

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

MINUTES
JOINT MEETING
AUGUST 21, 2019 – 8:06 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. Philip Balkema, Mr. William Butts, Mr. Phillip Mitchell, Ms. Donijo DeJonge, Mr. Nathaniel Moody, and Mr. Robert Veenstra.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Mr. Brian Faleiro, Mr. Michael of Neuberger Berman, Mr. Mark Roman and Mr. Thomas Rowland of Grosvenor Capital Management, Mr. Alex Ford, of Wilshire Associates, Inc., and Mr. John Globensky, City Treasurer.

There were no public comments regarding agenda items.

Mr. Tryc made the motion to approve the minutes of the Joint Meeting of June 19, 2019. The motion was seconded by Mr. Mitchell and carried.

Mr. Brian Faleiro, CFA, Senior Vice President and Portfolio Specialist and Mr. Michael Savinelli, Vice President and Client Advisor of Neuberger Berman (NB) presented their firm’s annual report to Trustees. Mr. Savinelli provided an overview of the firm, noting that NB: has 600 investment professionals; is 100% independently, employee owned; has approximately \$3 billion total assets under management; and 99% 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, focusing on quality at a reasonable price. They consider mid-to-large cap companies in any market, in any sector. NB analysts determine industry and business drivers to identify high quality, undervalued companies, as they are the most compelling. 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. Mr. Savinelli reviewed the retirement systems’ objectives and portfolio guidelines and provided the following return statistics for both portfolios for periods ending July 31, 2019:

Annualized Returns – Net of Fees

| | <u>YTD</u> | <u>1 Yr.</u> | Since Inception of the Fund <u>07/20/18 – 07/31/19</u> |
|----------------------------------|------------|--------------|--|
| NB World ex-U.S. Trust Class III | 14.67% | -2.10% | -2.22% |
| MSCI AC World Ex-U.S. Index | 12.22% | -2.27% | -0.33% |

Mr. Faleiro provided NB's international equity outlook for 2019 and stated that NB believes that global monetary policy will be more dovish, supporting equity valuations; a solid economy in the U.S. could drive revenues, but wage increases could undermine profit growth; and with respect to Europe, pockets of political risk remain and sentiment is at a low. He commented that in the U.K., multinationals are supported by the weaker sterling, Japan has a lackluster domestic economy, but niche exporters can offer exposure to secular growth themes, and in China, government stimulus could maintain economic growth despite weaker exports. He stated the NB will try to maintain the following positioning views: 1) overweight IT and service-oriented Industrial sectors; 2) no real estate and limited utilities exposure, underweight materials as well as China and Canada; 3) global multinationals offer the highest quality exposure to emerging markets; and 4) focus on companies they believe have dominant positions in growth markets. Mr. Savinelli reviewed the equity fund characteristics, holdings, sector allocations and attribution, market cap allocation, and regional and country attribution for the portfolios. The report was received and filed by Chairman Hawkins.

Mr. Mark Roman, Managing Director and Mr. Thomas Rowland, Managing Director of Grosvenor Capital Management (GCM), presented their firm's annual update to Trustees. Mr. Roman noted that GCM has \$56.2 billion in assets under management, of which, \$27.1 billion is in hedge fund strategies. He noted that GCM began investing in 1971, they have 491 employees and 153 investment professionals. Mr. Rowland stated the opportunistic credit investments tend to be idiosyncratic in nature, often driven by a catalyst or process-oriented situation; GCM seeks to capture illiquidity premiums associated with "capital vacuums" that they believe exist for intermediate-term opportunities. He commented that opportunistic credit investments seek to complement traditional fixed income allocations, enhance investment returns and increase total portfolio diversification. Mr. Roman reviewed GCM's Opportunistic Credit Fund V and provided objectives and constraints on the fund as well as statistical data. He provided an overview of key exposure themes: 1) loan portfolios and regulatory capital; 2) emerging markets stressed and distressed credit; 3) developed markets stressed and distressed credit; 4) direct corporate lending/specialty lending; 5) direct commercial real estate lending; 6) litigation-related financing and investments; 7) mortgage credit; 8) structured credit; and 9) long/short credit. Mr. Rowland provided the following returns for the period ending June 30, 2019:

| | GCM Opp. CF V | Credit Suisse Distressed Loan Index | HFRI Event Driven: Dist./Restructure Index | Credit Suisse Lev. Loan Index |
|-----------------------|------------------|--|---|----------------------------------|
| 2016 (2 months) | 1.60% | 4.50% | 4.23% | 1.47% |
| 2017 | 5.81% | 2.22% | 6.25% | 4.26% |
| 2018 | 2.37% | 1.63% | -1.70% | 1.14% |
| 2019 (YTD – 6 months) | 3.74% | 3.30% | 5.03% | 5.42% |
| Since 11/2016: | | | | |
| Cumulative Return | 14.17% | 12.15% | 14.33% | 12.80% |
| Annualized Return | 5.10% | 4.39% | 5.15% | 4.62% |

Mr. Roman provided an up and down market analysis regarding the GCM Opportunistic Fund V versus various market indices and noted that the top performers in the portfolio were U.S. and European loan portfolios, U.S. and European corporate, real estate, and specialty lending, and U.S. and European corporate credit. The bottom performers were distressed U.S. energy and short-biased corporate credit. Ms. Korzen commented that she recently received a letter from GCM stating that Trustees need to decide if they wish to take the year-end distribution of 5% of the portfolios as of December 31, 2018 or have the funds reinvested. Mr. Roman explained the concept of the distribution. Mr. Ford commented that it is Wilshire's recommendation that Trustees have the funds reinvested as the cash flow needs for the Systems are presently being met through other means. Following Trustee discussion, Mr. Timkovich made the motion on behalf of the General Retirement System to have GCM reinvest the 5% year-end

distribution from December 31, 2018. The motion was seconded by Mr. Tryc and carried. Mr. VanderWall made the motion on behalf of the Police & Fire Retirement System to have GCM reinvest the 5% year-end distribution from December 31, 2018. The motion was seconded by Mr. Balkema and carried. The report was received and filed by Chairman Hawkins.

Mr. Alex Ford presented the quarterly performance report to Trustees. Mr. Ford commented that the U.S. stock market was up 4.0% for the second quarter of 2019 and 18.66% for the year; this marks the strongest first half-year for U.S. equities in 24 years. Markets have been quite volatile this year as trade concerns and a possible global economic slowdown continue to sway the markets. The Fed left the rate unchanged during 2019 and are forecasting no changes for the second half of the year. The open market however is currently far more aggressive on monetary policy and expects two or three 0.25% reductions. Equity markets outside the U.S. continue to enjoy a strong 2019. Indicators out of Europe are still gloomy as recent data show that the manufacturing sector in Germany has weakened. Consumption and capital spending in Japan showed little or no growth. Trade negotiations between the U.S. and China, the world's two largest economies, continue with both countries maintaining firm stances before the G20. The U.S. Treasury yield curve fell across all maturities during the quarter. The FOMC left its overnight rate unchanged during the quarter at a range of 2.25% to 2.50%. Mr. Ford provided Trustees with Wilshire's June 2019 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 06/30/19**

| <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 | 4.30 | 10.42 | 14.19 | 10.71 | 14.70 |
| RUSSELL 2000 | 2.10 | -3.31 | 12.30 | 7.06 | 13.45 |
| NAREIT GLOBAL RE INDEX | -0.07 | 7.68 | 4.46 | 4.85 | 10.57 |
| MSCI ACWI X-US | 2.98 | 1.29 | 9.38 | 2.16 | 6.54 |
| BLOOMBERG AGGREGATE | 3.08 | 7.87 | 2.31 | 2.95 | 3.90 |
| BLOOMBERG COMMODITY | -1.19 | -6.75 | -2.18 | -9.15 | N/A |

General Retirement System

Asset Commitments as of 06/30/19:

| | |
|-----------------------|-------|
| Domestic Equity | 18.0% |
| Fixed Income | 25.3% |
| Cash Equivalents | 0.8% |
| Real Estate | 5.0% |
| Private Equity | 5.1% |
| Non-U.S. Equity | 17.7% |
| Commodities | 4.5% |
| MLPs | 4.9% |
| TIPS | 6.8% |
| Global Low Volatility | 9.5% |
| Private Credit | 2.5% |

Asset Allocation to Managers:

| | |
|-------------------------------|-------|
| NTAM | 11.7% |
| PIMCO | 2.1% |
| Wellington Management Company | 4.4% |
| Baird Advisors | 12.5% |
| Western Asset Management | 12.6% |
| Cash Account | 0.8% |
| Neuberger Berman | 9.0% |
| Harding Loevner | 8.8% |
| CBRE Clarion | 5.1% |
| Adams Street Partners | 3.9% |
| Aberdeen Asset Management | 1.4% |
| Wellington Commodities | 4.3% |
| Harvest Fund Advisors | 4.9% |
| Brown Brothers Harriman | 7.3% |
| BlackRock | 9.6% |

| | |
|------------------------------|------|
| Grosvenor Capital Management | 2.1% |
| 50 South Capital | 0.4% |

Police and Fire Retirement System

| <u>Asset Commitments as of 06/30/19:</u> | | <u>Asset Allocation to Managers:</u> | |
|--|-------|--------------------------------------|-------|
| Domestic Equity | 18.0% | NTAM | 11.7% |
| Fixed Income | 25.3% | PIMCO | 2.0% |
| Cash Equivalents | 0.8% | Wellington Management Company | 4.4% |
| Real Estate | 5.0% | Baird Advisors | 12.6% |
| Private Equity | 5.1% | Western Asset Management | 12.9% |
| Non-U.S. Equity | 17.7% | Cash Account | 0.8% |
| Commodities | 4.5% | Neuberger Berman | 9.0% |
| MLPs | 4.9% | Harding Loevner | 8.8% |
| TIPS | 6.7% | CBRE Clarion | 5.1% |
| Global Low Volatility | 9.5% | Adams Street Partners | 3.9% |
| Private Credit | 2.5% | Aberdeen Asset Management | 1.3% |
| | | Wellington Commodities | 4.5% |
| | | Harvest Fund Advisors | 4.9% |
| | | Brown Brothers Harriman | 6.8% |
| | | BlackRock | 9.6% |
| | | Grosvenor Capital Management | 2.0% |
| | | 50 South Capital | 0.4% |

Mr. Ford commented that Trustees may soon wish to rebalance the small cap equity allocation to Wellington Management as the allocation is overweight and the small cap sector is underperforming large cap stocks. Mr. Ford noted that Trustees should consider another allocation to Private Equity according to the pacing model that Wilshire previously provided. He stated that Adams Street Partners will be making their annual presentation to Trustees at the September 2019 Joint Board meeting and they can speak to their new product they will likely have available by the end of this year. Mr. Ford will also provide Trustees with an updated pacing model report at that meeting. Mr. Timkovich asked how the contract with CenterSquare is progressing; Ms. Korzen stated that it is almost finalized and requested that Trustees make a motion to hire CenterSquare so that when it is completed, the account can be opened. Mr. Tryc made the motion on behalf of the General Retirement System to terminate CBRE Clarion and hire CenterSquare Investment Management. The motion was seconded by Mr. Butts and carried. Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to terminate CBRE Clarion and hire CenterSquare Investment Management. The motion was seconded by Mr. VanderWall and carried. The report was received and filed by the Chairman.

Board approval was requested for attendance at the following conferences: Baird Institutional Investors Conference to be held September 8 - 9 by Chairman Hawkins, Mr. VanderWall, Mr. Tryc, Mr. Mitchell, Mr. Butts, Mr. Moody, Mr. Veenstra, and Ms. Korzen; the Fall MAPERS Conference to be held September 22 - 24 by Chairman Hawkins, Ms. Korzen, Mr. Tryc, Mr. VanderWall, Mr. Moody, Mr. Veenstra, and Ms. Balkema; the 50 South Capital Annual Investor Conference to be held October 29 by Chairman Hawkins and Mr. Mitchell; and the 2019 NCPERS Public Safety Conference to be held October 26 - 30 by Mr. VanderWall. Mr. Tryc made the motion to approve attendance of the aforementioned conferences by Trustees and staff per the Trustee Training, Educational Development and Due Diligence policy. The motion was seconded by Mr. Moody and carried.

There were no comments on items not on the agenda.

Ms. Korzen commented that the custody RFP was recently sent to five custodial banks; she received three responses: 1) Northern Trust; 2) Wells Fargo; and 3) U.S. Bank. She stated that the committee will be looking at the responses received and will be making a recommendation to Trustees at the September 2019 Joint Board meeting.

Chairman Hawkins commented that he, Mr. Moody and Ms. Korzen recently conducted a due diligence visit to Baird Advisors. They met with staff and reviewed their processes, operations and compliance. They were very pleased with Baird Advisors.

Chairman Hawkins noted that he recently emailed Trustees the evaluation for the Executive Director and asked for their responses by August 31, 2019.

Chairman Hawkins disclosed that a number of Trustees attended a dinner last evening with Mr. Faleiro and Mr. Savinelli. In addition to himself and his spouse, in attendance were Mr. & Mrs. Mitchell, Mr. & Mrs. Butts, Mr. & Mrs. Timkovich, and Mr. & Mrs. Tryc.

The meeting adjourned at 9:29 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, September 18, 2019, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems