

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

MINUTES
JOINT MEETING
FEBRUARY 15, 2017 – 8:20 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, and Mr. Phillip Mitchell. Absent: Mr. Craig VanderWall, Ms. Jane Hofmeyer, and Mr. Jon O'Connor.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Mr. Marlin Pease and Mr. Alex Ford of Wilshire Associates, Inc., Ms. Veronica Amici and Mr. Travis Carr of Western Asset Management, and Mr. Geoff LeMieux and Ms. Anna Koscielecka of Aberdeen Asset Management.

Mr. Balkema made the motion to excuse the absences of Mr. VanderWall, Ms. Hofmeyer, and Mr. O'Connor. The motion was seconded by Mr. Tryc and carried.

There were no public comments regarding agenda items.

Mr. Tryc made the motion to approve the minutes of the Joint Meeting of December 21, 2016 and January 18, 2017. The motion was seconded by Mr. Balkema and carried.

Mr. Marlin Pease and Mr. Alex Ford presented the quarterly performance report to Trustees. Mr. Pease commented on the departure of Mr. J.M. Ruscetti by noting that Mr. Ruscetti left Wilshire the first of this month to work for a family business. Chairman Hawkins asked Mr. Pease to address how Wilshire will manage the turnover issue going forward. Mr. Pease stated that he used to have approximately 13 accounts but due to Mr. Ruscetti's departure and the resulting reorganization of accounts, he now handles six accounts, including Grand Rapids. He stated that there are no issues with respect to integrity at Wilshire and that he and Mr. Ford will continue to service the Retirement Systems. Mr. Pease noted that 2016 was a year of unlikely outcomes and for the year, markets were mixed. Significant events included a market sell-off in the first quarter (U.S. Equities were down 11% through mid-February); the U.K. decided to leave the European Union; after the U.S. political election, ensuing market performance was positive despite pre-election market expectations; and the U.S. Federal Reserve only made one interest rate hike. Mr. Pease provided a performance review through February 10, 2017 and annual asset class returns, best to worst since 2011. He noted that in 2016 asset classes benefited from positive exposure to rising growth and rising inflation benefited sizably over the past 12 months. Rising inflation was the strongest factor impacting asset classes over the past calendar year. He stated that future return expectations remain challenged as lower interest rates create challenges for savers and bond investors. This type of environment pressures investors to take more risk and/or add to the complexity of investment programs. Mr. Pease also provided information on Wilshire's return and risk assumptions and their forecast over time. 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 12/31/16

<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	3.82	11.96	8.87	14.66	6.95
RUSSELL 2000	8.83	21.31	6.74	14.46	7.07
NAREIT GLOBAL RE INDEX	-5.59	4.06	5.90	12.29	N/A
MSCI ACWI X-US	-1.25	4.50	-1.77	5.00	0.96
BARCLAYS AGGREGATE	-2.98	2.65	3.03	2.23	4.35
BLOOMBERG COMMODITY	2.66	11.77	-11.26	N/A	N/A
91 DAY T-BILLS	0.08	0.33	0.14	0.12	0.80

General Retirement System

Asset Commitments as of 12/31/16:

Domestic Equity	26.8%
Fixed Income	24.4%
Cash Equivalents	0.4%
Real Estate	4.7%
Private Equity	2.9%
Non-U.S. Equity	22.0%
Commodities	3.8%
MLPs	5.3%
TIPS	9.8%

Asset Allocation to Managers:

NTAM	16.8%
PIMCO	3.0%
Wellington Management Company	6.9%
Baird Advisors	12.1%
Western Asset Management	12.2%
Cash Account	0.4%
Neuberger Berman	14.7%
Harding Loevner	7.3%
CBRE Clarion	4.7%
Adams Street Partners	1.8%
Aberdeen Asset Management	1.0%
Wellington Commodities	3.8%
Harvest Fund Advisors	5.3%
Brown Brothers Harriman	9.8%

Quarterly Summary of the General Retirement System

	<u>Market Value</u> <u>12/31/16</u>	<u>Market Value</u> <u>09/30/16</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$391.4 million	\$398.6 million	(\$7.2 million)	-0.49%	88 th percentile
Total U.S. Equity	\$104.7 million	\$101.6 million	\$3.1 million	4.97%	26 th percentile
Total Non-U.S. Equity	\$86.2 million	\$91.0 million	(\$4.8 million)	-3.69%	84 th percentile
Total Fixed Income	\$95.3 million	\$99.2 million	(\$3.9 million)	-2.53%	61 st percentile
Total Real Estate	\$18.4 million	\$20.0 million	(\$1.6 million)	-6.12%	88 th percentile
Total Private Equity	\$11.3 million	\$10.5 million	\$800 thousand	8.96%	N/A
Total Commodities	\$14.9 million	\$14.6 million	\$300 thousand	1.70%	N/A
Total MLPs	\$20.9 million	\$20.6 million	\$300 thousand	1.53%	N/A
Total TIPS	\$38.3 million	\$39.6 million	(\$1.3 million)	-2.26%	48 th percentile
NTAM	\$65.8 million	\$63.4 million	\$2.4 million	3.83%	64 th percentile
PIMCO	\$11.8 million	\$11.4 million	\$400 thousand	3.87%	52 nd percentile
Wellington Mgmt. Co.	\$27.1 million	\$26.9 million	\$200 thousand	8.37%	89 th percentile
Neuberger Berman	\$57.6 million	\$59.8 million	(\$2.2 million)	-3.61%	67 th percentile
Harding Loevner	\$28.6 million	\$31.2 million	(\$2.6 million)	-3.87%	70 th percentile
Baird Advisors	\$47.5 million	\$49.6 million	(\$2.1 million)	-2.71%	39 th percentile
Western Asset Mgmt.	\$47.8 million	\$49.6 million	(\$1.8 million)	-2.35%	16 th percentile

CBRE Clarion	\$18.4 million	\$20.0 million	(\$1.6 million)	-6.12%	88 th percentile
Adams Street Partners	\$7.4 million	\$6.8 million	\$600 thousand	96.58%	N/A
Aberdeen Asset Mgmt.	\$3.8 million	\$3.6 million	\$200 thousand	6.34%	N/A
Wellington Commodities	\$14.9 million	\$14.6 million	\$300 thousand	1.70%	N/A
Harvest Fund Advisors	\$20.9 million	\$20.6 million	\$300 thousand	1.53%	N/A
Brown Brothers Harriman	\$38.3 million	\$39.6 million	(\$1.3 million)	-2.26%	48 th percentile

Police and Fire Retirement System

Asset Commitments as of 12/31/16:

Domestic Equity	26.5%
Fixed Income	24.2%
Cash Equivalents	0.9%
Real Estate	4.7%
Private Equity	2.9%
Non-U.S. Equity	21.9%
Commodities	3.7%
MLPs	5.4%
TIPS	9.7%

Asset Allocation to Managers:

NTAM	16.7%
PIMCO	2.9%
Wellington Management Company	6.8%
Baird Advisors	12.1%
Western Asset Management	12.1%
Cash Account	0.9%
Neuberger Berman	14.6%
Harding Loevner	7.3%
CBRE Clarion	4.7%
Adams Street Partners	2.0%
Aberdeen Asset Management	1.0%
Wellington Commodities	3.7%
Harvest Fund Advisors	5.4%
Brown Brothers Harriman	9.7%

Quarterly Summary of the Police & Fire Retirement System

	<u>Market Value</u> <u>12/31/16</u>	<u>Market Value</u> <u>09/30/16</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$382.4 million	\$387.5 million	(\$5.1 million)	-0.49%	88 th percentile
Total U.S. Equity	\$101.4 million	\$98.6 million	\$2.8 million	4.97%	26 th percentile
Total Non-U.S. Equity	\$83.9 million	\$87.6 million	(\$3.7 million)	-3.69%	84 th percentile
Total Fixed Income	\$92.5 million	\$96.0 million	(\$3.5 million)	-2.51%	60 th percentile
Total Real Estate	\$18.0 million	\$19.6 million	(\$1.6 million)	-6.12%	88 th percentile
Total Private Equity	\$11.3 million	\$10.5 million	\$800 thousand	8.96%	N/A
Total Commodities	\$14.3 million	\$14.1 million	\$200 thousand	1.70%	N/A
Total MLPs	\$20.6 million	\$20.2 million	\$400 thousand	1.53%	N/A
Total TIPS	\$37.1 million	\$38.5 million	(\$1.4 million)	-2.26%	48 th percentile
NTAM	\$64.0 million	\$61.6 million	\$2.4 million	3.83%	64 th percentile
PIMCO	\$11.2 million	\$11.3 million	(\$100 thousand)	3.87%	52 nd percentile
Wellington Mgmt. Co.	\$26.2 million	\$25.7 million	\$500 thousand	8.37%	89 th percentile
Neuberger Berman	\$55.8 million	\$57.9 million	(\$2.1 million)	-3.61%	67 th percentile
Harding Loevner	\$28.1 million	\$29.7 million	(\$1.6 million)	-3.86%	70 th percentile
Baird Advisors	\$46.4 million	\$47.7 million	(\$1.3 million)	-2.68%	35 th percentile
Western Asset Mgmt.	\$46.2 million	\$48.3 million	(\$2.1 million)	-2.35%	16 th percentile
CBRE Clarion	\$18.0 million	\$19.6 million	(\$1.6 million)	-6.12%	88 th percentile
Adams Street Partners	\$7.4 million	\$6.8 million	\$600 thousand	95.29%	N/A
Aberdeen Asset Mgmt.	\$3.8 million	\$3.6 million	\$200 thousand	6.34%	N/A
Wellington Commodities	\$14.3 million	\$14.1 million	\$200 thousand	1.70%	N/A
Harvest Fund Advisors	\$20.6 million	\$20.2 million	\$400 thousand	1.53%	N/A
Brown Brothers Harriman	\$37.1 million	\$38.5 million	(\$1.4 million)	-2.26%	48 th percentile

The report was received and filed by the Chairman.

Mr. Ford next reviewed a report prepared by Wilshire regarding Private Equity pacing. He stated that Wilshire provided three different scenarios of annual commitment amounts for the Board's consideration: 1) 25% (\$5 million); 2) 30% (\$6 million); and 3) 35% (\$7 million) of the target allocation. He reviewed the assumptions that comprised this pacing model and a comparison of invested capital at the three different scenario levels. He noted that Wilshire believes successful private equity programs are built over time by consistently committing capital to the asset class. Annual pacing conveys both the opportunity and flexibility available to the investor by: 1) ensuring adequate vintage year diversification; 2) providing the ability to commit to underrepresented segments of the market; 3) allowing for adjustment for changing market dynamics; and 4) noting that investor liquidity profiles may change. Wilshire recommended that the Board consider committing \$6 to \$7 million per System to the Adams Street Partners Global 2017 Fund. Mr. Ford stated that a decision does not need to be made today, but this issue should be explored further at the May 2017 Joint Board meeting for consideration and if a commitment is decided upon by Trustees, it should occur in the latter half of 2017. The report was received and filed by the Chairman.

Mr. Geoff LeMieux, Vice President and Investment Relationship Manager and Ms. Anna Koscielicka of Aberdeen Asset Management (Aberdeen) presented their firm's annual report to Trustees. Mr. LeMieux provided historical background on FLAG Capital before they joined Aberdeen and noted that Aberdeen is a global asset management company listed on the London Stock Exchange, has 39 offices across the world, and has over 2,700 staff including over 700 investment professionals worldwide. Aberdeen has a multi-asset product range that spans traditional balanced through to outcome oriented strategies. Aberdeen has approximately \$405.4 billion in assets under management. Mr. LeMieux reviewed Aberdeen's organization, people, and process. He noted that Aberdeen has 13 investment professionals in the U.S.; 26 investment professionals in Europe, and 6 investment professionals in Asia. He provided Trustees with an overview of the Aberdeen Global Partners I, L.P. structure and noted that they offer a single solution providing access to a global portfolio of the "best in class" private capital managers while providing administrative ease. He reviewed their different products and the characteristics of each: 1) Aberdeen U.S. Private Equity V; 2) Aberdeen International Partners III; and 3) Aberdeen Venture Partners VIII. Mr. LeMieux noted that Aberdeen Global Partners is 97% committed and of that, 74% has been called. He stated that they have 56 active manager commitments and 11 co-investments. Mr. LeMieux reviewed Aberdeen's current fund manager commitments and underlying portfolio characteristics and provided a portfolio update and various statistical data. The report was received and filed by Chairman Hawkins.

Due to quorum concerns for the upcoming Police & Fire Retirement System Board meeting, this meeting was paused at 9:36 a.m. to conduct the regular meeting for the Police & Fire Retirement System. This meeting reconvened at 9:43 a.m. {Mr. Mitchell left the meeting at 9:43 a.m.}

Ms. Veronica Amici, Head of Public/Multi-Employer Relationships and Mr. Travis Carr, Product Specialist and CFA of Western Asset Management (WAM) presented their firm's annual report to Trustees. Ms. Amici provided Trustees with an update of WAM and noted that as of December 31, 2016 WAM has 125 investment professionals on five continents and seven offices and \$425.9 billion in global assets under management. She reviewed their firm's investment management team, investment philosophy and process; WAM employs a long-term, fundamental value discipline and multiple diversified strategies. Ms. Amici reviewed the risk strategies that WAM employs for the portfolios by noting that they believe integrating risk management into portfolio construction and in the independent review of portfolio risks strengthens its effectiveness. Mr. Carr provided a market review by noting that the environment in 2017 presents enormous uncertainty, particularly in the U.S., there is a cyclical surge amidst challenging secular headwinds, and there is a better U.S. outlook against a constrained global growth background. He stated that there are asymmetric upside growth prospects in the U.S. while there

are asymmetric downside growth risks from China. Mr. Carr commented that WAM's outlook for 2017 calls for steady, but unspectacular growth where spread sectors are likely to outperform. He noted that global inflation has stopped declining, U.S. growth and inflation may rise with fiscal stimulus, central banks are becoming a little less accommodative, and government bonds remain underpinned by low policy rates. Global developed markets' inflation has finally stopped its decline, but is still at a very low level where accommodative policy remains crucial for sustained growth. Global growth prospects face significant long-term secular headwinds: 1) the aging of societies in developed countries; 2) challenges of achieving real productivity growth; 3) debt burdens are a continued drag on growth; 4) global trade risks; and 5) political ascendancy of nationalism leading to increasing uncertainty in policy. He reviewed WAM's outlook with respect to U.S. fiscal policy and U.S. trade policy. Mr. Carr reviewed the attribution statistics, sector and credit sector exposures and portfolio positioning and provided the following return statistics for both portfolios as of December 31, 2016:

	<u>1 Yr.</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>10 Yrs.</u>	<u>Since Inception*</u>
General Retirement System	5.8%	4.7%	4.8%	5.7%	5.7%
Police & Fire Retirement System	5.8%	4.7%	4.8%	5.7%	5.6%
Bloomberg Barclays Agg. Index	2.6%	3.0%	2.2%	4.3%	4.3%

*April 30, 2004

The report was received and filed by Chairman Hawkins.

Mr. Thomas Michaud provided Trustees with a document outlining the new amendments to Michigan Public Act 314. The new amendments require the Retirement Systems to submit their summary annual reports to the Department of Treasury not less than 30 days after publication. The Summary Annual Reports must also include the actuarial assumed rate of health care inflation; this would be zero for the Retirement Systems as they do not offer a health care plan to the retirees. In addition, if a retirement system is less than 60% funded, the system must post on the Internet an informational report outlining the steps, if any, the system may be taking to decrease its unfunded actuarial accrued liability. Mr. Michaud commented that the amendments to this act are meant to increase transparency. He expected that the other bills that were introduced at the end of last year will be reintroduced this year. Some of the bills included issues such as: 1) liabilities for healthcare; 2) restricting employers putting money toward that liability; 3) paying for retiree healthcare and active employees' healthcare and minimizing that based on some funding percentage; 4) limits on how pensions can be calculated; and 5) additional reporting and transparency requirements. Mr. Michaud stated that while his law office is in favor of more transparency, it has to be a meaningful request and a useful purpose as it is a big administrative burden on local communities to produce this information. He stated his office is working with the legislators in Lansing to try to educate them on how to get to the end result that they would like to see in a meaningful, useful manner. He stated that the governor has now set up a committee of 20 individuals, of which Mr. Michaud's office occupies one of those seats, to address these types of issues. He stated that MAPERS is actively involved in these issues. He believes that something will be introduced in the short-term, but the majority of legislation will probably happen in mid-summer 2017. He commented that he anticipates a lot of push back from not only active employees, but retirees as well. Mr. Timkovich asked who or what organization is driving these issues; Mr. Michaud stated that it is: 1) the Michigan Municipal League; 2) private interests that want to do away with unions; and 3) the DeVos family. He noted that a lot of the issues surround teachers with respect to moving them out of defined benefit plans and into defined contribution plans. Local funding levels of pension plans and healthcare in light of Detroit's issues are some of the factors that are making these topics more pressing. He commented that State of Michigan employees are exempt from these issues and any decisions will only apply to local municipalities and teachers. He stated that the challenge they face is to get the legislators in Lansing to understand all of the

objectives and to put in procedures with respect to funding liabilities for healthcare that will mirror funding liabilities for pensions so that systems will not make promises that it cannot keep. Ms. Korzen stated part of the problem is that the State of Michigan is trying to employ a “one size fits all” approach and that will not work. Mr. Michaud stated that he will provide an update to Trustees when it becomes available.

Board approval was requested for attendance at the following conference: MAPERS One Day Seminar to be held March 10 by Ms. Korzen. Mr. Tryc made the motion on behalf of the General Retirement System to approve attendance of the aforementioned conference by Trustees and staff per the Trustee Training, Educational Development and Due Diligence policy. The motion was seconded by Mr. Timkovich and carried.

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

Chairman Hawkins asked Trustees if they had any other follow up discussion with respect to the turnover at Wilshire. Mr. Butts commented that if Mr. Ruscetti left to work at a firm like when Mr. Bill Bensus left Wilshire, he would be more concerned, but it made sense for Mr. Ruscetti to leave to go to the family business. Chairman Hawkins commented that the reason Mr. Bensus left Wilshire was due to issues with the direction Wilshire was taking, and he understood the reason Mr. Sefchok left Wilshire after his father passed away. He noted that contractually, the Retirement Systems have options if they feel the relationship with Wilshire will not be able to continue for whatever reason and there are other candidates to pursue should the need arise. Mr. Balkema commented that if Mr. Pease were to leave Wilshire, then that would probably be enough reason to terminate the relationship with Wilshire. Ms. Korzen stated that the contract with Wilshire stipulates that Wilshire has to give a 60-day notice to cancel the contract, while the Retirement Systems have no time requirement. Mr. Timkovich questioned whether other Wilshire clients are experiencing turnover in their client representatives as well. Ms. Korzen stated that she could have a conversation with Mr. Pease regarding Mr. Timkovich’s concern. Chairman Hawkins stated that if he had known that Mr. Ruscetti was leaving when Trustees were considering the contract with Wilshire, he probably would have approached the issue differently.

The meeting adjourned at 10:28 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, March 15, 2017, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems