

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

MINUTES  
JOINT MEETING  
OCTOBER 19, 2016 – 8:00 a.m.  
300 Monroe Avenue NW

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

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Steven Wilde and Mr. Jeffrey Burgis of Adams Street Partners, Mr. John Ackler of Brown Brothers Harriman, Mr. Geoff LeMieux and Ms. Anna Koscielicka of Aberdeen Asset Management, Mr. Clarke Moody of Harding Loevner, Mr. Nicholas Gaspari and Mr. Kirk Huddles of Harvest Fund Advisors, and Ms. Angeliqne Richardson and Ms. Camilla Martin of Wellington Management Company.

Mr. Tryc made the motion to excuse the absences of Mr. VanderWall, Mr. VanderPloeg, and Ms. Hofmeyer. The motion was seconded by Mr. Butts and carried.

There were no public comments regarding agenda items.

Mr. Steven Wilde, CFA and Partner and Mr. Jeffrey Burgis, Partner of Adams Street Partners (ASP) presented their firm's annual report to Trustees. Mr. Wilde noted that ASP is a 100% employee-owned private equity firm. They have offices in Chicago, London, Menlo Park, New York Boston, Singapore, Beijing and Tokyo. ASP has \$28 billion in assets under management. Mr. Wilde commented that Mr. Bon French, Chairman and CEO, is planning to retire in 2017 and there are succession plans in place for Mr. Jeff Diehl, Head of Investments, to assume his duties. Mr. Wilde and Mr. Burgis reviewed their organization, people and process and commented on the ASP 2016 Global Private Equity Program which is designed to build value while maximizing IRR. Mr. Wilde reviewed ASP's investment process and philosophy by noting that it is an iterative and continuous process with shared insights and current investment themes drive their manager selection. With respect to manager selection, ASP takes a forward-looking approach with due diligence focused on team, strategy and track record and searching for differentiation and performance replicability. Mr. Burgis provided Trustees with a summary on buyouts and recent market dynamics. In a review of the private equity market, he stated that a focus on growth companies drives returns and the way to build value is through growth. He noted that fundraising has accelerated and larger funds have returned while buyout volume is well below peak levels. Valuation multiples are above pre-recession highs as robust valuations are underpinned by strong credit markets. Mr. Wilde commented that current capital structures benefit from a lower interest rate environment and are more flexible. He noted that venture capital performance has been strong, although highly unrealized. After a robust 2015, entry valuations are softening, especially for later-stage rounds and the IPO and M&A market have been much more discerning in 2016; however, a number of companies are starting the IPO process for a 2017 listing. The venture opportunity set is large and global on the back of continued innovation. Mr. Wilde reviewed the Private Equity Fund program at ASP and provided Trustees with a review of the City of Grand Rapids General and Police & Fire Retirement Systems' portfolios as of March 31, 2016:

<u>ASP 2010 Fund Name</u>	<u>Subscription</u>	<u>Investment Commitments</u>	<u>Net IRR*</u>	<u>M.V. (NAV)</u>	<u>Dist. Rec. (D)</u>	<u>Total Value (NAV+D)</u>
U.S. Fund	\$5,000,000	\$5,009,580	13.82%	\$3,667,564	\$1,255,058	\$4,922,622
Non-U.S. Developed	\$3,000,000	\$3,015,816	7.18%	\$1,805,030	\$647,498	\$2,452,528
Non-U.S. Emerging	\$1,000,000	\$1,002,424	9.98%	\$865,088	\$36,660	\$901,748
Direct Fund	<u>\$1,000,000</u>	<u>\$1,000,000</u>	<u>12.91%</u>	<u>\$921,482</u>	<u>\$462,658</u>	<u>\$1,384,140</u>
2010 Participant Total	\$10,000,000	\$10,027,820	11.72%	\$7,259,164	\$2,401,874	\$9,661,038
ASP 2013 Global Fund	\$10,000,000	\$10,136,816	2.11%	\$4,324,484	\$359,804	\$4,684,288
ASP 2015 Global Fund	<u>\$13,000,000</u>	<u>\$8,336,370</u>	<u>18.39%</u>	<u>\$707,996</u>	<u>\$0</u>	<u>\$707,996</u>
Grand Total	\$33,000,000	\$20,164,636	10.09%	\$12,291,644	\$2,761,678	\$15,053,322

\*Since Inception

Mr. Wilde also provided Trustees with an historical review of vintage-year performance on investment commitments. The report was received and filed by Chairman Hawkins.

Mr. John Ackler, CFA and Senior Vice President and Fixed Income Product Specialist of Brown Brothers Harriman (BBH) presented his firm's annual report to Trustees. Mr. Ackler noted that BBH was founded in 1818; is owned and managed by 36 general partners; has approximately 4,900 employees in 18 locations globally, with all investment professionals located in New York. As of the second quarter of 2016, BBH had \$59 billion in assets under management, of which \$40 billion was under investment management. He reviewed BBH's investment management by client type and fixed income strategy by product. Mr. Ackler provided Trustees with background on BBH's organization, people, and process. He provided BBH's outlook by noting: 1) U.S. growth is expected to remain solid, but moderate; 2) consumer spending is well supported by solid employment and income growth, lower energy prices, rising home prices and record wealth levels; 3) The Fed tightening cycle has begun, but the Fed remains reluctant to pursue a policy normalization in any predictable or orderly manner; 4) Europe is not likely to grow sustainably until the banking sector's health is restored; and 5) growth in Japan remains disappointing. He noted that credit support for consumers and businesses remains plentiful and modest fiscal policy expansion have also been supportive for growth. Business investment and net exports remain challenged, while tight labor markets have not yet produced elevated worker compensation. Mr. Ackler reviewed the monetary policy cycle that lies ahead. He provided a U.S. TIPS market update by noting: 1) Brexit is likely to sustain or further escalate accommodative monetary policy by the world's largest central banks; 2) TIPS have delivered strong returns of 6+% in 2016 due to a sharp decline in real rates; 3) real yields and breakeven inflation rates fell during the quarter; 4) despite U.S. economic data being more mixed in the second quarter, labor market trends continue to improve and positive U.S. growth persists; and 5) core CPI continues to hold at 2+% as medical and shelter costs steadily rise. Mr. Ackler provided Trustees with various statistical data pertaining to the TIPS market. He commented that BBH's inflation-indexed securities investment process focuses on three primary strategy categories: 1) fundamental strategies; 2) non-directional strategies; and 3) opportunistic strategies. These three strategies help BBH identify value and create excess return. Mr. Ackler provided Trustees with an overview on BBH's inflation-indexed securities fund and provided fund characteristics as of June 30, 2016 and noted the following return statistics:

	<u>3 mo.*</u>	<u>YTD*</u>	<u>1 yr.</u>	<u>3 yr.</u>	<u>5 yr.</u>	<u>Since Inception</u>
BBH Inflation Linked Index Fund	1.66%	6.33%	4.43%	2.51%	2.95%	3.83%
Barclays Capital U.S. TIPS Index	1.71%	6.24%	4.35%	2.41%	2.73%	3.65%

\*Returns are not annualized.

He noted that since inception performance – 04/01/15, the annualized return was 2.44% v. the Barclays Capital U.S. TIPS Index return of 2.27%. He commented on BBH’s investment philosophy and noted they believe that U.S. TIPS are an effective hedge against the detrimental impact of unanticipated high inflation and a TIPS investment strategy focused predominantly in the inflation-linked markets is well suited to meet the dual objectives of attractive excess returns and inflation protection. BBH is committed to bottom-up fundamental research, a team-based approach, and a strict process discipline. The primary objective of BBH’s TIPS investment strategy is to deliver irks, return and inflation protection consistent with the inflation-indexed market. BBH’s investment process is: to generate ideas, utilize a vetting process, and implementation. The report was received and filed by Chairman Hawkins.

{Mr. O’Connor left the meeting at 9:18 a.m.}

Mr. Geoff LeMieux, Vice President and Investment Relationship Manager of Aberdeen Asset Management (Aberdeen) presented his firm’s annual report to Trustees. Mr. LeMieux noted that Aberdeen is a global asset management company listed on the London Stock Exchange, has 38 offices across the world, and has over 2,800 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 \$402.9 billion in assets under management. Mr. LeMieux reviewed Aberdeen’s organization, people, and process. He noted that Aberdeen has 12 investment professionals in the U.S.; 26 investment professionals in Europe, and 5 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 FLAG Global Partners is 97% committed and of that, 64% has been called. 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.

Mr. Clarke Moody, CFA, Portfolio Specialist and Partner of Harding Loevner (HL) presented his firm’s annual report to Trustees. Mr. Moody reviewed HL’s organizational team and noted that HL has 35 investment professionals and the International Equity Portfolio management team averages 15 years at HL. Total assets under management as of June 30, 2016 total \$41.0 billion. He reviewed HL’s quality growth statistics as of June 30, 2016 v. the MSCI ACW ex-US Index as well as their total returns by quality and growth rank. Mr. Moody provided a summary on both portfolios and noted the following return statistics for the portfolios as of September 30, 2016:

	<u>Last</u> <u>Qtr.</u>	<u>YTD</u>	<u>1 yr.</u>	<u>Since</u> <u>Inception</u>
General Retirement System	6.86%	8.39%	15.16%	1.32%
Police & Fire Retirement System	6.79%	8.32%	15.09%	1.27%
MSCI ACWI ex-US Index	7.00%	6.29%	9.80%	-1.86%

\*Inception date: April 1, 2015

Mr. Moody reviewed the benchmark sectors, region total returns, and performance attribution year to date as of June 30 2016. Portfolio turnover (trailing 5-year average) was 13.4%. He compared the portfolio

allocation from June 30, 2016 to December 31, 2015. He also reviewed portfolio profile end weights, provided position detail for the holdings within the portfolios and provided background on the best and worst performers. HL strives for above-market investment returns without additional volatility. Mr. Moody noted that HL's tracking error v. the benchmark is low relative to their peer active managers and they narrow the investable universe in stages according to their insights about industries and companies, before considering stock prices. Their investment process is a four step process: 1) qualification; 2) in-depth research; 3) valuation and rating; and 4) portfolio construction. He provided an overview of HL's International Equity ADR portfolio constraints, portfolio statistics, and model portfolio holdings as of June 30, 2016. They utilize fundamental data and professional judgment to sort companies by apparent business quality and growth prospects and then their analysts assess business quality using their standardized framework so that companies may become candidates for investment after their growth potential and business quality are confirmed. When performing valuation and rating assessment, HL shifts from company analysis to security analysis; analysts build comprehensive forecasts, estimate fair value and issue stock ratings. Portfolio managers then engage with analysts and judge the relative merits of qualified stocks and manage portfolio risk. HL's ranking tools help the portfolio managers visualize their opportunity set and comprehensively consider relative valuations while their portfolio decision-making structure promotes transparency and accountability. Mr. Moody reviewed the current volatility in the global marketplace. The report was received and filed by Chairman Hawkins.

Mr. Nicholas Gaspari, Investment Analyst and Mr. Kirk Huddles, Business Development Director of Harvest Fund Advisors (HFA) presented their firm's annual report to Trustees. Mr. Gaspari noted that HFA has 19 employees and total assets under management of more than \$11.0 billion, of which \$10.5 billion is in their MLP Alpha Strategy. He reviewed the management team and their investor base noting HFA serves 50 public plan clients and 575+ total unique institutional clients. Mr. Huddles commented on HFA's investment process and provided a summary on both portfolios and noted the following return statistics for the portfolios:

	<b><u>General Retirement System</u></b>	<b><u>Police &amp; Fire Retirement System</u></b>	<b><u>S&amp;P MLP Index</u></b>
Last 3 Months	4.35%	4.34%	2.92%
YTD	18.34%	18.32%	18.03%
<b><u>Since Inception:</u></b>			
Annualized Return	-11.66%	-11.68%	-16.23%
Cumulative Return	-18.00%	-18.04%	-24.70%

Mr. Gaspari commented that the HFA portfolio: 1) is long-only; 2) does not use leverage; 3) does not engage in principal transactions; 4) may hold MLPs; 5) has more than 20 holdings; 6) cannot have a position that exceeds 20% security allocation limit; and 7) may hold Energy C-Corporations. Mr. Huddles reviewed the position detail for the holdings within the portfolios and provided background on the best and worst performers. Mr. Gaspari provided a valuation update and an update on macro industry drivers. He stated that the dislocation between business performance and security performance was pronounced and advancing technology and a changing global energy landscape are driving the need for additional onshore U.S. infrastructure, more than doubling the market cap of the MLP sector through 2035. He commented that HFA believes MLP equity yields will be re-priced over time to match the quality of their cash flows. The report was received and filed by Chairman Hawkins.

Ms. Angelique Richardson, CFA and Ms. Camilla Martin, Portfolio Coordinator, of Wellington Management Company (WMC) presented their firm's annual report to Trustees. Ms. Richardson stated that WMC has \$969 billion of client assets under management. WMC has over 662 investment

professionals, with 155 partners all active in the firm. They have 2,150 clients based in more than 55 countries. Their deep industry expertise creates a competitive advantage as they collectively have an average of 17 years of experience. Ms. Richardson commented that WMC's strengths are that they: 1) have a singular focus on investment management; 2) have comprehensive capabilities; 3) employ rigorous proprietary research; and 4) have an open collaborative culture. Ms. Martin noted that the objective for the WMC Small Cap 2000 is to outperform the Russell 2000 Index over 3-5 year periods and they have 26 global industry analysts to help achieve this. They believe that: fundamentals of companies in the same industry can vary widely over time; dedicated bottom-up research can anticipate fundamental change and identify pricing anomalies; and they can beat the market by exploiting intra-industry dispersion. She reviewed the WMC Small Cap 2000 global industry analyst team, research portfolios, the top 10 overweight positions, and portfolio characteristics as of August 31, 2016. Annualized investment returns through August 31, 2016 for the General and Police & Fire Retirement Systems' portfolios were reported as follows:

	<u>YTD</u>	<u>1 Yr.</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>10 Yrs.</u>	<u>Since Inception*</u>	
Ret. Systems	10.2%	8.5%	11.8%	16.6%	10.7%	11.5%	
Russell 2000	10.2%	8.6%	8.5%	12.9%	7.0%	7.9%	
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	
Ret. Systems	-1.7%	10.3%	44.3%	19.7%	-1.9%	36.3%	
Russell 2000	-4.4%	4.9%	38.8%	16.3%	-4.2%	26.9%	
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Ret. Systems	44.4%	-39.0%	2.1%	16.0%	9.4%	21.6%	39.4%
Russell 2000	27.2%	-33.8%	-1.6%	18.4%	4.6%	18.3%	47.3%

\*Inception date is 08/31/99

Ms. Richardson provided a review of the Wellington Management (WM) Commodities portfolios. She noted that WM's investment objective is to outperform their strategic benchmark (an equal sector-weighted custom commodities index). WM employs fundamental research-based active management. There are approximately 50 commodities in the opportunity set with maturities ranging between one month and ten years and they have sector allocation flexibility. The contribution-to-relative-risk approach guides portfolio positioning. The collateral is managed to achieve high quality and liquidity. She reviewed the commodities team, investment process and portfolio construction. Investment returns through August 31, 2016 for the General and Police & Fire Retirement Systems' portfolios were reported as follows:

	<u>YTD</u>	<u>1 yr.</u>	<u>3 yrs.</u>
Retirement Systems	9.8%	-6.2%	-12.6%
Strategic Benchmark	6.2%	-7.3%	-13.2%
Production-Weighted S&P GSCI	1.1%	-21.0%	-24.1%
Bloomberg Commodity Index	5.6%	-8.8%	-14.0%

	<b><u>Since Inception*</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Retirement Systems	-13.3%	-25.9%	-13.6%
Strategic Benchmark	-13.8%	-23.6%	-14.6%
Production-Weighted S&P GSCI	-21.0%	-32.9%	-33.1%
Bloomberg Commodity Index	-14.0%	-24.7%	-17.0%

She reviewed the portfolios' performance attribution, sector positioning, characteristics, and views on short and intermediate-term drivers. Ms. Martin commented that the majority of commodities are in the lowest phase of their price cycle and noted WM's market outlook on the various different commodities. The report was received and filed by Chairman Hawkins.

Chairman Hawkins noted that a number of Trustees and their spouses attended dinner last evening with Ms. Richardson and Ms. Martin from Wellington Management Company.

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

The meeting adjourned at 12:07 p.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, November 16, 2016, at 8:05 a.m., 233 Fulton St., Grand Rapids, Michigan.

Peggy Korzen  
Executive Director  
General and Police & Fire Retirement Systems