

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

MINUTES
JOINT MEETING
NOVEMBER 20, 2019 – 8:35 a.m.
233 E. Fulton, Suite 216

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

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, Jr. of Wilshire Associates, Inc., Mr. John Ackler of Brown Brothers Harriman, Mr. Nicholas Gaspari of Harvest Fund Advisors, and Mr. John Globensky, City Treasurer.

Mr. Balkema made the motion to excuse the absence of Mr. Butts. The motion was seconded by Mr. Moody 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 18, 2019. The motion was seconded by Mr. Moody 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 is a privately-owned financial services firm; was founded in 1818; is owned and managed by 32 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 2019, BBH had \$71 billion in assets under management, of which \$44 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. He stated that BBH seeks to develop long-term relationships with informed investors who perform deep due diligence and understand their investment approach. Mr. Ackler noted that there is no historical precedent for negative policy rates and negative government bond yields. Central Bank purchases have created excess demand, driving rates into negative territory. The sheer reality of longer life expectancies is leading households to save more, regardless of the compensation. New technologies are significantly reducing the need for businesses to spend on capital expenditures, thereby reducing their borrowing. He stated that it is possible that the pace of tapering crisis-era quantitative easing may have to be much slower than we expected and will require a lot of Fed-supplied liquidity. He commented that the end of cycle concerns are: 1) accelerating and problematic inflation; 2) evidence of tight monetary policy; 3) slowing economic momentum; 4) evidence of investor exuberance; and 5) historically high valuations. He noted that with respect to the U.S. – China trade relationship, the U.S. is a much more important customer to China than China is to the U.S. Trade skirmishes have a more muted impact on the global economy today than would have been the case a decade ago and an all-out trade war will have twice the negative impact on China than on the U.S. The business investment cycle has shifted abruptly amid rising global economic uncertainty. But the question is: if it deteriorates even further, will it be enough to tip the U.S. into a recession? Mr. Ackler provided an update on the TIPS market and noted that breakeven inflation rates are lower in 2019 due to trade and economic concerns. 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, 2019, 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	1.38%	7.68%	7.07%	2.11%	2.48%	3.23%
Bloomberg Barclays U.S. TIPS Index	1.35%	7.58%	7.13%	2.21%	2.45%	3.16%

*Returns are not annualized.

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 partnered with Blackstone in 2017 as Blackstone's publicly traded MLP and yield oriented investment platform with approximately \$10.4 billion in total firm assets under management. Mr. Gaspari noted that HFA has 20 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	13.85%	13.85%	13.28%
<u>Since Inception:</u>			
Annualized Return	-5.49%	-5.52%	-6.47%
Cumulative Return	-22.90%	-22.99%	-26.49%

He reviewed the position detail for the holdings within the portfolios and provided background on the best and worst performers. Mr. Gaspari commented that MLP fundamentals are driven by production volumes, not crude prices. Production growth, which is increasing the demand to move and process hydrocarbons, has driven EBITDA of the top 10 Alerian constituents up 80% since the third quarter of 2014. Public midstream trades at a discount to historical average and private transactions, while public entity build multiples remain low. He stated that compared to August 2014, energy infrastructure today trades at a discount, while equities and other liquid real assets trade at premiums. The current spread to Treasuries is historically high. If yield spreads were adjusted for coverage, today they are comparable to December 2008 and February 2016. He commented that MLP yields are widely mispriced relative to other asset classes and HFA believes that equity yields will be re-priced over time to match the quality of their cash flows. The report was received and filed by Chairman Hawkins.

Mr. David Lindberg and Mr. Calvin Born, Jr. presented the quarterly performance report to Trustees. Mr. Lindberg commented that the U.S. stock market was up 1.2% for the third quarter of 2019 and 20.1% for the year. Trade talk with China continues to be an important unknown while the Federal Reserve's possible continued monetary easing has added to the uncertainty surrounding the markets. The 10-year U.S. Treasury yield has fallen a full 1% this year. Some of the world's major economies like France and Germany are experiencing negative rates both in the short and long-term portion of the curve. Equity markets outside the U.S. continue to enjoy a strong 2019. Emerging markets were down in aggregate, largely due to a negative quarter for China, which comprises nearly one-third of the index. The U.S. Treasury yield curve fell across all maturities with the biggest decreases occurring in the long end of the curve. The FOMC decreased its overnight rate by 25 basis points at both the July and September meetings. Mr. Lindberg provided Trustees with Wilshire's September 2019 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 09/30/19

<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	1.70	4.25	13.39	10.84	13.24
RUSSELL 2000	-2.40	-8.89	8.23	8.19	11.19
FTSE EPRA/NAREIT	4.63	13.00	5.61	6.81	8.63
MSCI ACWI X-US	-1.80	-1.23	6.33	2.90	4.45
MSCI ACWI Min Vol	2.74	N/A	N/A	N/A	N/A
BLOOMBERG AGGREGATE	2.27	10.30	2.92	3.38	3.75
BLOOMBERG COMMODITY	-1.84	-6.57	-1.50	-7.18	N/A
Alerian MLP Index	-5.02	-8.13	-1.19	N/A	N/A
Barclays U.S. TIPS	1.35	7.13	2.21	N/A	N/A

General Retirement System

<u>Asset Commitments as of 09/30/19:</u>		<u>Asset Allocation to Managers:</u>	
Domestic Equity	17.7%	NTAM	11.4%
Fixed Income	25.2%	PIMCO	2.1%
Cash Equivalents	0.6%	Wellington Management Company	4.3%
Real Estate	5.3%	Baird Advisors	12.6%
Private Equity	5.4%	Western Asset Management	12.8%
Non-U.S. Equity	17.5%	Cash Account	0.6%
Commodities	4.2%	Neuberger Berman	9.0%
MLPs	4.6%	Harding Loevner	8.6%
TIPS	7.2%	CBRE Clarion	5.3%
Private Credit	2.7%	Adams Street Partners	4.1%
Global Low Volatility	9.8%	Aberdeen Asset Management	1.3%
		Grosvenor PC	2.1%
		50 South Capital	0.6%
		Wellington Commodities	4.2%
		Harvest Fund Advisors	4.6%
		Brown Brothers Harriman	7.2%
		BlackRock	9.8%

Police and Fire Retirement System

<u>Asset Commitments as of 09/30/19:</u>		<u>Asset Allocation to Managers:</u>	
Domestic Equity	17.8%	NTAM	11.6%
Fixed Income	25.6%	PIMCO	2.0%
Cash Equivalents	0.7%	Wellington Management Company	4.3%
Real Estate	5.2%	Baird Advisors	12.8%
Private Equity	5.2%	Western Asset Management	13.0%
Non-U.S. Equity	17.4%	Cash Account	0.7%
Commodities	4.4%	Neuberger Berman	9.0%
MLPs	4.6%	Harding Loevner	8.6%
TIPS	6.7%	CBRE Clarion	5.3%
Private Credit	2.6%	Adams Street Partners	4.0%
Global Low Volatility	9.8%	Aberdeen Asset Management	1.3%
		Grosvenor PC	2.0%
		50 South Capital	0.6%

Wellington Commodities	4.4%
Harvest Fund Advisors	4.7%
Brown Brothers Harriman	6.7%
BlackRock	9.8%

The report was received and filed by the Chairman.

Mr. Lindberg and Mr. Born presented Trustees with a Private Equity (PE) Benchmarking Analysis report. Mr. Born noted that benchmarking PE performance is challenging when including it with other fund investments. PE returns are more appropriately measured on an IRR basis and actual total fund returns are forced to be impacted by time-weighted performance of the PE portfolio. The recommended solution to this challenge is to use the PE composite's actual time-weighted performance in the total fund benchmark, rather than any public market index alternative. This will neutralize any mismatch between actual PE performance and the benchmark component and will measure the portfolio on an IRR basis and compare performance using a PME analysis. Mr. Lindberg reviewed a chart summarizing the results of the benchmark change on the total fund benchmark noting that the new benchmark neutralized any mismatch between actual PE returns and the returns of the benchmark component for PE. Mr. Timkovich asked if switching the benchmark would make it more confusing; Mr. Lindberg said no as its purpose is to have a more accurate value-added component. Mr. Mitchell agreed and commented that the PE benchmark is a difficult one to quantify with the rest of the asset allocation. Following Trustee discussion, Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to make the recommended benchmark change as outlined in the Private Equity Benchmarking Analysis report by Wilshire Associates. The motion was seconded by Mr. VanderWall and carried. Mr. Tryc made the motion on behalf of the General Retirement System to make the recommended benchmark change as outlined in the Private Equity Benchmarking Analysis report by Wilshire Associates. The motion was seconded by Mr. Mitchell and carried.

Mr. Lindberg and Mr. Born next presented a Private Equity (PE) pacing analysis report to Trustees. Mr. Born noted the current asset allocation target to PE is 5.0% in both the General and Police & Fire Retirement Systems. Typical private market cash flows cause targeted commitment sizes to be a multiple of the desired allocation size. Vintage years are somewhat dependent on the economic environment present during the investment period, so it is important to appropriately diversify across vintage years. He reviewed Wilshire's method for PE pacing. Wilshire recommended an allocation to the Adams Street Partners 2019 Global Fund as follows: General Retirement System - \$5.5 million and the Police & Fire Retirement System - \$7.0 million. Mr. Lindberg stated that current investments that are still in their investment period are predicted to draw down remaining uncalled commitments in an averaged method over eight years and future investments draw capital over an eight-year period, a rate considered to be an industry average rate for fund-of-funds. The life of each vintage year commitment is modeled to be 15 years. Following Trustee discussion, Mr. VanderWall made the motion on behalf of the Police & Fire Retirement System to commit \$7.0 million to the Adams Street Partners 2019 Global Fund Program, subject to legal review and successful contract negotiations and to raise the cash now, if necessary, to buy into the fund. The motion was seconded by Mr. Balkema and carried. Mr. Timkovich made the motion on behalf of the General Retirement System to commit \$5.5 million to the Adams Street Partners 2019 Global Fund Program, subject to legal review and successful contract negotiations and to raise the cash now, if necessary, to buy into the fund. The motion was seconded by Mr. Tryc and carried.

Mr. Lindberg and Mr. Born presented Trustees with updated versions of the Investment Policy Statement (IPS) for both the General and Police & Fire Retirement Systems. Mr. Lindberg commented that the updated version is quite shorter than the older 2015 version due to streamlining the contents and removing the references to Wilshire Associates and each investment manager individually. This will also help make the document more fluid. He stated the IPS will be conducted in two phases: 1) the initial phase will help reorganize and streamline the best practices section of the document; and 2) they would like to discuss the U.S. equity structure at a future Board meeting to address some tactical strategies regarding this asset allocation. The updated IPS fixes inconsistencies from the previous IPS in 2015 regarding absolute returns, excess returns, and goals. Mr. Timkovich asked if references to fund objectives could be stated in basis points rather than percentages as using percentages is not completely clear; Mr. Lindberg said yes, they could make this

change. Trustees also asked if Wilshire could simply indicate that for the line item referencing the objective for generating a total return that exceeds the actuarial discount rate ends there and does not incorporate an actual numerical rate as this could fluctuate; Mr. Lindberg agreed. Following Trustee discussion, Mr. VanderWall made the motion on behalf of the Police & Fire Retirement System to approve the updated Investment Policy Statement with the revisions they discussed. The motion was seconded by Mr. Balkema and carried. Mr. Mitchell made the motion on behalf of the General Retirement System to approve the updated Investment Policy Statement with the revisions they discussed. The motion was seconded by Mr. Tryc and carried.

The Executive Director presented the 2020 Board meeting schedule. The schedule was received and filed by the Chairman.

There were no comments on items not on the agenda.

Ms. Korzen commented that several years ago Trustees would attend the Opal Group Conference on public pensions. Trustees stopped attending as some of the sessions seemed like a sales pitch. She has spoken with other individuals that have attended the conference recently and they stated that the conference has improved. She asked for approval to attend the upcoming conference to be held January 6 – 8, 2020, if her schedule permits. Mr. Tryc approved attendance at the aforementioned conference by Ms. Korzen per the Trustee Training, Educational Development and Due Diligence policy. The motion was seconded by Mr. Veenstra and carried.

Chairman Hawkins noted that the Retirement Systems recently received a letter from Mr. Michael Lennon and Mr. Roger Rohloff. The letter was received and filed by the Chairman.

Chairman Hawkins commented that the performance evaluation for the Executive Director is not complete but should be within the next 30 days and results will be shared at an upcoming Joint Board meeting.

Chairman Hawkins disclosed that a number of Trustees attended a dinner last evening with Mr. Lindberg and Mr. Born. In addition to himself and his spouse, in attendance were Mr. & Mrs. Mitchell, Mr. & Mrs. Timkovich, Mr. & Mrs. Tryc, and Ms. Korzen.

Chairman Hawkins noted that Mr. Bryan Balkema, son of Ms. Lisa Balkema from the Retirement Systems office, is observing the meetings being held today as part of an assignment for his Public Administration class at Ferris State University.

The meeting adjourned at 10:24 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, December 18, 2019, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems