

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

MINUTES
JOINT MEETING
NOVEMBER 14, 2018 – 9:24 a.m.
300 Monroe Avenue NW

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. William Butts, Ms. Donijo DeJonge, and Mr. Nathaniel Moody. Absent: Mr. Phillip Mitchell.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Mr. David Lindberg and Mr. Alex Ford of Wilshire Associates, Inc., Mr. John Ackler of Brown Brothers Harriman, and Mr. Nicholas Gaspari of Harvest Fund Advisors.

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

There were no public comments regarding agenda items.

Mr. Balkema made the motion to approve the minutes of the Joint Meeting of September 19, 2018. The motion was seconded by Mr. Timkovich and carried.

Mr. John Ackler, CFA and Senior Vice President and Fixed Income Product Specialist, of Brown Brothers Harriman (BBH) presented his firm's annual report to Trustees. Mr. Ackler noted that BBH was founded in 1818; is owned and managed by 29 general partners; has approximately 6,000 employees in 18 locations globally, with all investment professionals located in New York. As of the third quarter of 2018, BBH had \$64 billion in assets under management, of which \$40 billion was under investment management. He reviewed BBH's investment management by client type and fixed income strategy by product. Mr. Ackler provided Trustees with background on BBH's organization, people, and process. He gave Trustees an overview on TIPS by providing information on the history of TIPS and their benefits. Mr. Ackler provided an update on the TIPS market by noting: 1) breakeven inflation rates are attractive relative to current and long-term historical inflation rates in the U.S.; 2) the headline CPI is at 2.3%, while core CPI has increased to 2.2%; 3) while core goods inflation has been weak, tariffs and the trade wars they may stoke, a focus on higher cost American labor, internet sales taxes, and trucking industry pressures are potential tailwinds to goods prices; and 4) valuations for TIPS are positive, investor sentiment for TIPS is strong and fund flows have been supportive year-to-date. He noted that the unemployment rate is at its 48-year low; however, some labor market indicators have not yet reached pre-recession levels. He reviewed the impacts of government and fiscal policies and stated that policy proposals such as infrastructure spending could increase inflation risk. Mr. Ackler provided Trustees with various statistical data pertaining to the TIPS market. He commented that BBH's inflation-indexed securities investment process focuses on three primary strategy categories: 1) fundamental; 2) non-directional; and 3) opportunistic. These three strategies help BBH identify value and create excess return. Mr. Ackler provided Trustees with an overview on BBH's inflation-indexed securities fund and provided fund characteristics as of September 30, 2018, noting the following return statistics:

	<u>3 mo.*</u>	<u>YTD*</u>	<u>1yr.</u>	<u>3 yr.</u>	<u>5 yr.</u>	<u>Since Inception</u>
BBH Inflation Linked Index Fund	-0.81%	-1.05%	0.24%	2.03%	1.44%	2.74%
Bloomberg Barclays U.S. TIPS Index	-0.82%	-0.84%	0.41%	2.04%	1.44%	2.65%

*Returns are not annualized.

He stated that BBH believes U.S. TIPS are an effective hedge against unanticipated high inflation and market inefficiencies, and regular seasonal patterns inherent in the inflation-linked markets provide ample active management opportunities. The investment objective of the BBH fund is to provide clients with a rate of return that consistently exceeds the return of a benchmark consisting entirely of inflation indexed bonds issued by the U.S. Treasury. The fund will generally not invest less than 80% of its assets in TIPS. BBH seeks to identify and exploit technical and structural inefficiencies that present excess return opportunities in the TIPS market; BBH accomplishes this through proprietary fundamental research and quantitative analysis processes. He noted that BBH's TIPS composite has outperformed the market index in 212 of the 222 rolling 36-month periods since inception. The report was received and filed by Chairman Hawkins.

Mr. Nicholas Gaspari, Managing Director, of Harvest Fund Advisors (HFA) presented his firm's annual report to Trustees. Mr. Gaspari noted that HFA was founded in 2005 and HFA partnered with Blackstone in 2017 as Blackstone's publicly traded MLP and yield oriented investment platform with approximately \$11 billion in total firm assets under management. Mr. Gaspari noted that HFA has 19 employees and they are focused primarily on fundamental value-oriented public energy investments. He reviewed the management team and investor base, noting HFA serves 700+ total unique institutional clients. Mr. Gaspari commented on HFA's investment process and provided a summary on both portfolios, noting the following return statistics for the portfolios:

	<u>General Retirement System</u>	<u>Police & Fire Retirement System</u>	<u>S&P MLP TR Index</u>
YTD	-1.16%	-1.22%	-1.50%
<u>Since Inception:</u>			
Annualized Return	-6.64%	-6.67%	-8.41%
Cumulative Return	-22.38%	-22.47%	-27.64%

He reviewed the position detail for the holdings within the portfolios and provided background on the best and worst performers. {Mr. VanderPloeg left the meeting at 9:44 a.m.} Mr. Gaspari commented that natural gas and crude oil differentials drive infrastructure build-out, shifting supply sources are creating inefficiency differentiation; and opportunity, advancing technology and a changing global energy landscape are driving the need for additional U.S. infrastructure, doubling the market cap of the midstream sector through 2035. He stated that MLP fundamentals are driven by production volumes, not crude prices. Compared to August 2014, energy infrastructure today trades at a discount of nearly 50%, while equities and other liquid real assets trade at wide premiums. Mr. Gaspari noted that three structural changes are alleviating long-time burdens on this asset class: 1) tax reform certainty; 2) self-funding of growth; and 3) corporate simplification. HFA believes that yield spreads to the 10-year Treasury do not adequately reflect the growth component of MLP total returns and MLP equity yields will be re-priced over time to match the quality of their cash flows. Energy infrastructure has shown strong performance in periods of rising interest rates. 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 up 7.3% for the third quarter of 2018, the strongest quarter in nearly five years. Economic data continues to be strong including the largest increase in real GDP in four years at 4.2% during the second quarter; third quarter growth was strong as well at 3.5%. The U.S. trade deficit has had a major effect on real GDP during the past six months. China is discontinuing purchases of U.S. soybeans in retaliation for U.S. tariffs. Equity markets outside of the U.S. produced mixed results and trailed the U.S. equity market. Trade tensions weighed heavily on foreign markets while political turmoil in Italy was cause for concern just as the quarter ended. Emerging markets continue to underperform and entered a technical bear market during the quarter; they were down 20% since late January. The U.S. Treasury yield curve rose across all maturities and the bellwether 10-year Treasury yield ended the quarter at 3.05%. The FOMC decided to increase its overnight rate by 25 basis points in September. Mr. Lindberg provided Trustees with Wilshire's September 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. 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 09/30/18**

<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	7.71	17.92	17.31	13.95	11.96
RUSSELL 2000	3.58	15.24	17.12	11.07	11.11
FTSE EPRA/NAREIT	-0.30	3.66	6.19	5.43	N/A
MSCI ACWI X-US	0.71	1.76	9.97	4.12	5.18
BLOOMBERG AGGREGATE	0.02	-1.22	1.31	2.16	3.77
BLOOMBERG COMMODITY	-2.02	2.59	-0.11	-7.18	N/A
91 DAY T-BILLS	0.49	1.58	0.84	0.52	0.34

General Retirement System

<u>Asset Commitments as of 09/30/18:</u>		<u>Asset Allocation to Managers:</u>	
Domestic Equity	25.2%	NTAM	15.7%
Fixed Income	24.5%	PIMCO	3.0%
Cash Equivalents	0.7%	Wellington Management Company	6.4%
Real Estate	4.8%	Baird Advisors	12.1%
Private Equity	4.4%	Western Asset Management	12.3%
Non-U.S. Equity	22.0%	Cash Account	0.7%
Commodities	4.3%	Neuberger Berman	14.4%
MLPs	5.0%	Harding Loevner	7.6%
TIPS	8.6%	CBRE Clarion	4.8%
Private Credit	0.7%	Adams Street Partners	3.2%
		Aberdeen Asset Management	1.2%
		Grosvenor PC	0.7%
		Wellington Commodities	4.3%
		Harvest Fund Advisors	5.0%
		Brown Brothers Harriman	8.6%

Police and Fire Retirement System

Asset Commitments as of 09/30/18:

Domestic Equity	25.7%
Fixed Income	24.0%
Cash Equivalents	0.2%
Real Estate	4.6%
Private Equity	4.4%
Non-U.S. Equity	23.0%
Commodities	4.1%
MLPs	5.1%
TIPS	8.2%
Private Credit	0.7%

Asset Allocation to Managers:

NTAM	16.1%
PIMCO	3.0%
Wellington Management Company	6.5%
Baird Advisors	12.0%
Western Asset Management	12.0%
Cash Account	0.2%
Neuberger Berman	14.9%
Harding Loevner	8.0%
CBRE Clarion	4.6%
Adams Street Partners	3.2%
Aberdeen Asset Management	1.2%
Grosvenor PC	0.7%
Wellington Commodities	4.1%
Harvest Fund Advisors	5.1%
Brown Brothers Harriman	8.2%

Mr. Ford suggested, and Mr. Lindberg agreed, to continue to watch the CBRE Clarion account for now and discuss other potential options at the February 2019 Joint Board meeting. The report was received and filed by the Chairman.

Mr. Lindberg and Mr. Ford next presented Trustees with an educational report on Low Volatility (LV). Mr. Lindberg provided Trustees with a summary of changes to the asset allocation that have been made thus far. The remaining items to take care of are: 1) review global low volatility equity manager education and candidate search; 2) establish timeline for manager interviews and site visits; and 3) update investment policy statement and approve the changes at the next available Board meeting. Mr. Ford reviewed Wilshire's current forward-looking return, risk, and correlation expectations. He provided Trustees with an overview of LV by stating that these types of portfolios are constructed with the objective of achieving minimum volatility by holding either stocks that demonstrate less variability than the market or stocks that demonstrate low correlations to the market and other portfolio holdings. These portfolios hold publicly traded stocks and can be long-only or long/short. They have historically outperformed traditional market benchmarks and their volatility has been approximately 25%-30% lower than the broad market (a trend that is expected to persist). Mr. Ford commented on the evolution of low volatility strategies and the low volatility anomaly. He reviewed the index characteristics and performance of the LV market indices through September 2018. LV provides downside protection while still participating in upside capture. Mr. Lindberg commented that there are passively managed and actively managed strategies within this space. They conducted a search of suitable candidates for this allocation and noted there were three candidates for consideration that offer passively managed LV portfolios: 1) BlackRock; 2) Northern Trust; and 3) State Street Global Advisors, and six candidates for consideration that offer actively managed LV portfolios: 1) Acadian Asset Management; 2) AQR Capital Management; 3) Los Angeles Capital Management; 4) LSV Asset Management; 5) Wells Capital Management (Analytic); and 6) Northern Trust. Mr. Ford stated that Wilshire performed a strategic asset allocation analysis which includes a 10% allocation to LV. Mr. Lindberg reviewed Wilshire's investment process and credit manager search and provided a firm and strategy update on each of the nine firms. He provided investment comparisons, a characteristics summary, and performance information for all nine firms as well as fee structure. Wilshire recommended adopting the proposed asset allocation policy and if Trustees are comfortable, implementing a passive LV allocation as soon as possible as now is a good time to enter that market. The funding would come from the core equity managers. Mr. Lindberg suggested beginning with a passive manager and depending on how that allocation goes, perhaps implement an active LV manager at a later date. Wilshire recommends hiring BlackRock; however, if Trustees wish to

interview any of the passive or active managers, that is fine as well. Following Trustee discussion, Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to adopt the proposed asset allocation policy of 17.75% U.S. equity, 17.75% non-U.S. equity, 10% global low volatility, 5% private equity, 5% private credit, 24.5% core fixed income, 5% global REITs, 5% U.S. TIPS, 5% MLPs, 5% commodities. The motion was seconded by Mr. VanderWall and carried. Mr. Butts made the motion on behalf of the General Retirement System to adopt the proposed asset allocation policy of 17.75% U.S. equity, 17.75% non-U.S. equity, 10% global low volatility, 5% private equity, 5% private credit, 24.5% core fixed income, 5% global REITs, 5% U.S. TIPS, 5% MLPs, 5% commodities. The motion was seconded by Mr. Tryc and carried. Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to hire BlackRock to manage a 10% allocation to global low volatility, subject to legal review and successful contract negotiations. The motion was seconded by Mr. Moody and carried. Mr. Butts made the motion on behalf of the General Retirement System to hire BlackRock to manage a 10% allocation to global low volatility, subject to legal review and successful contract negotiations. The motion was seconded by Mr. Tryc and carried. Ms. DeJonge asked how long the Systems would go with just an allocation to a passive LV product; Mr. Lindberg stated Wilshire would monitor the situation and advise accordingly.

The Executive Director presented the 2019 Board meeting schedule. Following Trustees discussion, Mr. Butts made the motion to approve the 2019 Board meeting schedule as presented. The motion was seconded by Mr. Timkovich and carried.

Mr. Michaud next presented a report to Trustees regarding Uniform Actuarial Assumptions as outlined by Section 5 of Public Act 202 of 2017. He stated this will be the 4th report that the Retirement Systems will need to have produced (actuarial valuation, GASB report, and summary annual report are the other three reports). It will not be used for funding, but merely reporting to the State of Michigan. He suggested that the Retirement Systems office work with the actuary in producing this newly required report. Mr. Michaud also presented draft copies of updates to the notices that are given to lump sum recipients. He noted there have been a few changes and now the notice has been streamlined to be more user friendly. He recommended Trustees adopt the new notice and begin providing it to lump sum recipients. Mr. VanderWall made the motion on behalf of the Police & Fire Retirement System to adopt the revised notice to lump sum recipients. The motion was seconded by Mr. Balkema and carried. Mr. Timkovich made the motion on behalf of the General Retirement System to adopt the revised notice to lump sum recipients. The motion was seconded by Mr. Butts and carried.

There were no comments on items not on the agenda.

The meeting adjourned at 11:15 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, December 19, 2018, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems