

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

MINUTES
JOINT MEETING
MARCH 20, 2019 – 8:10 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. Philip Balkema, Mr. William Butts, Mr. Phillip Mitchell, and Ms. Donijo DeJonge. Absent: Mr. Nathaniel Moody and Mr. Thomas VanderPloeg.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Mr. Jay Green of Harding Loevner, Mr. Matthew Clark and Mr. Kevin Dunne of PIMCO, Mr. Jared Goldman and Ms. Allison Hanson of ExamWorks, Inc., and Mr. Alex Ford of Wilshire Associates, Inc.

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

There were no public comments regarding agenda items.

Mr. Timkovich made the motion to approve the minutes of the Joint Meeting of February 20, 2019. The motion was seconded by Mr. Tryc and carried.

Mr. Jay Green, Manager, Institutional Business Development, of Harding Loevner (HL) presented his firm's annual report to Trustees. Mr. Green reviewed HL's organizational team and noted that HL has 41 investment professionals and the International Equity Portfolio management team averages 13 years at HL. {Mr. Butts arrived at 8:13 a.m.} Total assets under management as of December 31, 2018 total \$58.0 billion. He reviewed HL's quality growth statistics as of December 31, 2018 v. the MSCI ACW ex-US Index as well as their total returns by quality and growth rank. Mr. Green provided a summary on both portfolios and noted the following return statistics for the portfolios as of December 31, 2018:

	<u>3 Mo.</u>	<u>1 yr.</u>	<u>3 yr.</u>	<u>Since Inception</u>
General Retirement System	-15.13%	-14.00%	4.91%	2.24%
Police & Fire Retirement System	-15.13%	-14.01%	4.89%	2.22%
MSCI ACWI ex-US Index	-11.41%	-13.78%	4.97%	1.52%

*Inception date: April 1, 2015

Mr. Green reviewed the benchmark sectors, region total returns, and performance attribution year-to-date as of December 31, 2018. Portfolio turnover (trailing 5-year average annual) was 14.1%. He compared the portfolio allocation from December 31, 2017 to December 31, 2018. He stated that low volatility stocks performed the best in the 4th quarter of 2018. Mr. Green 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's strategy guidelines ensure diversification and limit risk. HL strives for above-market investment returns without additional volatility. He noted that HL narrows the investable universe in stages according to their insights about industries and companies, before considering stock prices; their portfolio typically has approximately 55 holdings. HL's portfolio decision-making structure imposes individual accountability, mitigates biases, and ensures continuity. Mr. Green provided an overview of HL's International Equity ADR portfolio constraints, portfolio statistics, and model portfolio holdings as of December 31, 2018 and reviewed the current volatility in the global marketplace. The report was received and filed by Chairman Hawkins.

Mr. Matthew Clark, CFA and CAIA, and Mr. Kevin Dunne, CFA and CAIA, of Pacific Investment Management Company (PIMCO), presented their firm’s annual report to Trustees. Mr. Clark noted that PIMCO’s StocksPLUS product gains passive exposure to the index through futures and total return swaps and they invest in a high-quality, actively managed bond alpha portfolio with meaningful return potential over cash. The bond portfolio is designed to be uncorrelated to equities, highly liquid, high quality, and flexible. He stated that the portfolio seeks to benefit from structural sources of returns inherent in the bond market. StocksPLUS excess returns are designed to be uncorrelated with equity and bond markets and they have a track record of consistent outperformance. The percentage of 5-year S&P 500 outperformance is 96% and the average alpha for the portfolio is 1.28%. Mr. Clark provided a market review and noted that risk aversion and volatility marked the end of 2018, U.S. stocks led a global risk asset sell-off and interest rates declined in the 4th quarter of 2018, and concerns over slowing global growth, diminishing support from central banks, and ongoing trade tensions weighed on global equities. Mr. Dunne commented that PIMCO’s outlook and positioning are: cautious duration exposure; selective corporate credit holdings; high quality securitized bonds; and curve positioning to reduce volatility. The following returns were reported for the period ending December 31, 2018:

	<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.	15.0%	8.3%	9.4%	-5.4%	-7.5%	-14.3%	9.8%	5.3%
S&P 500	13.1%	8.5%	9.3%	-4.4%	-6.9%	-13.5%	9.2%	4.8%

*Inception date: 09/01/00

Mr. Dunne commented that interest rate strategies in the 4th quarter of 2018 detracted from performance as well as spread sector strategies; currency strategies were neutral for performance. He stated that structural opportunities to capture high quality sources of yield persist and the portfolio continues to focus on maintaining a very high level of liquidity while holding high quality “safe spread” assets for generating attractive income and total returns. He provided an outlook for 2019 by noting that PIMCO expects U.S. growth momentum to slow, though the labor market remains robust and tighter financial conditions are likely to affect the Fed’s path. Mr. Dunne commented that in the Eurozone, weakening growth metrics and political upheaval suggest a fragile outlook, and Japan is experiencing sustained growth amid a tight labor market and an accommodative fiscal stance. Emerging markets have generally supportive domestic fundamentals alongside the differentiated impact of oil prices. Mr. Clark noted that as of December 31, 2018, PIMCO had \$1.66 trillion in assets under management and more than 2,500 total employees, with 797 investment professionals. He reviewed PIMCO’s organization, recent changes, and investment philosophy. The report was received and filed by Chairman Hawkins.

Mr. Jared Goldman and Ms. Allison Hanson of ExamWorks, Inc. (EW) next made a presentation to Trustees regarding their firm’s services. Ms. Hanson provided Trustees an overview of EW and noted that they are the largest Independent Medical Evaluation (I.M.E.) company in the world. She explained their vetting process for physicians and reviewed the credentialing process for a physician. EW has approximately 19,000 participating physicians. The physicians need to be actively practicing, licensed in at least one state, have 5 years of experience, and ideally, an affiliation with at least one hospital. Ms. Hanson stated that EW monitors all their participating physicians to ensure that none of them have conflicting issues. She noted that approximately 1% of their participating physicians are removed annually due to a conflict. EW has a Quality Assurance area that goes through the medical reports before they are sent to the client. They make sure that all of the client’s questions are answered. EW monitors the caseload of its participating physicians to help ensure timeliness in appointments and reporting. She noted that EW does perform services for the City of Grand Rapids for their Workers Compensation cases. Ms. Hanson stated that a number of protocols are in place to ensure no conflicts arise between the City of Grand Rapids and the Retirement Systems. EW represents several municipalities. Ms. Hanson commented that EW stresses to their physicians that they need to give their honest opinion in each case as they see it. Chairman Hawkins asked how a particular physician is matched with a client; Ms. Hanson stated that the EW representative works with the client to ascertain what specialty is needed and which physician would be the best candidate to perform the I.M.E. She stated that a conflict check is performed on each claimant to ensure no conflicts arise between the physician chosen to perform the I.M.E. and any other physician the claimant may have seen. She noted that some I.M.E. firms have a standard that 100 miles is not too far for a claimant to go for an I.M.E.; however, EW works with the client to obtain a suitable physician and minimize the distance for the claimant to drive to the appointment. Ms. Korzen asked how long a typical I.M.E. lasts and how long a typical records review takes; Ms. Hanson stated it varies depending on the specialty of the physician and nature of the case, but most I.M.E.s take anywhere from ½ hour to 45 minutes as the physician is assessing the claimant, not treating him/her

and the physician already has the records. Ms. Korzen asked if EW could develop a post-exam survey that could be completed and sent back to EW; Mr. Goldman stated that was a good idea and would provide necessary feedback. Ms. Hanson commented that some physicians review the records prior to the I.M.E. and some review the records after the I.M.E., but in all cases, all of the provided records are reviewed by the physician. Some physicians prefer to review the records after the I.M.E. to avoid bias during the appointment. Mr. Balkema commented that some of the Retirement Systems' applicants do not necessarily have a good experience at the I.M.E. due to a lack of communication on what they should expect from the I.M.E. Mr. Goldman stated that EW can prepare a "what to expect" informational handout to be given to applicants. Trustees thanked Mr. Goldman and Ms. Hanson for their presentation.

Mr. Alex Ford of Wilshire Associates, Inc. next presented a real estate candidate search report to Trustees. Mr. Ford provided Trustees with an asset allocation update and noted that the qualified candidate to fulfill the 5% target allocation to U.S. public real estate securities would be approximately \$40 million across both plans. He stated that each candidate is of institutional quality with a long track record of successfully managing REIT assets through a variety of different economic environments and is highly scored by Wilshire's manager research process. The five candidates are: 1) Brookfield Public Securities Group; 2) CenterSquare Investment Management; 3) Duff & Phelps Investment Management; 4) Morgan Stanley Investment Management; and 5) Principal Real Estate Investors. Mr. Ford reviewed Wilshire's current state of forward-looking return, risk, and correlation expectations. He provided an overview of each candidate's firm and product as well as performance data. Mr. Ford also commented on the candidates' 3-year rolling return, rolling excess return, rolling excess risk, and rolling information ratio, relative to CBRE Clarion. {Mr. Mitchell left the meeting at 10:00 a.m.} Following Trustee discussion the decision was made to interview CenterSquare Investment Management, Duff & Phelps Investment Management, and Principal Real Estate Investors at the May 15, 2019 Joint Board meeting.

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

Ms. Korzen next addressed the BoardPaq electronic agenda product. She asked if everyone was comfortable with the product and the capabilities it offers for Trustees regarding Board meetings; she noted the cost is \$149/month for the first user and \$9/month for each additional user (\$129/month if the service is paid annually). Trustees voiced their opinions on the product; Ms. DeJonge asked if there might be a less expensive option, such as something provided by Google. Ms. Korzen stated she can speak with the I.T. provider for the Retirement Systems to inquire about other, less expensive options that might be available and yet provide the functions of BoardPaq. BoardPaq offered a free 30-day trial which will be expiring soon. Trustees expressed their desire to end the trial with BoardPaq so that Ms. Korzen can explore other alternative solutions and report back to Trustees at a later date.

The meeting adjourned at 10:25 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, May 15, 2019, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems