

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

MINUTES  
JOINT MEETING  
AUGUST 15, 2018 – 8:12 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, Mr. Phillip Mitchell, and Ms. Donijo DeJonge.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Mr. Brian Faleiro, Mr. Michael Savinelli, and Ms. Meaghan Doyle of Neuberger Berman, Mr. Lawrence Fumarolo of The Northern Trust Company, Mr. William “Mac” Nickey of Northern Trust Asset Management, Mr. David Lindberg, Mr. Alex Ford, and Mr. John Patterson of Wilshire Associates, Inc., and Ms. Sara VanderWerff, City Comptroller.

Chairman Hawkins noted that the City appointed City Commissioner Nathaniel Moody to be the new Employer Trustee for the Boards, at last night’s City Commission meeting.

There were no public comments regarding agenda items.

Mr. VanderWall made the motion to approve the minutes of the Joint Meeting of June 20, 2018. The motion was seconded by Mr. Mitchell and carried.

Mr. Brian Faleiro, CFA, Senior Vice President and Portfolio Specialist, Mr. Michael Savinelli, Vice President and Client Advisor, and Ms. Meaghan Doyle, Vice President and Client Service Advisor of Neuberger Berman (NB) presented their firm’s annual report to Trustees. Ms. Doyle provided an update to Trustees on the transition from the NB fund portfolio to the CIT portfolio. She stated the transition took place on 07/18/18 and all went well. The transition was done primarily to gain additional exposure to the emerging markets sector and to reduce fees. Mr. Savinelli provided an overview of the firm and noted that NB has 586 investment professionals; is 100% independently, employee owned; has approximately \$3 billion total assets under management; and 93% of clients’ assets are managed by lead portfolio managers who have 20+ years of industry experience. Mr. Faleiro reviewed the global equity team structure and noted that NB has an experienced team that utilizes a differentiated approach and consistent process to assist in risk management. He commented that NB’s investment philosophy is a disciplined fundamental process to capitalize on international opportunities. Mr. Faleiro noted that NB starts with a wide universe that focuses on quality at a reasonable price. Then they determine industry and business drivers to identify high quality undervalued companies and utilize broad guidelines to help exploit market opportunities. NB employs a six-step continuous process for portfolio management oversight and governance: 1) investment management; 2) monitoring; 3) monitoring/engagement; 4) engagement/involvement; 5) involvement/oversight; and 6) oversight. Ms. Doyle reviewed the retirement systems’ objectives and portfolio guidelines and provided the following return statistics for both portfolios for periods ending June 30, 2018:

## Annualized Returns

	2 <sup>nd</sup> Qtr.						Since
	2018	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Inception
							06/30/06
General Ret. System	-0.68%	-1.62%	8.62%	6.00%	7.49%	3.79%	3.96%
Police & Fire Ret. System	-0.68%	-1.62%	8.62%	6.00%	7.49%	3.82%	3.99%
MSCI ACWI Ex-U.S.	-2.61%	-3.77%	7.28%	5.07%	5.99%	2.54%	3.75%
MSCI EAFE Index	-1.24%	-2.75%	6.84%	4.90%	6.44%	2.84%	3.45%

Mr. Faleiro reviewed the equity fund characteristics, holdings, sector allocations and attribution, market cap allocation, and regional and country attribution for the portfolios. He also reviewed the top 3 contributors and top 3 detractors for the portfolios as of June 30, 2018 and provided an overview on the differences between the NB fund the plans were previously invested in and the NB CIT fund. The report was received and filed by Chairman Hawkins.

Mr. Lawrence Fumarolo, Vice President and Senior Relationship Manager of The Northern Trust Company (NT), presented his firm's annual update to Trustees. Mr. Fumarolo noted that NT has \$8.1 trillion in assets under custody and \$6.1 trillion in assets under administration. He stated that NT has a strong capital position, high quality balance sheet and superior credit ratings. They consistently rank among the premier providers of trust, custody, and private banking services. He reviewed the retirement systems' custody account structures and provided an update on benefit payments and recent enhancements to the program. Mr. Fumarolo commented on the securities lending program with NT and stated that the program is designed to enhance the return of an overall investment program without interfering with the investment strategy. He noted that cumulative net earnings through the program since 2007 were \$851,139 for the General Retirement System and \$781,165 for the Police & Fire Retirement System. Mr. William "Mac" Nickey, Senior Vice President and Senior Investment Relationship Manager of Northern Trust Asset Management (NTAM) presented his firm's annual report to Trustees. Mr. Nickey noted that NTAM has \$1.1 trillion in assets under management as of June 30, 2018; they have locations in 24 countries; and 18,100 global employees. He reviewed NTAM's organization, people, and process. He reviewed the following returns for the period ending June 30, 2018:

	3 mo.	YTD	1 yr.	3 yr.	5 yr.	10 yr.
NT S&P 500 Index Fund	3.43%	2.64%	14.38%	11.97%	13.48%	10.17%
S&P 500	3.43%	2.65%	14.37%	11.93%	13.42%	10.17%

Mr. Nickey reviewed NTAM's lending performance and characteristics statistics as of June 30, 2018. The report was received and filed by Chairman Hawkins.

Mr. David Lindberg, Mr. Alex Ford, and Mr. John Patterson presented the quarterly performance report to Trustees. Mr. Lindberg commented that the U.S. stock market was up 3.8% for the second quarter of 2018 and volatility has returned this year but is approximately in line with long-term historical figures. Trade and tariffs continued to help drive markets this spring as did increased anti-euro sentiment in Italy. Equity markets outside the U.S. produced mixed results while currency had a major effect on U.S. based investors. As global growth slowed and the Federal Reserve adopted a more aggressive stance on interest rates, the U.S. dollar was up approximately 5% versus a basket of currencies. The European Union faces a fresh challenge with political developments in Italy. {Ms. DeJonge left the meeting at 8:50 a.m.} The U.S. Treasury yield curve rose but continued to flatten during the quarter. The FOMC decided to increase its overnight rate by 25 basis points in June to range of 1.75% to 2.00% and credit spreads widened during the quarter. Mr. Lindberg provided Trustees with Wilshire's June 2018 asset class assumptions and an extensive update on employment conditions and the U.S. equity market, non-U.S. equity market, U.S. fixed income market, and the high yield bond market. 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 06/30/18**

<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	3.44	14.38	11.93	13.42	10.17
RUSSELL 2000	7.75	17.57	10.96	12.46	10.60
NAREIT GLOBAL RE INDEX	5.12	5.64	5.71	5.97	N/A
MSCI ACWI X-US	-2.61	7.28	5.07	5.99	2.54
BLOOMBERG AGGREGATE	-0.16	-0.40	1.72	2.27	3.72
BLOOMBERG COMMODITY	0.40	7.35	-4.54	-6.40	N/A
91 DAY T-BILLS	0.46	1.36	0.68	0.42	0.35

**General Retirement System**

Asset Commitments as of 06/30/18:

Domestic Equity	24.6%
Fixed Income	24.7%
Cash Equivalents	0.1%
Real Estate	4.9%
Private Equity	4.1%
Non-U.S. Equity	22.7%
Commodities	4.4%
MLPs	5.0%
TIPS	9.4%

Asset Allocation to Managers:

NTAM	15.4%
PIMCO	2.8%
Wellington Management Company	6.4%
Baird Advisors	12.3%
Western Asset Management	12.4%
Cash Account	0.1%
Neuberger Berman	15.1%
Harding Loevner	7.6%
CBRE Clarion	4.9%
Adams Street Partners	3.0%
Aberdeen Asset Management	1.2%
Wellington Commodities	4.4%
Harvest Fund Advisors	5.0%
Brown Brothers Harriman	9.4%

**Police and Fire Retirement System**

Asset Commitments as of 06/30/18:

Domestic Equity	25.1%
Fixed Income	24.3%
Cash Equivalents	0.1%
Real Estate	4.7%
Private Equity	4.1%
Non-U.S. Equity	23.5%
Commodities	4.3%
MLPs	4.9%
TIPS	9.1%

Asset Allocation to Managers:

NTAM	15.8%
PIMCO	2.9%
Wellington Management Company	6.4%
Baird Advisors	12.1%
Western Asset Management	12.2%
Cash Account	0.1%
Neuberger Berman	15.5%
Harding Loevner	8.0%
CBRE Clarion	4.7%
Adams Street Partners	2.9%
Aberdeen Asset Management	1.2%
Wellington Commodities	4.3%
Harvest Fund Advisors	4.9%
Brown Brothers Harriman	9.1%

The report was received and filed by the Chairman. {Ms. Dejonge re-entered the meeting at 9:33 a.m.}

Mr. Lindberg, Mr. Ford, and Mr. Patterson next provided Trustees with an update on the asset allocation process. Mr. Lindberg reviewed the summary of changes of the proposed policy: 1) it reduces core equity exposure (cap-weighted) by 9.5% and introduces global low volatility equity at 10%; 2) it introduces a new allocation to private credit at 5% and keeps the existing 5% allocation to private equity; 3) it reduces the allocation to TIPS from 10% to 5%; 4) the expected return improves over 10, 20, and 30 year horizons while the risk level remains unchanged; 5) the risk balance remains consistent with approximately 82% of asset volatility coming from growth exposure; and 6) improved diversification within the growth exposure reduces the drawdown risk relative to the current policy. Mr. Patterson commented that on-site visits were conducted with two private credit managers last week. He stated that the remaining issues for Trustees to address are: 1) approve the new asset allocation policy; 2) following the result of the on-site visits to the private credit managers, determine the dollar allocation to private credit manager(s); 3) establish a timeline for low volatility equity manager search, manager interviews and site visits; and 4) update the investment policy statement for both plans and approve the changes at the next available Board meeting.

Chairman Hawkins next addressed the recent due diligence visit to 50 South Capital Advisors and Grosvenor Capital Management. He noted that the visit was conducted by himself, Mr. Timkovich, Ms. Korzen, and Mr. Patterson of Wilshire Associates. Mr. Timkovich provided Trustees with a report on their observations of Grosvenor and Ms. Korzen provided Trustees with a report on their observations of 50 South Capital. They were impressed with both firms and recommended approving an overall 5% allocation to them per Wilshire's recent asset allocation study. Following Trustee discussion, Mr. Timkovich made the motion on behalf of the General Retirement System to approve a 5% allocation to private credit managers Grosvenor Capital Management and 50 South Capital Advisors, subject to legal review and successful contract negotiations. The motion was seconded by Mr. Tryc and carried. Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to approve a 5% asset allocation to private credit managers Grosvenor Capital Management and 50 South Capital Advisors, subject to legal review and successful contract negotiations. The motion was seconded by Mr. VanderWall and carried. Mr. Patterson commented that based upon the characteristics of each firm, it is Wilshire's recommendation that Grosvenor Capital Management be considered the anchor in this asset allocation receiving two-thirds of the allocation and 50 South Capital Advisors receiving one-third of the allocation. Mr. Timkovich made the motion on behalf of the General Retirement System to approve two-thirds of the 5% asset allocation to private credit to Grosvenor Capital Management and one-third of the 5% asset allocation to private credit to 50 South Capital Advisors. The motion was seconded by Mr. Tryc and carried. Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to approve two-thirds of the 5% asset allocation to private credit to Grosvenor Capital Management and one-third of the 5% asset allocation to private credit to 50 South Capital Advisors. The motion was seconded by Mr. VanderWall and carried. Mr. Ford commented that Wilshire will provide Trustees with an educational report and search document on the low volatility asset class at the November 2018 Joint Board meeting.

Ms. Korzen next addressed a proposal by Rehmann Robson to extend the auditing services contract for an additional three years with both plans. The first audit for the Police & Fire Retirement System would be December 31, 2018 and the first audit for the General Retirement System would be June 30, 2019. The fee quote per system is \$15,900 for the first year, \$16,400 for the second year and \$16,900 for the third year. Mr. Mitchell asked if these services were bid out to firms; Ms. Korzen stated that last time the auditing services were bid out and that per the service vendor policy in place, the auditing services would be set up for an RFP once this contract expires. Following Trustee discussion, Mr. Timkovich made the motion on behalf of the General Retirement System to extend the contract with Rehmann Robson for a three-year auditing period as outlined in their proposal. The motion was seconded by Mr. Tryc and carried. Mr. VanderWall made the motion on behalf of the Police & Fire Retirement

System to extend the contract with Rehmann Robson for a three-year auditing period as outlined in their proposal. The motion was seconded by Mr. Balkema and carried.

Board approval was requested for attendance at the following conference: Baird Institutional Investors Conference to be held September 9 - 10 by Chairman Hawkins, Mr. VanderWall, Mr. Tryc, Mr. Mitchell, and Mr. Butts; Mr. VanderWall made the motion to approve attendance of the Baird Institutional Investors Conference by Trustees and staff per the Trustee Training, Educational Development and Due Diligence policy. The motion was seconded by Mr. Timkovich and carried. Board approval was requested for attendance at the following conference: Fall MAPERS Conference to be held September 23 - 25 by Chairman Hawkins, Ms. Korzen, Mr. Timkovich, Mr. VanderWall, and Mr. Tryc. Mr. Balkema made the motion to approve attendance of the Fall MAPERS Conference by Trustees and staff per the Trustee Training, Educational Development and Due Diligence policy. The motion was seconded by Mr. Mitchell and carried. Mr. Balkema noted that Mr. David Allen had repaid his airfare expense to the Retirement Systems for the 2018 Annual NCPERS Conference as he was not eligible to attend.

There were no comments on items not on the agenda.

Chairman Hawkins commented that he recently sent the performance evaluation questionnaires to Trustees regarding the Executive Director; he noted that one of nine Trustees completed the questionnaire. He requested that Trustees complete the questionnaire at their earliest convenience as Ms. Korzen's current contract will expire December 31, 2018.

Chairman Hawkins disclosed that a number of Trustees attended a dinner last evening with Mr. Faleiro, Mr. Savinelli and Ms. Doyle. In addition to himself, in attendance were Mr. & Mrs. Mitchell, Mr. & Mrs. VanderWall, Mr. & Mrs. Butts, Mr. & Mrs. Timkovich, Mr. Tryc, and Ms. Korzen. {Mr. Mitchell left the meeting at 10:04 a.m.}

The Executive Director commented on the renovations being done to the office. She noted that the furniture in the office has not been updated for at least 20 years and is not ergonomically correct for staff. She presented Trustees with a quote from West Michigan Office Interiors to update some of the furniture in the office; the quote was for \$6,800.00. In addition, Ms. Korzen stated she spoke to an interior designer who is willing to update the trim in the office for a total cost of \$500.00. She requested approval for these updates. Following Trustee discussion, Mr. Balkema made the motion to approve the requested updates to the furniture and trim not to exceed \$8,000.00. The motion was seconded by Mr. Timkovich and carried. Ms. Korzen stated that West Michigan Office Interiors also provided a quote to reupholster the Board chairs, however, Trustees can decide at a later date if they wish to pursue this option.

The meeting adjourned at 10:09 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, September 19, 2018, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen  
Executive Director  
General and Police & Fire Retirement Systems

08/15/18