

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

MINUTES
JOINT MEETING
FEBRUARY 20, 2019 – 8:05 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. Bill Butts, Mr. Phillip Mitchell, Ms. Donijo DeJonge, and Mr. Nathaniel Moody.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. David Lindberg and Mr. Alex Ford of Wilshire Associates, Inc., 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.

There were no public comments regarding agenda items.

Mr. Tryc made the motion to approve the minutes of the Joint Meeting of January 16, 2019. The motion was seconded by Mr. Balkema and carried.

Mr. Peter Lawrence, Co-Head of Global Venture Capital of Aberdeen Standard Investments (Aberdeen) presented his firm's annual report to Trustees. Mr. Lawrence noted that Aberdeen is a global asset management company listed on the London Stock Exchange and has over 1,000 investment professionals worldwide across 51 locations. Aberdeen has a multi-asset product range that spans traditional balanced to outcome-oriented strategies. Aberdeen has approximately \$735.5 billion in assets under management. Aberdeen's Private Equity division has a strong history of outperformance and in 2018 had \$17.0 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. Mr. Lawrence noted that Aberdeen Global Partners is 100% committed and of that, 97% 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, 2018 WAM has 129 investment professionals on five continents and seven offices and \$429.1 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 there was nowhere to hide in 2018 as all spread sectors generated negative excess returns. As for 2019, global growth has downshifted but should remain sturdy, U.S. growth and inflation should moderate, and the Central Bank policy normalization will slow to a crawl. He also stated

that trade policy poses substantial risks and emerging markets, though volatile, should outperform. They expect that the Fed will eventually adopt a “wait and see” strategy. Ms. Amici stated that spread-widening in late 2018 has created a better entry point versus a year ago; opportunities are appearing in the banking, metals, and energy sectors. 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, 2018:

	<u>1 Yr.</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>10 Yrs.</u>	<u>Since Inception*</u>
General Retirement System	-1.0%	3.8%	4.0%	8.0%	5.3%
Police & Fire Retirement System	-1.0%	3.8%	4.0%	8.0%	5.3%
Bloomberg Barclays U.S. Agg. Index	0.0%	2.1%	2.5%	3.5%	4.0%

*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 down 14.3% for the fourth quarter of 2018; this marked the worst quarter for U.S. equities since 2011 and the first down year since the credit crisis sell-off of 2008. The yield curve ended 2018 with a very unusual shape; some fear that it could be enough to slow the economy. Equity markets outside the U.S. suffered during the quarter, although they generally outperformed U.S. equity. The U.S. Treasury yield curve fell across most maturities with the 10-year Treasury yield at 2.69%, down 37 basis points. The Federal Open Market Committee decided to increase its overnight rate by 25 basis points but adjusted downward their forecast for future rates. Mr. Lindberg provided Trustees with Wilshire’s December 2018 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. VanderWall left at 9:33 a.m.} 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 12/31/18

<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	-13.52	-4.38	9.26	8.50	13.12
RUSSELL 2000	-20.20	-11.01	7.36	4.41	11.97
FTSE EPRA/NAREIT	-5.69	-5.63	2.72	4.34	N/A
MSCI ACWI X-US	-11.46	-14.20	4.48	0.68	6.57
BLOOMBERG AGGREGATE	1.64	0.01	2.06	2.52	3.48
BLOOMBERG COMMODITY	-9.41	-11.25	0.30	-8.80	N/A
91 DAY T-BILLS	0.57	1.88	1.02	0.63	0.37

General Retirement System

Asset Commitments as of 12/31/18:

Domestic Equity	22.4%
Fixed Income	27.4%
Cash Equivalents	0.2%
Real Estate	5.0%
Private Equity	5.3%
Non-U.S. Equity	20.8%
Commodities	4.2%
MLPs	4.4%
TIPS	8.3%

Asset Allocation to Managers:

NTAM	14.1%
PIMCO	2.6%
Wellington Management Company	5.8%
Baird Advisors	13.6%
Western Asset Management	13.8%
Cash Account	0.2%
Neuberger Berman	13.7%
Harding Loevner	7.1%
CBRE Clarion	5.0%

Private Credit	1.9%	Adams Street Partners	4.1%
		Aberdeen Asset Management	1.4%
		Wellington Commodities	4.2%
		Harvest Fund Advisors	4.4%
		Brown Brothers Harriman	8.3%
		Grosvenor Capital Management	1.6%
		50 South Capital	0.2%

Police and Fire Retirement System

<u>Asset Commitments as of 12/31/18:</u>		<u>Asset Allocation to Managers:</u>	
Domestic Equity	23.0%	NTAM	14.3%
Fixed Income	26.8%	PIMCO	2.8%
Cash Equivalents	0.2%	Wellington Management Company	5.9%
Real Estate	4.8%	Baird Advisors	13.4%
Private Equity	5.3%	Western Asset Management	13.4%
Non-U.S. Equity	21.7%	Cash Account	0.2%
Commodities	4.1%	Neuberger Berman	14.1%
MLPs	4.5%	Harding Loevner	7.5%
TIPS	7.9%	CBRE Clarion	4.8%
Private Credit	1.8%	Adams Street Partners	4.1%
		Aberdeen Asset Management	1.4%
		Wellington Commodities	4.1%
		Harvest Fund Advisors	4.5%
		Brown Brothers Harriman	7.9%
		Grosvenor Capital Management	1.6%
		50 South Capital	0.2%

Mr. Lindberg commented that Wilshire will be preparing a search document for suitable candidates for the Real Estate allocation due to the continued poor performance by CBRE Clarion. He will present the report to Trustees at the March Joint Board meeting. The reports were received and filed by Chairman Hawkins.

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 7.15% investment return assumption remains reasonable for use in the December 31, 2018 Police & Fire Retirement System actuarial valuation and the June 30, 2019 General Retirement System actuarial valuation; however, it may be prudent for Trustees to consider decreasing this assumption by 15 basis points or more. The range between the expected arithmetic and geometric return was between 6.08% and 6.71% when using a 5-10 year time horizon. He stated that Wilshire provided a long-term (30 year) return expectation of 7.57% along with a 10-year return expectation of 6.85%. These returns were 7.40% and 6.26% respectively in 2018. 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 0.15% for the Police & Fire valuation for December 31, 2018 and the General valuation for June 30, 2019, consistent with the change in the long-term Wilshire forecast. He stated that this issue will be revisited each year. Mr. Anderson commented that under Public Act 202 of the State of Michigan, Michigan municipalities are required to report liabilities under new uniform assumption guidelines. While the current guidelines are currently only for reporting purposes (and not funding), City governments will be encouraged to use these new assumptions for funding. The recommendations include the following: 1) investment return no higher than 7.0%; 2) assumed wage inflation no lower than 3.5%; 3) mortality assumption that uses a version of the RP-2014 table; and 4) amortization period no longer than 20 years for pension plans and 30 years for retiree health plans. He stated that the current valuation investment assumptions and amortization periods (set in Statute and not under Board control) used

by the Systems do not match or fall in the range of uniform assumptions currently established by the Treasurer for P.A. 202 reporting purposes. He reiterated that the current investment return assumption is reasonable; however, the investment return assumptions should reflect the objectives of the two Boards. Choosing an assumption that tends towards the 10-year return expectation increases the chance of improving the funded ratio in the near term. Mr. Anderson commented that since the General Retirement System plan has been closed now for more than seven years, projected cash flows of the System 15 years in the future show that benefits paid from investment earnings start to approach 10% of projected assets. GRS recommends that the Board reviews with Wilshire Associates if there will be a need to alter the investment strategy. Mr. Timkovich stated his desire to lower the investment return assumption for the General Retirement System by 15 basis points. Trustees discussed potential impacts on funding status for both plans if a reduction in the investment return assumption is implemented. Following Trustee discussion, Mr. Butts made the motion on behalf of the General Retirement System to lower the investment return assumption from 7.15% to 7.00%. The motion was seconded by Timkovich and carried. Mr. VanderPloeg voiced his opinion that he does not feel that it is necessary at this time to lower the investment return assumption for the Police & Fire Retirement System; Trustees agreed to keep the investment return assumption for the Police & Fire Retirement System at 7.15%.

Ms. Korzen next presented the due diligence visit schedule for 2019 and asked Trustees to consider volunteering to conduct the necessary visits to the various managers; Trustees agreed and confirmed that the visits should be conducted by at least two Trustees to ensure the visits are completed properly.

Board approval was requested for attendance at the following conferences: the Wilshire 2019 Client Conference to be held March 24 – 26 by Chairman Hawkins, Mr. Tryc, Mr. VanderPloeg, Mr. Butts, and Mr. Timkovich; the 2019 MAPERS Spring Conference to be held May 18 – 21 by Chairman Hawkins, Mr. Tryc, Mr. VanderWall, Mr. Timkovich, Ms. Korzen and Ms. Williams; and the 2019 Annual NCPERS Conference to be held May 18 – 22 by Chairman Hawkins, Mr. Tryc, Mr. VanderWall, and Ms. DeJonge. Mr. Timkovich made the motion to approve attendance of the aforementioned conferences by the tentative list of Trustees and staff listed above per the Trustee Training, Educational Development and Due Diligence policy. The motion was seconded by Mr. Balkema and carried.

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

Chairman Hawkins noted that the National Conference on Public Employee Retirement Systems (NCPERS) recently presented both retirement systems with an award recognizing them for their excellence in transparency and openness to the public.

The meeting adjourned at 10:35 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, March 20, 2019, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems