

GENERAL RETIREMENT SYSTEM
BOARD OF TRUSTEES
CITY OF GRAND RAPIDS
MICHIGAN

MINUTES
GENERAL MEETING
NOVEMBER 16, 2022 – 8:05 a.m.
233 E. Fulton

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

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Mr. Philip Balkema, Mr. Stephen DiGirolamo, Mr. David Lindberg, and Mr. Jake McClelland of Wilshire, Mr. Amer Hasan and Mr. Jorge Aseff of Brown Brothers Harriman, Mr. Anthony Merhige and Mr. John Simkiss of Harvest Fund Advisors.

Mr. Moody made the motion to excuse the absences of Mr. Mitchell and Mr. Butts. The motion was seconded by Mr. Tryc and carried.

There were no public comments regarding agenda items.

Mr. Amer Hasan, Senior Relationship Manager, and Mr. Jorge Aseff, Co-Portfolio Manager, U.S. TIPS Strategy, of Brown Brothers Harriman (BBH) presented their firm’s annual report to Trustees. Mr. Hasan noted that BBH is a privately-owned financial services firm and in early September 2021, BBH announced it would be selling its global custody business to State Street Bank, with an expected closing in the coming months. He stated that this will not materially impact their investment management or private banking businesses or their relationships with clients. BBH’s model and partnership structure also remain unchanged. He noted that BBH offers a select number of value-oriented investment strategies where they believe they can generate attractive results over full market cycles. Mr. Hasan provided an overview of their fixed income team. Mr. Aseff stated that inflation surprised markets once again, keeping the Federal Reserve on an aggressive policy tightening stance. Treasury yields climbed, the curve flattened, and market-implied inflation expectations declined. BBH’s active strategies outperformed and they believe that current TIPS valuations offer attractive opportunities. Mr. Aseff provided an update on the inflation-indexed fixed income market as of September 30, 2022. Short maturity market-implied inflation expectations declined with energy prices while long-term market-implied inflation expectations have remained remarkably stable considering inflation remains at multi-decade highs. As the Fed reduces its holdings in conjunction with policy rate hikes, TIPS net supply expanded for the first time since 2019, presenting opportunities for auction cycle trading. He noted that annual headline CPI is 8.2% and core is 6.6%. Higher wages increased the prices of services and changes in shelter and labor costs tend to persist. He stated that despite the ongoing inflation risks, TIPS pricing suggests the Fed will succeed in its inflation fight and retreat to their target; BBH believes valuations present attractive opportunities. He commented that, globally, real rates remain low and economic, fiscal, and monetary conditions in the U.S. appear most likely to result in rising inflation and higher real yields. {Mr. Tryc left at 9:02 a.m.} Mr. Aseff provided Trustees with an overview on BBH’s inflation-indexed securities fund and provided fund characteristics as of September 30, 2022, noting the following return statistics:

	<u>YTD*</u>	<u>Since Inception</u>
BBH Inflation-Indexed Securities Fund	-13.76%	1.60%
Bloomberg Barclays U.S. TIPS Index	-13.61%	1.76%

*Returns are annualized.

The report was received and filed by Chairman Hawkins.

Mr. Anthony Merhige, Senior Managing Director, and Mr. John Simkiss, Senior Managing Director and Portfolio Strategist, of Harvest Fund Advisors (HFA) presented their firm's annual report to Trustees. Mr. Merhige noted that HFA has undergone a structural transformation and that they offer a product that is tax efficient, liquid, and has a flat, low fee. He noted that HFA was founded in 2005 and partnered with Blackstone in 2017 as Blackstone's public midstream infrastructure equities platform with approximately \$6.4 billion in total firm assets under management. Mr. Merhige noted that HFA has 16 employees and they are focused on generating attractive risk-adjusted total returns, with compelling inception-to-date performance. He reviewed their representative client types and stated that critical infrastructure assets are priced at a discount. Mr. Simkiss provided a summary of the portfolios including metrics. He commented on HFA's investment process, noting the following return statistics for the portfolios:

	<u>General Retirement System</u>	<u>Police & Fire Retirement System</u>	<u>S&P MLP TR Index</u>
YTD	20.84%	21.31%	22.29%
<u>Since Inception:</u>			
Annualized Return	-0.50%	-0.47%	-1.65%
Cumulative Return	-3.74%	-3.51%	-11.88%

He reviewed the position detail for the holdings within the portfolios and provided background on the best and worst performers through September 2022. Mr. Simkiss stated that very little yield can be found in traditional fixed income, so allocators must get creative. HFA's compelling income stream is backed by real-asset cash flows and they believe midstream equity yields have decoupled from the quality of their underlying cash flows. He commented that essential midstream assets now trade at a compelling discount to historical averages. Midstream is generating increasing amounts of free cash flow after distributions, allowing for substantial return of capital. At present, roughly 60% of midstream cash flow comes from take-or-pay contracts. He stated that existing energy infrastructure will be critical for decades. The European shift away from Russian natural gas is a substantial new demand source for U.S. liquified natural gas. Natural gas continues to help decarbonize the U.S. power stack. The report was received and filed by Chairman Hawkins.

Mr. Stephen DiGirolamo, Mr. David Lindberg, and Mr. Jake McClelland presented Wilshire's quarterly performance report to Trustees. Mr. DiGirolamo commented that the U.S. stock market was down 4.4% for the third quarter of 2022 and is now down 24.4% for all of 2022. Small-cap outperformed large-cap by 100 basis points and growth stocks outperformed value stocks for the quarter but trail meaningfully for the year-to-date. He stated that the U.S. Equity market is in the midst of one of the worst sell-offs in the past 20 years, ahead of only the global financial crisis and COVID shutdown. Despite earnings falling short of expectations in 2022, they continue to trend higher v. 2021. The rally collapsed after the Federal Reserve Chairman stated in August that the Fed would continue to combat inflation in a way that could cause "some pain" for the U.S. economy. In Europe, monetary policy tightening and an energy crisis due in part to restricted Russian gas supplies weighed on stocks. China is currently struggling on several fronts-slowing growth, record high youth unemployment and a collapsing housing market. The U.S. Treasury yield curve was up meaningfully across all maturities during the quarter. The 10-year Treasury yield ended the quarter at 3.83%, up 81 basis points from June. The FOMC increased their overnight rate by 0.75% in both July and September, targeting a range of 3.00%- 3.25%. The Equity markets

reacted negatively to the Fed Chairman’s “pain” speech in August where he stressed the committee’s current goal of taming inflation. Mr. DiGirolamo provided Trustees with Wilshire’s September 2022 asset class assumptions, an economic review, and an extensive update on the U.S. equity market, non-U.S. equity market, U.S. fixed income market, and private equity 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 09/30/22**

<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	-5.44	-12.06	4.45	4.71	6.34
Policy Index	-5.67	-12.57	3.07	3.83	5.25
Police & Fire Retirement System	-5.44	-12.30	4.34	4.63	6.31
Policy Index	-5.67	-12.57	3.07	3.83	5.25

General Retirement System

Asset Commitments as of 09/30/22:

Domestic Equity	16.2%
Non-U.S. Equity	14.3%
Fixed Income	24.2%
Global Low Volatility	10.1%
Real Estate	4.6%
Private Equity	9.0%
Commodities	5.1%
Midstream Energy	5.5%
TIPS	5.3%
Private Credit	5.4%
Cash Equivalents	0.4%

Asset Allocation to Managers:

NTAM	10.7%
PIMCO	3.3%
Wellington Management Company	2.2%
Neuberger Berman	7.2%
Harding Loevner	7.1%
BlackRock	10.1%
CenterSquare	4.6%
Wellington Commodities	5.1%
Brown Brothers Harriman	5.3%
Harvest Fund Advisors	5.5%
Adams Street Partners	7.6%
Aberdeen Asset Management	1.4%
Grosvenor Capital	4.0%
50 South Capital	1.4%
Baird Advisors	12.4%
Western Asset Management	11.8%
Cash Account	0.4%

Police and Fire Retirement System

Asset Commitments as of 09/30/22:

Domestic Equity	16.6%
Non-U.S. Equity	14.7%
Fixed Income	24.3%
Global Low Volatility	9.6%
Real Estate	4.7%
Private Equity	8.7%
Commodities	5.3%
Midstream Energy	5.8%
TIPS	4.7%
Private Credit	5.0%
Cash Equivalents	0.6%

Asset Allocation to Managers:

NTAM	11.0%
PIMCO	3.2%
Wellington Management Company	2.4%
Neuberger Berman	7.4%
Harding Loevner	7.3%
BlackRock	9.6%
CenterSquare	4.7%
Wellington Commodities	5.3%
Brown Brothers Harriman	4.7%
Harvest Fund Advisors	5.8%
Adams Street Partners	7.4%

Aberdeen Asset Management	1.3%
Grosvenor Capital	3.7%
50 South Capital	1.3%
Baird Advisors	12.5%
Western Asset Management	11.8%
Cash Account	0.6%

The report was received and filed by the Chairman.

The Executive Director presented the 2023 Board meeting schedule. The schedule was received and filed by the Chairman.

There were no comments on items not on the agenda.

Chairman Hawkins commented that on October 19 he emailed the Executive Director's performance evaluation to Trustees; he has received a few responses and encouraged those who have not responded to do so as soon as possible. He stated that this issue will be addressed at the December 21 Joint Board meeting.

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

The meeting adjourned at 9:37 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, December 21, 2022, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
 Executive Director
 General Retirement System