

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

MINUTES
JOINT MEETING
MAY 20, 2020 – 8:38 a.m.
233 East Fulton
VIA ONLINE CONFERENCE

The electronic meeting was called to order by Chairman Hawkins. Other members present: Mr. David Tryc, Mr. Craig VanderWall, Mr. Martin Timkovich, Mr. Philip Balkema, Mr. William Butts, Mr. Phillip Mitchell, Ms. Donijo DeJonge, Mr. Nathaniel Moody, and Mr. Robert Veenstra.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Mr. David Lindberg and Mr. Calvin Born of Wilshire Associates, Inc., Ms. Mary Ellen Stanek and Mr. Charles Groeschell of Baird Advisors, and Mr. Patrick Wilson, and Ms. Meghan Burke of CenterSquare Investment Management, and Ms. Lisa Balkema, Retirement Services Specialist.

There were no public comments regarding agenda items.

Mr. Moody made the motion to approve the minutes of the Joint Meeting of March 18, 2020 and April 1, 2020. The motion was seconded by Mr. Butts and carried.

Ms. Mary Ellen Stanek, Managing Director and Chief Investment Officer and Mr. Charles Groeschell, Managing Director and Senior Portfolio Manager, of Baird Advisors (Baird) presented their firm's annual report to Trustees. Ms. Stanek noted that Baird was founded in 1919 in Milwaukee and has total assets under management of more than \$90.9 billion. They have a disciplined, research driven approach. Baird has 4,500 associates, of which, more than 2/3 are shareholders. She noted that Baird has been designated for the 17th consecutive year as one of the Fortune 100 Best Companies to Work For. Mr. Groeschell reviewed their investment philosophy and process, which is twofold: 1) to structure portfolios to achieve the return of the benchmark for each client (accomplished by a duration neutral discipline); and 2) to add incremental value through a bottom-up, risk-controlled process (Baird seeks to consistently add 15-50 basis points of incremental return). He stated that risk control is the foundation of their investment discipline and internal research drives their investment process. Ms. Stanek reviewed Baird's mortgage and asset-backed securities strategy. She noted their risk controls for the portfolio and stated that the portfolio is positioned: 1) to have attractive yield advantages over respective benchmarks; 2) to maintain sufficient liquidity for uncertain environments; 3) to benefit from spread sector outperformance; and 4) to be positioned fairly neutral to the yield curve. Mr. Groeschell provided Baird's perspective on the current environment and noted that "flattening the curve" of COVID-19 required a self-imposed recession to protect the public health and the economic "sudden stop" spiked unemployment from record lows to record highs. There has been an unprecedented scale and speed of fiscal and monetary responses helping to stabilize markets. The severity and duration of contraction is uncertain however, a U-shaped recovery is most likely. The "restart" of the global economy will be a process; in phases and gradual. Short-term market dislocation is giving way to long-term delineation of sector risks and valuations. Domestic Fixed Income flows flipped dramatically in March while U.S. Treasury yields did calm down in April. Yield spreads contracted sharply in April. Mortgage rates decoupled from Treasuries in March prior to the Fed action and the market experienced the biggest monthly move in investment grade corporate spreads ever

between March and April. Mr. Groeschell reviewed the Fed's response to COVID-19 and the CARES Act. He reviewed the City of Grand Rapids Retirement Systems' objectives, risk controls, portfolio guidelines and characteristics, and provided the following net investment return statistics for the portfolios:

	<u>General Retirement System</u>	<u>Police & Fire Retirement System</u>	<u>Bloomberg Barclays Aggregate Index</u>
April 2020*	2.41%	2.54%	1.78%
Year-to-Date	4.70%	4.66%	4.98%
1-Year	10.75%	10.68%	10.84%
3-Year	5.44%	5.43%	5.17%
5-Year	4.21%	4.22%	3.80%
7-Year	3.70%	3.71%	3.30%
10-Year	4.61%	4.59%	3.96%
<u>Since Inception</u>			
Cumulative Return	118.94%	118.89%	106.88%
Annualized Return	4.67%	4.67%	4.33%

*Performance is preliminary

The report was received and filed by Chairman Hawkins.

Mr. Patrick Wilson, CFA and Portfolio Manager, and Ms. Meghan Burke, CAIA and Vice President, of CenterSquare Investment Management (CS) presented their firm's annual report to Trustees. Ms. Burke provided Trustees with an overview of CS and noted the CS has \$10 billion in assets under management as of March 31, 2020. CS was founded in 1987 and has 50 investment professionals and over 30 employee owners. She reviewed their investment team and process. Due to COVID-19, there are expected changes in gross asset values and the viral slowdown has tested the immunity of sectors. Mr. Wilson reviewed the sector performance and performance attribution for the portfolios since September 30, 2019 and noted the positioning for the portfolios as of March 31, 2020. Investment returns as of 03/31/20 for the General and Police & Fire Retirement Systems' portfolios were reported as follows:

	<u>1-Month</u>	<u>QTD 2020</u>	<u>Since Inception*</u>
General Retirement System	-19.46%	-24.60%	-24.63%
Police & Fire Retirement System	-19.43%	-24.55%	-24.58%
FTSE NAREIT Equity REITs Index	-21.92%	-27.30%	-27.17%

*Inception date – September 30, 2019

Mr. Wilson provided Trustees with CS' outlook for 2020: 1) relative valuation and yields screen attractive; 2) REITs should generate 6-12% annual total returns over the long-term.; 3) there are softer real estate fundamentals; 4) yield spreads are now at multi-cycle highs; and 5) REITs now trade at their biggest discount to NAV in more than a decade and appear well-positioned relative to broader equities. 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 down 20.7% for the first quarter of 2020, the worst quarter since the global financial crisis. Uncertainty and a declining outlook were the driving forces behind the sell-off as the COVID-19 pandemic worsened, resulting in significant limitations on global commerce. Government action so far has included cutting short-term rates to near zero and passing a \$2

trillion stimulus bill. As the COVID-19 virus spreads globally, the response has been to separate people and close non-essential businesses, with others working remotely. The economic expectations are that the unemployment rate will rise into the teens and U.S. GDP will fall by one-third. Economic growth in the U.K. was already nonexistent during the 4th quarter of 2019, before the country had to deal with the virus in earnest. Across continental Europe, quarantine efforts are starting to bear fruit as cases in Italy and Spain appear to be approaching a peak. China has recently been relaxing severe travel restrictions while the official Purchasing Manager's Index for China indicates that manufacturing in the country expanded during March after a dramatic slowdown. The U.S. Treasury yield curve fell dramatically during the quarter. The 10-year Treasury yield ended the quarter at 0.70%, down 122 basis points. The FOMC decreased its overnight rate by a total of 1.50% during two unscheduled meetings in March. The Fed also announced quantitative easing measures totaling at least \$700 billion over the coming months. Mr. Lindberg also provided information on Wilshire's return and risk assumptions and their forecast over time as well as a summary economic review of all the major asset classes and a coronavirus timeline. 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 03/31/20**

<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	-13.87	-6.42	1.74	2.34	6.34
Policy Index	-15.08	-8.68	0.60	1.33	5.03
Police & Fire Retirement System	-14.00	-6.64	1.65	2.28	6.32
Policy Index	-15.08	-8.68	0.60	1.33	5.03

General Retirement System

Asset Commitments as of 03/31/20:

Domestic Equity	15.9%
Fixed Income	28.2%
Global Low Volatility	9.7%
Real Estate	4.5%
Private Equity	6.5%
Non-U.S. Equity	17.0%
Commodities	4.0%
Midstream Energy	2.7%
TIPS	6.4%
Private Credit	4.7%
Cash Equivalents	0.4%

Asset Allocation to Managers:

NTAM	10.4%
PIMCO	1.8%
Wellington Management Company	4.4%
Baird Advisors	14.4%
Western Asset Management	14.0%
Cash Account	0.4%
Neuberger Berman	8.6%
Harding Loevner	8.5%
CenterSquare	4.6%
Adams Street Partners	5.0%
Aberdeen Asset Management	1.5%
Wellington Commodities	4.0%
Harvest Fund Advisors	2.7%
Brown Brothers Harriman	6.4%
Grosvenor Capital Management	3.6%
50 South Capital Advisors	1.1%
BlackRock	9.8%

Police and Fire Retirement System

Asset Commitments as of 03/31/20:

Domestic Equity	16.4%
Fixed Income	28.7%

Asset Allocation to Managers:

NTAM	10.8%
PIMCO	2.0%

05/20/20

Global Low Volatility	9.6%	Wellington Management Company	3.7%
Real Estate	4.5%	Baird Advisors	14.6%
Private Equity	6.3%	Western Asset Management	14.2%
Non-U.S. Equity	17.0%	Cash Account	0.5%
Commodities	4.2%	Neuberger Berman	8.5%
Midstream Energy	2.7%	Harding Loevner	8.6%
TIPS	5.8%	CenterSquare	4.5%
Private Credit	4.5%	Adams Street Partners	4.9%
Cash Equivalents	0.5%	Aberdeen Asset Management	1.4%
		Wellington Commodities	4.2%
		Harvest Fund Advisors	2.7%
		Brown Brothers Harriman	5.9%
		Grosvenor Capital Management	3.5%
		50 South Capital Advisors	1.1%
		BlackRock	9.6%

The report was received and filed by the Chairman.

Mr. Lindberg and Mr. Born addressed the report on U.S. Equity Structure that was tabled from the February 19, 2020 Joint Board meeting. 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. Investment structure decisions are the second most important decisions that Trustees can make as they statistically drive 5% - 7% of return variation for the fund. For the past several years large cap stocks have continued to outperform small cap stocks. Small cap stocks represent just 6% - 7% of the total U.S. equity market. As of April 30, 2020, the Wilshire 5000 Index was comprised of approximately 94% large cap stocks and 6% small cap stocks. The portfolios' small cap overweight is the single largest driver of active risk in the U.S. equity portfolio. Although Wellington's relative performance v. its benchmark has been strong, the difference between the returns of large cap stocks and small cap stocks has greatly outweighed Wellington's value add. He stated that the portfolios' overweight to small cap has detracted more than 1.7% from relative performance in the first quarter of 2020 and over the trailing one-year, has detracted more than 2.4% from relative performance. 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%. This type of reduction would be approximately \$7-\$8 million per system. Wilshire recommended increasing the PIMCO allocation by 9% and the Northern Trust Asset Management allocation by 1%. Active risk would then decline from 1.37% to 0.65% and the information ratio would improve from 0.23 to 0.35. He reviewed Wilshire's assumptions during this process, provided information on the efficient frontier and style analysis and modeling comparisons. Mr. Butts asked if Wilshire is confident that large cap stocks will continue to outperform small cap stocks; Mr. Lindberg said no, as the U.S. equity market is challenging and they are not certain when or if this will turn. Mr. Lindberg stated that with the current allocation to small cap stocks it is harder to get paid for this risk. Mr. Tryc asked if Wilshire believes the markets will redefine what small and large cap stocks are; Mr. Lindberg stated that Wilshire looks at the entire equity market and how much is in the S&P 500 Index v. the Russell 2000 Index. Chairman Hawkins asked if there was anything from COVID-19 that has changed Wilshire's recommendations; Mr. Lindberg stated that the COVID-19 pandemic has reinforced their recommendations. Mr. Timkovich asked what the timing would be to reduce the small cap allocation if Trustees decided to do so. Mr. Lindberg noted that it should be done gradually, over the next four quarters would be prudent and he would work with the Executive Director for cash flow needs. Mr. Mitchell asked if Trustees could decide to reduce the small cap exposure by 5% instead of 10%; Mr. Lindberg said yes, if they wish, but advocated taking the next four quarters to reduce the exposure from 25% to 15%. Mr. Timkovich made the motion on behalf of the General Retirement System to reduce the overweight to small cap stocks from 25% to 15% of the total U.S. equity allocation with the reduction to be accomplished over the next four quarters. The motion was

seconded by Mr. Tryc and carried. Mr. VanderWall made the motion on behalf of the Police & Fire Retirement System to reduce the overweight to small cap stocks from 25% to 15% of the total U.S. equity allocation with the reduction to be accomplished over the next four quarters. The motion was seconded by Mr. Veenstra and carried.

Mr. Lindberg and Mr. Born next discussed the revised Investment Policy Statements for both the General and Police & Fire Retirement Systems that were tabled from the February 19, 2020 Joint Board meeting. Mr. Born commented that the revised statements incorporate the changes to the small cap allocation; he also reviewed other pertinent changes to the statements. Chairman Hawkins asked Mr. Michaud if he had an opportunity to review the proposed investment policy changes; Mr. Michaud said he had reviewed them and he felt the statements are reasonable and consistent with other plans and did not see any legal issues with the changes. Mr. Timkovich made the motion on behalf of the General Retirement System to adopt the revised Investment Policy Statement as provided by Wilshire. The motion was seconded by Mr. Tryc and carried. Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to adopt the revised Investment Policy Statement as provided by Wilshire. The motion was seconded by Mr. VanderWall and carried.

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

The meeting adjourned at 11:27 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, June 17, 2020, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems