

City of Grand Rapids Police & Fire Retirement System

***SUMMARY ANNUAL REPORT TO MEMBERS
DECEMBER 31, 2016***

Dear Retirement System Members and Retirants:

The Retirement System, which is managed by the Board of Trustees, is designed to help you meet your financial needs should you become disabled, retire or die.

The Board's fiduciary responsibility to you is to supervise the general administration of the System and invest its assets. Our Board retains professional advisors to assist us in fulfilling these duties.

We have prepared this summary report to give you a brief overview of the Retirement System and how it operates. We hope you will find it useful and informative. However, a summary cannot cover all the details of the System, which is governed by the provisions of Michigan Public Act 314 of 1965, as amended, the City of Grand Rapids Retirement Ordinance, and the Board's official rules and regulations. Additional information about the System, including the Retirement Ordinance and the actuarial valuation, is available online at www.grpensions.org and in our office at 233 E. Fulton, Suite 216, Grand Rapids, MI.

Respectfully submitted,

***Board of Trustees
City of Grand Rapids Police & Fire Retirement System***

Board of Trustees

- Michael Hawkins – Chairman
- Craig C. VanderWall – Vice Chairman
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Retirement System Service Providers

- Gabriel Roeder Smith and Company – Actuary
- Rehmann Robson – Auditor
- The Northern Trust Company – Custodial Bank
- Wilshire Associates, Inc. – Investment Consultant

Investment Managers

- Aberdeen Asset Management – Private Equity
- Adams Street Partners – Private Equity
- Baird Advisors – Core Fixed Income
- Brown Brothers Harriman – Treasury Inflation Protected Securities
- CBRE Clarion – Real Estate
- Harding Loevner – American Depository Receipts
- Harvest Fund Advisors – Master Limited Partnerships
- Neuberger Berman – International Equity
- Northern Trust Asset Management – Passive Core Equity
- PIMCO – Enhanced Index Equity
- Wellington Management Company – Core/Growth Equity & Commodities
- Western Asset Management – Core Plus Fixed Income

Statement of Fiduciary Net Position

	<u>2015</u>	<u>2016</u>	Change from Prior Year	
			<u>In Dollars</u>	<u>As %</u>
Assets:				
Cash and money market funds	\$7,697,456	\$5,401,356	\$(2,296,100)	(29.8%)
Stocks, equity mutual funds & partnerships	234,838,362	240,487,092	5,648,730	2.4%
Fixed Income	93,863,055	91,747,896	(2,115,159)	(2.3%)
Real Estate	18,170,497	17,961,142	(209,355)	(1.2%)
Private Equity Partnerships	8,929,823	11,278,926	2,349,103	26.3%
Commodities	12,366,138	14,331,487	1,965,349	15.9%
Securities Lending Collateral	<u>22,999,852</u>	<u>18,937,498</u>	<u>(4,062,354)</u>	<u>(17.7%)</u>
Total cash and investments	398,865,183	400,145,397	1,280,214	0.3%
Receivables	<u>4,531,049</u>	<u>3,108,005</u>	<u>(1,423,044)</u>	<u>(31.4%)</u>
Total assets	403,396,232	403,253,402	(142,830)	0.0%

Liabilities				
Administrative expenses and investment management fees payable	296,047	310,591	14,544	4.9%
Pending trades – purchases	4,833,791	832,374	(4,001,417)	(82.8%)
Amounts due broker under securities lending agreement	<u>22,999,852</u>	<u>18,937,498</u>	<u>(4,062,354)</u>	<u>(17.7%)</u>
Total liabilities	28,129,690	20,080,463	(8,049,227)	(28.6%)
Net position restricted for pension benefits	\$375,266,542	\$383,172,939	\$7,906,397	2.1%

Statement of Changes in Fiduciary Net Position

	<u>2015</u>	<u>2016</u>	Change from Prior Year	
			<u>In Dollars</u>	<u>As %</u>
Additions:				
Contributions	\$10,187,462	\$12,096,193	\$1,908,731	18.7%
Net investment income	(9,153,645)	25,615,694	34,769,339	379.8%
Securities Lending	<u>69,933</u>	<u>97,250</u>	<u>27,317</u>	<u>39.1%</u>
Total additions	1,103,750	37,809,137	36,75,387	3,325.5%
Deductions				
Benefits	32,082,302	29,360,463	(2,721,839)	(8.5%)
Administrative expense	<u>581,364</u>	<u>542,277</u>	<u>(39,087)</u>	<u>(6.7%)</u>
Total deductions	32,663,666	29,902,740	(2,760,926)	(8.5%)
Net increase (Decrease)	(31,559,916)	7,906,397	39,466,313	125.1%
Net position restricted for pension benefits:				
Beginning of year	406,826,458	375,266,542	(31,559,916)	(7.8%)
End of year	\$375,266,542	\$383,172,939	\$7,906,397	2.1%

Funded Status

	<u>2015</u>	<u>2016</u>
• Actuarial accrued liabilities	\$461,091,743	\$479,362,227
• Applied Assets	\$386,363,384	\$399,808,165
• % Funded	83.79%	83.40%

System Investment Performance as of 12/31/16 (Net of Fees)

	<u>1-Year</u>	<u>3-Years</u>	<u>5-Years</u>	<u>7-Years</u>	<u>10-Years</u>
Total Fund Return	7.1%	4.0%	8.6%	8.6%	5.1%

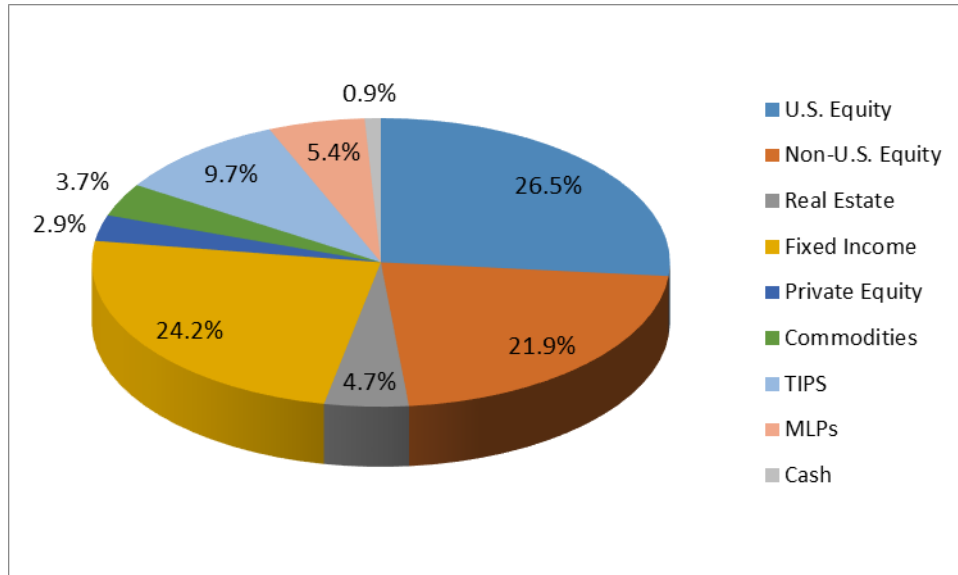
System Revenues and Expenditures

December 30, 2016

1.	Balance – Beginning of Year	\$375,266,542
2.	Revenues:	
a.	Employee Contributions	\$4,929,842
b.	Employer Contributions	\$7,166,351
c.	Investment Income	<u>\$26,716,655</u>
d.	Total Revenues	\$38,812,848
3.	Expenditures:	
a.	Benefit Payments	\$23,764,026
b.	Supplemental Pension Distribution	\$5,574,830
c.	Refund of Member Contributions	\$21,606
d.	Expenses	<u>\$1,545,990</u>
e.	Total Expenditures	\$30,906,452
4.	Balance – End of Year	\$383,172,938

The Board of Trustees has confirmed that the employer contributions shown above represent the required employer contribution for the year covered. The System had \$0.00 of “soft dollar” expenses.

Investments



System Itemized Budget

<u>Expense</u>	<u>Actual</u> <u>YTD through</u> <u>12/31/16</u>	<u>FYE 12/31/16</u> <u>Budgeted</u> <u>Expense</u>	<u>Variance</u> <u>to Budgeted</u> <u>Expense</u>	<u>Expended by</u> <u>12/31/15</u>	<u>Variance</u> <u>to 12/31/15</u>
Professional Services					
- Actuarial	43,660.00	\$ 47,670.00	(4,010.00)	56,987.50	(13,327.50)
- Audit	14,410.00	14,000.00	410.00	12,600.00	1,810.00
- Consultant	112,250.00	114,845.00	(2,595.00)	111,250.00	1,000.00
- Custodial**	48,547.42	63,000.00	(14,452.58)	49,130.64	(583.22)
- Investment Management	939,202.80	1,260,000.00	(320,797.20)	952,746.15	(13,543.35)
- Legal Services	0.00	10,500.00	(10,500.00)	4,140.00	(4,140.00)
Insurance					
- Business Owners	318.50	419.00	(100.50)	419.00	(100.50)
- Fiduciary Liability	14,858.00	17,598.00	(2,740.00)	16,760.00	(1,902.00)
- Life & Disability	723.54	723.54	0.00	723.54	0.00
- Workers Compensation	0.00	1,050.00	(1,050.00)	997.00	(997.00)
Due Diligence & Education					
- Due Diligence	0.00	1,575.00	(1,575.00)	1,230.46	(1,230.46)
- Conference	14,654.70	17,250.00	(2,595.30)	18,971.16	(4,316.46)
- Other Education	1,335.98	3,990.00	(2,654.02)	3,498.96	(2,162.98)
Administration					
- Accufund Consultant	948.75	2,000.00	(1,051.25)	1,223.75	(275.00)
- Medical Evaluations	5052.31	15,000.00	(9,947.69)	11296.16	(6,243.85)
- Meetings	244.61	550.00	(305.39)	637.76	(393.15)
- Occupancy Rental	13,749.96	13,749.96	0.00	13,749.96	0.00
- Office Supplies	9,995.33	17,000.00	(7,004.67)	21,344.29	(11,348.96)
- Memberships	690.50	650.00	40.50	425.00	265.50
- Salaries & Wages	246,704.20	307,000.00	(60,295.80)	242,576.09	4,128.11
Total Expenses	\$ 1,467,346.60	\$ 1,908,570.50	(\$441,223.90)	\$1,520,707.42	\$ (53,360.82)

**Custody fees shown above are before offset from Securities Lending Income. Total income for FYE 12/31/16 was \$97,250.23

Disclaimer: The data above is a summary of expenses compared to arbitrarily selected "targets." These "targets" are not intended to be goals or budget objectives, just simple comparisons. Many of the figures are contractual or uncontrollable, such as asset manager fees (based on market values), occupancy (based on rental agreement) and Medical Evaluations (the number of which is purely based on the number of disability retirement applications). The use of this document is intended to monitor expenses, not measure the System's performance.

Actuarial Valuation Information

• Active Members:	485
• Number of Retirees/Beneficiaries:	673
• Average Annual Retirement Allowance:	\$35,771
• Total Annual Retirement Allowance:	\$24,074,068
• Valuation Payroll:	\$34,367,003
• Gross-up Payroll:	\$38,129,771
• Employer's Normal Cost as % of Valuation Payroll:	13.22%
• Employer's Normal Cost as % of Gross-up Payroll:	11.91%
• Employer's Contribution Rate: (valuation payroll):	26.18%
• Employer's Contribution Rate (gross-up payroll):	23.59%
• Weighted Average of Member Contributions (valuation payroll):	11.38%
• Weighted Average of Member Contributions (gross-up payroll):	10.26%
• Actuarial Assumed Rate of Investment Return:	7.25%
• Actuarial Assumed Rate of Long-Term Wage Inflation:	3.25% - 20.25%
• Smoothing Method Utilized:	5-Year Smoothed Market
• Amortization Method Utilized:	Level Percent, Closed
• Amortization Period Remaining:	Multiple periods
• Actuarial Cost Method Utilized:	Individual Entry Age
• Actuarial Assumed Rate of Health Care Inflation:	N/A
• System Membership Status:	Open – except the plan is closed to individuals hired from outside the organization to fill the position of Fire Chief, Police Chief, or Deputy Police Chief.