

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

MINUTES
JOINT MEETING
MAY 17, 2017 – 8:05 a.m.
233 East Fulton

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

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. Charles Groeschell and Mr. Jeffrey Simmons of Baird Advisors, Mr. Mark Babiec of CBRE Clarion, Mr. Jim Anderson and Mr. Jeffrey Tebeau (via telephone) of Gabriel, Roeder, Smith and Company, Mr. Timothy Herman of Milliman, and Ms. Sara VanderWerff, City Comptroller.

Mr. O'Connor made the motion to excuse the absence of 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 March 15, 2017. The motion was seconded by Mr. O'Connor and carried.

Chairman Hawkins asked Mr. Pease to provide Trustees with information regarding his upcoming retirement from Wilshire Associates, Inc. Mr. Pease stated that he will be retiring at the end of the year and Wilshire has plans in place to ensure a seamless transition for the City of Grand Rapids Retirement Systems' accounts. Mr. David Lindberg will be the lead representative for the Retirement Systems once Mr. Pease retires. Mr. Lindberg has worked with the Retirement Systems in the past. Mr. Pease and Mr. Lindberg will work together for the remainder of 2017 to ensure a seamless transition and Mr. Ford will also remain on the Retirement Systems' accounts. Mr. Lindberg commented that he is looking forward to reconnecting with Trustees and servicing the accounts. He first worked with Trustees back in 2001 with Mr. William Bensus, for approximately three years.

Mr. Marlin Pease, Mr. Alex Ford, and Mr. David Lindberg presented the quarterly performance report to Trustees. Mr. Pease commented that the U.S. stock market was up 5.61% for the first quarter of 2017 and the market has been trending upward, generally, for more than a year now, including six straight quarterly gains. Despite price increases that have been accelerating, the Fed's forecast for the Fed funds rate at year-end 2017 was little changed from their December meeting. Large cap stocks outperformed small cap stocks and growth stock led value stocks. There are a number of signals that point to strength in the employment market, beyond an unemployment rate below 5%. Equity markets outside of the U.S. produced very strong returns during the first quarter of 2017, in both developed and emerging markets. Despite major events in the global political arena, emerging market equities had their best quarter since early 2012 to begin the new year. The Federal Open Market Committee decided to increase their overnight rate by 0.25% at their March meeting, their third increase since 2008. 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 03/31/17

<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	6.07	17.17	10.37	13.30	7.51
RUSSELL 2000	2.47	26.22	7.22	12.35	7.12
NAREIT GLOBAL RE INDEX	2.07	0.94	5.29	7.32	N/A
MSCI ACWI X-US	7.86	13.13	0.56	4.36	1.35
BARCLAYS AGGREGATE	0.82	0.44	2.68	2.34	4.27
BLOOMBERG COMMODITY	-2.33	8.71	-13.91	N/A	N/A
91 DAY T-BILLS	0.10	0.36	0.17	0.14	0.68

General Retirement System

Asset Commitments as of 03/31/17:

Domestic Equity	26.2%
Fixed Income	24.0%
Cash Equivalents	0.4%
Real Estate	4.6%
Private Equity	3.0%
Non-U.S. Equity	23.2%
Commodities	3.7%
MLPs	5.2%
TIPS	9.6%

Asset Allocation to Managers:

NTAM	16.4%
PIMCO	3.1%
Wellington Management Company	6.7%
Baird Advisors	11.9%
Western Asset Management	12.1%
Cash Account	0.4%
Neuberger Berman	15.4%
Harding Loevner	7.8%
CBRE Clarion	4.6%
Adams Street Partners	1.9%
Aberdeen Asset Management	1.0%
Wellington Commodities	3.7%
Harvest Fund Advisors	5.2%
Brown Brothers Harriman	9.6%

Police and Fire Retirement System

Asset Commitments as of 03/31/17:

Domestic Equity	26.1%
Fixed Income	23.7%
Cash Equivalents	1.2%
Real Estate	4.6%
Private Equity	3.1%
Non-U.S. Equity	23.0%
Commodities	3.6%
MLPs	5.3%
TIPS	9.5%

Asset Allocation to Managers:

NTAM	16.4%
PIMCO	3.0%
Wellington Management Company	6.7%
Baird Advisors	11.8%
Western Asset Management	11.9%
Cash Account	1.2%
Neuberger Berman	15.2%
Harding Loevner	7.8%
CBRE Clarion	4.6%
Adams Street Partners	2.0%
Aberdeen Asset Management	1.0%
Wellington Commodities	3.6%
Harvest Fund Advisors	5.3%
Brown Brothers Harriman	9.5%

The report was received and filed by the Chairman.

Mr. Ford next reviewed a report prepared by Wilshire regarding Private Equity pacing and the Adams Street Partners (ASP) 2017 Global Fund Program. He stated that this issue was discussed briefly at the February 15, 2017 Joint Board meeting. He noted the report outlined 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 provided an overview and background information on ASP. He stated that based on the recent pacing analysis, it is Wilshire's recommendation to commit \$6 million per retirement system to the ASP 2017 Global Fund. This commitment will keep both retirement systems on track to meet their target allocation to private equity. The next closing date is in Jun 2017, with subsequent closings thereafter. He noted that the ASP 2017 Global Fund program is broadly diversified across geography, strategy, and subclass and their allocation to secondary investments will help mitigate the J-curve effect due to a quicker payback period. Mr. Ford reviewed the fund terms and conditions and ASP's investment performance by strategy. He reiterated 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. Mr. Tryc asked where any additional funding into a new private equity allocation would come from; Mr. Ford stated that the plans presently have an overweight to U.S. equities, so that would most likely be the source of the funding. Chairman Hawkins asked if the quoted fees are negotiable; Mr. Pease stated no, but the fees quoted are fairly standard in the industry. Following Trustee discussion, Mr. VanderWall made the motion on behalf of the Police & Fire Retirement System to commit \$6.0 million to the Adams Street Partners 2017 Global Fund Program, subject to legal review and successful contract negotiations. The motion was seconded by Mr. Balkema and carried. Mr. Timkovich made the motion on behalf of the General Retirement System to commit \$6.0 million to the Adams Street Partners 2017 Global Fund Program, subject to legal review and successful contract negotiations. The motion was seconded by Mr. Tryc and carried.

Mr. Charles Groeschell, Managing Director and Senior Portfolio Manager, and Mr. Jeffrey Simmons, CFA, Managing Director and Senior Portfolio Manager, of Baird Advisors (Baird) presented their firm's annual report to Trustees. {Mr. Butts left at 8:55 a.m.} Mr. Simmons noted that Baird was founded in 1919 in Milwaukee and has total assets under management of more than \$50.9 billion. They have a disciplined, research driven approach. Baird has 3,500 associates of which 2,200 are shareholders. He noted that Baird has been designated for the 14th consecutive year as one of the Fortune 100 Best Companies to Work For. Mr. Simmons reviewed their investment philosophy and process, which is twofold: 1) to structure portfolios to achieve the return of the benchmark for each client (accomplished by a duration neutral discipline); and 2) to add incremental value through a bottom-up, risk-controlled process (Baird seeks to consistently add 15-50 basis points of incremental return). Baird seeks to utilize a holistic approach to achieve the optimal portfolio structure. Baird's internal research and security selection are the primary drivers of incremental return as they identify value from the bottom up. Mr. Groeschell provided Baird's perspective on the current environment and noted that the U.S. economy continues to have moderate growth with an improved outlook on Trump's pro-growth agenda, though headwinds remain; a modest uptick in wages continues while consumer inflation reaches the Fed's 2% long-term goal; Europe's growth is modestly improving with deflation risk subsiding, but geopolitical risks remain; China's transitioning economy is stabilizing at a slower rate and their rapid debt growth is a concern; and the pace of policy normalization with the Fed is accelerating. He stated that the risk environment remains elevated due to issues like lofty expectations for the pro-growth agenda, the global political shift toward populism and nationalism, and geopolitical "hot spots" like North Korea, Russia, and the Middle East. The biggest near-term risk is disappointment. Mr. Groeschell commented that the Central Bank bond buying has distorted market yields and the U.S. dollar strength creates additional uncertainty. He noted that so far in 2017 credit spreads are tighter and mortgage spreads wider. A search for yield is bringing foreign investors to the U.S. bond market and strong demand is being met by record

issuance. Mr. Simmons reviewed the City of Grand Rapids Retirement Systems' objectives, risk controls, portfolio guidelines and characteristics, and provided the following return statistics for the portfolios:

	<u>General Retirement System</u>	<u>Police & Fire Retirement System</u>	<u>Barclays Aggregate Index</u>
2003 (Mar.-Dec.)	3.25%	3.25%	2.60%
2004	4.88%	4.88%	4.34%
2005	3.13%	3.15%	2.43%
2006	4.75%	4.77%	4.33%
2007	6.15%	6.07%	6.97%
2008	-1.10%	-1.56%	5.24%
2009	9.52%	10.22%	5.93%
2010	9.98%	9.81%	6.54%
2011	8.06%	7.83%	7.84%
2012	7.00%	7.13%	4.22%
2013	-1.56%	-1.51%	-2.02%
2014	6.99%	6.99%	5.97%
2015	1.01%	0.99%	0.55%
2016	3.80%	3.90%	2.65%
2017 (1 st Qtr.)	1.08%	1.07%	0.82%
<u>Since Inception</u>			
Cumulative Return	90.90%	90.91%	76.47%
Annualized Return	4.70%	4.70%	4.12%

The report was received and filed by Chairman Hawkins.

Mr. Mark Babiec, CFA, Senior Vice President and Head of Client Service, of CBRE Clarion Securities (CBRE) presented his firm's annual report to Trustees. Mr. Babiec noted that CBRE has 95+ dedicated real estate securities professionals worldwide, their average portfolio management team has 23 years of experience, and employs a team-oriented approach with individual accountability. CBRE has experienced exceptionally low turnover of investment team personnel and CBRE is part of CBRE Group, Inc., the world's leading real estate services firm, and had \$18 billion in real asset portfolios as of December 31, 2016. He provided Trustees an overview of CBRE's organization and process. CBRE's investment philosophy is to generate consistent outperformance v. passive strategies through building conviction-based portfolios. They aim to identify undervalued real estate in the listed markets through superior information and research and allocate capital to regions and sectors where they believe real estate fundamentals and valuations are most attractive. CBRE manages risk via intensive company due diligence and prudent security selection while maintaining a diversification of companies, property sectors and geography. He stated that the global universe of public real estate companies is large and diverse: 44% in the Americas; 40% in the Asia-Pacific region; 14% in Europe; and 2% in the Middle East/Africa. CBRE's global investment policy committee performs a top-down analysis while its global investment team performs a bottom-up analysis. The portfolio is well diversified by geography and property type. Investment returns as of 03/31/17 for the General and Police & Fire Retirement Systems' portfolios were reported as follows:

	<u>Trailing 3-Years</u>	<u>Trailing 5-Years</u>	<u>YTD 2017</u>	<u>Since Inception*</u>
General Retirement System	4.3%	6.6%	1.3%	11.1%
Police & Fire Retirement System	4.3%	6.6%	1.3%	11.1%

FTSE EPRA/NAREIT Developed Index	5.3%	7.3%	2.1%	11.6%
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*Inception date – June 16, 2009

Chairman Hawkins commented that due to a time conflict, Mr. Jim Anderson needed to leave for another meeting, but would like to comment on the actuarial audit prepared by Milliman.

Mr. Timothy Herman of Milliman next presented the results from the recent actuarial audit of the December 31, 2015 actuarial valuation prepared by Gabriel, Roeder, Smith & Company (GRS). He reviewed the purpose and scope of the level two actuarial audit. He noted that Milliman's conclusion that the actuarial valuation produced accurate results from a technical perspective; however, they do have some concerns about the adequacy of the contribution rates produced in the valuation. He stated that there are two aspects of the assumptions and methods used in the valuation that perhaps produced contribution rates that are likely to be too low: 1) there is almost a 2/3 probability that the compounded returns on plan assets will be less than the 7.25% investment return assumption; and, 2) the contribution rates may not be sufficient to pay the unfunded actuarial accrued liability under the amortization policy used in the valuation. It is Milliman's recommendation that these two aspects of the assumptions and methods be reviewed and appropriate corrective action be taken by the Board and the City respectively as soon as possible. Mr. Anderson provided Trustees with a report outlining GRS' response to the actuarial audit and commented that the 7.25% long-term assumption is consistent with that provided by the System's investment consultant and is at a level that GRS can support. The near-term Wilshire expectation is lower than 7.25% and if realized exactly, will not result in funding progress over the near-term; the result would be a decline in the funded ratio. Mr. Anderson thanked Mr. Herman for his work on the actuarial audit and stated that the 7.25% long-term assumption is exacerbated by the length of the current amortization period. Upon review of the data and in conjunction with long-term expectations outlined by Wilshire, he reaffirmed that 7.25% is appropriate, but GRS will continue to revisit this issue each year. He offered four options related to the amortization period: 1) calculate a contribution only based on the period established by the City with the caveat previously noted; 2) calculate a contribution based on an alternate, shorter period that results from a discussion with the Board and meets the objectives of the Board; 3) provide the shorter period as a primary calculation, with the calculation based on the period established by the City in GRS' comments only; 4) compute a contribution rate only based on a shortened period established by the Board, with no mention of the rate that results from the amortization period established by the City. Mr. Anderson stated that an issue was also raised regarding the use of level-percent of payroll amortization, which has been discussed with the Board previously, but can be reviewed again. Mr. Tebeau (via telephone) agreed with Mr. Anderson's comments. Chairman Hawkins clarified that the four options regarding the amortization period will not be acted upon today, but discussed at a future Board meeting; Mr. Anderson agreed. Mr. Herman recommended lowering the return assumption to a number that is expected to be achieved at least 50% of the time. Mr. Herman reviewed the process for their actuarial audit as well as key findings, membership data, actuarial value of assets, actuarial liabilities, funding, actuarial assumptions (both economic and demographic). He commented that one item for consideration for future valuations and experience studies would be to review the results from SOA's public plan mortality study and monitor the margin for mortality assumptions by considering annual reviews of the margin in the mortality assumption, or use generational projection of mortality improvements. Mr. Tebeau agreed and commented that GRS will be monitoring this issue going forward. Mr. Herman stated that Milliman found GRS' actuarial report to be generally clear and complete given the volume of numbers required in an actuarial report. It is Milliman's opinion that the actuarial valuation report satisfies Actuarial Standard of Practice No. 41 dealing with actuarial communications. He did suggest that GRS provide the following information going forward: 1) add an exhibit detailing the calculation of the contributions; and 2) add a membership reconciliation chart to summarize changes in the member population between successive valuation dates. Chairman Hawkins thanked Mr. Herman for his firm's time and effort on this audit. The report was received and filed by the Chairman.

Mr. Babiec continued with his presentation and provided a review of 2016 markets and noted his belief that we are entering into a period in which CBRE's fundamental approach will outperform again. Real estate stocks ended 2016 with a positive total return, outperforming bonds and underperforming equities in a volatile year. North America was the top-performing region, while Europe was the worst performing region. He discussed the contributors and detractors from the portfolio in 2016. In 2016, the market favored high dividend low growth stocks for a majority of the year. Mr. Babiec commented that CBRE's disciplined investment process has delivered consistent outperformance, exceeding the benchmark in 13 of the last 15 full calendar years over various investment environments and 2016 performance (-1.8%) was inconsistent with their long-term performance track record. He reviewed CBRE's 2017 portfolio positioning strategy and commented on their outlook for 2017: 1) they have an improving global economic growth outlook, but uncertainty remains related to diverging central bank policies and political risk; 2) they believe there is favorable long-term supply and demand in commercial real estate markets; and 3) they expect 5% - 10% total returns for global property stocks over the next 12 months. He noted that U.S. REITS tend to outperform when the Fed raises rates and U.S. new construction remains well below the long-term average. Mr. Babiec reviewed CBRE's total return strategy, various statistical data, and top holdings by region. The report was received and filed by Chairman Hawkins.

The Executive Director next presented a draft Freedom of Information Act (FOIA) Policy to Trustees. She commented that there have been recent changes by the State of Michigan and Mr. Michaud assisted Ms. Korzen in drafting FOIA policies for each Board, as well as a summary of each policy. She noted that these policies, once approved, will be posted online. She commented that the City Attorney's office has typically handled all FOIA requests on behalf of the Boards; however, it is appropriate to move this responsibility to the Retirement Systems and implement policies and procedures to handle these requests. Mr. VanderPloeg made the motion on behalf of the Police & Fire Retirement System to approve the Freedom of Information Act (FOIA) policy as written. The motion was seconded by Mr. O'Connor and carried. Mr. Tryc made the motion on behalf of the General Retirement System to approve the Freedom of Information Act (FOIA) policy as written. The motion was seconded by Mr. Timkovich and carried. Mr. Balkema asked if Ms. Korzen will communicate this to the City; she responded yes.

Comments on items not on the agenda: Ms. VanderWerff asked Ms. Korzen to forward her a copy of the response report from Gabriel, Roeder, Smith and Company regarding the actuarial audit. Ms. Korzen agreed to send her the report.

Ms. Korzen commented that MMRO is the company that assists the Retirement Systems with disability applicants. There have been discussions on whether or not the services that they are providing are of sufficient value. She stated that the intent of hiring MMRO was to ease some of the administrative functions within the office and that has not occurred. Ms. Balkema is still doing roughly the same amount of work on disability claims as before, aside from MMRO scheduling one I.M.E. and preparing a summary at the end of the process. She stated that a recent disability applicant died during the process, before MMRO scheduled an I.M.E. and prepared their summary report, yet MMRO was still going to assess the \$545 fee. Ms. Korzen recommended terminating the relationship with MMRO. She noted that their contract states the Retirement Systems need to provide a 30-day notice to terminate the relationship, otherwise their contract would automatically renew June 30 for another year. Mr. VanderPloeg made the motion on behalf of the Police & Fire Retirement System to terminate the contract with MMRO. The motion was seconded by Mr. VanderWall and carried. Mr. Tryc made the motion on behalf of the General Retirement System to terminate the contract with MMRO. The motion was seconded by Mr. Mitchell and carried.

The Executive Director commented that the City recently completed a job classification study (as the last one had been completed in the early 1990s). They reviewed all of the City positions; hers was not included as it is taken care of by the Boards. The three other staff members of the Retirement Systems

Office completed the questionnaire and provided the requested documentation pertaining to their respective positions. The consultant that was hired by the City to complete this study did not make any recommendations regarding Ms. Fairman's position, but did recommend that the positions held by Ms. Balkema and Ms. Williams have a lower salary. Ms. Korzen noted that the problem was that there are no accurate comparables for Ms. Balkema's and Ms. Williams' positions, because most municipal retirement systems are not independent of their plan sponsor. Both Ms. Balkema and Ms. Williams have completed their appeal paperwork and Ms. Korzen has completed appeal paperwork on behalf of the office. The appeals pointed out: 1) that there are no viable comparables; and 2) to which positions within the City these positions are similar. Based on comparisons to similar City positions, the salary level for each is appropriate. Ms. Korzen will keep Trustees informed on the process.

Chairman Hawkins disclosed that a number of Trustees attended a dinner last evening with Mr. Groeschell, Mr. Simmons, and Mr. Babiec. In addition to himself and his spouse, in attendance were Mr. Mitchell, Mr. Timkovich and spouse, Mr. VanderWall and spouse, Mr. Tryc and spouse, and Ms. Korzen.

The meeting adjourned at 10:42 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, June 21, 2017, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems