

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

MINUTES
JOINT MEETING
FEBRUARY 16, 2022 – 8:08 a.m.
233 E. Fulton, Suite 216

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. Justin Ewald.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Ms. Mariko Boswell and Mr. Connor Woods of PIMCO, Mr. Kevin Gore and Mr. Douglas Wade of Western Asset Management, Mr. Jim Anderson and Mr. Jeff Tebeau of Gabriel, Roeder, Smith and Company, Mr. David Lindberg, Mr. Calvin Born and Mr. Jake McClelland of Wilshire Advisors LLC, and Ms. Lisa Balkema, Retirement Services Specialist.

There were no public comments regarding agenda items.

Mr. Tryc made the motion to approve the minutes of the Joint Meeting of January 19, 2022. The motion was seconded by Mr. Timkovich and carried.

Mr. Jim Anderson and Mr. Jeff Tebeau of Gabriel, Roeder, Smith and Company (GRS) next presented Trustees with a report on investment return and inflation assumptions. Mr. Anderson commented on assumed rate of return trends and stated that historically, GRS prepares full experience studies every five years and in recent years, GRS has provided both Boards with annual investment return updates. He stated that the prevailing investment outlook is that forward-looking return expectations continue to fall. Assumed rates of return are being reduced across the country; the median rate of return is 7.00% and the lowest rate is 5.25%. Mr. Tebeau reviewed the distribution of assumed investment returns for Michigan cities and county plans and actual v. assumed rates of investment returns for state and local pensions from 1992-2020. He provided an overview on the historical performance of the S&P 500 Index during U.S. bull and bear markets. Mr. Anderson reviewed the asset allocation for both retirement systems and Wilshire Advisors' return expectations (geometric returns). The 10-year median return is 4.97%, the 30-year median return is 6.40% and the standard deviation is 10.48%. He also reviewed the forward looking arithmetic and geometric returns for both plans. The 10-year median return is 5.34% under GRS' Capital Market Assumptions Modeler (CMAM) and the 20-30-year median return is 6.43%. He noted that despite a wide range of opinions, the current assumption of 7.00% is significantly higher than Wilshire's 10-year forecast and the results of GRS' CMAM survey. There is no universal method to setting this assumption, but generally it is based on 10- to 20-year forecasts of investment experts. He noted that over half of the systems' liabilities are attributable to benefit payments being made in the next 10 years. Wilshire's 10-year expectation of 4.97% implies years 11 through 30 would require a return of 8.00% or higher to achieve 7.00% long-term. Mr. Anderson commented that survey data is not an exact science; it is based on the average of averages, it does not take into account client-specific strategies or knowledge, and due to potential for mapping error, more weight should be given to Wilshire's forecasts. In light of very strong recent markets, most investment experts continue to lower their forecasts for the next 10-20 years and as a result, many systems are using a portion of these investment gains to "buy down" the investment return assumption. He commented that lowering the actuarial assumed rate of return should not impact the asset allocation strategy or actual investment return of the plan. He reviewed the estimated impact of a 17% investment return for the calendar year 2021 for the Police & Fire Retirement System. Mr. Tebeau reviewed alternate future return scenarios for the Police & Fire Retirement System and their impact on estimated City contribution rates. He stated that the current situation offers a unique opportunity with the potential to reduce the return assumption without substantially increasing

the employer contribution rate. A reduction in the assumed investment return from 7.00% to 6.75% may be prudent. If this was to be done, it would impact the December 31, 2021 valuation for the Police & Fire System and the June 30, 2022 valuation for the General System, and the City’s fiscal year 2024 employer contribution rate. It is GRS’ understanding that this issue will be revisited annually. Following Trustee discussion, Mr. Tryc made the motion on behalf of the General Retirement System to lower the investment return assumption from 7.00% to 6.75%. The motion was seconded by Mr. Mitchell and carried; Mr. Moody opposed. Mr. Moody made the motion on behalf of the Police & Fire Retirement System to lower the investment return assumption from 7.00% to 6.75%. The motion was seconded by Mr. VanderWall and carried.

Ms. Mariko Boswell, Executive Vice President, CFA and CAIA, and Mr. Connor Woods, Account Associate, of Pacific Investment Management Company (PIMCO), presented their firm’s annual report to Trustees. Mr. Woods noted that the StocksPLUS strategies at PIMCO were launched in 1986 and have nearly \$36 billion in assets under management. PIMCO has \$2.2 trillion in assets under management, 50 years of experience in the industry, 930+ investment professionals, 3,160+ total employees, and clients in 50+ countries. He reviewed the StocksPLUS product and how it works; he noted that the bond portfolio is designed to be uncorrelated to equities, highly liquid, high quality, and flexible. He commented on the long-term excess returns of the various components of the StocksPLUS composite. Ms. Boswell reviewed the organization and process; she stated that the StocksPLUS strategy seeks to provide diversifying sources of excess returns, and low correlation of alpha provides potential diversification benefits to a portfolio of traditional active equity managers. She commented that equity markets rallied despite the emergence of the Omicron variant and persistent inflationary pressures. Developed market equities rose 7.8% in the 4th quarter of 2021, led by gains in the U.S. and Europe with U.S. equities rising to all-time highs. U.S. equities rose 11.0% in the 4th quarter to finish the year with a total return of 28.7%. Despite the pandemic, most public companies saw their revenues and margins exceed 2019 levels. In Europe, equities rose 7.7% over the quarter despite tensions in the Ukraine, record gas prices, and surging COVID cases. Several European countries including Germany, the Netherlands, and Austria, implemented a combination of strict lockdowns, mask mandates, and vaccine card requirements. Chinese equities rose 2.1% as the economy reopened and the China-led Regional Comprehensive Economic Partnership, the world’s largest trade bloc, kicked in. The following returns were reported for the period ending December 31, 2021:

	<u>10 yrs.</u>	<u>5 yrs.</u>	<u>3 yrs.</u>	<u>1 yr.</u>	<u>6 mo.</u>	<u>3 mo.</u>	Since <u>09/30/87</u>	Acct. <u>Inception*</u>
StocksPLUS L.P.	17.3%	18.8%	26.7%	28.4%	11.5%	10.8%	11.2%	8.1%
S&P 500	16.6%	18.5%	26.1%	28.7%	11.7%	11.0%	10.6%	7.6%

*Inception date: 09/01/00

Ms. Boswell commented that spread sector strategies contributed to performance while interest rate strategies detracted in 2021. The collateral portfolio is positioned with a focus on high quality assets and maintaining a low correlation to equities and above average level of liquidity allows PIMCO to be opportunistic. She stated that they are investing in a fast-moving cycle and there are three important developments impacting the outlook for 2022: 1) new virus variants; 2) inflation broader, more persistent; and 3) more hawkish central banks. With respect to emerging markets, there is a dispersion in fundamentals as central banks are removing accommodations. She stated that elevated valuations underpin the importance of active management and selection. The report was received and filed by Chairman Hawkins.

Mr. Kevin Gore, Client Service Executive, and Mr. Douglas Wade, Product Specialist and CFA, of Western Asset Management (WAM) presented their firm’s annual report to Trustees. Mr. Gore provided Trustees with an update of WAM and noted that WAM was founded in 1971; as of December 31, 2021 WAM had 133 investment professionals on five continents and seven offices, with \$492.4 billion in global assets under management. Mr. Gore reviewed the firm’s investment management team, investment philosophy and process and provided a business update on the firm; WAM employs a long-term, fundamental value discipline and multiple diversified strategies. Mr. Wade 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. He stated that risk management is a team effort and robust

communication and escalation procedures underpin the independence and transparency of risk management. Mr. Gore noted that WAM's investment strategy seeks to maximize return via a well-diversified, long-term value-based core fixed income portfolio that includes limited opportunistic exposure to the "plus" sectors (high yield and non-U.S. and emerging market debt). He reviewed WAM's attribution statistics, investment results, sector exposure, credit sector exposure, and portfolio positioning v. the Bloomberg Barclays U.S. Aggregate Unhedged Index. He reviewed WAM's outlook for 2022 and noted that they believe that inflation remains challenging, but will ease substantially in 2022. COVID-19 is transitioning from a pandemic to an endemic. With respect to fixed income, U.S. growth to likely just be modest (2% - 3%) and global growth is also decelerating from high levels. Global growth has recently down-shifted but should remain firm, which continues to support the overweight of spread product. U.S. growth is strong but starting to moderate and Eurozone inflation is moving closer to its target. China's policy is loosening amid a cyclical soft patch. The challenges of debt burdens and global slack should slow future growth. He noted that in 2022, U.S. fiscal impulse may turn negative and disposable income may fall to sub-2020 levels. They believe that supply constraints will ease in 2022. High-yield spreads are tight but they continue to see pockets of opportunity and mortgage credit offers attractive relative value. Emerging markets have improving fundamentals, policy tightening, and attractive valuations. Mr. Gore 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, 2021:

	<u>1 Yr.</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>10 Yrs.</u>	<u>Since Inception*</u>
General Retirement System	-1.2%	7.2%	5.4%	5.1%	5.6%
Police & Fire Retirement System	-1.2%	7.2%	5.4%	5.1%	5.6%
Bloomberg Barclays U.S. Agg. UH Index	-1.5%	4.8%	3.6%	2.9%	4.1%

*April 30, 2004

The report was received and filed by Chairman Hawkins.

Mr. David Lindberg, Mr. Calvin Born and Mr. Jake McClelland presented the quarterly performance report to Trustees. Mr. Lindberg commented that the U.S. stock market, represented by the FT Wilshire 5000 Index, was up 9.6% for the fourth quarter of 2021 and nearly all sectors were in positive territory, with real estate, information technology, and materials representing the best performing sectors. Large-cap stocks outperformed small-cap stocks while growth stocks outperformed value stocks. Increases in the CPI have reached rates not seen in 40 years. Employment is quite strong, but the personal savings rate has fallen to a level last seen in late 2017, suggesting that consumers are saving less as they adjust to rising prices. Germany is facing a potential recession as supply issues and new coronavirus cases weigh on their economy. Growth has slowed in the U.K. and emerging markets have experienced weakness this year, particularly in China, South Korea, and Brazil. The U.S. Treasury yield curve was up 45 basis points in the short end (at the 2-year maturity) but down in the long end of the curve. The 10-year Treasury yield ended the quarter at 1.51%, up two basis points. Through the Fed's "dot plot" they are messaging that the current intent is for three 25 basis point increases in the overnight rate before the end of 2022. 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 RETURNS
PERIODS ENDED 12/31/21**

<u>Plan</u>	<u>QTR.</u>	<u>1 YEAR</u>	<u>3 YEARS</u>	<u>5 YEARS</u>	<u>10 YEARS</u>
General Retirement System	5.07	18.27	15.61	10.70	9.65
Policy Index	4.05	16.43	13.63	9.32	8.22
Police & Fire Retirement System	5.09	18.14	15.62	10.66	9.65
Policy Index	4.05	16.43	13.63	9.32	8.22

General Retirement System

Asset Commitments as of 12/31/21:

Domestic Equity	17.3%
International Equity	16.4%
Fixed Income	23.3%
Real Estate	5.5%
Private Equity	7.9%
Commodities	4.8%
Midstream Energy	4.9%
TIPS	4.9%
Private Credit	4.3%
Global Low Volatility	9.8%
Cash	0.7%

Asset Allocation to Managers:

NTAM	11.4%
PIMCO	3.6%
Wellington Management Company	2.5%
Baird Advisors	11.7%
Western Asset Management	11.8%
Neuberger Berman	8.3%
Harding Loevner	8.2%
CenterSquare Investment Management	5.5%
Adams Street Partners	6.6%
Aberdeen Asset Management	1.3%
Wellington Commodities	4.8%
Harvest Fund Advisors	4.9%
Brown Brothers Harriman	4.9%
Grosvenor Capital Management	3.2%
50 South Capital	1.1%
BlackRock	9.8%
Cash	0.7%

Police and Fire Retirement System

Asset Commitments as of 12/31/21:

Domestic Equity	18.1%
International Equity	17.0%
Fixed Income	23.4%
Real Estate	5.4%
Private Equity	7.6%
Commodities	4.9%
Midstream Energy	4.8%
TIPS	4.4%
Private Credit	4.1%
Global Low Volatility	9.4%
Cash	0.7%

Asset Allocation to Managers:

NTAM	11.8%
PIMCO	3.7%
Wellington Management Company	2.6%
Baird Advisors	11.9%
Western Asset Management	11.9%
Neuberger Berman	8.7%
Harding Loevner	8.4%
CenterSquare Investment Management	5.4%
Adams Street Partners	6.3%
Aberdeen Asset Management	1.3%
Wellington Commodities	4.9%
Harvest Fund Advisors	4.8%
Brown Brothers Harriman	4.4%
Grosvenor Capital Management	3.0%
50 South Capital	1.1%
BlackRock	9.4%
Cash	0.7%

The reports were received and filed by Chairman Hawkins. Mr. Lindberg also provided Trustees with a Capital Market Return Assumptions Update.

Board approval was requested for attendance at the following conferences: the MAPERS One Day Seminar to be held March 4 by Ms. Korzen; the Spring MAPERS Conference to be held May 22 – 24 tentatively by Mr. VanderWall, Mr. Moody, Mr. Tryc, and Ms. Korzen; and the Annual NCPERS Conference to be held May 21 – 25 tentatively by Mr. Ewald, Chairman Hawkins, and Mr. VanderWall. 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. Tryc and carried.

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

The meeting adjourned at 10:38 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, March 16, 2022, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems