

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

MINUTES
JOINT MEETING
AUGUST 16, 2017 – 8:07 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. Jon O'Connor, and Mr. Phillip Mitchell. Absent: Mr. Craig VanderWall.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Mr. Marlin Pease, Mr. Alex Ford, and Mr. David Lindberg of Wilshire Associates, Inc., Mr. William Wallace and Mr. Brian Faleiro of Neuberger Berman, Mr. Lawrence Fumarolo of The Northern Trust Company, Mr. William "Mac" Nickey of Northern Trust Asset Management, Mr. Jim Anderson and Mr. Jeffrey Tebeau (via telephone) of Gabriel, Roeder, Smith and Company, Mr. Jeff Dood, Chief Financial Officer for the City of Grand Rapids, and Ms. Sara VanderWerff, City Comptroller.

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

There were no public comments regarding agenda items.

Mr. O'Connor made the motion to approve the minutes of the Joint Meeting of June 21, 2017. The motion was seconded by Mr. VanderPloeg and carried.

Mr. Marlin Pease, Mr. Alex Ford, and Mr. David Lindberg presented the quarterly performance report to Trustees. Mr. Lindberg commented that the U.S. stock market was up 3.0% for the second quarter of 2017 and economic releases during the second quarter were solid with growth in both the economy and labor market. The Fed raised the Fed funds rate in June by 0.25%, the second such increase this year. Equity markets outside of the U.S. produced very strong returns during the second quarter of 2017, in both developed and emerging markets. Britain is showing signs of struggling with Brexit and emerging markets are outpacing developed markets in 2017. The U.S. Treasury yield curve continued to flatten during the quarter with the one-year yield up 21 basis points and the 30-year down 18 basis points. Mr. Lindberg provided Trustees with Wilshire's June 2017 asset class assumptions, an update on the 2017 state funding study, and an extensive update on the U.S. equity market, non-U.S. equity market, U.S. fixed income market, and the high yield bond 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 06/30/17**

<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	3.09	17.90	9.61	14.63	7.18
RUSSELL 2000	2.46	24.60	7.36	13.70	6.92

08/16/17

NAREIT GLOBAL RE INDEX	2.71	0.21	3.67	7.50	N/A
MSCI ACWI X-US	5.78	20.45	0.80	7.22	1.13
BLOOMBERG AGGREGATE	1.45	-0.31	2.48	2.21	4.48
BLOOMBERG COMMODITY	-3.00	-6.50	-14.81	N/A	N/A
91 DAY T-BILLS	0.20	0.49	0.23	0.17	0.58

General Retirement System

Asset Commitments as of 06/30/17:

Domestic Equity	25.8%
Fixed Income	24.2%
Cash Equivalents	0.4%
Real Estate	4.7%
Private Equity	3.2%
Non-U.S. Equity	23.9%
Commodities	3.5%
MLPs	4.8%
TIPS	9.4%

Asset Allocation to Managers:

NTAM	16.2%
PIMCO	3.1%
Wellington Management Company	6.6%
Baird Advisors	12.0%
Western Asset Management	12.2%
Cash Account	0.4%
Neuberger Berman	15.7%
Harding Loevner	8.1%
CBRE Clarion	4.7%
Adams Street Partners	2.1%
Aberdeen Asset Management	1.0%
Wellington Commodities	3.5%
Harvest Fund Advisors	4.8%
Brown Brothers Harriman	9.4%

Police and Fire Retirement System

Asset Commitments as of 06/30/17:

Domestic Equity	25.8%
Fixed Income	23.8%
Cash Equivalents	1.2%
Real Estate	4.6%
Private Equity	3.3%
Non-U.S. Equity	23.8%
Commodities	3.4%
MLPs	4.8%
TIPS	9.3%

Asset Allocation to Managers:

NTAM	16.1%
PIMCO	3.0%
Wellington Management Company	6.7%
Baird Advisors	11.8%
Western Asset Management	12.0%
Cash Account	1.2%
Neuberger Berman	15.7%
Harding Loevner	8.1%
CBRE Clarion	4.6%
Adams Street Partners	2.1%
Aberdeen Asset Management	1.1%
Wellington Commodities	3.4%
Harvest Fund Advisors	4.8%
Brown Brothers Harriman	9.3%

The report was received and filed by the Chairman.

Mr. Brian Faleiro, CFA, Senior Vice President and Portfolio Specialist, and Mr. Bill Wallace, CFA, Senior Vice President and Client Advisor of Neuberger Berman (NB) presented their firm's annual report to Trustees. Mr. Wallace provided an overview of the firm and noted that NB was founded in 1939; has 490 investment professionals; has a 100% ownership structure as it is independently, employee owned; has \$281 billion total assets under management; and 94% of clients' assets are managed by lead portfolio managers who have 20+ years of industry experience. Mr. Wallace reviewed the global equity team structure. Mr. Faleiro noted that NB has an experienced team that utilizes a differentiated approach and consistent process to assist in risk management. He commented that NB's investment philosophy is a disciplined fundamental process to capitalize on international opportunities. Mr. Faleiro noted that NB starts with a wide universe that focuses on quality at a reasonable price. Then they determine industry and

business drivers to identify high quality undervalued companies and utilize broad guidelines to help exploit market opportunities. NB employs a multi-layered approach with respect to risk management - security level, portfolio construction, and firm oversight. Mr. Wallace reviewed the retirement systems' objectives and portfolio guidelines and provided the following return statistics for both portfolios for periods ending June 30, 2017:

Annualized Returns

	2 nd Qtr.					Since
	<u>2017</u>	<u>YTD</u>	<u>1 Yr.</u>	<u>3 Yr.</u>	<u>5 Yr.</u>	<u>Inception</u>
						<u>06/30/06</u>
General Retirement System	7.17%	15.13%	18.37%	3.35%	8.72%	3.55%
Police & Fire Retirement System	7.17%	15.13%	18.37%	3.35%	8.72%	3.58%
MSCI ACWI Ex-U.S.	5.78%	14.10%	20.45%	0.80%	7.22%	3.43%
MSCI EAFE Index	6.12%	13.81%	20.27%	1.15%	8.69%	3.15%

Mr. Faleiro reviewed the equity fund characteristics, holdings, sector allocations and attribution, market cap allocation, and regional and country attribution for the portfolios. He also reviewed the top 10 contributors and top 10 detractors for the portfolios as of June 30, 2017. Mr. Wallace commented that if Trustees wish, they could convert the present portfolios from institutional shares to R6 (retirement) shares at no cost; the fees would be lower for R6 shares (0.84 basis points v. 0.78 basis points). Mr. Lindberg stated that there are Wilshire clients that are presently utilizing R6 shares with NB. Mr. Wallace stated there are other options available to the Retirement Systems if Trustees wish to try to capture more emerging market exposure; one option would be a Collective Investment Trust (CIT), whereby the Retirement Systems would be the initial seeding for the investment. Following Trustee discussion, Mr. Mitchell made the motion on behalf of the General Retirement System to convert the Neuberger Berman portfolio from institutional shares to R6 shares. The motion was seconded by Mr. Timkovich and carried. Mr. VanderPloeg made the motion on behalf of the Police & Fire Retirement System to convert the Neuberger Berman portfolio from institutional shares to R6 shares. The motion was seconded by Mr. Balkema and carried. Chairman Hawkins stated that Trustees will consult with Wilshire regarding obtaining additional information on the CIT and present this information at the September 2017 Joint Board meeting. The report was received and filed by Chairman Hawkins.

Mr. Pease, Mr. Lindberg, and Mr. Ford next presented a report covering Capital Market Assumptions, International Fee Structure, and Fee Analysis. Mr. Ford reviewed Wilshire's expected risk and return forecasts for 10 – 30 years and noted that Wilshire's extended time horizon is consistent with benefit and spending obligations of most institutional investors and covers most asset classes. He provided an overview of historical returns v. Wilshire's forward-looking assumptions. Mr. Lindberg commented that Wilshire wanted to address the retirement systems' underweight exposure to emerging market equities and consider alternative courses of action to bring composites in line with market cap weighting. They would assist with determining the appropriate timeframe for investing given the potential for the upcoming asset allocation study (late 2017/early 2018) and ensure any changes made would be compliant with Michigan Public Act 314. He noted that both Neuberger Berman (NB) and Harding Loevner (HL) are still well regarded by Wilshire. He commented that today, emerging markets comprise approximately 20-25% of the market cap outside the U.S., and NB has little exposure to emerging markets. Mr. Pease reviewed the limitation on Michigan Public Act 314 as it pertains to investments in global securities. He reviewed the current structure and noted that Wilshire had some proposed alternatives: 1) rebalance the international component to be 50% NB and 50% HL; 2) transition assets from current NB mutual fund to a different NB offering that is benchmarked against the ACWI ex-U.S.; 3) keep current NB fund, but reduce further (below 50%) and add NB's EME mutual fund (NEMIX); or 4) consider replacement strategies. Mr. Ford commented that down the road, Wilshire would like to see the retirement systems transition from the current fund at Neuberger Berman to the Collective Investment Trust (CIT) that Mr. Wallace previously spoke about as it would provide broad market exposure. Mr.

Lindberg stated that a CIT is a great mechanism for negotiating fees; he commented that Wilshire would pursue this topic with Neuberger Berman and provide more information on this product and its guidelines and proposed fees to Trustees at the September 2017 Joint Board meeting. Mr. Ford reviewed current investment managers and their fee structures.

Mr. Lawrence Fumarolo, Vice President and Senior Relationship Manager of The Northern Trust Company (NT), presented his firm’s annual update to Trustees. Mr. Fumarolo noted that NT has \$7.4 trillion in assets under custody; \$5.2 trillion in assets under administration; and 17,604 employees with 25 global office locations. He stated that NT has a strong capital position, high quality balance and superior credit ratings. NT innovates by investing in technology and expertise while delivering asset servicing and asset management solutions to institutional clients globally. He reviewed the retirement systems’ custody account structures and provided an update on benefit payments and recent enhancements to the program. Mr. Fumarolo commented on the securities lending program with NT and stated that the program is designed to enhance the return of an overall investment program without interfering with the investment strategy. He noted that cumulative net earnings through the program since 2007 were \$758,757 for the General Retirement System and \$686,084 for the Police & Fire Retirement System. Mr. William “Mac” Nickey, Senior Vice President and Senior Investment Relationship Manager of Northern Trust Asset Management (NTAM) presented his firm’s annual report to Trustees. Mr. Nickey noted that NTAM has \$1.0 trillion in assets under management as of June 30, 2017, with \$531.0 billion of that amount in equity products; NTAM is the world’s 14th largest asset manager. Mr. Nickey reviewed NTAM’s organization, people and process. He reviewed the following returns for the period ending July 31, 2017:

	<u>3 mo.</u>	<u>YTD</u>	<u>1 yr.</u>	<u>3 yr.</u>	<u>5 yr.</u>	<u>10 yr.</u>	<u>Since Inception*</u>
NT S&P 500 Index Fund	2.06%	4.15%	11.61%	16.07%	10.96%	14.86%	7.73%
S&P 500	2.06%	4.14%	11.59%	16.04%	10.87%	14.78%	7.74%

*Since inception date is 07/01/93

Mr. Nickey reviewed NTAM’s lending performance and characteristics statistics as of July 31, 2017. The report was received and filed by Chairman Hawkins.

Mr. Jim Anderson and Mr. Jeffrey Tebeau (via telephone) of Gabriel, Roeder, Smith and Company (GRS) next addressed the recommendations from the recent actuarial audit performed by Milliman for the Police & Fire Retirement System. Mr. Anderson provided Trustees with a memo outlining GRS’ responses to Milliman’s recommendations. He noted that the investment return assumption for the Police & Fire Retirement System actuarial valuation as of December 31, 2016 was 7.25%; Milliman stated this assumption was biased because it was not the median expected outcome of returns and that the Board may wish to consider further reductions to the investment return assumption. Mr. Anderson stated that the investment return assumption was reviewed in January 2017 under a newly established practice of the two retirement systems; each January, GRS will review the economic assumptions to determine if any changes are necessary for the two valuations to be performed during that calendar year. Their analysis in January 2017 confirmed that the 7.25% assumption was still reasonable. He noted that the investment return assumption is set at the arithmetic expected return as they have always believed that this approach is consistent with the funding objective of the retirement systems; however, the recommendation in the actuarial audit is also a reasonable approach. He stated that in October 2014, the Conference of Consulting Actuaries Public Plans Community issued a whitepaper regarding actuarial funding policies and practices for public pension plans; the paper provides guidance with a focus on level cost allocation. The report found that level percent of pay or level dollar amortization by source of UAAL is most compatible with a level cost allocation model (Mr. Anderson reviewed examples of this concept). Mr. Tebeau discussed the recommendation from the audit regarding the amortization method. In the Police & Fire Retirement System, it was noted that the length of the amortization periods in conjunction with the level percent-of-payroll method results in negative

amortization. He reviewed the definition of negative amortization and stated that in the last several years, negative amortization has become less favorably viewed by both the public and the actuarial community, regardless of objectives. Negative amortization can be avoided by sufficiently shortening the amortization periods used, or by switching the method to a level-dollar approach. GRS provided Trustees with a report earlier this year outlining four options addressing the length of the amortization period. Mr. Tebeau commented that the General Retirement System does not have a negative amortization issue due to the use of level dollar amortization; payroll does not factor into the amortization calculation. When considering a closed plan, an overriding goal is to fully fund the liabilities by the time the last active member retires, or to fund the plan over the average remaining career of the active members. Longer periods require lower contributions; however, there is the danger that pension costs may be shifted beyond the working careers of active members and onto future generations. Ms. Korzen stated that although the Boards recognize that the City has the authority to set the amortization period, there may be a point where Trustees wish to make a recommendation to the City Commission regarding the amortization period so as to avoid any unpleasant surprises down the road; Mr. Jeff Dood agreed and stated that the City needs to be present at meetings like this in the future to discuss these types of issues.

The Executive Director next commented that the retirement systems have been utilizing a deceased participant search with Gabriel, Roeder, Smith, and Company (GRS), for a small fee, in addition to the annual deceased participant search conducted by The Northern Trust Company (NT). GRS will no longer be able to provide this service due to changes by its service provider. Ms. Balkema has researched information on conducting a deceased participant search directly with the provider that GRS used; the cost would be thousands of dollars per year. Each social security number checked counts as a search. Ms. Korzen asked Trustees if they wish to only use the annual deceased participant search with NT or do they wish to obtain more accurate pricing information for the additional service. Mr. VanderPloeg confirmed that the risk of only having a search conducted once per year is that benefits could be paid to someone who is deceased and perhaps for several months. Ms. Balkema had been performing a deceased participant search through GRS monthly, through July 2017. Trustees asked if it is possible to have NT conduct the deceased participant search more frequently, perhaps on a quarterly basis instead of annually; Ms. Korzen stated she would check with Mr. Fumarolo and report back to Trustees on this issue at the September 2017 Joint Board meeting.

Board approval was requested for attendance at the following conferences: Baird Institutional Investors Conference to be held September 10 - 11 by Chairman Hawkins, Mr. VanderWall, Mr. Timkovich, Mr. Tryc, Mr. VanderPloeg, and Mr. Mitchell; the Fall MAPERS Conference to be held September 17 - 19 by Chairman Hawkins, Mr. VanderWall, Ms. Korzen, and Ms. Williams; and the 2017 Public Safety Employees Pension & Benefits Conference to be held October 1 - 4, by Mr. VanderWall and Mr. VanderPloeg. 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. VanderPloeg and carried.

Comments on items not on the agenda: Ms. VanderWerff asked Ms. Korzen for a copy of the memo provided today to Trustees from Gabriel, Roeder, Smith, and Company regarding their responses to the actuarial audit.

Ms. Korzen noted that Harding Loevner had recently requested some changes in their guidelines; Wilshire has reviewed the requested changes to their guidelines, and they are satisfied with the request as is Mr. Michaud. Mr. Tryc made the motion on behalf of the General Retirement System to amend the agreement with Harding Loevner to incorporate the proposed changes to their guidelines. The motion was seconded by Mr. Timkovich and carried. {Mr. O'Connor left at 10:44 a.m.} Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to amend the agreement with Harding Loevner to incorporate the proposed changes to their guidelines. The motion was seconded by Mr. VanderPloeg and carried.

Chairman Hawkins next commented that Ms. Jane Hofmeyer has resigned her position as Citizen Trustee for both Boards. Trustees were grateful for her service to both Boards and wished her well in her future endeavors. He stated that a qualified candidate has been submitted to the City Commission as her replacement; Ms. Charissa Huang. Ms. Korzen stated that Ms. Hofmeyer's resignation was just received and filed by the City Commission at their meeting last night, so now they will officially recognize that there is a vacancy on both Boards. She stated that Ms. Huang is an attorney that works with Ms. Hofmeyer and possesses a similar skill set to Ms. Hofmeyer in terms of medical knowledge for disabilities; Ms. Korzen feels she would be a good asset to the Boards. Ms. Huang has already turned in her application to the City Commission for the Citizen Trustee position for both Boards, so hopefully the City Commission will move to appoint Ms. Huang soon.

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

Chairman Hawkins reminded Trustees that they will be conducting their annual performance evaluation for the Executive Director in the next few weeks.

Chairman Hawkins commented that the current lease for the Retirement Systems office will expire June 30, 2018. He stated that this will create an opportunity for Trustees to explore which options will be in the best interest for the office for the short-term and long-term. He noted that he and Ms. Korzen recently met with a commercial realtor to potentially look at options for building acquisition and looking at the current lease. He asked Trustees for their input on this issue. Mr. Balkema reminded Trustees of the City's desire for Trustees to explore whether or not there are City facilities that might accommodate the Retirement Systems office. Mr. Tryc commented that a cost analysis for any option needs to be considered before making a decision. Mr. Butts stated his opinion that the real estate market is at a bit of a high right now, so hopefully by the time Trustees will need to make a decision, it will be in a better position. Mr. Timkovich commented that buying a building would seem to add a lot of complexity into the operations of the office; not just in terms of dollars, but contracts as well. Mr. Michaud stated that if Trustees do consider owning a building, they would need to consider all of the contract issues, maintenance, taxes, and other potential liabilities. Chairman Hawkins stated he would like to appoint a separate committee to explore this issue; he will reach out to Trustees at a later date.

The meeting adjourned at 10:50 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, September 20, 2017, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems