

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

MINUTES
JOINT MEETING
APRIL 1, 2020 – 8:00 a.m.
VIA TELEPHONE CONFERENCE

The electronic meeting was called to order by Chairman Hawkins. Other members present: Mr. Craig VanderWall, Mr. Martin Timkovich, Mr. Philip Balkema, Mr. Bill Butts, Mr. Phillip Mitchell, Ms. Donijo DeJonge, Mr. Nathaniel Moody, and Mr. Robert Veenstra. Absent: Mr. David Tryc.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Mr. Jay Green of Harding Loevner, Mr. Matthew Clark and Ms. Katy Lewis of PIMCO, Mr. David Lindberg and Mr. Calvin Born of Wilshire Associates, Inc.,

There were no public comments regarding agenda items.

Mr. Jay Green, Manager, Institutional Business Development, of Harding Loevner (HL) presented his firm's annual report to Trustees. Mr. Green reviewed HL's organizational team and noted that HL has 43 investment professionals and the International Equity Portfolio management team averages 13 years at HL. Total assets under management as of December 31, 2019 total \$73.0 billion. He reviewed HL's quality growth statistics as of December 31, 2019 v. the MSCI ACWI ex-US Index as well as their total returns by quality and growth rank. Mr. Green provided a summary on both portfolios and noted the following return statistics for the portfolios as of December 31, 2019 and February 29, 2020:

December 31, 2019

	<u>3 Mo.</u>	<u>1 yr.</u>	<u>3 yr.</u>	Since <u>Inception</u>
General Retirement System	9.95%	22.89%	10.89%	6.27%
Police & Fire Retirement System	9.96%	22.92%	10.88%	6.26%
MSCI ACWI ex-US Index	8.99%	22.13%	10.40%	5.54%

February 29, 2020

	<u>3 Mo.</u>	<u>1 yr.</u>	<u>3 yr.</u>	Since <u>Inception</u>
General Retirement System	-8.59%	2.59%	5.44%	4.14%
Police & Fire Retirement System	-8.52%	2.69%	5.46%	4.14%
MSCI ACWI ex-US Index	-10.35%	-0.19%	4.65%	3.04%

*Inception date: April 1, 2015

Mr. Green reviewed the benchmark sectors, region total returns, and performance attribution year-to-date as of December 31, 2019. Portfolio turnover (trailing 5-year average annual) was 16.3%. He compared the portfolio allocation from December 31, 2018 to December 31, 2019. He stated that more than half of their portfolio companies have "cross border" value chains, most generate significant revenues outside their home countries and 2019 was a reversal of 2018. Mr. Green reviewed HL's portfolio profile end-weights, provided position detail for the holdings within the portfolios, various portfolio statistics, and provided background on the best and worst performers. HL's strategy guidelines ensure diversification and limit risk. He noted that HL's analysts search the world for companies that meet their high quality and durable growth criteria, conduct fundamental research, then value and rate their stocks to make them available to portfolio managers for

investment. HL's portfolio decision making structure imposes individual accountability, mitigates biases, and ensures continuity. Mr. Green provided an overview of HL's International Equity ADR portfolio constraints, portfolio statistics, and model portfolio holdings as of December 31, 2019 and reviewed the current volatility in the global marketplace. He provided an update on the COVID-19 crisis and stated that HL is managing their strategy as usual. Year-to-date through March 30, 2020, the HL ADR composite was down 19.2% v. the index, which was down 23.8%. He reviewed some of the positive and negative contributors during the COVID-19 crisis and updated Trustees on HL's responses to the crisis by noting that they are working remotely to ensure a seamless process. HL actually had these plans in place before the crisis. He stated that HL normally communicates through email. He reviewed HL's process for investment and the impacts the crisis has had on the markets. The portfolios are well diversified and HL is confident regarding their investments. He noted that HL is presently focused on four areas: 1) reviewing all portfolio holdings for heightened risk; 2) deploying modest cash reserves into companies they strongly admire; 3) examining their existing holdings for evidence of price dislocations; and 4) divining in ways that companies and individuals may behave differently after the crisis is overcome. The worst sector this year has been energy while the best sector thus far has been healthcare. HL has approximately 52 holdings and they still maintain low turnover. The report was received and filed by Chairman Hawkins.

Mr. Matthew Clark, Senior Vice President, CFA and CAIA, and Ms. Katy Lewis, CFA, of Pacific Investment Management Company (PIMCO), presented their firm's annual report to Trustees. Mr. Clark noted that PIMCO's StocksPLUS strategies were launched in 1986 and as of December 31, 2019, they had \$37 billion in assets under management. PIMCO has been awarded the Equity Asset Class Lipper award five times. Their StocksPlus portfolio seeks to provide a diversifying source of excess returns through their innovative strategy; the product gains passive exposure to the index through futures and total return swaps and they invest in a high-quality, actively managed bond alpha portfolio with meaningful return potential over cash. The bond portfolio is designed to be uncorrelated to equities, highly liquid, high quality, and flexible. He noted that the 4th quarter of 2019 was characterized by record-breaking global equity returns, bolstered by U.S.-China trade progress and improving fundamentals. In addition, a robust sentiment capped off a year of strong returns across markets. Mr. Clark stated that in 2020, PIMCO will be cautious on rates, hold TIPS positions, be selective in credit holdings, and employ tactical currency positioning. The following returns were reported for the period ending December 31, 2019:

	<u>10 yrs.</u>	<u>5 yrs.</u>	<u>3 yrs.</u>	<u>1 yr.</u>	<u>6 mo.</u>	<u>3 mo.</u>	Since <u>09/30/87</u>	Acct. <u>Inception*</u>
StocksPLUS L.P.	14.5%	11.6%	15.5%	32.8%	11.1%	9.2%	10.4%	6.6%
S&P 500	13.6%	11.7%	15.3%	31.5%	10.9%	9.1%	9.8%	6.1%

*Inception date: 09/01/00

Mr. Clark noted that economic optimism in the 4th quarter 2019 drove spread sector outperformance while duration exposure detracted. He reviewed the interest rate, spread sector, and currency strategies that were prevalent in the 4th quarter of 2019. He stated that the portfolio continues to focus on maintaining a very high level of liquidity while holding high quality, "safe spread" assets for generating attractive income and total returns. The StocksPlus portfolio will focus on high quality, liquid sources of return. Mr. Clark provided PIMCO's 2020 cyclical outlook as it pertained to several different countries. He commented that he believes there are seven macro themes for 2020: 1) "time to recession" has increased; 2) "loss given recession" has increased; 3) potential cracks in corporate credit cycle; 4) U.S. housing strength; 5) the world leads, the U.S. lags; 6) inflation: the devil they prefer; and 7) dealing with disruption. PIMCO believes that slower growth in the U.S. will continue in the near term, though easier financial conditions should lead to a modest re-acceleration. With respect to the Eurozone, an improved trade environment and ECB policy should support growth, but uncertainties could limit the extent of the rebound. While growth appears to be stabilizing in China, the need to anchor inflation expectations limits the extent of monetary easing. He noted that while political unrest is an area to watch in select emerging market countries, the macro backdrop continues to improve. Mr. Clark noted that as of December 31, 2019, PIMCO had \$1.91 trillion in assets under management and more than 2,800 total employees, with 815 investment professionals. He reviewed PIMCO's organization, recent changes, and investment philosophy. Ms. Lewis commented that the PIMCO StocksPlus

portfolio was down 1½% in March 2020; however, they did end the first quarter of 2020 on a more positive note. She stated that the environment will create opportunity. PIMCO will remain conservative while they wait for opportunities to arise in the future. She noted that the COVID-19 crisis has been a strong time for the StocksPlus strategy as PIMCO can replicate and invest cheaply in the S&P 500 Index. They will remain cautious on duration; not overweighted or underweighted compared to the index. Ms. Lewis noted that the StocksPlus portfolio remains a high quality and liquid strategy; PIMCO will continue to monitor the crisis and look forward to the continued normalization in the markets to recoup returns. The report was received and filed by Chairman Hawkins.

Mr. David Lindberg and Mr. Calvin Born of Wilshire Associates, Inc. provided attendees with a market update. Mr. Lindberg commented that Wilshire has recently launched a COVID-19 dashboard on their website that provides: 1) daily market returns; 2) frequently asked questions; 3) research papers and market commentary; and 4) a comprehensive timeline of events pertaining to the COVID-19 crisis. He noted that Wilshire is running smoothly and they have a continuity plan in place. He stated that market volatility is near the top of the charts as investor behavior ranges from panic to opportunistic. Mr. Born noted that this too shall pass, and systematic rebalancing is key to achieving long-term returns; market timing is not prudent. They provided a market review as of March 30, 2020 and commented on the Retirement Systems' portfolios estimated performance through March 30, 2020; Wilshire estimates that both portfolios are down 13.0%, year-to-date. Mr. Born commented that the Retirement Systems' diverse investment strategy has helped them weather the crisis better than some other plans. They provided a timeline of market returns during the Coronavirus epidemic thus far and historical market corrections since 1926. Mr. Lindberg stated that there are no concerns with any of the managers at this time and Wilshire will continue to monitor the crisis and the Retirement Systems' investments. He noted that rebalancing may come in to play in the future months, but he will be monitoring that situation with Ms. Korzen and making recommendations to Trustees if necessary.

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

Mr. Timkovich asked if there is a likelihood of the May meetings to be conducted via telephone. Chairman Hawkins stated that may be necessary. He asked Trustees to remain flexible during this difficult time. Ms. Korzen noted that there are not any pressing issues that Trustees need to discuss prior to the May 2020 Board meetings. Mr. Moody asked how the market changes from the COVID-19 crisis may impact the actuarial valuations for the plans. Ms. Korzen commented that there should not be an immediate impact on the contribution rates beginning July 1, 2020, as those rates have already been determined. In addition, both plans have a 5-year smoothing feature, so any impacts from the crisis will be phased in over a 5-year period. Ms. Korzen noted that the Masonic Center is closed; all the Retirement Systems' staff have been working remotely from home. Each staff member has a card access key should she need to retrieve something from the office. The staff have full remote capabilities to continue to work. Chairman Hawkins asked if the connections are secure; Ms. Korzen said yes as the IT person for the Retirement Systems office was consulted before the shut down and he set up the connections. She commented that staff will take turns retrieving the mail periodically from the office.

The meeting adjourned at 9:44 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, May 20, 2020, at 8:10 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems