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

MINUTES
JOINT MEETING
DECEMBER 16, 2020 – 8:07 a.m.
VIA ONLINE CONFERENCE

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

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Kent County, MI, Mr. Thomas Michaud, Legal Advisor to the Boards, Mr. David Lindberg and Mr. Calvin Born, Jr. of Wilshire Associates, Inc., Ms. Molly Clarin, Chief Financial Officer for the City of Grand Rapids, Mr. Scott Saindon, Fiscal Services Manager for the City of Grand Rapids, and Ms. Lisa Balkema, Retirement Services Specialist, Mecosta County, MI.

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

There were no public comments regarding agenda items. {Mr. VanderWall arrived at 8:10 a.m.}

Mr. Timkovich made the motion to approve the minutes of the Joint Meeting of November 18, 2020. The motion was seconded by Mr. Tryc and carried.

Mr. Lindberg presented a report on multi-asset credit. He noted that Wilshire's recommendation modestly increases expected risk and return. He stated the Western Asset Management (WAM) has such a product and would be easy to implement, but a full manager search could be performed. The current challenge is that fixed income rates are near zero. The current allocation to core fixed income is 25%; Wilshire recommends extending WAM's core plus feature to go into other areas to garner more return. Investment grade bonds would still be held in the overall plan. He commented that the current policy is efficient, but the goal is to try to get more return in a low return environment. Wilshire recommends moving up to a slightly more defensive growth position. Mr. Born stated that implanting a multi-asset credit strategy would transition 12% of assets from core fixed income to multi-asset credit fixed income. The manager would opportunistically invest across the credit spectrum which would increase expected yield and total return potential in a low-rate environment. Mr. Born reviewed what multi-asset credit is: the manager opportunistically actively invests across the credit spectrum accessing a multitude of geographies, sectors and security types, thus broadening the opportunity set through flexibility of implementation. It increases the expected yield and total return potential. Mr. Born provided examples of Western Asset Management's (WAM) multi-asset credit allocations, provided data on 3-year rolling correlation to U.S. equities and 3-year rolling absolute risk, return, and excess return. Mr. Tryc asked why there is such a large allocation to cash in this portfolio; Mr. Born stated that is a tactical decision to help them adjust the duration in the portfolio. Multi-asset credit correlates higher with equities than fixed income; Mr. Timkovich voiced his concern with this correlation. He stated that WAM is already correlated higher to equities so why not simply allocate more funds to equities for less risk. Mr. Lindberg stated Trustees could do that; however, that would impact the overall structure of the fixed income portfolio. Mr. Timkovich voiced his concerns that Wilshire's data is forward looking without respect to how multi-asset credit has performed in the past and stated that he is uncomfortable with the additional freedom it would give the multi-asset credit manager to invest, as a lot could go wrong. Mr. Lindberg stated that Wilshire is providing Trustees with an option to obtain a little more return and receive some additional protection in today's challenging environment. Mr. Mitchell commented that he appreciated Wilshire bringing additional avenues and options to Trustees for the portfolios. Mr. Lindberg stated that Wilshire would work with the multi-asset credit manager to select the correct benchmark. Mr. Balkema asked Mr. Michaud if implementing a multi-asset credit strategy would still keep the portfolios in compliance with P.A. 314 limits; Mr. Michaud said yes. Mr. Lindberg reviewed Wilshire's recommendations in the Asset Liability Analyses report that was provided at last month's meeting. He noted that defensive assets such as fixed income are projected to only return 1.05% over the next 10 years. Wilshire recommends: 1) reducing the allocation to core fixed income; 2) replace the "plus" component that is part of core fixed income; 3) add new multi-asset credit in a defensive growth allocation to help improve returns; and 4) maintain real assets exposure with a modest reduction to inflation-linked bonds. Mr. Born stated that Wilshire's recommendations modestly increase both the expected return and expected risk, improve the projected funded status for both plans, and there would be little downside protection give-up v. the current policy in their simulation output. He reviewed the projected returns utilizing this "higher return" policy. Mr. Lindberg discussed the plan status and projected benefit payments of each retirement system. Wilshire's asset class return, risk and correlation assumptions are developed on multi-year forward-looking expected rates of return and historical risk and correlation, adjusted to incorporate recent trends. Mr. Born reviewed various statistics on the forward-looking impacts on rates, funded status, contributions, and economic costs for both retirement systems. He provided simulation outputs for each retirement system and noted the probability of each plan reaching its actuarial assumed rate of return. Mr. Born commented that what Wilshire is proposing is to reduce the allocation to fixed income by approximately half and move the allocation to multi-asset credit, which are bonds that focus more on the "plus" aspect. They also recommend reducing the TIPS allocation by approximately 1.5% and reallocate that to public equities. Mr. Lindberg commented that even if the discount rate was lower, the gap would still be there between that rate and actual return. Chairman Hawkins asked what the next steps would be should Trustees decide to implement a multi-asset credit allocation. Mr. Lindberg stated Trustees could decide to implement this product with WAM or they could have Wilshire conduct a full manager search. Chairman Hawkins asked what Wilshire's timing would be for such an allocation; Mr. Lindberg stated that they would like to see this allocation in place sometime in the first quarter of 2021; he noted that Wilshire is comfortable with WAM's multi-asset credit product. Mr. Tryc asked if the fees for such an allocation would be higher than the current fees for WAM's portfolio; Mr. Lindberg said yes. Currently the Retirement Systems pay WAM 30 basis point on the first $100 million; their multi-asset credit product would be 60 basis points. Mr. Mitchell asked if Wilshire would be bringing this idea to Trustees if the plans' expected returns weren't so far below the discount rate; Mr. Lindberg stated yes because of the current environment and the Retirement Systems' high allocation to core fixed income. Wilshire tried to account for a modest downturn in their modeling; however, they do look at the portfolios and the market environment on a quarterly basis to monitor changes. Mr. Lindberg commented that the market is not out of the woods yet and they will come back to Trustees with additional ideas and recommendations as the market environment dictates. Chairman Hawkins asked Trustees what their comfort level was with Wilshire's recommendation: Mr. Timkovich stated he felt there is too much complexity in the multi-asset credit product and he is uncomfortable with this; Mr. Tryc stated he would want the same manager, WAM, if such an allocation was approved by Trustees, but was uncomfortable with the higher fees that would be incurred; Ms. DeJonge stated that she felt that multi-asset credit seems complex and would prefer not to implement such a product; Mr. Moody stated that he is not comfortable with the fees and complexity; Mr. Mitchell noted that he's concerned about the additional risk and that maybe this issue should be considered at a later date; Mr. Balkema commented that this may be a timing issue and due to the new presidential administration taking office next month, perhaps it would be prudent to revisit this issue in 3-4 months; Mr. VanderWall stated that the benefit seems to be marginal but he could support either decision; and Mr. Veenstra stated that he was in favor of revisiting this issue at a later date. Mr. Lindberg commented that there seems to be a lot of hesitation on the part of Trustees and that they should table this issue for a later date. Chairman Hawkins asked Mr. Lindberg to provide Trustees with information on capable multi-asset credit managers in approximately 3-4 months and revisit this issue then.

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

Chairman Hawkins noted that the evaluation of the Executive Director will take place at the January 2021 Joint Board meeting, which will also allow for extra time for him to receive all of the evaluations and hopefully allow for a closed session meeting to discuss the results.

The meeting adjourned at 9:30 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, January 20, 2021, at 8:05 a.m., 233 E. Fulton, Suite 216, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems