

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

MINUTES  
JOINT MEETING  
SEPTEMBER 18, 2019 – 8:06 a.m.  
233 East Fulton

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. 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. Scott Hazen and Mr. Matt Autrey of Adams Street Partners, Ms. Angelique Richardson, Ms. Claire Lewis, and Ms. Joy Perry of Wellington Management Company, and Mr. David Lindberg of Wilshire Associates, Inc.

There were no public comments regarding agenda items.

Mr. Tryc made the motion to approve the minutes of the Joint Meeting of August 21, 2019. The motion was seconded by Mr. Butts and carried.

Mr. Scott Hazen, CFA and Partner and Mr. Matt Autrey, Principal, 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 \$38 billion in assets under management and 45+ years of experience. Mr. Hazen and Mr. Autrey 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 ASP investment program since their inception. Mr. Autrey 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, 2019:

<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	14.57%	\$4,600,728	\$3,113,316	\$7,714,044
Non-U.S. Developed	\$3,000,000	\$2,626,500	11.72%	\$2,118,690	\$1,897,548	\$4,016,238
Emerging Markets	\$1,000,000	\$898,000	11.58%	\$1,223,068	\$236,768	\$1,459,836
Direct Fund	\$1,000,000	\$949,000	12.89%	\$553,930	\$1,123,110	\$1,677,040
2010 Participant Total	\$10,000,000	\$8,878,500	13.30%	\$8,496,416	\$6,370,742	\$14,867,158
ASP 2013 Global Fund	\$10,000,000	\$8,180,000	11.84%	\$9,924,776	\$1,546,378	\$11,471,154
ASP 2015 Global Fund	\$13,000,000	\$8,489,000	26.01%	\$9,602,778	\$1,694,162	\$11,296,940
ASP 2017 Global Fund	\$12,000,000	\$3,942,000	11.47%	\$3,973,324	\$235,090	\$4,208,414
Grand Total	\$45,000,000	\$29,489,500	14.11%	\$31,997,294	\$9,846,372	\$41,843,666

\*Since Inception

Mr. Autrey reviewed the portfolios' performance attribution and contribution to IRR for all partnerships as of March 31, 2019. He reviewed the net asset value, capital calls and distributions for all of the funds held within both plans. Mr. Autrey stated that existing portfolio NAV should peak in 2019/2020, then decline as distributions outpace new calls and growth on unrealized investments. Mr. Hazen commented that the buyout market globally has delivered strong distributions and attractive portfolio mark-to-markets. High valuations have posed a challenge for new deals, making it essential to have an "angle" in order to win. ASP's emphasis on growth-oriented strategies and modestly levered capital structures mitigates the impact of economic cyclicality. They selectively back managers with a value-orientation or turnaround experience to position for any downturn. He provided a summary on venture capital and noted that unrealized performance remains strong and realizations (liquidity) are beginning to pick up. Global venture fundraising and investment activity remain strong and there are robust IPO and M&A markets in 2019. The venture opportunity set remains large and global on the back of continued innovation. ASP exploits inefficiencies in a competitive environment and has deep resources and relationships, a focused strategy, and consistent long-term performance. Mr. Autrey reviewed the 2019 Global Fund and stated that is a comprehensive private equity solution. The Fund offers access to the best-in-class private equity opportunities (they focus on growth and smaller companies), they have primary partnerships, and co-invest and have secondary exposure to capitalize on market inefficiencies and mitigate the j-curve. Mr. Hazen commented that if Trustees are interested, ASP will be taking new investors in their 2019 Global Fund through November 2019. The report was received and filed by Chairman Hawkins.

Ms. Angelique Richardson, CFA, Vice President, and Relationship Manager, Ms. Claire Lewis, Investment Specialist, 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 \$1,104 billion of client assets under management. WMC has 806 investment professionals, with 165 partners all active in the firm. They have over 2,200 clients based in more than 60 countries. Ms. Richardson provided a review of WMC's people, process, and small cap portfolios. Ms. Lewis 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 there is greater opportunity among stocks than sectors. They utilize bottom-up research and attempt to beat the market by exploiting intra-industry dispersion. Investment returns through July 31, 2019 for the General and Police & Fire Retirement Systems' portfolios were reported as follows:

	<u>2018</u>	<u>1 Yr.</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>10 Yrs.</u>	<u>Since Inception</u>
Ret. Systems	-9.9%	5.1%	14.3%	12.4%	17.1%	11.9%
Russell 2000	-11.0%	-4.4%	10.4%	8.5%	12.5%	8.2%
	<u>YTD</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	
Ret. Systems	24.1%	21.1%	20.6%	-1.7%	10.3%	
Russell 2000	17.7%	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. Lewis commented that the small cap portfolio continues to be closed to new investors and if existing clients wish to add to their portfolio, there is a 10% cap limit of current assets in their individual portfolio. 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, 2019 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>5 yrs.</u>	<u>Since Inception*</u>
Retirement Systems	8.6%	-2.6%	3.1%	-5.8%	-6.1%
Strategic Benchmark	8.0%	-0.9%	3.3%	-5.5%	-6.2%
Production-Weighted S&P GSCI	13.1%	-8.4%	4.9%	-12.4%	-10.4%
Bloomberg Commodity Index	4.4%	-5.4%	-0.7%	-8.3%	-8.0%

  

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Retirement Systems	-11.9%	9.9%	15.9%	-25.9%	-13.6%
Strategic Benchmark	-9.7%	10.6%	10.3%	-23.6%	-14.6%
Production-Weighted S&P GSCI	-13.8%	5.8%	11.4%	-32.9%	-33.1%
Bloomberg Commodity Index	-11.2%	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 aggregate commodity valuations are around the mid-point of the cycle and many commodities are in the lower to middle point of their cycles. The global supply/demand balance of crude oil forecasts have deteriorated, and supply tightness continues to be supportive of metal prices as investors are unable or unwilling to commit sufficient capital to meet requirements. Gold prices have hit their highest level in over 6 years. Ms. Perry commented that in contrast to equities and nominal bonds, commodities perform well in rising inflation environments and consistently offer diversification to traditional assets when inflation rises. She commented on what has driven the underperformance of commodities in the last decade: 1) low inflationary impulse; 2) negative roll yield; 3) low interest rates with 0% collateral return; 4) strong dollar; 5) China's economic transition; and 6) the shale revolution. The present state of commodities is that they are cheap v. other asset classes, broadly in deficit, and undervalued relative to their fundamentals. The report was received and filed by Chairman Hawkins.

Mr. Lindberg noted that Mr. Alex Ford has left Wilshire Associates for other opportunities. He stated that Mr. Ford will be replaced by Mr. Calvin Born on our account. Chairman Hawkins commented that since Mr. William Bensur left Wilshire there has been quite a bit of turnover and asked if Trustees should be concerned. Mr. Lindberg stated that there should be no concerns with Wilshire as they are increasing their shareholders and are committed to their strategy and structure. They will be celebrating their 50<sup>th</sup> anniversary in 2022. Mr. Lindberg also commented that the Adams Street Partners 2019 Global Fund will be closing in November. Mr. Lindberg will provide an updated pacing model report to Trustees at the November 2019 Joint Board meeting; however, it is Wilshire's recommendation that Trustees invest in this product to stay on track with their private equity allocation. He stated that Trustees could start the documentation process now to meet the November deadline for investing. The commitment would be approximately \$5 - \$6 million per plan. Trustees agreed to start the documentation process now. Mr. Butts asked when the General Retirement System should no longer consider investing in private equity since it is a closed plan; Mr. Lindberg stated that investing in the 2019 Global Fund will work with the strategy for the General Retirement System, but probably between 5 and 10 years, Wilshire will be recommending a different investment strategy for the System. Ms. Korzen asked if Mr. Lindberg will provide Trustees with an updated investment policy statement; he said yes, he will provide this policy to Trustees at the November 2019 Joint Board meeting. Mr. Lindberg also noted that at that meeting he will provide Trustees with a time-weighted return report regarding private equity.

Ms. Korzen commented that the contract with Northern Trust (NT) for custody and benefit payment services is due to expire September 30, 2019. She stated that five companies were contacted for an RFP bid; one declined to respond and one did not respond at all. The candidates that responded were: 1) The Northern Trust Company; 2) U.S. Bank; and 3) Wells Fargo. The Operations Committee recently met to review the responses. After careful review and consideration the committee recommended The Northern Trust Company. There are a few items that the Executive Director will discuss with NT, but nothing major and they will be able to be worked out. Following Trustee discussion, Mr. Timkovich made the motion on behalf of the General Retirement System to approve the contract renewal with The Northern Trust Company, subject to legal review, for a period of three years. The motion was seconded by Mr. Butts and carried. Mr. VanderWall made the motion on behalf of the Police & Fire Retirement System to approve the contract renewal with The Northern Trust Company, subject to legal review, for a period of three years. The motion was seconded by Mr. Balkema and carried.

Mr. Michaud commented that recently there was an attempt to steal \$4.9 million from a Michigan retirement system. The individual(s) forged letters of direction and sent them to the investment manager and the bank. The scheme was caught when the bank contacted the administrator regarding the transaction. He stated that he will put together a process and policy statement for the Retirement Systems to assist with the current safeguards in place to protect against fraud. Chairman Hawkins stated that it might be prudent to establish a compliance subcommittee to periodically review these types of issues; Trustees agreed.

Chairman Hawkins noted that the November 20, 2019 Board meetings will take place in the Retirement Systems office.

Chairman Hawkins reminded Trustees that when they attend a conference, they must each write a report on the conference and submit the report before being reimbursed for expenses.

Chairman Hawkins disclosed that a number of Trustees attended a dinner last evening with Mr. Hazen, Mr. Autrey, Ms. Richardson, Ms. Lewis, and Ms. Perry. In addition to himself and his spouse, in attendance were Mr. & Mrs. Mitchell, Mr. & Mrs. Moody, Mr. & Mrs. VanderWall, Mr. & Mrs. Timkovich, Mr. & Mrs. Butts, and Mr. & Mrs. Tryc.

Chairman Hawkins stated that he has received all but one performance evaluation for the Executive Director. As soon as all responses are received he will meet with the Vice Chairmen and then review the information with the Executive Director.

The meeting adjourned at 9:42 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, November 20, 2019, at 8:15 a.m., 233 E. Fulton, Suite 216, Grand Rapids, Michigan.

Peggy Korzen  
Executive Director  
General and Police & Fire Retirement Systems