

City of Grand Rapids Police & Fire Retirement System

***SUMMARY ANNUAL REPORT TO MEMBERS
DECEMBER 31, 2018***

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
- Thomas S. VanderPloeg – Member Trustee
- Philip A. Balkema – Citizen Trustee
- Phillip Mitchell – Citizen Trustee
- Donijo DeJonge – Citizen Trustee
- Nathaniel Moody – Employer Trustee

Retirement System Service Providers

- Gabriel Roeder Smith and Company – Actuary
- Thomas Michaud, of VanOverbeke, Michaud & Timmony, P.C. – Legal Advisor
- Rehmann Robson – Auditor
- The Northern Trust Company – Custodial Bank
- Wilshire Associates, Inc. – Investment Consultant

Investment Managers

- 50 South Capital Advisors – Private Credit
- 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
- Grosvenor Capital Management – Private Credit
- 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

| | 2016 | 2017 | 2018 | Change From Prior Year | |
|--|----------------------|----------------------|----------------------|------------------------|--------------|
| | | | | In Dollars | As % |
| Assets | | | | | |
| Cash and money market funds | \$ 5,401,356 | \$ 6,597,667 | \$ 3,550,467 | \$ (3,047,200) | -46.2% |
| Stocks, equity mutual funds and partnerships | 240,487,092 | 267,085,596 | 218,882,861 | (48,202,735) | -18.0% |
| Fixed income | 91,747,896 | 99,565,250 | 102,327,715 | 2,762,465 | 2.8% |
| Real estate | 17,961,142 | 20,026,836 | 18,438,077 | (1,588,759) | -7.9% |
| Private equity partnerships | 11,278,926 | 14,573,844 | 20,505,570 | 5,931,726 | 40.7% |
| Commodities | 14,331,487 | 17,768,977 | 15,662,584 | (2,106,393) | -11.9% |
| Private credit partnerships | - | - | 6,846,256 | 6,846,256 | 100.0% |
| Securities lending collateral | 18,937,498 | 18,207,550 | 14,473,713 | (3,733,837) | -20.5% |
| Total cash and investments | 400,145,397 | 443,825,720 | 400,687,243 | (43,138,477) | -9.7% |
| Receivables | 3,108,005 | 3,152,397 | 6,779,362 | 3,626,965 | 115.1% |
| Total Assets | 403,253,402 | 446,978,117 | 407,466,605 | (39,511,512) | -8.8% |
| Liabilities | | | | | |
| Administrative expenses and investment management fees payable | 310,591 | 365,892 | 412,034 | 46,142 | 12.6% |
| Pending trades - purchases | 832,374 | 2,858,640 | 5,025,176 | 2,166,536 | 75.8% |
| Amounts due broker under securities lending agreement | 18,937,498 | 18,207,550 | 14,473,713 | (3,733,837) | -20.5% |
| Total Liabilities | 20,080,463 | 21,432,082 | 19,910,923 | (1,521,159) | -7.1% |
| Net Position Restricted for Pension Benefits | \$383,172,939 | \$425,546,035 | \$387,555,682 | \$(37,990,353) | -8.9% |

Statement of Changes in Fiduciary Net Position

| | 2016 | 2017 | 2018 | Change From Prior Year | |
|--|----------------------|----------------------|----------------------|------------------------|----------------|
| | | | | In Dollars | As % |
| Additions | | | | | |
| Contributions | \$ 12,096,193 | \$ 14,026,330 | \$ 14,734,432 | \$ 708,102 | 5.0% |
| Net investment income (loss) | 25,615,694 | 53,624,902 | (24,803,545) | (78,428,447) | -146.3% |
| Securities lending | 97,250 | 115,689 | 85,431 | (30,258) | -26.2% |
| Total Additions | 37,809,137 | 67,766,921 | (9,983,682) | (77,750,603) | -114.7% |
| Deductions | | | | | |
| Benefits | 29,360,463 | 24,813,135 | 27,404,159 | 2,591,024 | 10.4% |
| Administrative expense | 542,277 | 580,690 | 602,512 | 21,822 | 3.8% |
| Total Deductions | 29,902,740 | 25,393,825 | 28,006,671 | 2,612,846 | 10.3% |
| Net Increase (Decrease) | 7,906,397 | 42,373,096 | (37,990,353) | (80,363,449) | -189.7% |
| Net Position Restricted for Pension Benefits, beginning of year | 375,266,542 | 383,172,939 | 425,546,035 | 42,373,096 | 11.1% |
| Net Position Restricted for Pension Benefits, end of year | \$383,172,939 | \$425,546,035 | \$387,555,682 | \$(37,990,353) | -8.9% |

Funded Status

| | <u>2018</u> | <u>2017</u> |
|---------------------------------|---------------|---------------|
| • Actuarial accrued liabilities | \$527,629,168 | \$506,255,138 |
| • Applied Assets | \$425,207,986 | \$421,679,693 |
| • % Funded | 80.59% | 83.29% |

System Investment Performance as of 12/31/18 (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 | -5.99% | 4.78% | 3.85% | 7.18% | 9.52% |

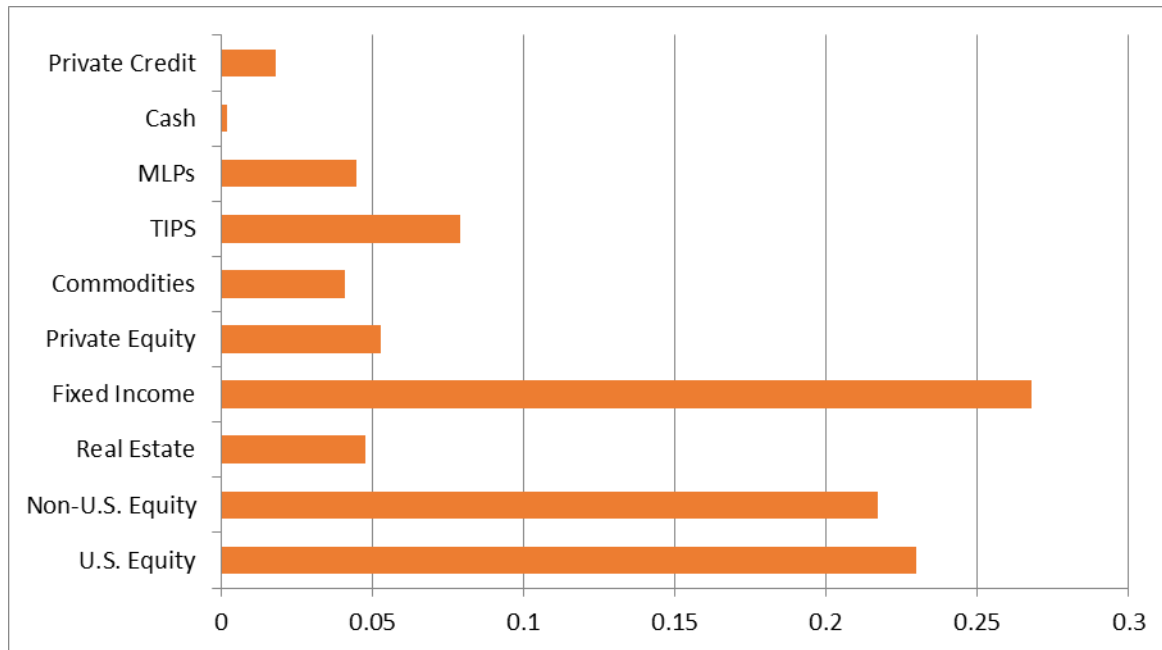
System Revenues and Expenditures

December 30, 2018

| | | |
|----|-----------------------------------|-----------------------|
| 1. | Balance – Beginning of Year | \$425,546,035 |
| 2. | Revenues: | |
| a. | Employee Contributions | \$5,313,127 |
| b. | Employer Contributions | \$9,421,305 |
| c. | Investment Income | <u>\$(23,627,954)</u> |
| d. | Total Revenues | <u>\$(8,893,522)</u> |
| 3. | Expenditures: | |
| a. | Benefit Payments | \$26,022,769 |
| b. | Supplemental Pension Distribution | \$1,094,706 |
| c. | Refund of Member Contributions | \$286,684 |
| d. | Expenses | <u>\$1,692,672</u> |
| e. | Total Expenditures | \$29,096,831 |
| 4. | Balance – End of Year | \$387,555,682 |

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 as of December 31, 2018

| <u>Expense</u> | <u>Actual YTD through 12/31/18</u> | <u>FYE 12/31/18 Budgeted Expense</u> | <u>Variance to Budgeted Expense</u> | <u>Expended by 12/31/17</u> | <u>Variance to 12/31/17</u> |
|--------------------------------------|--|--|---|---------------------------------|---------------------------------|
| Professional Services | | | | | |
| - Actuarial | 41,247.50 | 49,000.00 | (7,752.50) | 52,570.00 | (11,322.50) |
| - Audit* | 15,400.00 | 15,400.00 | 0.00 | 24,700.00 | (9,300.00) |
| - Consultant | 107,812.50 | 107,100.00 | 712.50 | 106,875.00 | 937.50 |
| - Custodial** | 48,307.07 | 55,000.00 | (6,692.93) | 46,791.36 | 1,515.71 |
| - Investment Management | 1,015,351.62 | 1,100,000.00 | (84,648.38) | 991,042.87 | 24,308.75 |
| - Legal Services | (250.00) | 18,000.00 | (18,250.00) | 16,562.00 | (16,812.00) |
| Insurance | | | | | |
| - Business Owners | 334.50 | 350.00 | (15.50) | 318.50 | 16.00 |
| - Fiduciary Liability | 14,858.00 | 15,200.00 | (342.00) | 14,858.00 | 0.00 |
| - Life & Disability | 723.54 | 723.54 | 0.00 | 723.54 | 0.00 |
| - Workers Compensation | 928.50 | 650.00 | 278.50 | 624.00 | 304.50 |
| Due Diligence & Education | | | | | |
| - Due Diligence | 3,054.54 | 1,800.00 | 1,254.54 | 0.00 | 3,054.54 |
| - Conference | 12,327.48 | 19,000.00 | (6,672.52) | 10,700.28 | 1,627.20 |
| - Other Education | 3,313.60 | 5,000.00 | (1,686.40) | 4,988.00 | (1,674.40) |
| Administration | | | | | |
| - Accufund Consultant | 1,567.50 | 1,500.00 | 67.50 | 1,173.75 | 393.75 |
| - Medical Evaluations | 11,763.57 | 12,000.00 | (236.43) | 3,315.00 | 8,448.57 |
| - Meetings | 425.61 | 350.00 | 75.61 | 39.94 | 385.67 |
| - Occupancy Rental | 13,943.62 | 13,749.96 | 193.66 | 13,749.96 | 193.66 |
| - Office Supplies | 19,841.04 | 17,000.00 | 2,841.04 | 11,958.90 | 7,882.14 |
| - Memberships | 525.00 | 500.00 | 25.00 | 465.00 | 60.00 |
| - Salaries & Wages | 267,784.98 | 320,000.00 | (52,215.02) | 219,504.85 | 48,280.13 |
| Total Expenses | \$ 1,579,260.17 | \$ 1,752,323.50 | (\$173,063.33) | \$1,520,960.95 | \$ 58,299.22 |

*Additional fees possible due to GASB 67 advising.

**Custody fees shown above are before offset from Securities Lending Income. Total income for FYE 12/31/18 was \$85,431.22.

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.

The System's total aggregate cost for professional training and education, including travel costs, authorized by Michigan Public Act 314 for a fiscal year shall not exceed \$150,000 or an amount equal to the total number of system board members multiplied by \$12,000, whichever is less. Beginning January 1, 2013, the Department of Treasury shall adjust the dollar amounts for these costs by an amount determined by the State Treasurer at the end of the immediately preceding calendar year to reflect the cumulative annual percentage change in the Consumer Price Index.

Actuarial Valuation Information

| | |
|---|--|
| • Active Members: | 466 |
| • Number of Retirees/Beneficiaries: | 710 |
| • Average Annual Retirement Allowance: | \$39,396 |
| • Total Annual Retirement Allowance: | \$27,971,269 |
| • Valuation Payroll: | \$34,018,474 |
| • Gross-up Payroll: | \$38,122,879 |
| • Employer's Normal Cost as % of Valuation Payroll: | 14.03% |
| • Employer's Normal Cost as % of Gross-up Payroll: | 12.51% |
| • Employer's Contribution Rate: (valuation payroll): | 31.41% |
| • Employer's Contribution Rate (gross-up payroll): | 28.02% |
| • Weighted Average of Member Contributions (valuation payroll): | 11.49% |
| • Weighted Average of Member Contributions (gross-up payroll): | 10.26% |
| • Actuarial Assumed Rate of Investment Return: | 7.15% |
| • 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, Deputy Fire Chief, Police Chief, or Deputy Police Chief. |