

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

MINUTES
JOINT MEETING
SEPTEMBER 19, 2018 – 8:05 a.m.
233 East Fulton

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

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Mr. Scott Hazen and Mr. Joseph Goldrick of Adams Street Partners, Ms. Angelique Richardson and Ms. Joy Perry of Wellington Management Company, Mr. Alex Ford of Wilshire Associates, Inc., and Ms. Sara VanderWerff, City Comptroller.

Mr. Butts made the motion to excuse the absence of Mr. Craig VanderWall. The motion was seconded by Mr. Balkema and carried.

Chairman Hawkins welcomed Commissioner Nathaniel Moody to the Board as Employer Trustee.

There were no public comments regarding agenda items.

Mr. Timkovich made the motion to approve the minutes of the Joint Meeting of August 15, 2018. The motion was seconded by Mr. Tryc and carried.

Mr. Scott Hazen, CFA and Partner and Mr. Joseph Goldrick, Partner, Secondary Investments, of Adams Street Partners (ASP) presented their firm’s annual report to Trustees. Mr. Hazen noted that ASP is a 100% employee-owned private equity firm. They have offices in Chicago, London, Menlo Park, New York, Boston, Singapore, Munich, Beijing, Tokyo, and Seoul. ASP has over \$34 billion in assets under management. Mr. Hazen and Mr. Goldrick reviewed their organization, people, and process and commented that ASP has a disciplined and coordinated investment process, with top-down and bottom-up analysis, and they have consistently outperformed through market cycles. Mr. Hazen noted that no client has lost capital in an investment program since ASP’s inception. Mr. Goldrick reviewed the Private Equity Fund program at ASP and provided Trustees with a review of the City of Grand Rapids General and Police & Fire Retirement Systems’ portfolios as of March 31, 2018:

<u>ASP 2010 Fund Name</u>	<u>Subscription</u>	<u>Amount Drawn</u>	<u>Net IRR*</u>	<u>M.V. (NAV)</u>	<u>Dist. Rec. (D)</u>	<u>Total Value (NAV+D)</u>
U.S. Fund	\$5,000,000	\$4,405,000	14.18%	\$4,456,894	\$2,535,066	\$6,991,960
Non-U.S. Developed	\$3,000,000	\$2,626,500	11.45%	\$2,204,410	\$1,536,082	\$3,740,492
Emerging Markets	\$1,000,000	\$868,000	11.85%	\$1,099,772	\$216,776	\$1,316,548
Direct Fund	\$1,000,000	\$946,600	12.63%	\$623,780	\$957,752	\$1,581,532
2010 Participant Total	\$10,000,000	\$8,846,100	13.02%	\$8,384,856	\$5,245,676	\$13,630,532

ASP 2013 Global Fund	\$10,000,000	\$7,100,000	9.87%	\$8,114,620	\$831,494	\$8,946,114
ASP 2015 Global Fund	\$13,000,000	\$5,076,500	35.88%	\$5,317,710	\$1,345,178	\$6,662,888
ASP 2017 Global Fund	<u>\$12,000,000</u>	<u>\$522,000</u>	<u>15.18%</u>	<u>\$601,252</u>	<u>\$0</u>	<u>\$601,252</u>
Grand Total	\$45,000,000	\$21,544,600	13.55%	\$22,418,438	\$7,422,348	\$29,840,786

*Since Inception

Mr. Goldrick reviewed the portfolios' performance attribution and contribution to IRR for all partnerships as of March 31, 2018. He stated that the investment pace has been steady for the past four years as the Private Equity allocation has grown. The existing portfolio NAV will peak in 2019/2020, and then decline due to distributions overwhelming new calls and growth on unrealized investments. Mr. Hazen commented that buyout exit markets have been robust driving strong performance and distributions and fundraising momentum is strong and "dry powder" has ticked up. Valuations and leverage levels remain high, but the key question is: how long can robust market conditions continue as we appear to be late cycle? ASP's emphasis on growth-oriented strategies and modestly levered capital structures mitigates the impact of economic cyclicality. He provided a summary on venture capital and noted that this opportunity set remains large and global on the back of continued innovation. Mr. Goldrick stated that the secondary asset class offers attractive attributes and reviewed ASP's philosophy toward secondaries. ASP exploits inefficiencies in a competitive environment. He reviewed ASP's recent secondary deals and he commented on the diversification of investment commitments by subclass and by vintage year. ASP has deep resources and relationships, a focused strategy, and consistent long-term performance. They target assets with specific attributes; strong fundamentals at attractive values. The portfolios are now 95% committed and 48% drawn and distribution activity continues to ramp up, now at 34% of drawn capital. The report was received and filed by Chairman Hawkins.

Ms. Angelique Richardson, CFA, Vice President, and Relationship Manager, and Ms. Joy Perry, Investment Director, of Wellington Management Company (WMC) presented their firm's annual report to Trustees. Ms. Richardson stated that WMC has \$1,068 billion of client assets under management. WMC has 722 investment professionals, with 156 partners all active in the firm. They have over 2,200 clients based in more than 60 countries. Their investors draw on WMC's rigorous, proprietary research. Ms. Richardson provided a review of the WMC Small Cap portfolios. She noted that WMC's investment objective is to outperform the Russell 2000 Index over 3-5 year periods. WMC emphasizes stock selection and they believe fundamentals of companies in the same industry can vary widely over time; stock prices follow. They utilize bottom-up research and they attempt to beat the market by exploiting intra-industry dispersion. Ms. Perry reviewed WMC's organization, people, and process. Investment returns through July 31, 2018 for the General and Police & Fire Retirement Systems' portfolios were reported as follows:

	<u>2Q18</u>	<u>1 Yr.</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>10 Yrs.</u>
Ret. Systems	6.8%	15.6%	13.2%	13.9%	13.6%
Russell 2000	7.8%	18.7%	12.0%	11.3%	10.4%
	<u>YTD</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Ret. Systems	6.4%	21.1%	20.6%	-1.7%	10.3%
Russell 2000	9.5%	14.6%	21.3%	-4.4%	4.9%
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Ret. Systems	44.3%	19.7%	-1.9%	36.3%	44.4%
Russell 2000	38.8%	16.3%	-4.2%	26.9%	27.2%

She reviewed the top performing and bottom performing sectors as well as provided information on the top ten active positions and portfolio characteristics. Ms. Perry reviewed the Commodities portfolios and commented that WMC believes in a long-term, fundamental and valuation-driven approach to active commodity management. WMC seeks to outperform their strategic benchmark, an equal sector-weighted customer commodities index. There are approximately 50 commodities in the opportunity set with maturities ranging between one month and ten years and they have sector allocation flexibility. The contribution-to-relative-risk approach guides portfolio positioning. The collateral is managed to achieve high quality and liquidity. She reviewed the commodities team, commodities universe, investment process, and portfolio construction. Investment returns through July 31, 2018 for the General and Police & Fire Retirement Systems' portfolios were reported as follows:

	<u>YTD</u>	<u>1 yr.</u>	<u>3 yrs.</u>	<u>Since Inception*</u>
Retirement Systems	-1.7%	8.2%	2.3%	-6.7%
Strategic Benchmark	-1.6%	6.5%	1.6%	-7.2%
Production-Weighted S&P GSCI	6.5%	20.0%	-0.6%	-10.8%
Bloomberg Commodity Index	-2.1%	2.7%	-1.6%	-8.5%
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Retirement Systems	9.9%	15.9%	-25.9%	-13.6%
Strategic Benchmark	10.6%	10.3%	-23.6%	-14.6%
Production-Weighted S&P GSCI	5.8%	11.4%	-32.9%	-33.1%
Bloomberg Commodity Index	1.7%	11.8%	-24.7%	-17.0%

Ms. Perry reviewed performance attribution and positioning for the portfolios and provided views on short- and intermediate-term drivers in the commodities market. She stated that many commodities are in the lower to middle point of their cycles. It is WMC's belief that this is the best commodities environment as they are broadly in deficit with strong global growth and restrained supply. Commodity futures curves are generating a positive roll yield, they are undervalued v. stocks and bonds and they outperform in this phase of the economic cycle. She stated that the risk remains unchanged due to the slowdown in China, global recession, and U.S. oil production outperforming expectations. Concerns around a trade war and global growth have recently weighed on metals and agriculture commodities. Commodity prices are at extreme lows relative to equities and bonds. Ms. Perry reviewed WMC's investment guidelines and provided information on representative account characteristics. The report was received and filed by Chairman Hawkins.

Chairman Hawkins next addressed the contract renewal for the Executive Director. He thanked those Trustees who completed the survey regarding this issue and noted that due to time constraints it was not possible for the committee to meet before today's meeting. Therefore, he recommended that Trustees signify their intent to renew the Executive Director's contract for another 3-year period. The committee will then meet with the Executive Director to discuss the issue further and bring back this topic for finalization at the December 2018 Joint Board meeting. Mr. Balkema made the motion to extend the Executive Director's contract for a 3-year period. The motion was seconded by Mr. Timkovich and carried.

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

Ms. Korzen commented that the contract with Northern Trust for custody and benefit payment services is due to expire September 30, 2019. She noted that there has not been an RFP for these services since Northern Trust was hired in 2001 and asked Trustees if they wish to issue an RFP. Mr. Mitchell stated that he thought it would be prudent to do so; Trustees agreed. Ms. Korzen stated that the RFP process will commence in the early part of 2019.

Mr. Alex Ford of Wilshire Associates, Inc., provided Trustees with a report outlining suggested updates/changes to the Investment Policy with respect to the Baird Advisors (BA) portfolios. He stated that

BA has proposed several updates and changes to the existing Investment Policy and guidelines governing the two portfolios they manage on behalf of the City of Grand Rapids Retirement Systems. There are three clarifying items: 1) change “Lehman Aggregate Bond Index” to “Bloomberg Barclays Aggregate Bond Index;” 2) change “Yankee” to “Foreign Issuers;” and 3) follow industry convention and move ABS from their current listing under the Corporate Sector to a new category called Structured Product Sector. They requested three additional discretion items: 1) add explicit language to indicate all investment guidelines apply at the time of purchase; 2) update controlling rating language to reflect the standard Bloomberg Barclays Index inclusion rules; and 3) increase the limit on securities rated BBB and below from 20% to 25%. Mr. Ford stated that the clarifying items reflect proper labeling of index providers and sector classification while the additional discretion items are minor in scope and allow BA to manage the portfolios more in line with their typical core mandates. This will allow BA the flexibility needed to reflect the opportunity set of the broader core bond market while still preserving their conservative approach to credit quality and portfolio construction. He commented that Wilshire has discussed the proposed changes with Mr. Groeschell of BA. Wilshire believes that each of the requested updates/changes to the Investment Policy are well supported and recommends their approval. Following Trustee discussion, Mr. Tryc made the motion on behalf of the General Retirement System to approve the requested updates/changes to the Investment Policy as requested by Baird Advisors. The motion was seconded by Mr. Timkovich and carried. Mr. VanderPloeg made the motion on behalf of the Police & Fire Retirement System to approve the requested updates/changes to the Investment Policy as requested by Baird Advisors. The motion was seconded by Mr. Balkema and carried.

Chairman Hawkins disclosed that a number of Trustees attended a dinner last evening with Mr. Hazen, Mr. Goldrick, Ms. Richardson and Ms. Perry. In addition to himself, in attendance were Mr. & Mrs. Tryc and Mr. & Mrs. VanderPloeg.

The meeting adjourned at 9:36 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, November 14, 2018, at 8:05 a.m., 300 Monroe Avenue NW, City Commission Chambers, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems