

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

MINUTES
JOINT MEETING
MARCH 15, 2017 – 8:06 a.m.
233 East Fulton

The meeting was called to order by Chairman Michael Hawkins. Other members present: Mr. David Tryc, Mr. Craig VanderWall, Mr. Martin Timkovich, Mr. Thomas VanderPloeg, Mr. Philip Balkema, Mr. William Butts, Mr. Jon O’Connor, and Mr. Phillip Mitchell. Absent: Ms. Jane Hofmeyer.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Ms. Kristin Burke (via telephone) of Harding Loevner, Mr. R. Matthew Clark of PIMCO, Mr. Alex Ford of Wilshire Associates, Inc. and Ms. Elizabeth White, Deputy City Attorney.

Mr. Tryc made the motion to excuse the absence of Ms. Hofmeyer. The motion was seconded by Mr. O’Connor and carried.

There were no public comments regarding agenda items.

Mr. VanderPloeg made the motion to approve the minutes of the Joint Meeting of February 15, 2017. The motion was seconded by Mr. Timkovich and carried.

Mr. R. Matthew Clark, CFA and Senior Vice President of Pacific Investment Management Company (PIMCO), presented his firm’s annual report to Trustees. Mr. Clark noted that PIMCO’s StockPLUS product strategy utilizes equity linked instruments such as futures as they typically provide market exposure at low, money-market cost. The money-market cost of equity exposure provides attractive outperformance opportunity through structural advantage. PIMCO seeks to enhance returns with active bond management and the yield advantage over cash equivalents provides potential and a consistent tailwind for generating excess returns. StocksPLUS aims to outperform the market by transporting extra return from independent, structurally-based sources. Mr. Clark noted that as of December 31, 2016, PIMCO had \$1.47 trillion in assets under management, has 12 offices across five continents, and over 2,220 total employees. He reviewed PIMCO’s organization and recent changes. The following returns were reported for the period ending December 31, 2016:

	<u>10 yrs.</u>	<u>5 yrs.</u>	<u>3 yrs.</u>	<u>1 yr.</u>	<u>6 mo.</u>	<u>3 mo.</u>	Since <u>09/30/87</u>	Acct. <u>Inception*</u>
StocksPLUS L.P.	7.7%	15.9%	8.7%	12.7%	8.3%	3.9%	9.9%	5.0%
S&P 500	7.0%	14.7%	8.9%	12.0%	7.8%	3.8%	9.3%	4.4%

*Inception date: 09/01/00

Mr. Clark noted that in the 4th quarter of 2016, bonds sold off and most risk assets (outside emerging markets) rallied in the wake of the Trump victory. Equity markets churned higher as rising global inflation expectations contributed to an abrupt sector rotation. He stated that traditional growth sectors lagged in the 4th quarter of 2016, while cyclical sectors outperformed. Mr. Clark commented that PIMCO expected growth to continue at a moderate pace, keeping the Fed on track to raise rates in 2016, and they believed that continued global monetary policy divergence would create opportunities across asset classes. The market reaction to Mr. Trump’s victory was surprising as most markets focused on the pro-growth and inflationary

potential of fiscal stimulus as many risk assets rallied while inflation expectations and yields rose. Central banks appeared to decelerate the extent of policy accommodation; the Fed raised rates for just the second time in a decade but with a hawkish tilt. The ECB announced an extension to its QE program, but at a tapered rate. He provided a performance review of the PIMCO StocksPLUS product. He stated that PIMCO's strategic outlook includes: 1) deriving opportunities from divergent growth and continued central bank accommodation; 2) current positioning to reflect the fund's broad opportunity set and diversified approach; and 3) taking advantage of opportunities to capture high quality sources of structural yield while they persist. Mr. Clark provided Trustees with PIMCO's 2017 cyclical outlook by noting that the U.S. has a bullish sentiment, but uncertainty remains and fundamentals and policy expectations both suggest higher inflation, potentially warranting a steeper path for Fed rate hikes. The Eurozone expected to have low growth susceptible to political risks as monetary policy reaches limits and in Japan, a steeper yield curve and weaker currency indicate some success for the Bank of Japan. He continued by noting that with respect to emerging markets, trade and Fed policy will dictate the impact and in China, despite steady growth, capital outflows and risks from credit-heavy support bear watching. The report was received and filed by Chairman Hawkins.

Ms. Kristin Burke, Manager, of Harding Loevner (HL) presented her firm's annual report to Trustees. Ms. Burke reviewed HL's organizational team and noted that HL has 35 investment professionals and the International Equity Portfolio management team averages 13 years at HL. Total assets under management as of December 31, 2016 total \$45.0 billion. She reviewed HL's quality growth statistics as of December 31, 2016 v. the MSCI ACW ex-US Index as well as their total returns by quality and growth rank. Ms. Burke provided a summary on both portfolios and noted the following return statistics for the portfolios as of December 31, 2016:

	Last <u>Qtr.</u>	<u>1 yr.</u>	Since <u>Inception</u>
General Retirement System	-4.01%	4.09%	-1.18%
Police & Fire Retirement System	-4.00%	4.04%	-1.21%
MSCI ACWI ex-US Index	-1.20%	5.01%	-2.27%

*Inception date: April 1, 2015

Ms. Burke reviewed the benchmark sectors, region total returns, and performance attribution year to date as of December 31 2016. Portfolio turnover (trailing 5-year average annual) was 15.0%. She compared the portfolio allocation from December 31, 2015 to December 31, 2016. She also reviewed portfolio profile end weights, provided position detail for the holdings within the portfolios, various portfolio statistics, and provided background on the best and worst performers. HL strives for above-market investment returns without additional volatility. Ms. Burke noted that HL's tracking error v. the benchmark is low relative to their peer active managers and they narrow the investable universe in stages according to their insights about industries and companies, before considering stock prices. Their investment process is a four-step process: 1) qualification; 2) in-depth research; 3) valuation and rating; and 4) portfolio construction and risk management. She provided an overview of HL's International Equity ADR portfolio constraints, portfolio statistics, and model portfolio holdings as of December 31, 2016. Ms. Burke reviewed the current volatility in the global marketplace. The report was received and filed by Chairman Hawkins.

Ms. Korzen commented that she recently read an article in the Wall Street Journal that Aberdeen Asset Management will be merging with Standard Life. She stated that she emailed our contact at Aberdeen, Mr. Geoff LeMieux, and asked him for more information on this issue. He stated that Aberdeen sent a notice out to its clients last Monday regarding the merger and that he was not at liberty to discuss much regarding the merger as it has not been finalized yet. Mr. Ford stated that Wilshire does not have a lot of information on this merger either yet and that they were waiting for an opinion from their research group hopefully later this week. He stated he will forward this information to Ms. Korzen and Trustees as soon as it becomes available.

Ms. Elizabeth White, Deputy City Attorney, next addressed the Board to provide training on the Open Meetings Act (OMA) and Freedom of Information Act (FOIA). She stated as part of an outreach by the City Attorney's office, they are holding training sessions with each City Board and Commission regarding OMA and FOIA. She provided a handout and copy of OMA and reviewed key definitions, a summary of the act, what is permissible and not permissible under the act. Ms. White also provided Trustees with a handout regarding FOIA and reviewed key definitions, key takeaways for Board members and exceptions to FOIA. Ms. White also shared with Trustees City Commission Policy 100-06, which establishes a process for elected officials and appointees to disclose any potential conflicts of interest.

Board approval was requested for attendance at the following conferences: Wilshire Client Conference to be held April 30 – May 2 by: Mr. Tryc, Mr. VanderWall and Chairman Hawkins; and the 2017 Spring MAPERS Conference to be held May 21 – 23 by: Chairman Hawkins, Mr. Mitchell, Mr. Timkovich, Mr. Tryc, Mr. VanderPloeg, Mr. VanderWall, Ms. Korzen, and Ms. Balkema. Mr. VanderPloeg 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. Butts and carried.

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

The meeting adjourned at 9:48 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, May 17, 2017, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems