

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

MINUTES  
JOINT MEETING  
SEPTEMBER 20, 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. Philip Balkema, Mr. William Butts, and Mr. Phillip Mitchell. Absent: Mr. Thomas VanderPloeg 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. Randall Mayer and Ms. Joy Perry of Wellington Management Company, Mr. Steven Wilde and Mr. Joe Goldrick of Adams Streets Partners, and Mr. David Lindberg and Mr. Alex Ford of Wilshire Associates, Inc.

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

There were no public comments regarding agenda items.

Mr. Tryc made the motion to approve the minutes of the Joint Meeting of August 16, 2017. The motion was seconded by Mr. Balkema and carried.

Mr. Randall Mayer, Relationship Manager, and Ms. Joy Perry, Investment Director, of Wellington Management Company (WMC) presented their firm's annual report to Trustees. Mr. Mayer stated that there has been no material update on the SEC inquiry pertaining to WMC's private equity investment process from earlier this year, but WMC will keep investors informed of any developments. Ms. Perry stated that WMC has \$1,021 billion of client assets under management. WMC has over 654 investment professionals, with 158 partners all active in the firm. They have over 2,150 clients based in more than 65 countries. Their investors draw on WMC's rigorous, proprietary research. Ms. Perry 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 and they approach their investment pro-cyclically. 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 noted the WM team have over 500 years of combined experience; 300 together at WM. She reviewed the commodities team, commodities universe, investment process, and portfolio construction. Investment returns through July 31, 2017 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>Since Inception*</u>
Retirement Systems	-0.5%	3.2%	-11.0%	-9.6%
Strategic Benchmark	2.2%	4.5%	-10.6%	-10.0%
Production-Weighted S&P GSCI	-6.1%	5.2%	- 22.3%	-16.5%
Bloomberg Commodity Index	-3.1%	0.8%	-12.7%	-10.8%

  

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Retirement Systems	14.9%	-26.4%	-14.3%
Strategic Benchmark	10.3%	-23.6%	-14.6%
Production-Weighted S&P GSCI	11.4%	-32.9%	-33.1%
Bloomberg Commodity Index	11.8%	-24.7%	-17.0%

She reviewed the portfolios' performance attribution, sector positioning, characteristics, and views on short and intermediate-term drivers. Ms. Perry commented that the majority of commodities are in the lower to middle point of their price cycle and noted WM's market outlook on various commodities. She stated her belief that 2016 marked the beginning of a recovery cycle with respect to commodities. WMC conducts research through fundamental; environmental; social; corporate governance; quantitative; macro; and technical issues. Mr. Mayer reviewed WMC's objective and approach with regard to the Small Cap portfolio. He stated that WMC seeks to consistently outperform the Russell 2000 Index over 3-5 year periods. Their analysts emphasize stock selection and foster a team approach with career industry specialists that have concentrated sub-portfolios that are diversified by industry and style. It is WMC's contention that there is greater opportunity among stocks than sectors. WMC's global industry analysts have deep industry expertise across a broad universe. Mr. Mayer reviewed WMC's organization and global industry analysts. He noted that WMC's Small Cap portfolio blends investor flexibility with the benefits of diversification. Annualized investment returns through July 31, 2017 for the General and Police & Fire Retirement Systems' portfolios were reported as follows:

	<u>2Q17</u>	<u>1 Yr.</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>10 Yrs.</u>
Ret. Systems	4.1%	22.1%	13.1%	16.9%	11.1%
Russell 2000	2.5%	18.5%	9.9%	14.2%	7.8%

  

	<u>YTD</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Ret. Systems	11.1%	19.9%	-2.3%	9.7%	43.4%
Russell 2000	5.8%	21.3%	-4.4%	4.9%	38.8%

  

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Ret. Systems	19.0%	-2.5%	35.5%	43.5%	-39.4%
Russell 2000	16.3%	-4.2%	26.9%	27.2%	-33.8%

\*Inception date is 08/31/99

Mr. Mayer reviewed WMC's Small Cap performance data, top 10 active positions, and characteristics. The report was received and filed by Chairman Hawkins.

Mr. Steven Wilde, CFA and Partner and Mr. Joe Goldrick, 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, Munich, Beijing and Tokyo. ASP has over \$30 billion in assets under management with over 300 diverse clients. Mr. Wilde and Mr. Goldrick reviewed their organization, people, and process and commented that all ASP strategies exceeded public market equivalents by 400 basis point as of March 31, 2017. 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, 2017:

<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	13.92%	\$4,194,912	\$1,677,948	\$5,872,860
Non-U.S. Developed	\$3,000,000	\$3,017,206	8.24%	\$1,988,926	\$1,020,026	\$3,008,952
Emerging Markets	\$1,000,000	\$1,007,998	9.46%	\$946,216	\$86,112	\$1,032,328
Direct Fund	<u>\$1,000,000</u>	<u>\$1,000,000</u>	<u>12.40%</u>	<u>\$672,474</u>	<u>\$794,560</u>	<u>\$1,467,034</u>
2010 Participant Total	\$10,000,000	\$10,034,784	11.86%	\$7,802,528	\$3,578,646	\$11,381,174
ASP 2013 Global Fund	\$10,000,000	\$10,155,220	6.78%	\$6,256,924	\$414,520	\$6,671,444
ASP 2015 Global Fund	<u>\$13,000,000</u>	<u>\$12,882,664</u>	<u>61.44%</u>	<u>\$2,820,254</u>	<u>\$234,772</u>	<u>\$3,055,026</u>
Grand Total	\$33,000,000	\$33,072,668	11.79%	\$16,879,706	\$4,227,938	\$21,107,644

\*Since Inception

Mr. Goldrick reviewed the portfolios' performance attribution and contribution to IRR for all partnerships as of March 31, 2017. He commented on the diversification of investment commitments by subclass and by vintage year. He stated that ASP builds value while maximizing IRR and in the 2017 Global Private Equity program, there are 33% tactical strategies and 67% primary strategies. Mr. Wilde commented that secondary selection adds value early in the program as the secondary investments have a quicker payback period (year one yield averages greater than 17%). ASP has deep resources and relationships, a focused strategy, and consistent long-term performance. They target assets with specific attributes; strong fundamentals at attractive values. Mr. Goldrick noted that current investment themes drive their manager selection. He noted that with respect to buyouts, the buyout exit markets have been robust, driving strong performance and distributions, fundraising momentum is strong and "dry powder" has ticked up, and high valuations have posed a challenge for new deals. Venture Capital performance remains strong, although highly unrealized, fundraising remains robust for venture firms with strong track records, and the venture opportunity set is large and global on the back of continued innovation. He stated that the information technology sector is disrupting every piece of the consumer pie. Mr. Wilde stated that the opportunity set is attractive for the 2017 Global Fund commitments and ASP is creating a strategic partnership to meet clients' goals and objectives. The report was received and filed by Chairman Hawkins.

Mr. David Lindberg, and Mr. Alex Ford of Wilshire Associates next addressed the Neuberger Berman (NB) Commingled Investment Trust (CIT) product that was discussed at the August 16<sup>th</sup> Joint Board meeting. Mr. Lindberg reviewed a report outlining the specifics of the product. He noted that the goal of the analysis of the international equity structure at the August 2017 Board meeting was to address the underweight exposure to emerging market equities. Currently, emerging markets comprise approximately 20-25% of the market capitalization outside the U.S. and in each of the Retirement Systems' portfolios, emerging market equities account for only 10-11% of assets. NB does offer another

strategy that provides a global ex-U.S. approach; switching into that product would correct the underweight at the composite level; however, NB does not offer its global ex-U.S. strategy in a mutual fund or commingled fund vehicle. This strategy is only offered in a separate account format. The Retirement Systems previously converted from a separate account into the institutional share class mutual fund for easier implementation. At the August 2017 Board meeting, Trustees decided to switch the institutional class mutual fund to a lower cost share (R6) class, but this fund is still a developed markets focused strategy. Mr. Ford commented that should the Retirement Systems choose to become the initial seed investor in a new CIT, NB would open this strategy on a CIT platform and this exposure would be expected to achieve the desired exposures of both developed and emerging markets while utilizing a fund vehicle acceptable to the Trustees from a governance perspective. NB is prepared to offer an all-in cost of 55 basis points per annum (this would cover all administrative and operational expenses). This fee would represent a 31 basis point reduction v. the institutional share class mutual fund, which translates to nearly \$190,000 a year in savings based on average market values for the preceding year. Wilshire addressed potential fees for investors moving in/out of the fund to ensure that the Retirement Systems will not be saddled with the unfair burden of transaction costs triggered by another early investor's cash flows. NB indicated that the fund terms do not include such fees; however, they do have the ability to set up a transition account to execute the trades outside of the CIT in the event of a large subscription or redemption. Settlement for trades will be T+1, however, for large redemptions, the investment team will require 5-10 business days' notification. NB indicated that State Street would serve as the custodian for the fund and KPMG will perform periodic formal audits. The portfolio manager and investment team for the new CIT fund would be the same as for the current mutual fund. It is Wilshire's contention that the proposal by NB to have the Retirement Systems become a seed investor in a newly formed CIT presents a viable solution to the challenges facing the international equity structure. The new vehicle will increase the emerging markets exposure to be more in-line with the market and reduce the overall management cost incurred by both systems. Mr. Lindberg commented that they are satisfied that NB has the necessary capacity, controls, and resources to implement this product smoothly. Mr. Lindberg stated that CIT will be very similar to NB's separately managed account with emerging market exposure. Mr. Mitchell asked if Mr. Lindberg could provide Trustees with information on NB's current separately managed ACWI ex-U.S. account before Trustees make a decision; Mr. Lindberg said yes. Mr. Balkema asked if this fund is permissible under P.A. 314 regulations; Mr. Michaud stated it can be, but the mechanics of the fund need to be reviewed first to ensure compliance. Mr. Michaud asked if Wilshire is aware of other managers that offer a similar type product and whether or not they are competitive with NB's proposed vehicle. Mr. Lindberg stated there are other managers with similar products and NB is competitive with them. Mr. Michaud clarified that the fees outlined in the proposal are all-in; Mr. Lindberg confirmed that they are all inclusive. Mr. Timkovich asked if Trustees could approve seeding the CIT account at NB, but subject to receiving the additional requested information and successful contract negotiations; Mr. Michaud said yes. Chairman Hawkins asked if NB would wait until the November 2017 Board meeting for Trustees' decision; Mr. Lindberg stated that would be fine as he was unaware of any other institutions that are interested in seeding this fund. Following Trustee discussion, Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to approve transitioning the current Neuberger Berman portfolio to seed the Commingled Investment Trust, as outlined in their proposal, subject to a review of the legal documents by Mr. Michaud, as well as receiving other information that has been requested, to the Trustees' satisfaction. The motion was seconded by Mr. Mitchell and carried. Mr. Butts made the motion on behalf of the General Retirement System to approve transitioning the current Neuberger Berman portfolio to seed the Commingled Investment Trust, as outlined in their proposal, subject to a review of the legal documents by Mr. Michaud, as well as receiving other information that has been requested, to the Trustees' satisfaction. The motion was seconded by Mr. Tryc and carried. Mr. Balkema thanked Wilshire for their work on this Neuberger Berman issue and the corresponding memo.

Ms. Korzen provided Trustees next addressed the issue of deceased participant searches with The Northern Trust Company (NT) that was discussed at the August 2017 Joint Board meeting. She had

spoken with Mr. Fumarolo at NT to see if they could do three additional quarterly searches; he responded yes. The cost would be \$0.15 per participant per search (approximately \$540 annually for the General Retirement System and \$300 annually for the Police & Fire Retirement System). The searches would be performed by NT's current provider and NT would still provide the annual search at no charge. As an alternative solution, NT asked their provider to prepare a quote for their enhanced search which is run on a weekly basis, with reports provided to the Retirement Systems. The combined annual cost for this service is \$1,946.00. Ms. Korzen asked Trustees how frequently they wish to conduct these searches; it was her recommendation to begin by utilizing the quarterly searches at NT as overpayments have not been problematic. Following Trustee discussion, Mr. Tryc made the motion on behalf of the General Retirement System to have The Northern Trust Company perform three quarterly deceased participant searches, in addition to the free annual search, at a cost of \$0.15 per participant, per search. The motion was seconded by Mr. Timkovich and carried. Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to have The Northern Trust Company perform three quarterly deceased participant searches, in addition to the free annual search, at a cost of \$0.15 per participant, per search. The motion was seconded by Mr. VanderWall and carried.

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

Chairman Hawkins disclosed that a number of Trustees attended a dinner last evening with Mr. Mayer, Mr. Wilde and Mr. Goldrick. In addition to himself, in attendance were Mr. & Mrs. Tryc, Mr. & Mrs. Timkovich, Mr. & Mrs. VanderWall, Mr. VanderPloeg and guest, Mr. & Mrs. Butts, Mr. & Mrs. Mitchell, and Ms. Korzen.

The meeting adjourned at 9:50 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, November 15, 2017, at 8:05 a.m., 300 Monroe Avenue NW, City Commission Chambers, Grand Rapids, Michigan.

Peggy Korzen  
Executive Director  
General and Police & Fire Retirement Systems