

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

MINUTES
JOINT MEETING
AUGUST 19, 2020 – 9:03 a.m.
VIA ONLINE CONFERENCE

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, Mr. Phillip Mitchell, Ms. Donijo DeJonge, Mr. Nathaniel Moody, and Mr. Robert Veenstra.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Ms. Meaghan Doyle, Mr. Brian Faleiro, Mr. Elias Cohen, and Mr. Michael Savinelli of Neuberger Berman, Mr. Mark Roman and Mr. Thomas Rowland of Grosvenor Capital Management, Mr. David Lindberg and Mr. Calvin Born, of Wilshire Associates, Inc., Ms. Molly Clarin, Chief Financial Officer for the City of Grand Rapids, Mr. Scott Saindon, Deputy Chief Financial Officer for the City of Grand Rapids, and Ms. Lisa Balkema, Retirement Services Specialist.

There were no public comments regarding agenda items.

Mr. Timkovich made the motion to approve the minutes of the Joint Meeting of June 17, 2020. The motion was seconded by Mr. Tryc and carried. Mr. Balkema asked if Ms. Korzen had an update on the Fiduciary Liability Insurance policy issue from the June 17th Joint Board meeting regarding the discrepancy in asset values shown for both systems; Ms. Korzen noted that she did ask for clarification and it was noted that the company utilized the fiduciary net position figures rather than the P.A. 314 numbers. She stated that they have been using these figures previously, so they were being consistent in their application of assets. She also noted that the Business Owner's policy has also been renewed; the renewal amount for the period 07/01/20 - 06/30/21 is \$1,121.00.

Ms. Meaghan Doyle, Vice President of Institutional Client Services, Mr. Brian Faleiro, CFA, Senior Vice President and Portfolio Specialist Mr. Elias Cohen, Managing Director and Portfolio Manager, and Mr. Michael Savinelli, Vice President and Client Advisor of Neuberger Berman (NB) presented their firm's annual report to Trustees. Mr. Savinelli provided an overview of the firm, noting that NB: has 655 investment professionals; is 100% independently, employee owned; has approximately \$4 billion total assets under management; and 99% of clients' assets are managed by lead portfolio managers who have 20+ years of industry experience. Mr. Cohen reviewed the global equity team structure and noted that NB has an experienced team that utilizes a differentiated approach and consistent process to assist in risk management. They utilize a mid-to-large cap approach and bottom up fundamental analysis to drive their portfolio composition of 60-90 stocks. He commented that NB's investment philosophy is a disciplined fundamental process to capitalize on international opportunities. Mr. Faleiro noted that NB starts with a wide universe, focusing on quality at a reasonable price. They consider mid-to-large cap companies in any market, in any sector. NB analysts focus on companies that can sustain competitive advantage and seek to own these attractive businesses only at the risk-appropriate valuation. NB employs a six-step continuous process for portfolio management oversight and governance: 1) investment management; 2) monitoring; 3) monitoring/engagement; 4) engagement/involvement; 5) involvement/oversight; and 6) oversight. Mr.

Cohen reviewed the Retirement Systems' objectives and portfolio guidelines and provided the following return statistics for both portfolios for periods ending June 30, 2020:

Annualized Returns – Net of Fees

	<u>YTD</u>	<u>1 Yr.</u>	Since Inception of the Fund <u>07/20/18 – 06/30/20</u>
NB World ex-U.S. Trust Class III	-7.89%	2.32%	0.82%
MSCI AC World Ex-U.S. Index	-11.00%	-4.80%	-2.05%

Mr. Cohen noted that NB's QuaRP universe helps to mitigate EAFE conventional quality's concentration and valuation risk. According to NB, there is a lot of hidden quality in the index and this helps to broaden sector exposures. Mr. Cohen reviewed the equity fund characteristics, holdings, sector allocations and attribution, market cap allocation, and regional and country attribution for the portfolios. Mr. Cohen presented Trustees with a White Paper report regarding "Hidden Quality" in International Markets. He reviewed the executive summary of the paper as well as various aspects that impact hidden quality companies. The report was received and filed by Chairman Hawkins.

Mr. Mark Roman, Managing Director and Mr. Thomas Rowland, Managing Director of Grosvenor Capital Management (GCM), presented their firm's annual update to Trustees. Mr. Roman noted that recently GCM has gone to a publicly listed company, however the members of GCM will maintain control and their ownership will increase to over 70%. There will be no changes to the GCM portfolio, people, or process. Mr. Roman noted that GCM has \$55.7 billion in assets under management. He noted that GCM began investing in 1971, they have 485 employees and 162 investment professionals. He stated that the Retirement Systems' portfolios have been fully called as of early 2020. Mr. Rowland stated the Opportunistic Credit Fund V seeks to capitalize on credit market dislocations and complex situations globally. The fund has investments that require immediate-term liquidity, focusing on structurally inefficient situations. He stated that GCM's Opportunistic Credit Fund V has a more stable return profile than the Credit Suisse High Yield Index and it has outperformed most relevant credit indices. Mr. Roman reviewed GCM's Opportunistic Credit Fund V and provided objectives and constraints on the fund as well as statistical data. He provided an overview of the strategy allocation: 1) U.S. and European Corporate Credit; 2) Corporate, Real Estate, and Specialty Lending; 3) Emerging Markets and Asian Credit; 4) Multi-Strategy Credit; 5) Loan Portfolios and Regulatory Capital; and 6) Structured Credit. He believes that GCM's Opportunistic Credit Fund V is well situated to take advantage of the current opportunity set. Mr. Rowland provided the following returns for the period ending June 30, 2020:

	<u>GCM Opp. CF V</u>	<u>Credit Suisse Distressed Loan Index</u>	<u>HFRI Event Driven: Dist./Restructure Index</u>	<u>Credit Suisse Lev. Loan Index</u>
2016 (2 months)	1.60%	4.50%	4.23%	1.47%
2017	5.81%	2.22%	6.25%	4.26%
2018	2.37%	1.63%	-1.70%	1.14%
2019	8.45%	-2.75%	2.94%	8.17%
2020 year-to-date	-6.00%	-15.23%	-5.34%	-4.75%
Since 11/2016:				
Cumulative Return	12.20%	-10.50%	6.08%	10.24%
Annualized Return	3.19%	-2.98%	1.62%	2.69%

Mr. Rowland provided an up- and down-market analysis regarding the GCM Opportunistic Fund V versus various market indices. Mr. Rowland commented that the Retirement Systems will soon be receiving a letter from GCM stating that Trustees need to decide if they wish to take the year-end distribution of 5% of

the portfolios as of December 31, 2019 or have the funds reinvested. Mr. Roman explained the concept of the distribution. The report was received and filed by Chairman Hawkins.

Mr. David Lindberg and Mr. Calvin Born presented the quarterly performance report to Trustees. Mr. Lindberg commented that the U.S. stock market was up 21.9% for the second quarter of 2020. Although parts of the country have begun to loosen Coronavirus-related restrictions, considerable uncertainty about 2020 economic growth prospects remain. According to a report by the Federal Reserve bank of Philadelphia, expectations for real GDP growth this year are approximately -5.0% with an unemployment rate remaining above 10%. A surprising employment report in May speaks well for an eventual recovery. The ratio of employed persons to the overall population stands at 52.8%, down nearly 10 percentage points from the beginning of the year. Employment data in the U.K. shows that nearly a third of their workforce is on furlough with the government supporting a majority of those employees' wages. Inflation statistics in Germany indicate that service providers have been able to successfully raise prices to counter Coronavirus-related restrictions. China's economic recovery continues due, in part, to government support policies and the reopening of some overseas markets. The 10-year U.S. Treasury yield ended the quarter at 0.66%, down just 4 basis points from March 2020. The FOMC met twice during the quarter, as scheduled, with no change to their overnight rate, which they expect will be near zero until at least 2022. Credit spreads tightened significantly during the quarter, as evidenced by the double-digit return within the high yield market. Following a review of the capital markets, the Quarterly Funds Evaluation of the investment managers of the General and Police & Fire Retirement Systems was conducted.

**SUMMARY OF INDEX RETURNS
PERIODS ENDED 06/30/20**

<u>Plan</u>	<u>QTR.</u>	<u>1 YEAR</u>	<u>3 YEARS</u>	<u>5 YEARS</u>	<u>10 YEARS</u>
General Retirement System	11.58	1.33	4.60	4.78	8.23
Policy Index	12.09	-0.34	3.80	3.83	6.92
Police & Fire Retirement System	11.71	1.25	4.55	4.74	8.21
Policy Index	12.09	-0.34	3.80	3.83	6.92

General Retirement System

Asset Commitments as of 06/30/20:

Domestic Equity	17.7%
International Equity	14.4%
Fixed Income	25.6%
Cash Equivalents	0.6%
Real Estate	4.6%
Private Equity	5.7%
Non-U.S. Equity	18.4%
Commodities	4.1%
Midstream Energy Infrastructure	3.2%
TIPS	6.0%
Global Low Volatility	9.7%
Private Credit	4.4%

Asset Allocation to Managers:

NTAM	11.4%
NTGI	16.5%
PIMCO	2.1%
Wellington Management Company	4.4%
Baird Advisors	12.5%
Western Asset Management	13.2%
Cash Account	0.6%
Neuberger Berman	9.3%
Harding Loevner	9.2%
CenterSquare	4.6%
Adams Street Partners	4.3%
Aberdeen Asset Management	1.4%
Wellington Commodities	4.1%
Harvest Fund Advisors	3.2%
Brown Brothers Harriman	6.0%
BlackRock	9.7%
Grosvenor Capital Management	3.4%
50 South Capital	1.1%

Police and Fire Retirement System

<u>Asset Commitments as of 06/30/20:</u>		<u>Asset Allocation to Managers:</u>	
Domestic Equity	18.2%	NTAM	11.7%
International Equity		14.4%	NTGI
	16.5%		
Fixed Income	26.4%	PIMCO	2.2%
Cash Equivalents	0.3%	Wellington Management Company	4.3%
Real Estate	4.5%	Baird Advisors	12.9%
Private Equity	5.5%	Western Asset Management	13.6%
Non-U.S. Equity	18.4%	Cash Account	0.3%
Commodities	4.2%	Neuberger Berman	9.1%
Midstream Energy Infrastructure	3.2%	Harding Loevner	9.3%
TIPS	5.4%	CenterSquare	4.5%
Global Low Volatility	9.5%	Adams Street Partners	4.2%
Private Credit	4.2%	Aberdeen Asset Management	1.4%
		Wellington Commodities	4.3%
		Harvest Fund Advisors	3.2%
		Brown Brothers Harriman	5.4%
		BlackRock	9.6%
		Grosvenor Capital Management	3.3%
		50 South Capital	1.0%

Mr. Born commented that the index that is currently being utilized for the Midstream Energy Infrastructure is no longer representative of the universe that Harvest Fund Advisors is invested in as there has been a benchmark shift. He suggested that Wilshire provide an education piece on this issue at a future Board meeting and discuss potentially changing to a more appropriate index. Mr. Timkovich asked why there would be a need for an education piece if Trustees are not changing the manager, but merely the index in which it is measured against. Chairman Hawkins understood Mr. Timkovich's point but felt that an education piece would be beneficial. Wilshire will bring this topic back for discussion with a report at the September 16th Joint Board meeting.

Mr. Lindberg and Mr. Born next presented an Asset Allocation Policy & Expected Return and Risk report to Trustees. Mr. Born stated that Wilshire and Trustees last reviewed the asset allocation over several meetings in 2018. The policy adopted in 2018 modestly increased the expected return and improved diversification among the growth-oriented asset classes in the portfolio. Wilshire recommends that the Board revisit the asset allocation in 2020; this process is expected to occur over several meetings. Mr. Lindberg reviewed Wilshire's capital market assumption process and the changes to the assumptions from March 31, 2020 to June 30, 2020. He commented on the correlation of asset classes due to these changes, provided Wilshire's forward-looking, long-term expected return and risk utilizing their June 30, 2020 asset class assumptions, and the projected net benefit streams to the General and Police & Fire Retirement Systems. Wilshire will revisit this topic at either the September 16th Joint Board meeting and/or the November 18th Joint Board meeting.

Mr. Michaud next discussed the topic of pending litigation. He stated that both Retirement Systems were invested in Bayer through ADRs with Harding Loevner. He commented the issue is that Bayer bought Monsanto which has the product Roundup; both plans have sustained significant losses due to this investment, which merits action. The securities litigation committee recently met and reviewed the information and recommended moving forward with potentially being the lead plaintiff in this case. Although the lead plaintiff status has not been determined yet by the court, Mr. Michaud stated that this should take place sometime in September and he will update the Trustees with the court's decision. Following Trustee discussion, Mr. Tryc

made the motion on behalf of the General Retirement System to approve the securities litigation committee's recommendation to pursue lead plaintiff status in the Bayer securities litigation case. The motion was seconded by Mr. Butts and carried. Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to approve the securities litigation committee's recommendation to pursue lead plaintiff status in the Bayer securities litigation case. The motion was seconded by Mr. Veenstra and carried.

There were no comments on items not on the agenda. {Mr. Mitchell left at 11:00 a.m.}

Ms. Korzen commented that at the beginning of the month, per Wilshire's recommendation, there was a mini-rebalance of accounts to bring them back to their target allocations. Mr. Timkovich made the motion on behalf of the General Retirement System to approve the transfer of \$1,250,000 from Neuberger Berman, \$1,250,000 from Harding Loevner, and \$1,000,000 from Baird Advisors to the Harvest account. The motion was seconded by Mr. Tryc and carried. Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to approve the transfer of \$3,500,000 from Western Asset Management to the Harvest account. Mr. Timkovich asked if there was an existing policy regarding limits on rebalancing; Ms. Korzen said no, but she could prepare one and present it to Trustees for their approval.

The meeting adjourned at 11:05 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, September 16, 2020, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems