 6.3%; and the Alerian MLP Index was up 4.9%. Mr. Pease provided Trustees a report on Wilshire's return and risk assumptions and asset allocation expectations for the City of Grand Rapids Retirement Systems as of December 31, 2015. Following a review of the capital markets, the Quarterly Funds Evaluation of the investment managers of the General and Police & Fire Retirement Systems was conducted.

SUMMARY OF INDEX RETURNS
PERIODS ENDED 03/31/16

<u>Index</u>	<u>QTR.</u>	<u>1 YEAR</u>	<u>3 YEARS</u>	<u>5 YEARS</u>	<u>10 YEARS</u>
S&P 500	1.35	1.78	11.83	11.58	7.01
RUSSELL 2000	-1.52	-9.76	6.84	7.20	5.26
NAREIT GLOBAL RE INDEX	5.23	0.41	5.47	7.65	N/A
MSCI ACWI X-US	-0.38	-9.19	0.32	0.31	9.18
BARCLAYS AGGREGATE	3.03	1.96	2.50	3.78	4.90
BLOOMBERG COMMODITY	0.42	-19.56	-16.86	N/A	N/A
91 DAY T-BILLS	0.07	0.12	0.07	0.08	1.15

General Retirement System

Asset Commitments as of 03/31/16:

Domestic Equity	25.6%
Fixed Income	25.0%
Cash Equivalents	0.2%
Real Estate	5.0%
Private Equity	2.4%
Non-U.S. Equity	23.2%
Commodities	3.5%
MLPs	4.8%
TIPS	10.2%

Asset Allocation to Managers:

NTAM	16.4%
PIMCO	3.0%
Wellington Management Company	6.1%
Baird Advisors	12.5%
Western Asset Management	12.6%
Cash Account	0.2%
Neuberger Berman	15.7%
Harding Loevner	7.5%
CBRE Clarion	5.0%
Adams Street Partners	1.6%
Aberdeen Asset Management	0.8%
Wellington Commodities	3.5%
Harvest Fund Advisors	4.8%
Brown Brothers Harriman	10.2%

Quarterly Summary of the General Retirement System

	<u>Market Value</u> <u>03/31/16</u>	<u>Market Value</u> <u>12/31/15</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$383.9 million	\$389.8 million	(\$5.9 million)	1.38%	36 th percentile
Total U.S. Equity	\$98.1 million	\$90.3 million	\$7.8 million	0.40%	45 th percentile
Total Non-U.S. Equity	\$89.2 million	\$90.4 million	(\$1.2 million)	-0.45%	51 st percentile
Total Fixed Income	\$96.2 million	\$98.9 million	(\$2.7 million)	2.95%	32 nd percentile
Total Real Estate	\$19.4 million	\$18.5 million	\$900 thousand	4.37%	27 th percentile
Total Private Equity	\$9.4 million	\$8.9 million	\$500 thousand	9.18%	N/A
Total Commodities	\$13.3 million	\$12.8 million	\$500 thousand	3.20%	N/A
Total MLPs	\$18.4 million	\$19.5 million	(\$1.1 million)	-5.43%	N/A
Total TIPS	\$39.1 million	\$40.6 million	(\$1.5 million)	4.54%	27 th percentile
NTAM	\$62.9 million	\$63.7 million	(\$800 thousand)	1.40%	12 th percentile
PIMCO	\$11.7 million	\$11.6 million	\$100 thousand	1.04%	43 rd percentile
Wellington Mgmt. Co.	\$23.5 million	\$24.1 million	(\$600 thousand)	-2.47%	94 th percentile
Neuberger Berman	\$60.3 million	\$61.7 million	(\$1.4 million)	-0.74%	75 th percentile
Harding Loevner	\$28.8 million	\$28.8 million	\$0	0.17%	67 th percentile
Baird Advisors	\$47.9 million	\$49.4 million	(\$1.5 million)	3.14%	46 th percentile

Western Asset Mgmt.	\$48.2 million	\$49.4 million	(\$1.2 million)	2.74%	79 th percentile
CBRE Clarion	\$19.4 million	\$18.5 million	\$900 thousand	4.37%	27 th percentile
Adams Street Partners	\$6.2 million	\$5.8 million	\$400 thousand	47.72%	N/A
Aberdeen Asset Mgmt.	\$3.2 million	\$3.1 million	\$100 thousand	6.74%	N/A
Wellington Commodities	\$13.3 million	\$12.8 million	\$500 thousand	3.20%	N/A
Harvest Fund Advisors	\$18.4 million	\$19.5 million	(\$1.1 million)	-5.43%	N/A
Brown Brothers Harriman	\$39.1 million	\$40.6 million	(\$1.5 million)	4.54%	27 th percentile

Police and Fire Retirement System

Asset Commitments as of 03/31/16:

Domestic Equity	25.6%
Fixed Income	25.0%
Cash Equivalents	0.3%
Real Estate	5.1%
Private Equity	2.5%
Non-U.S. Equity	23.1%
Commodities	3.5%
MLPs	4.8%
TIPS	10.1%

Asset Allocation to Managers:

NTAM	16.4%
PIMCO	3.1%
Wellington Management Company	6.1%
Baird Advisors	12.4%
Western Asset Management	12.6%
Cash Account	0.3%
Neuberger Berman	15.7%
Harding Loevner	7.4%
CBRE Clarion	5.1%
Adams Street Partners	1.6%
Aberdeen Asset Management	0.9%
Wellington Commodities	3.5%
Harvest Fund Advisors	4.8%
Brown Brothers Harriman	10.1%

Quarterly Summary of the Police & Fire Retirement System

	<u>Market Value</u> <u>03/31/16</u>	<u>Market Value</u> <u>12/31/15</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$370.5 million	\$374.8 million	(\$4.3 million)	1.38%	36 th percentile
Total U.S. Equity	\$94.8 million	\$96.2 million	(\$1.4 million)	0.39%	53 rd percentile
Total Non-U.S. Equity	\$85.7 million	\$86.1 million	(\$400 thousand)	-0.45%	51 st percentile
Total Fixed Income	\$92.6 million	\$94.7 million	(\$2.1 million)	2.96%	31 st percentile
Total Real Estate	\$19.0 million	\$18.2 million	\$800 thousand	4.37%	27 th percentile
Total Private Equity	\$9.4 million	\$8.9 million	\$500 thousand	9.18%	N/A
Total Commodities	\$12.8 million	\$12.4 million	\$400 thousand	3.20%	N/A
Total MLPs	\$17.7 million	\$18.8 million	(\$1.1 million)	-5.54%	N/A
Total TIPS	\$37.5 million	\$38.6 million	(\$1.1 million)	4.55%	27 th percentile
NTAM	\$60.8 million	\$61.2 million	(\$400 thousand)	1.39%	12 th percentile
PIMCO	\$11.5 million	\$11.4 million	\$100 thousand	1.04%	43 rd percentile
Wellington Mgmt. Co.	\$22.5 million	\$23.6 million	(\$1.1 million)	-2.47%	94 th percentile
Neuberger Berman	\$58.3 million	\$58.7 million	(\$400 thousand)	-0.73%	75 th percentile
Harding Loevner	\$27.4 million	\$27.4 million	\$0	0.16%	67 th percentile
Baird Advisors	\$46.1 million	\$47.4 million	(\$1.3 million)	3.16%	43 rd percentile
Western Asset Mgmt.	\$46.5 million	\$47.3 million	(\$800 thousand)	2.75%	79 th percentile
CBRE Clarion	\$19.0 million	\$18.2 million	\$800 thousand	4.37%	27 th percentile
Adams Street Partners	\$6.2 million	\$5.8 million	\$400 thousand	47.74%	N/A
Aberdeen Asset Mgmt.	\$3.2 million	\$3.1 million	\$100 thousand	6.74%	N/A
Wellington Commodities	\$12.8 million	\$12.4 million	\$400 thousand	3.20%	N/A

Harvest Fund Advisors	\$17.7 million	\$18.8 million	(\$1.1 million)	-5.54%	N/A
Brown Brothers Harriman	\$37.5 million	\$38.6 million	(\$1.1 million)	4.55%	27 th percentile

The report was received and filed by the Chairman.

Mr. Pease and Mr. Ford presented Trustees with a review report regarding real assets and commodities. Mr. Ford noted that the rationale for investing in real assets is: 1) they capitalize unexpected inflation in their returns; 2) as a result, their returns display a positive correlation to inflation; 3) this positive correlation to inflation creates a unique return pattern; 4) the unique return pattern displays a low correlation to other asset classes; and 5) this holds a potential diversification benefit to portfolios of traditional assets. Most real assets have generated positive returns, on average, in negative equity markets. He commented that real assets are needed now as recent inflation has been low, projected inflation is low, and there are signs of inflationary pressure appearing. Inflation expectations appear to be anchored to recent experience, with little predictability of actual inflation one year forward. Mr. Ford reviewed statistical data on the MLP market and noted that MLPs have had challenging performance over the past year. He also provided an overview of MLPs. He noted that there is a rising correlation with crude oil as MLPs and oil are both sensitive to global growth and inflation. Production levels of crude oil and natural gas were relatively consistent from 2000 – 2011, however, consumption patterns in the U.S. have changed little over this same period, resulting in increased supply stock. Increasing oil and gas stock can have a positive effect on midstream MLPs as there is an increasing need to transport and store the excess supply. Mr. Pease noted Wilshire’s recommendation to stay the course with the Retirement Systems’ asset allocation to MLPs. He stated that from a return/risk perspective, MLPs are very attractive, they can help provide diversification benefits with some inflation hedging properties, and they are still a relatively new sub-asset class in the institutional marketplace. Taxation issues still however need to be considered. Mr. Ford reviewed the categorization of real assets and how they are tied to inflation and provided performance data of real assets v. expectations and also reviewed Wilshire’s 2016 correlation table. Mr. Tryc asked if the Retirement Systems would be a candidate to capture additional alpha from their fund managers for fees slightly above their quoted negotiated rate. Mr. Pease said yes this would be possible and Trustees would need to discuss at a future Board meeting. The report was received and filed by Chairman Hawkins.

Ms. Korzen next addressed the topic GASB 72 reporting that was tabled from the Police & Fire Retirement System Board meeting. She noted that The Northern Trust Company (NT) has stated they can assist with this reporting requirement. It will be implemented with the December 31, 2015 Police & Fire Retirement System audit and with the June 30, 2016 General Retirement System audit. Mr. Lawrence Fumarolo of NT has provided pricing information for three different levels of reporting: 1) standard toolkit (\$3,000 per year split evenly between both plans); 2) valuation support services (\$10,000 per year split evenly between both plans); and 3) the practical expedient solution (\$15,000 per year split evenly between both plans). Ms. Korzen stated that after speaking with the auditors and Mr. Fumarolo that it would only be necessary to contract with NT for the first two reports. Mr. Michaud commented that perhaps Wilshire Associates could assist with this reporting thereby reducing fees. Ms. Korzen asked Mr. Pease if Wilshire has this required information; Mr. Pease said yes and that the information would not be difficult to obtain and provide to the Retirement Systems. Mr. Pease stated that Ms. Korzen should confirm with the auditors that they would be comfortable with Wilshire providing the level determinations required by GASB 72. He stated that they look at that type of information on a regular basis. Wilshire already provides this type of information to its ERISA clients so they would be able to provide it to the Retirement Systems. Ms. Korzen asked if Mr. Pease could provide that information to her within a couple of weeks; he said yes. Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to have Wilshire Associates provide the required level determination information as outlined by GASB 72. In the event that they are not able to provide this information, Ms. Korzen is authorized to request levels one and two GASB 72 Fair Value Disclosure reports as outlined by The

Northern Trust Company. The motion was seconded by Mr. VanderWall and carried. Mr. Timkovich made the motion on behalf of the General Retirement System to have Wilshire Associates provide the required level determination information as outlined by GASB 72. In the event that they are not able to provide this information, Ms. Korzen is authorized to request levels one and two GASB 72 Fair Value Disclosure reports as outlined by The Northern Trust Company. The motion was seconded by Mr. Butts and carried.

Mr. Thomas Michaud provided Trustees with a legislative update. He stated that there is currently a house bill in Michigan that proposes the enactment of a new law to be known as the “public employee retirement benefit calculation act” which would prescribe the compensation utilized to calculate pension benefits for employees of certain public employers. Specifically, under this bill, only base pay would be permitted to be considered in computing final average compensation for purposes of calculating the pension benefits payable under a municipality’s defined benefit plan. He stated this is only a bill at this point and he was merely bringing it Trustees’ attention should it become Michigan law. If it is enacted, it would take effect on January 1, 2017. Existing collective bargaining agreements in effect as of January 1, 2017 would not be affected by the provisions set forth in the bill, however, collective bargaining agreements ratified on or after January 1, 2017 would be subject to its provisions. Mr. Michaud commented that this issue has been brought up a few times before, but nothing has been enacted to date.

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

The meeting adjourned at 9:40 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, June 15, 2016, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems