

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

MINUTES
JOINT MEETING
FEBRUARY 21, 2018 – 8:13 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. Bill Butts, Mr. Phillip Mitchell, Ms. Donijo DeJonge, and Mr. David Allen. Absent: Mr. Thomas VanderPloeg.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Aaron Castle, Legal Advisor to the Boards, Mr. David Lindberg and Mr. Alex Ford of Wilshire Associates, Inc., Mr. Matthew DiNallo and Mr. Peter Lawrence of Aberdeen Standard Investments, Ms. Veronica Amici and Mr. Travis Carr of Western Asset Management, and Mr. Jim Anderson of Gabriel, Roeder, Smith and Company.

Chairman Hawkins introduced new Board members: Ms. Donijo DeJonge and Mr. David Allen and welcomed them to the Board.

There were no public comments regarding agenda items.

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

Mr. Tryc made the motion to approve the minutes of the Joint Meetings of November 15, 2017, December 20, 2017, and January 17, 2018. The motion was seconded by Mr. Butts and carried.

Mr. Matthew DiNallo, CFA and Client Relationship Manager and Mr. Peter Lawrence, Strategic Director-Alternatives, of Aberdeen Standard Investments (Aberdeen) presented their firm's annual report to Trustees. Mr. Lawrence noted that Aberdeen is a global asset management company listed on the London Stock Exchange, has 50 offices across the world, and has over 1,000 investment professionals worldwide. Aberdeen has a multi-asset product range that spans traditional balanced to outcome-oriented strategies. Aberdeen has approximately \$753.0 billion in assets under management. Mr. Lawrence reviewed Aberdeen's organization, people, and process. He provided Trustees with an overview of the Aberdeen Global Partners I, L.P. structure and noted that they offer a single solution providing access to a global portfolio of the "best in class" private capital managers while providing administrative ease. He reviewed their different products and the characteristics of each: 1) Aberdeen U.S. Private Equity V; 2) Aberdeen International Partners III; and 3) Aberdeen Venture Partners VIII. Mr. DiNallo noted that Aberdeen Global Partners is 100% committed and of that, 88% has been called. He stated that they have 63 active manager commitments and 12 co-investments. Mr. Lawrence reviewed the geographic and industry diversification, portfolio trends, investment stage, and valuation status for the Aberdeen Global Partners I portfolio. He also commented on Aberdeen's current fund manager commitments and underlying portfolio characteristics and provided a portfolio update and various statistical data. The report was received and filed by Chairman Hawkins.

Ms. Veronica Amici, Head of Public/Multi-Employer Relationships and Mr. Travis Carr, Product Specialist and CFA of Western Asset Management (WAM) presented their firm's annual report to Trustees. Ms. Amici provided Trustees with an update of WAM and noted that as of December 31, 2017 WAM has 129 investment professionals on five continents and seven offices and \$442.2 billion in global assets under management. She reviewed their firm's investment management team, investment philosophy and process and provided a business update on the firm; WAM employs a long-term, fundamental value discipline and multiple

diversified strategies. Ms. Amici reviewed the risk strategies that WAM employs for the portfolios by noting that they believe integrating risk management into portfolio construction and in the independent review of portfolio risks strengthens its effectiveness. Mr. Carr reviewed WAM's attribution statistics, investment results, sector exposure, and portfolio positioning v. the Bloomberg Barclays U.S. Aggregate Index. Mr. Carr provided a market review by noting that the fundamental backdrop in 2018 is exceptional, but prices are high. Global growth and inflation are improving from subdued levels, U.S. growth and inflation are being aided by fiscal stimulus, and emerging markets should provide superior performance. He stated that there is optimism that global growth can finally pick up and perhaps be sustainable; however, longer-term growth prospects face challenging secular headwinds, most importantly, high global debt loads. It is WAM's opinion that low inflation will persist and will take some time to achieve the Fed's 2% target. The Fed will continue to raise short-term rates but longer-term rates will remain anchored due to subdued inflation. U.S. rates remain attractive from a global perspective. Central banks are signaling their future paths towards normalization but the subdued inflation backdrop allows global central bank policy to remain accommodative, despite Fed hikes, which will continue to underpin developed markets' rates. Mr. Carr stated that thoughtful sector and issue selection will continue to be crucial given tight valuations. WAM will continue to avoid the underperformers. He commented that the biggest risks to their outlook and portfolios are: 1) geopolitical events; 2) a rise in protectionism; 3) higher than expected inflation; and 4) global weakness. Mr. Carr reviewed the attribution statistics, sector and credit sector exposures and portfolio positioning and provided the following return statistics for both portfolios as of December 31, 2017:

	<u>1 Yr.</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>10 Yrs.</u>	<u>Since Inception*</u>
General Retirement System	6.8%	4.3%	4.1%	6.2%	5.8%
Police & Fire Retirement System	6.8%	4.3%	4.1%	6.1%	5.7%
Bloomberg Barclays U.S. Agg. Index	3.5%	2.2%	2.1%	4.0%	4.3%

*April 30, 2004

The report was received and filed by Chairman Hawkins.

Mr. David Lindberg and Mr. Alex Ford presented the quarterly performance report to Trustees. Mr. Lindberg commented that the U.S. stock market was up 6.4% for the fourth quarter of 2017 and there was a relative lack of volatility for the year. Businesses seem to be gaining confidence in the global economy and have been increasing spending on equipment while growing inventories during the quarter. Strong retail sales during the fourth quarter helped raise expectations for economic growth during the final quarter in 2017. Equity markets outside the U.S. produced strong returns during the fourth quarter of 2017, in both developed and emerging markets. Emerging markets led all global equities during 2017 and produced their second consecutive positive annual gain. The U.S. Treasury yield curve continued to flatten during the quarter with short to intermediate term rates rising and long-term yields falling. The Federal Open Market Committee decided to increase its overnight rate by 25 basis points in December and credit spreads continued to tighten during the quarter. Mr. Lindberg provided Trustees with Wilshire's December 2017 asset class assumptions, an economic review, and an extensive update on the U.S. equity market, non-U.S. equity market, U.S. fixed income market, and private equity market. Mr. Ford commented that the new CIT product with Neuberger Berman is progressing and in the final stages of legal review. 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 12/31/17

<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	6.64	21.83	11.41	15.79	8.49
RUSSELL 2000	3.34	14.65	9.96	14.12	8.71

FTSE EPRA/NAREIT	3.60	10.36	4.44	6.32	N/A
MSCI ACWI X-US	5.00	27.19	7.83	6.80	1.84
BLOOMBERG AGGREGATE	0.39	3.54	2.24	2.10	4.01
BLOOMBERG COMMODITY	4.71	1.70	-5.03	N/A	N/A
91 DAY T-BILLS	0.28	0.85	0.41	0.27	0.39

General Retirement System

<u>Asset Commitments as of 12/31/17:</u>		<u>Asset Allocation to Managers:</u>	
Domestic Equity	24.9%	NTAM	15.5%
Fixed Income	24.3%	PIMCO	2.7%
Cash Equivalents	0.3%	Wellington Management Company	6.7%
Real Estate	4.8%	Baird Advisors	11.9%
Private Equity	3.4%	Western Asset Management	12.4%
Non-U.S. Equity	23.9%	Cash Account	0.3%
Commodities	4.3%	Neuberger Berman	15.9%
MLPs	4.7%	Harding Loevner	8.0%
TIPS	9.2%	CBRE Clarion	4.8%
		Adams Street Partners	2.4%
		Aberdeen Asset Management	1.1%
		Wellington Commodities	4.3%
		Harvest Fund Advisors	4.7%
		Brown Brothers Harriman	9.2%

Police and Fire Retirement System

<u>Asset Commitments as of 12/31/17:</u>		<u>Asset Allocation to Managers:</u>	
Domestic Equity	25.3%	NTAM	15.6%
Fixed Income	23.7%	PIMCO	2.8%
Cash Equivalents	0.7%	Wellington Management Company	6.9%
Real Estate	4.7%	Baird Advisors	11.4%
Private Equity	3.4%	Western Asset Management	12.3%
Non-U.S. Equity	24.3%	Cash Account	0.7%
Commodities	4.2%	Neuberger Berman	16.0%
MLPs	4.7%	Harding Loevner	8.3%
TIPS	9.0%	CBRE Clarion	4.7%
		Adams Street Partners	2.4%
		Aberdeen Asset Management	1.1%
		Wellington Commodities	4.2%
		Harvest Fund Advisors	4.7%
		Brown Brothers Harriman	9.0%

The reports were received and filed by Chairman Hawkins.

Mr. Lindberg and Mr. Ford next presented a report to Trustees pertaining to asset allocation. Mr. Ford commented that based on the Systems' future needs, it is Wilshire's opinion that Trustees consider increasing the expected return and reduce the expected risk profile of the plans by reallocating among the current asset classes through: 1) reducing public equity (both U.S. and non-U.S.) exposure; 2) optimizing the real assets portfolio to be more return seeking while still guarding against inflation; and 3) diversifying growth exposure to include differentiated sources of return. He stated Wilshire's recommendation to consider introducing an allocation to the following asset classes to improve the long-term return and risk profile: 1) low volatility equities; 2) private credit; and 3) high yield bonds. Mr. Lindberg reviewed Wilshire's investment process as well as their views on risk by noting that Wilshire employs six risk lenses: 1) drawdown; 2) inflation; 3) liquidity; 4) active; 5) behavioral; and 6) shortfall. He provided Trustees with three different portfolio models based on 5%, 10% and 15% max illiquidity. Mr. Ford reviewed Wilshire's Capital Market assumptions and

commented that Wilshire's asset class return, risk, and correlation assumptions are developed based on 10-year forward looking expectations, adjusted to incorporate recent trends. Expanded portfolio models were provided in the report for Trustees' review. Mr. Lindberg discussed private credit market opportunities by providing an overview on the strategy as well as various historical statistics. The key risks involved in private credit markets are: 1) credit risk; 2) illiquidity; 3) interest rate risk; 4) manager selection; 5) macro-economic/cyclicality; and 6) regulatory issues. Mr. Ford explained the concept of low volatility equities and noted that they are comprised of diversified securities constructed with the objective of achieving minimum variance. He reviewed the characteristics and benefits and provided an historical overview of the asset class. {Mr. VanderWall left the meeting at 10:43 a.m.} Mr. Lindberg stated that Trustees do not need to make a decision today as Wilshire will be presenting this information again along with an asset liability report at the March 2018 Joint Board meeting.

Mr. Jim Anderson of Gabriel, Roeder, Smith and Company (GRS) next presented a report regarding investment return assumptions. Mr. Anderson noted that it is GRS' opinion that the current 7.25% investment return assumption remains reasonable for use in the December 31, 2017 Police & Fire Retirement System actuarial valuation and the June 30, 2018 General Retirement System actuarial valuation; however, it may be prudent for Trustees to consider decreasing this assumption by 10 basis points or more. Mr. Anderson reviewed GRS' analysis and commented that four of the investment firms in their analysis provided expectations over a 20-30 year period and four provided expectations over a 5-10 year period. Based on a long-term inflation expectation of 2.50%, the average nominal return expectation was 7.36% over 20+ years, and 6.64% over a 10-year period. The overall average nominal return for all eight of the investment consultants used in their analysis was 7.05%. He stated that Wilshire provided a long-term (30 year) return expectation of 7.2% along with a 10-year return expectation of 6.1%. The long-term forecast was 7.3% last year. He noted that if the shorter-term forecast is realized, higher computed employer contributions than currently anticipated will result and little or no progress will be made toward increasing the funded ratios for the two Retirement Systems. The relatively long amortization periods currently in effect also contribute to the funded ratio impact. Mr. Anderson stated that the current investment return assumption is reasonable; however, GRS is suggesting that consideration be given to lowering this assumption by at least 0.10% for the valuations performed during 2018, consistent with the change in the long-term Wilshire forecast. He stated that this issue will be revisited each year. Ms. Korzen stated that since a quorum does not exist for the Police & Fire Retirement System, if those Trustees wish to make a change in the investment return assumptions, perhaps they could indicate their desire to Mr. Anderson today so GRS can proceed with the current actuarial valuation, and then make a formal motion at the March 2018 Joint Board meeting. Mr. Balkema stated his desire to lower the investment return assumption for the Police & Fire Retirement System by 10 basis points. Mr. Mitchell asked what the impact might be on the funding status for both plans if a 10 basis point reduction in the investment return assumption is implemented; Mr. Anderson stated it would be approximately 1% in the General Retirement System and 1.5% in the Police & Fire Retirement System. Mr. Timkovich voiced his concern regarding lowering the investment return assumption due to the long amortization period. Mr. Anderson did note that the 30-year amortization is a layered period. Trustees for the General Retirement System decided to table this issue until the March 2018 Joint Board meeting.

Ms. Korzen presented Trustees with the Due Diligence schedule for 2018. She stated that the goal is to visit each manager once per year. Chairman Hawkins asked Trustees to coordinate with Ms. Korzen which managers they would be able to visit this year.

Board approval was requested for attendance at the following conferences: MAPERS One Day Seminar to be held March 2nd by Mr. VanderWall, Ms. DeJonge, and Ms. Korzen; and the 2018 Annual NCPERS Conference to be held May 12 – 16 by Mr. VanderPloeg, Mr. Mitchell, and Mr. Allen. Mr. Tryc made the motion on behalf of the General Retirement System 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. Timkovich and carried.

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

Ms. Korzen noted that Wilshire had recently recommended a rebalance in both Retirement System portfolios; the rebalancing was \$7.2 million in the General Retirement System and \$9.15 million in the Police & Fire Retirement System. The bulk of the transfers took place before the end of the fourth quarter and the piece from Wellington Management's small cap accounts took place at the beginning of January, as this is a monthly fund.

Mr. Aaron Castle noted that the proposed contract regarding the CIT product from Neuberger Berman (NB) is mostly worked out and they are very close to getting the contractual documentation finalized. He stated that since Grand Rapids will be the seed investors in the product, they want to make sure to limit exposure to potential expenses. Mr. Castle also noted that at the end of last year, Governor Snyder passed into law Public Act 202, Protecting Local Government Retirement and Benefits Act. He stated this is more of a reporting mandate requiring additional reporting by municipalities throughout the state. He stated that the majority of this reporting will be the responsibility of the City. The reporting relates to financial statements, the retirement systems, and actuarial reports. This new act requires that plans are required to have an actuarial experience study done at least once every five years and plans are required now to either conduct a peer review of their actuary or replace their actuary every eight years. Ms. Korzen noted that the Retirement Systems may need to have the peer review conducted every four years instead of every five years, alternating retirement systems every four years. {Mr. Balkema and Mr. Allen left the meeting at 11:10 a.m.}

Ms. Korzen commented that the Code of Conduct policy requires that Trustees and staff complete an annual disclosure statement; Ms. Balkema provided Trustees with the form. Ms. Korzen stated that the forms are due by the March 21, 2018 Board meetings. A list of the Retirement Systems' internal accounting controls was also provided to Trustees.

The meeting adjourned at 11:11 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, March 21, 2018, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems