

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

MINUTES
JOINT MEETING
AUGUST 17, 2016 – 8:15 a.m.
233 East Fulton

The session was called to order by Chairman Michael Hawkins. Other members present: Mr. David Tryc, Mr. Craig VanderWall, Mr. Martin Timkovich, Mr. Philip Balkema, Mr. William Butts, Mr. Jon O'Connor, and Mr. Phillip Mitchell. Absent: Mr. Thomas VanderPloeg and Ms. Jane Hofmeyer.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, and Mr. J.M. Ruscetti and Mr. Alex Ford of Wilshire Associates, Inc.

Mr. Tryc made the motion to excuse the absences of Mr. VanderPloeg and Ms. Hofmeyer. The motion was seconded by Mr. Balkema and carried.

There were no public comments regarding agenda items.

Mr. VanderWall made the motion to approve the minutes of the Joint meeting of June 15, 2016 and the Special Joint meeting of July 27, 2016. The motion was seconded by Mr. O'Connor and carried.

Mr. J.M. Ruscetti and Mr. Alex Ford presented the quarterly performance report to Trustees. Mr. Ruscetti noted that the U.S. stock market was up by 2.8% for the second quarter. Price swings during the quarter were not nearly as extreme as what investors experienced during the first quarter, except for the last week of trading. Large cap stocks underperformed smaller stocks during the quarter while growth stocks trailed value stocks. The big news during the quarter was the "Brexit" vote with the United Kingdom deciding to withdraw from the European Union. The initial reaction from the markets was not surprising; equity prices fell while bond prices rose. Investors quickly learned how to manage a post-Brexit world due, in part, to the fact that the entirety of the fallout will not be known for possibly years. The economic slowdown in China, combined with a generally weaker forecast of corporate earnings throughout the region, put investors in a selling mood overall. European stocks did manage modest gains. U.S. Treasury securities extended their rally in the second quarter thanks to broad investor uncertainty, initially over the outcome of the Brexit vote, then over the details and timetable of the withdrawal of the U.K. from the European Union. YTD as of August 12, 2016: the S&P 500 Index was up 8.3%; the Russell 2000 was up 9.3%; the Wilshire 5000 was up 8.7%; the MSCI ACWI Ex-US was up 1.9%; the Barclays Aggregate was up 5.9%; the Barclays U.S. TIPS Index was up 6.7%; the Bloomberg Commodity Index was up 7.2%; and the Alerian MLP Index was up 15.7%. 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 06/30/16

<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	2.46	2.69	11.58	12.91	8.21
RUSSELL 2000	3.79	-6.73	7.08	8.35	6.20
NAREIT GLOBAL RE INDEX	3.46	11.58	8.08	7.80	N/A
MSCI ACWI X-US	-0.64	-10.24	1.17	0.10	1.87
BARCLAYS AGGREGATE	2.21	6.00	4.06	3.76	5.13
BLOOMBERG COMMODITY	12.78	-13.32	-10.55	N/A	N/A
91 DAY T-BILLS	0.07	0.19	0.09	0.09	1.04

General Retirement System

Asset Commitments as of 06/31/16:

Domestic Equity	25.5%
Fixed Income	25.2%
Cash Equivalents	0.3%
Real Estate	5.1%
Private Equity	2.5%
Non-U.S. Equity	21.8%
Commodities	3.8%
MLPs	5.7%
TIPS	10.2%

Asset Allocation to Managers:

NTAM	16.3%
PIMCO	2.8%
Wellington Management Company	6.4%
Baird Advisors	12.6%
Western Asset Management	12.6%
Cash Account	0.3%
Neuberger Berman	14.4%
Harding Loevner	7.5%
CBRE Clarion	5.1%
Adams Street Partners	1.6%
Aberdeen Asset Management	0.9%
Wellington Commodities	3.8%
Harvest Fund Advisors	5.7%
Brown Brothers Harriman	10.2%

Quarterly Summary of the General Retirement System

	<u>Market Value</u> <u>06/30/16</u>	<u>Market Value</u> <u>03/31/16</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$390.1 million	\$383.9 million	\$6.2 million	2.88%	8 th percentile
Total U.S. Equity	\$99.3 million	\$98.1 million	\$1.2 million	3.36%	8 th percentile
Total Non-U.S. Equity	\$85.2 million	\$89.2 million	(\$4.0 million)	-1.65%	85 th percentile
Total Fixed Income	\$98.4 million	\$96.2 million	\$2.2 million	3.08%	23 rd percentile
Total Real Estate	\$19.8 million	\$19.4 million	\$400 thousand	2.02%	54 th percentile
Total Private Equity	\$9.8 million	\$9.4 million	\$400 thousand	8.40%	N/A
Total Commodities	\$14.7 million	\$13.3 million	\$1.4 million	10.43%	N/A
Total MLPs	\$22.1 million	\$18.4 million	\$3.7 million	19.93%	N/A
Total TIPS	\$39.8 million	\$39.1 million	\$700 thousand	1.66%	57 th percentile
NTAM	\$63.5 million	\$62.9 million	\$600 thousand	2.47%	28 th percentile
PIMCO	\$10.9 million	\$11.7 million	(\$800 thousand)	2.93%	10 th percentile
Wellington Mgmt. Co.	\$24.9 million	\$23.5 million	\$1.4 million	5.95%	9 th percentile
Neuberger Berman	\$56.0 million	\$60.3 million	(\$4.3 million)	-3.05%	88 th percentile
Harding Loevner	\$29.2 million	\$28.8 million	\$400 thousand	1.17%	29 th percentile
Baird Advisors	\$49.2 million	\$47.9 million	\$1.3 million	2.58%	38 th percentile

Western Asset Mgmt.	\$49.3 million	\$48.2 million	\$1.1 million	3.57%	13 th percentile
CBRE Clarion	\$19.8 million	\$19.4 million	\$400 thousand	2.02%	54 th percentile
Adams Street Partners	\$6.3 million	\$6.2 million	\$100 thousand	78.25%	N/A
Aberdeen Asset Mgmt.	\$3.5 million	\$3.2 million	\$300 thousand	6.80%	N/A
Wellington Commodities	\$14.7 million	\$13.3 million	\$1.4 million	10.43%	N/A
Harvest Fund Advisors	\$22.1 million	\$18.4 million	\$3.7 million	19.93%	N/A
Brown Brothers Harriman	\$39.8 million	\$39.1 million	\$700 thousand	1.66%	57 th percentile

Police and Fire Retirement System

Asset Commitments as of 06/30/16:

Domestic Equity	25.4%
Fixed Income	25.2%
Cash Equivalents	0.3%
Real Estate	5.1%
Private Equity	2.6%
Non-U.S. Equity	21.9%
Commodities	3.7%
MLPs	5.7%
TIPS	10.1%

Asset Allocation to Managers:

NTAM	16.2%
PIMCO	2.9%
Wellington Management Company	6.3%
Baird Advisors	12.5%
Western Asset Management	12.7%
Cash Account	0.3%
Neuberger Berman	14.5%
Harding Loevner	7.4%
CBRE Clarion	5.1%
Adams Street Partners	1.6%
Aberdeen Asset Management	0.9%
Wellington Commodities	3.7%
Harvest Fund Advisors	5.7%
Brown Brothers Harriman	10.1%

Quarterly Summary of the Police & Fire Retirement System

	<u>Market Value</u> <u>06/30/16</u>	<u>Market Value</u> <u>03/31/16</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$377.4 million	\$370.5 million	\$6.9 million	2.87%	9 th percentile
Total U.S. Equity	\$95.9 million	\$94.8 million	\$700 thousand	3.35%	8 th percentile
Total Non-U.S. Equity	\$82.6 million	\$85.7 million	(\$3.1 million)	-1.68%	85 th percentile
Total Fixed Income	\$95.1 million	\$92.6 million	\$2.5 million	3.08%	23 rd percentile
Total Real Estate	\$19.4 million	\$19.0 million	\$400 thousand	2.02%	54 th percentile
Total Private Equity	\$9.8 million	\$9.4 million	\$400 thousand	8.39%	N/A
Total Commodities	\$14.1 million	\$12.8 million	\$1.6 million	10.43%	N/A
Total MLPs	\$21.3 million	\$17.7 million	\$3.6 million	20.06%	N/A
Total TIPS	\$38.1 million	\$37.5 million	\$600 thousand	1.66%	57 th percentile
NTAM	\$61.3 million	\$60.8 million	\$500 thousand	2.47%	28 th percentile
PIMCO	\$10.8 million	\$11.5 million	(\$700 thousand)	2.93%	10 th percentile
Wellington Mgmt. Co.	\$23.8 million	\$22.5 million	\$1.3 million	5.95%	9 th percentile
Neuberger Berman	\$54.8 million	\$58.3 million	(\$3.5 million)	-3.05%	88 th percentile
Harding Loevner	\$27.8 million	\$27.4 million	\$400 thousand	1.14%	29 th percentile
Baird Advisors	\$47.2 million	\$46.1 million	\$1.1 million	2.59%	38 th percentile
Western Asset Mgmt.	\$47.8 million	\$46.5 million	\$1.3 million	3.57%	13 th percentile
CBRE Clarion	\$19.4 million	\$19.0 million	\$400 thousand	2.02%	54 th percentile
Adams Street Partners	\$6.3 million	\$6.2 million	\$100 thousand	76.49%	N/A
Aberdeen Asset Mgmt.	\$3.5 million	\$3.2 million	\$300 thousand	6.80%	N/A
Wellington Commodities	\$14.1 million	\$12.8 million	\$1.3 million	10.43%	N/A

Harvest Fund Advisors	\$21.3 million	\$17.7 million	\$3.6 million	20.06%	N/A
Brown Brothers Harriman	\$38.1 million	\$37.5 million	\$600 thousand	1.66%	57 th percentile

The report was received and filed by the Chairman.

Mr. Ruscetti and Mr. Ford provided Trustees with a report on Smart Beta and Minimum Volatility. Mr. Ruscetti provided an overview on the growth of index investing by noting it has evolved since the late 1800s. The basic premise is that asset class risk premia consist of systematic factor returns and alpha from active management, and certain systematic factors have provided persistent excess risk over the cap-weighted benchmark. He reviewed the factor definitions and factor measures used when identifying the investible factor premium and provided information on the factor correlations and factor cyclicity. Mr. Ford stated that smart beta lies somewhere between traditional alpha and beta. The smart beta framework: 1) has an objective to achieve incremental return per unit of risk v. market-cap weighted index strategies; 2) follows rules-based strategies; and 3) re-configures index-like portfolios to gain specific exposure that provides persistent return premium for assuming factor risk instead of asset class risk. He reviewed the pros and cons of smart beta and the different implementation tools. Implementation of smart beta requires detailed manager research and product due diligence to understand the potential impact. Mr. Ruscetti provided Trustees with an education piece on minimum volatility. He stated that low volatility equity portfolios are comprised of diversified securities constructed with the objective of achieving minimum variance. He reviewed the characteristics and benefits and the low volatility anomaly. Mr. Ford commented that low volatility stocks outperform high volatility stocks due to behavioral tendencies, limits on arbitrage, and compounding effects. He reviewed Wilshire's 2016 capital market assumptions and noted that Wilshire's forward-looking capital market assumptions predict more risk than the Wilshire GR-6 model. Low volatility strategies are deployed not only across, but also within sectors. He provided statistics on the global market 36 month rolling risk, rolling drawdowns, and rolling Sharpe ratio. He stated there are 350 stocks within the index, which rebalances semiannually. Chairman Hawkins asked how Wilshire would like to see Trustees proceed with this information. Mr. Ruscetti commented that low volatility opportunities should be considered by Trustees at some point due to the benefits they could provide to the Retirement Systems.

Board approval was requested for attendance at the following conferences: Baird Institutional Investors Conference to be held September 11 - 12 by Chairman Hawkins, Mr. VanderWall, Mr. Timkovich, Mr. Tryc, Mr. Mitchell and the Fall MAPERS Conference to be held September 18 - 20 by Chairman Hawkins, Mr. Tryc, Mr. Timkovich, Mr. Mitchell, Mr. VanderWall, Ms. Korzen, and Ms. Balkema. Mr. Balkema made the motion to approve attendance of the aforementioned conferences by Trustees and staff per the Trustee Training, Educational Development and Due Diligence policy. The motion was seconded by Mr. VanderWall and carried.

Trustees discussed the presentations by the four investment consultant firms at the July 27, 2016 Special Joint Meeting. Each Trustee voiced his opinion of the four firms. Chairman Hawkins noted that this discussion will be placed on the next Joint Board meeting in order to allow Ms. Korzen and Mr. Michaud time to obtain additional information from the four firms.

Ms. Korzen suggested that it may be prudent to change the meeting format for next year to schedule the investment manager presentations when the investment consultant is present. Those meetings would be longer; however, the meetings without presentations would be shorter. Chairman Hawkins asked Trustees if there would be any interest in moving the Board meetings from Wednesdays to Fridays. Mr. Balkema stated that it would be prudent to speak with the investment managers and the investment consultant to ensure this would not be a problem for them. Trustees provided some initial feedback and will revisit this issue at a later date.

Chairman Hawkins commented that he would be sending Trustees information to their email addresses regarding the annual performance evaluation for the Executive Director soon and asked all Trustees to complete the requested information.

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

Mr. Michaud provided Trustees with a report summarizing the recent legal issues and decisions of interest to Michigan public retirement and healthcare plans.

Ms. Korzen noted that the terms of office for Mr. Craig VanderWall and Mr. David Tryc will be expiring the first Monday in 2017. Both Trustees have indicated they would like to continue in their respective offices. The election process for Mr. VanderWall and Mr. Tryc will commence in September.

The meeting adjourned at 10:07 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, September 21, 2016, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems