

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

MINUTES
JOINT MEETING
NOVEMBER 18, 2015 – 9:36 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. Thomas VanderPloeg, Mr. Philip Balkema, Mr. William Butts, Ms. Jane Hofmeyer, and Mr. Elias Lumpkins, Jr. Absent: Mr. J. Patrick Scripps.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Mr. Marlin Pease and Mr. Nicholas Sefchok of Wilshire Associates, Inc., and Ms. Sara VanderWerff, City Comptroller.

Mr. Butts made the motion to excuse the absence of Mr. Scripps. The motion was seconded by Mr. VanderPloeg and carried.

There were no public comments regarding agenda items.

Mr. Butts made the motion to approve the minutes of the Joint meeting of October 21, 2015. The motion was seconded by Mr. Timkovich and carried.

Mr. Pease and Mr. Sefchok presented the quarterly performance report to Trustees. Mr. Pease commented on the changes in leadership at Wilshire by noting that Ms. Julia Bonafede stepped down as President and Mr. Andrew Junkin has been assigned as the new President; he reviewed Mr. Junkin's qualifications. Mr. Balkema asked if this changes has demonstrated any change in the consulting business portion of Wilshire; Mr. Pease stated that this has not impacted their consulting business in a negative way. This move should impact Wilshire positively, as Mr. Junkin's background is in the consulting area. Chairman Hawkins asked if Wilshire has lost any clients as a result of their changes; Mr. Pease stated that with respect to his, Mr. Sefchok's and Mr. Ruscetti's team, they have not lost any clients. Mr. Sefchok noted that there was one client that was lost in the Pittsburgh office earlier in the year, but it is not certain why the client left. There has been one additional client that has left during the year. Mr. Sefchok stated he can provide a list of clients that Wilshire has lost during the past year to Trustees. In a Capital Market update, Mr. Pease noted that the U.S. stock market was down for the quarter, falling 6.91%; this marked the first negative quarter in three years, ending the longest "win" streak since the mid-late nineties. Large cap stocks outperformed smaller shares during the quarter while growth stocks trailed value stocks. Stock markets worldwide were rocked in the third quarter by jitters over the impact of China's economic slowdown on global commerce and central bank policies in multiple world regions. The Euro's recent weakness has boosted the region's exports, and stock valuations are at unusually attractive levels after recent market plunges. Emerging market equities were dragged down by China as well as by the collapse in commodities. China's economic woes sent many investors to the relative safety of U.S. Treasuries. The yield curve flattened with long-term Treasuries outperforming shorter-term issues by a wide margin. The Fed did not raise interest rates in September, but many officials have suggested that rates will be raised by year-end. High yield bonds and emerging market debt saw spreads jump dramatically during the quarter. As of November 13, 2015 YTD, the S&P 500 Index was up 0.1%; the Russell 2000 was down 3.8%; the Wilshire 5000 was down 0.3%; the MSCI ACWI Ex-US was down 5.1%; the Barclays Aggregate was up 0.5%; the Barclays U.S. TIPS Index was down 1.5%; the Bloomberg Commodity

Index was down 14.5%; and the Alerian MLP Index was down 29.0%. 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 09/30/15**

<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	-6.44	-0.61	12.41	13.34	6.80
RUSSELL 2000	-11.92	1.25	11.02	11.73	6.55
NAREIT GLOBAL RE INDEX	-1.63	2.73	6.24	7.54	N/A
MSCI ACWI X-US	-12.17	-12.16	2.34	1.82	3.03
BARCLAYS AGGREGATE	1.23	2.94	1.71	3.10	4.64
DJ UBS COMMODITY INDEX	-14.47	-25.99	N/A	N/A	N/A
91 DAY T-BILLS	0.01	0.03	0.06	0.08	1.33

General Retirement System

Asset Commitments as of 09/30/15:

Domestic Equity	25.4%
Fixed Income	27.0%
Cash Equivalents	0.5%
Real Estate	4.6%
Private Equity	2.1%
Non-U.S. Equity	22.2%
Commodities	3.8%
MLPs	3.9%
TIPS	10.6%

Asset Allocation to Managers:

NTAM	16.2%
PIMCO	2.8%
Wellington Management Company	6.4%
Baird Advisors	13.5%
Western Asset Management	13.4%
Cash Account	0.5%
Neuberger Berman	15.2%
Harding Loevner	7.0%
CBRE Clarion	4.6%
Adams Street Partners	1.4%
Aberdeen Asset Management	0.7%
Wellington Commodities	3.8%
Harvest Fund Advisors	3.9%
Brown Brothers Harriman	10.6%

Quarterly Summary of the General Retirement System

	<u>Market Value</u> <u>09/30/15</u>	<u>Market Value</u> <u>06/30/15</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$385.1 million	\$414.1 million	(\$29.0 million)	-5.87%	84 th percentile
Total U.S. Equity	\$97.8 million	\$108.6 million	(\$10.8 million)	-7.64%	48 th percentile
Total Non-U.S. Equity	\$85.5 million	\$94.7 million	(\$9.2 million)	-9.72%	30 th percentile
Total Fixed Income	\$103.9 million	\$104.5 million	(\$600 thousand)	0.68%	37 th percentile
Total Real Estate	\$17.8 million	\$18.0 million	(\$200 thousand)	-1.36%	81 st percentile
Total Private Equity	\$8.2 million	\$7.6 million	\$600 thousand	8.37%	N/A
Total Commodities	\$14.5 million	\$16.9 million	(\$2.4 million)	-14.02%	N/A
Total MLPs	\$15.0 million	\$19.8 million	(\$4.8 million)	-24.17%	N/A
Total TIPS	\$40.8 million	\$41.3 million	(\$500 thousand)	-1.28%	84 th percentile
NTAM	\$62.4 million	\$69.2 million	(\$6.8 million)	-6.43%	31 st percentile
PIMCO	\$10.8 million	\$12.0 million	(\$1.2 million)	-7.73%	71 st percentile
Wellington Mgmt. Co.	\$24.6 million	\$27.4 million	(\$2.8 million)	-10.55%	53 rd percentile
Neuberger Berman	\$58.5 million	\$64.1 million	(\$5.6 million)	-8.71%	32 nd percentile

Harding Loevner	\$27.1 million	\$30.7 million	(\$3.6 million)	-11.82%	66 th percentile
Baird Advisors	\$52.2 million	\$52.5 million	(\$300 thousand)	1.30%	22 nd percentile
Western Asset Mgmt.	\$51.7 million	\$52.0 million	(\$300 thousand)	0.06%	68 th percentile
CBRE Clarion	\$17.8 million	\$18.0 million	(\$200 thousand)	-1.36%	81 st percentile
Adams Street Partners	\$5.5 million	\$5.0 million	\$500 thousand	46.24%	N/A
Aberdeen Asset Mgmt.	\$2.7 million	\$2.7 million	\$0	3.55%	N/A
Wellington Commodities	\$14.5 million	\$16.9 million	(\$2.4 million)	-14.02%	N/A
Harvest Fund Advisors	\$15.0 million	\$19.8 million	(\$4.8 million)	-24.17%	N/A
Brown Brothers Harriman	\$40.8 million	\$41.3 million	(\$500 thousand)	-1.28%	84 th percentile

Police and Fire Retirement System

Asset Commitments as of 09/30/15:

Domestic Equity	25.5%
Fixed Income	26.9%
Cash Equivalents	0.4%
Real Estate	4.7%
Private Equity	2.2%
Non-U.S. Equity	22.0%
Commodities	3.8%
MLPs	3.9%
TIPS	10.5%

Asset Allocation to Managers:

NTAM	16.2%
PIMCO	2.9%
Wellington Management Company	6.4%
Baird Advisors	13.5%
Western Asset Management	13.4%
Cash Account	0.4%
Neuberger Berman	15.1%
Harding Loevner	7.0%
CBRE Clarion	4.7%
Adams Street Partners	1.4%
Aberdeen Asset Management	0.7%
Wellington Commodities	3.8%
Harvest Fund Advisors	3.9%
Brown Brothers Harriman	10.5%

Quarterly Summary of the Police & Fire Retirement System

	<u>Market Value</u> <u>09/30/15</u>	<u>Market Value</u> <u>06/30/15</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$369.5 million	\$396.1 million	(\$26.6 million)	-5.87%	84 th percentile
Total U.S. Equity	\$94.3 million	\$104.5 million	(\$10.2 million)	-7.65%	48 th percentile
Total Non-U.S. Equity	\$81.4 million	\$90.2 million	(\$8.8 million)	-9.72%	30 th percentile
Total Fixed Income	\$99.5 million	\$100.0 million	(\$500 thousand)	0.66%	37 th percentile
Total Real Estate	\$17.4 million	\$17.7 million	(\$300 thousand)	-1.36%	81 st percentile
Total Private Equity	\$8.2 million	\$7.6 million	\$600 thousand	8.37%	N/A
Total Commodities	\$14.0 million	\$16.2 million	(\$2.2 million)	-14.02%	N/A
Total MLPs	\$14.3 million	\$18.8 million	(\$4.5 million)	-24.17%	N/A
Total TIPS	\$38.8 million	\$39.3 million	(\$500 thousand)	-1.28%	84 th percentile
NTAM	\$59.9 million	\$66.4 million	(\$6.5 million)	-6.43%	31 st percentile
PIMCO	\$10.6 million	\$11.5 million	(\$900 thousand)	-7.72%	71 st percentile
Wellington Mgmt. Co.	\$23.8 million	\$26.6 million	(\$2.8 million)	-10.55%	53 rd percentile
Neuberger Berman	\$55.7 million	\$61.0 million	(\$5.3 million)	-8.71%	32 nd percentile
Harding Loevner	\$25.8 million	\$29.2 million	(\$3.4 million)	-11.83%	66 th percentile
Baird Advisors	\$49.9 million	\$50.1 million	(\$200 thousand)	1.27%	25 th percentile
Western Asset Mgmt.	\$49.6 million	\$49.8 million	(\$200 thousand)	0.06%	68 th percentile
CBRE Clarion	\$17.4 million	\$17.7 million	(\$300 thousand)	-1.36%	81 st percentile
Adams Street Partners	\$5.5 million	\$5.0 million	\$500 thousand	46.25%	N/A
Aberdeen Asset Mgmt.	\$2.7 million	\$2.7 million	\$0	3.55%	N/A
Wellington Commodities	\$14.0 million	\$16.2 million	(\$2.2 million)	-14.02%	N/A

Harvest Fund Advisors	\$14.3 million	\$18.8 million	(\$4.5 million)	-24.17%	N/A
Brown Brothers Harriman	\$38.8 million	\$39.3 million	(\$500 thousand)	-1.28%	84 th percentile

Mr. Sefchok provided a report to Trustees regarding their asset allocation to Master Limited Partnership. (MLPs). {Mr. Michaud left the meeting at 10:16 a.m.} He stated that factors that drive MLP price volatility are: 1) commodity prices; 2) interest rates; 3) supply and demand; and 4) tax code uncertainty. Consolidation is possible due to current challenges associated with raising new equity or debt capital. Midstream MLP correlation to energy pricing is not expected to last as cheap, abundant supply will keep oil prices low, production will shift to the most economically productive areas and Goldman Sachs forecasts estimate full natural gas recovery by 2017 and an increase of 24% by 2020. Although midstream energy assets are operated to minimize exposure to commodity prices, a statistical correlation does exist but broader economic drivers could be moving both markets. The current spread relative to historic BBB-corporate fixed income is attractive but it is uncertain if the MLP distributions are expected to be maintained. He reviewed the Gordon Growth Model as it pertains to determining the intrinsic value of MLPs. Based on this model and a required return of 9.0%, the market is essentially pricing zero growth for the MLP asset class into perpetuity. He noted that it is Wilshire's recommendation that the Retirement Systems rebalance the portfolios to achieve the target allocation for MLPs of 5.0%. They are confident that although this asset class is volatile, it will benefit the Retirement Systems in the long run. Ms. Korzen asked if Trustees are going to rebalance the portfolios, should they bring the commodities portfolios back toward their target percentage; Mr. Sefchok stated that would not be necessary at this time due to the current global economy. Following Trustee discussion, Mr. Tryc made the motion on behalf of the General Retirement System to authorize Ms. Korzen to rebalance the portfolios in December 2015 to bring the asset allocation to the Harvest Fund Advisors MLP portfolio to its target allocation of 5.0%. The motion was seconded by Mr. Timkovich and carried. Mr. VanderPloeg made the motion on behalf of the Police & Fire Retirement System to authorize Ms. Korzen to rebalance the portfolios in December 2015 to bring the asset allocation to the Harvest Fund Advisors MLP portfolio to its target allocation of 5.0%. The motion was seconded by Mr. VanderWall and carried.

Chairman Hawkins commented that he recently reviewed the performance evaluation questionnaires that were completed by Trustees regarding the Executive Director; he noted that nine of ten Trustees completed the questionnaire. He met with Ms. Korzen, Mr. Tryc, and Mr. VanderWall recently to discuss the results of the questionnaires and her self-evaluation. The committee has started the process of developing her goals for 2016. Ms. Korzen signed a three-year contract and that will expire December 31, 2015. The next step will be for the committee and Ms. Korzen to prepare an employment agreement; Chairman Hawkins stated that agreement will be brought to the Trustees at the December 16, 2015 Joint Board meeting so all Trustees can discuss the agreement with Ms. Korzen. He stated that he had Mr. Michaud review the current contract and Mr. Michaud provided some recommendations to change some of the wording.

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

The meeting adjourned at 10:36 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, December 16, 2015, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems