

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

MINUTES
JOINT MEETING
OCTOBER 21, 2015 – 8:16 a.m.
233 East Fulton

The meeting was called to order by Chairman Hawkins. Other members present: Mr. J. Patrick Scripps, Mr. Craig VanderWall, Mr. David Tryc, Mr. Martin Timkovich, Mr. Thomas VanderPloeg, Mr. Philip Balkema, Mr. William Butts, Ms. Jane Hofmeyer, and Mr. Elias Lumpkins, Jr.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Ms. Kristin Burke of Harding Loevner, Mr. James Dominguez and Mr. Seung Yoon of Northern Trust Asset Management, Mr. Lawrence Fumarolo of The Northern Trust Company, and Ms. Sara VanderWerff, City Comptroller.

There were no public comments regarding agenda items.

Mr. VanderPloeg made the motion to approve the minutes of the Joint Meeting of September 16, 2015. The motion was seconded by Mr. Timkovich and carried.

Ms. Kristin Burke, Manager and Partner of Harding Loevner (HL) presented her firm's annual report to Trustees. Ms. Burke reviewed HL's organizational team and noted that HL has 35 investment professionals and the International Equity Portfolio management team averages 14 years at HL. Total assets under management as of June 30, 2015 total \$44.0 billion. She reviewed HL's quality growth statistics as of June 30, 2015 v. the MSCI ACW ex-US Index as well as their total returns by quality and growth rank. Ms. Burke provided a summary on both portfolios and noted the following return statistics for the portfolios:

	<u>Qtr. Ending Sept. 30</u>	<u>Since Inception*</u>
General Retirement System	-12.04%	-11.44%
Police & Fire Retirement System	-12.05%	-11.45%
MSCI ACW ex-US Index	-12.10%	-11.46%

*Inception date: April 1, 2015

Ms. Burke reviewed the benchmark sectors, region total returns, and performance attribution for the second and third quarter of 2015. Portfolio turnover (trailing 5-year average) was 14.5%. She 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 with below-market volatility. Ms. Burke provided an overview of HL's International Equity ADR portfolio constraints, portfolio statistics, and model portfolio holdings as of June 30, 2015. She stated that HL's tracking error v. the benchmark is low relative to their peer active managers while their high active share reflects a strong expression of specific investment insights. HL seeks to narrow the investable universe in stages according to their insights about industries and companies, before considering stock prices. There are typically around 55 holdings in the portfolio. 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 intrinsic 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. Ms. Burke reviewed the current volatility in the global marketplace. The report was received and filed by Chairman Hawkins.

Mr. Lawrence Fumarolo, Vice President and Senior Relationship Manager of The Northern Trust Company (NT), provided Trustees with an update on his firm. Mr. Fumarolo noted that NT was founded in 1889, has \$6.18 trillion in assets under custody, \$4.5 trillion in assets under administration and \$946 billion in assets under management. He stated that NT is sharply focused on asset management and asset servicing and offers a full array of capabilities to meet the needs of sophisticated institutional investors. He reviewed NT's profile and the services they offer and commented on the various awards that NT has received for asset servicing quality and leadership and awards and recognition they have received for innovations and corporate citizenship. Mr. Fumarolo commented on GASB 72, Fair Value Measurement and Application and noted that compliance with the new guidance is a two-step process; NT has industry-leading solutions in this area and can assist the Retirement Systems office in this area. He reviewed the mechanics of GASB 72 and how NT integrates the required information with their systems to provide clients with the reports they need. He noted that NT can provide these reports to the Retirement Systems at an annual cost of \$3,000 (\$1,500 per plan). He stated that more information regarding this issue would be forthcoming. Mr. Fumarolo provided Trustees with an overview of the schematics for the General and Police & Fire Retirement Systems at NT and provided Trustees with statistics and an update on the benefit payments side of NT. Mr. Fumarolo provided an update on the Securities Lending program at NT and noted that NT has an emphasis on customization, automation and transparency. NT's lendable base is \$846 billion for 378 clients; they have \$116 billion loans outstanding and they have a diverse global client base spanning 26 countries. NT has 191 securities lending partners in Chicago, London, Toronto, Hong Kong and Bangalore. The program currently has \$122 billion in collateral (\$69 billion cash, \$53 billion in non-cash) and approximately 55% of cash in commingled pools and 45% in separately managed accounts. He reviewed the Core USA Cash Collateral Fund's characteristics and historical net earnings for the General Retirement System (\$577,097 since 2007) and the Police & Fire Retirement System (\$502,076 since 2007). The report was received and filed by Chairman Hawkins.

Mr. James Dominguez, Investment Relationship Manager, and Seung Yoon, Associate Relationship Manager, of Northern Trust Asset Management (NTAM), presented their firm's report to Trustees {Ms. Hofmeyer left the meeting at 9:00 a.m.}. Mr. Dominguez noted that NTAM has \$945.6 billion in assets under management as of June 30, 2015, with \$464.9 billion of that amount in global index products. Mr. Yoon reviewed NTAM's organization, people and process. The following returns were reported for the period ending August 31, 2015:

	<u>1 mo.</u>	<u>3 mo.</u>	<u>YTD</u>	<u>1 yr.</u>	<u>3 yr.</u>	<u>5 yr.</u>	<u>10 yr.</u>
NT S&P 500 Index Fund	-6.04%	-5.85%	-2.80%	0.62%	14.41%	15.95%	7.14%
S&P 500	-6.03%	-5.92%	-2.88%	0.48%	14.31%	15.87%	7.15%

The report was received and filed by Chairman Hawkins.

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

The Executive Director provided an update on the Member Trustee election by noting that only one nominating petition was filed; therefore Mr. Butts is presumed elected. Mr. Butts will serve as Member Trustee on the General Retirement System Board for a four-year term ending the first Monday in January 2020.

Ms. Korzen stated that earlier this week she was notified of a change in leadership at Wilshire, Inc. Ms. Julia Bonafede will be stepping down as President and Mr. Andrew Junkin is the new President. Mr.

Junkin has been with Wilshire approximately 10 years. Chairman Hawkins noted that Wilshire is scheduled to make their quarterly presentation to Trustees at the November 18 Joint Board meeting and they have offered to have Mr. Junkin accompany their team for that presentation to address any questions Trustees may have. He noted that Wilshire has experienced a significant amount of organizational change as of late and Trustees need to be cognizant of these changes. Mr. Scripps commented that it is no secret that Wilshire has been for sale for a number of years; its owner, Dennis Tito, has been trying to develop an exit strategy for a number of years, which is a difficult task. He voiced his concerns over all of the changes at Wilshire. Mr. Balkema asked if the investment consulting field is winding down; Mr. Scripps noted that some firms have exited the business. Mr. Michaud stated that this industry experiences cycles and that there still are a number of firms that are in the investment consulting business. Mr. Scripps stated that he would like to be prepared in the event Wilshire exits the investment consulting business. Chairman Hawkins commented that it may be prudent for Trustees to consider issuing an investment consulting RFP soon. Mr. Scripps noted that investment consulting is not Wilshire's only business; they also participate in asset management. He stated his opinion that investment consulting is not their most profitable business and that they may be placing less emphasis on investment consulting and more emphasis on asset management. Ms. Korzen stated that an investment consulting RFP has not been issued since 1997 and it may be time to issue one; Trustees agreed. Mr. Michaud stated that his firm has worked with a number of plans in recent years that have issued investment consulting RFPs and he would be happy to supply Ms. Korzen with a template. Chairman Hawkins stated he would like to form a committee to oversee this process; the committee will consist of himself, Mr. Scripps, Mr. Tryc, Mr. VanderWall and Mr. Michaud. Mr. Timkovich commented that the plans have good investment managers in place and he does not think that this RFP needs to be issued by the end of the year; Trustees agreed and noted that the RFP will not be issued until the early part of 2016.

The meeting adjourned at 9:23 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, November 18, 2015, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems