

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

MINUTES
JOINT MEETING
FEBRUARY 19, 2020 – 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. Philip Balkema, Mr. Bill Butts, Mr. Phillip Mitchell, Ms. Donijo DeJonge, and Mr. Robert Veenstra. Absent: Mr. Nathaniel Moody.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. David Lindberg and Mr. Calvin Born of Wilshire Associates, Inc., Ms. Anna Koscielecka of Aberdeen Standard Investments, and Mr. Kevin Gore and Mr. Douglas Wade of Western Asset Management.

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

There were no public comments regarding agenda items.

Mr. Tryc made the motion to approve the minutes of the Joint Meeting of January 15, 2020. The motion was seconded by Mr. Balkema and carried.

Mr. Kevin Gore, Client Service Executive, and Mr. Douglas Wade, Product Specialist, and CFA, of Western Asset Management (WAM) presented their firm's annual report to Trustees. Mr. Gore provided Trustees with an update of WAM and noted that as of December 31, 2019 WAM has 130 investment professionals on five continents and seven offices, with \$460.1 billion in global assets under management. Mr. Gore noted that Franklin Templeton recently bought Legg Mason; the sale should be complete by 3rd quarter 2020. He noted that Franklin Templeton wanted to add WAM to their business and that this collaboration with Franklin Templeton will give Legg Mason additional stability and retail exposure. There will be no changes to the WAM team or processes. He 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. Mr. Wade 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. Gore reviewed WAM's attribution statistics, investment results, sector exposure, and portfolio positioning v. the Bloomberg Barclays U.S. Aggregate Index. Mr. Wade provided a market outlook for 2020 by noting that downside risks have receded, global growth should improve, U.S. and global inflation rates will continue to be subdued, the Central bank's focus on core inflation outcomes suggests "low for long", spread products should outperform government bonds, selectivity in credit will be key, and emerging markets, though volatile, should outperform meaningfully. With respect to China's growth, policy actions are likely enough to mitigate cyclical slowing. The U.S. economy remains solid on the back of good consumer fundamentals. He stated that opportunities are still available in investment grade and high-yield corporate credit. Mr. Gore 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, 2019:

| | <u>1 Yr.</u> | <u>3 Yrs.</u> | <u>5 Yrs.</u> | <u>10 Yrs.</u> | <u>Since Inception*</u> |
|------------------------------------|--------------|---------------|---------------|----------------|-------------------------|
| General Retirement System | 12.6% | 6.0% | 4.8% | 6.3% | 5.8% |
| Police & Fire Retirement System | 12.6% | 6.0% | 4.8% | 6.3% | 5.7% |
| Bloomberg Barclays U.S. Agg. Index | 8.7% | 4.0% | 3.0% | 3.7% | 4.3% |

*April 30, 2004

The report was received and filed by Chairman Hawkins.

Ms. Anna Koscielecka, Manager, of Aberdeen Standard Investments (Aberdeen) presented her firm's annual report to Trustees. Ms. Koscielecka noted that Aberdeen is a global asset management company listed on the London Stock Exchange and has over 1,000 investment professionals worldwide across 41 locations. Aberdeen has a multi-asset product range that spans private equity, private credit, venture capital, infrastructure, and real assets strategies. Aberdeen has approximately \$669.1 billion in assets under management. Aberdeen has 50 investment professionals globally and has a distinct focus on least efficient segments of private markets, offering tailored solutions via commingled funds and segregated mandates. Ms. Koscielecka reviewed Aberdeen's organization, people, and process. She provided an overview of U.S. venture capital trends by noting that companies are staying private longer, mega-financings are driving invested capital totals, and late stage mega-financings have impacted the valuation environment. She reviewed the recent U.S., EU, and Asian venture capital environment and performance. She commented on Aberdeen's approach to navigating today's environment and stated that innovation in venture capital abounds. Ms. Koscielecka provided an overview on U.S. buyout activity, recent performance, and U.S. industry dynamics. She commented on European investment activity and returns. She 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. Ms. Koscielecka noted that Aberdeen Global Partners is 100% committed and of that, 99% has been called. She stated that they have 68 fund commitments and 12 co-investments. She reviewed the geographic and industry diversification, portfolio trends, investment stage, and valuation status for the Aberdeen Global Partners I portfolio. She 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.

Mr. David Lindberg and Mr. Calvin Born presented the quarterly performance report to Trustees. Mr. Lindberg commented that the U.S. stock market was up 9.1% for the fourth quarter of 2019 and 31.0% for the full year. This marks the strongest year for U.S. equities since 2013. International equities also produced double-digit returns. U.S. core bonds were even more remarkable with returns not seen since 2002. The yield curve is no longer inverted, so there is some reward for taking duration risk. News out of Britain is mixed with notable economic weakness in the manufacturing and service sectors. Consumer sentiment surveys are improving after a fourth quarter election resulted in strong support for a pro-Brexit government. Japan experienced its fourth consecutive quarter of expansion during 2019 and China benefited from good news on the trade front although the country's economic growth has cooled to near 30-year lows. The U.S. Treasury yield curve fell in the short portion of the curve but rose across intermediate and long-term maturities. The Federal Open Market Committee decreased its overnight rate by 25 basis points and committee members are nearly unanimous about not changing rates at all during 2020. Mr. Lindberg provided Trustees with Wilshire's December 2019 asset class assumptions, an economic review, and extensive updates on the U.S. equity market, non-U.S. equity market, U.S. fixed income market, and private equity 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 RETURNS
PERIODS ENDED 12/31/19**

| <u>Plan</u> | <u>QTR.</u> | <u>1 YEAR</u> | <u>3 YEARS</u> | <u>5 YEARS</u> | <u>10 YEARS</u> |
|--|-------------|---------------|----------------|----------------|-----------------|
| General Retirement System | 4.35 | 18.43 | 8.41 | 5.88 | 8.50 |
| Policy Index | 3.65 | 16.68 | 7.49 | 5.07 | 7.11 |
| Police & Fire Retirement System | 4.32 | 18.49 | 8.36 | 5.85 | 8.49 |
| Policy Index | 3.65 | 16.68 | 7.49 | 5.07 | 7.11 |

General Retirement System

| <u>Asset Commitments as of 12/31/19:</u> | | <u>Asset Allocation to Managers:</u> | |
|--|-------|--------------------------------------|-------|
| Domestic Equity | 18.6% | NTAM | 11.9% |
| Fixed Income | 23.9% | PIMCO | 2.2% |
| Real Estate | 5.1% | Wellington Management Company | 4.6% |
| Private Equity | 5.2% | Baird Advisors | 11.9% |
| Non-U.S. Equity | 18.5% | Western Asset Management | 12.1% |
| Commodities | 4.2% | Neuberger Berman | 9.6% |
| MLPs | 4.4% | Harding Loevner | 9.4% |
| TIPS | 5.6% | CenterSquare Investment Management | 5.1% |
| Private Credit | 4.1% | Adams Street Partners | 3.9% |
| Global Low Volatility | 9.8% | Aberdeen Asset Management | 1.3% |
| | | Wellington Commodities | 4.3% |
| | | Harvest Fund Advisors | 4.4% |
| | | Brown Brothers Harriman | 5.6% |
| | | Grosvenor Capital Management | 3.4% |
| | | 50 South Capital | 0.8% |
| | | BlackRock | 9.9% |

Police and Fire Retirement System

| <u>Asset Commitments as of 12/31/19:</u> | | <u>Asset Allocation to Managers:</u> | |
|--|-------|--------------------------------------|-------|
| Domestic Equity | 18.6% | NTAM | 12.0% |
| Fixed Income | 24.4% | PIMCO | 2.1% |
| Real Estate | 5.0% | Wellington Management Company | 4.6% |
| Private Equity | 5.1% | Baird Advisors | 12.2% |
| Non-U.S. Equity | 18.6% | Western Asset Management | 12.4% |
| Commodities | 4.4% | Neuberger Berman | 9.6% |
| MLPs | 4.4% | Harding Loevner | 9.1% |
| TIPS | 5.1% | CenterSquare Investment Management | 5.1% |
| Private Credit | 4.0% | Adams Street Partners | 3.8% |
| Global Low Volatility | 9.7% | Aberdeen Asset Management | 1.3% |
| | | Wellington Commodities | 4.5% |
| | | Harvest Fund Advisors | 4.5% |
| | | Brown Brothers Harriman | 5.1% |
| | | Grosvenor Capital Management | 3.3% |
| | | 50 South Capital | 0.8% |
| | | BlackRock | 9.8% |

The reports were received and filed by Chairman Hawkins.

Mr. Lindberg and Mr. Born presented Trustees with a report on the U.S. Equity Structure. Mr. Born stated that the current asset allocation target to U.S. equity is 17.75% in both plans and the existing underlying investment structure includes a 25% target allocation to small cap stocks. For the past several years large cap stocks have continued to outperform small cap stocks. Small cap stocks represent just 7% to 8% of the total

U.S. equity market. Wilshire recommends that Trustees consider revisiting the investment structure to reduce the existing overweight to small cap stocks to 15% to be more in line with market cap weights; large cap stocks would be 85%. Mr. Lindberg stated that with the current allocation to small cap stocks it is harder to get paid for this risk. Mr. Lindberg commented that if this is what Trustees wish, then it may be prudent to consider delaying this implementation until market conditions become more favorable and consider dollar-cost averaging the implementation over the next 1-1.5 years, which will help avoid market timing. This type of reduction would be approximately \$7-\$8 million per Wellington small cap portfolio. He reviewed Wilshire's assumptions during this process and provided information on the efficient frontier and style analysis. Mr. Butts voiced his concern that he was uncomfortable with reducing the exposure to small cap stocks as Wellington has been a very strong performer for the Retirement Systems. Mr. Lindberg understood his concerns but noted that if the small cap weight was reduced to be more in line with market cap weights it would be done very carefully and over several months. Ms. Korzen commented that this could be accomplished through cash account needs; Mr. Lindberg agreed. Mr. Lindberg commented that if the small cap weight was reduced, most of the funding could go to the PIMCO account, thus the allocation to PIMCO would be approximately 20%, Wellington small cap would be 15% and NTAM would be 65%. He stated that the main reason for reducing the existing overweight to small cap stocks was for the long-term benefits it would provide. Mr. Butts stated he would like additional time to consider this recommendation; Trustees agreed. This issue will be discussed further at the May 20, 2020 Joint Board meeting.

Mr. Lindberg and Mr. Born next presented Trustees with revised Investment Policy Statements for both the General and Police & Fire Retirement Systems incorporating the changes Trustees requested. Mr. Lindberg reviewed some of the changes to the new investment policy statement: 1) asset class structure; 2) investment and total fund objectives; 3) benchmarks; and 4) risk v. excess return levels. He noted that Trustees are not managing the total fund relative to inflation so the reference to CPI was removed. Mr. Lindberg stated that since the issue of the U.S. equity structure was tabled to the May Board meeting, it would be prudent to table this issue until then as well; Trustees agreed.

Ms. Korzen next presented the due diligence visit schedule for 2020 and asked Trustees to consider volunteering to conduct the desired visits to the various managers. Chairman Hawkins asked Trustees who would be willing to conduct due diligence visits this year; Chairman Hawkins, Mr. VanderWall, Mr. Tryc, Mr. Timkovich, Mr. Butts, and Mr. Mitchell stated they would be willing to do so and will coordinate their availability with Ms. Korzen.

Updated Board approval was requested for attendance at the following conference: the 2020 MAPERS One Day Seminar to be held March 6 by Mr. Tryc, Ms. DeJonge and Ms. Korzen. Mr. Butts made the motion to approve the updated attendance of the aforementioned conference by the Trustees and staff listed above per the Trustee Training, Educational Development and Due Diligence policy. The motion was seconded by Mr. VanderWall and carried.

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

The meeting adjourned at 10:18 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, March 18, 2020, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems

02/19/20