

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

MINUTES
JOINT MEETING
AUGUST 18, 2021 – 8:14 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, Mr. Phillip Mitchell, Ms. Donijo DeJonge, and Mr. Robert Veenstra. Absent: Mr. Nathaniel Moody.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Ms. Meaghan Doyle and Mr. Elias Cohen of Neuberger Berman, Mr. Mark Roman and Mr. Thomas Rowland of Grosvenor Capital Management, and Mr. David Lindberg, Mr. Calvin Born, and Mr. Jake McClelland of Wilshire Associates, Inc.

Mr. Timkovich made the motion to excuse the absence of Mr. Moody. The motion was seconded by Mr. Balkema and carried.

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. Butts and carried.

Ms. Meaghan Doyle, Client Service Advisor and Mr. Elias Cohen, CFA, Managing Director and Senior Portfolio Manager, of Neuberger Berman (NB) presented their firm's annual report to Trustees. Ms. Doyle provided an overview of the firm, noting that NB has 617 investment professionals, is 100% independently, employee owned, has approximately \$433 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. He stated that Mr. Benjamin Segal left the company in June 2021, but the transition has been smooth. He commented that NB's investment philosophy is a disciplined fundamental process to capitalize on international opportunities. Mr. Cohen 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 a competitive advantage and seek to own these attractive businesses only at the risk-appropriate valuation. Their analysts then combine economic and strategic analysis, primary research, and valuation analysis to build the portfolio. NB employs a five-step investment process: 1) review the investable universe; 2) look at market cap/liquidity and quality screening; 3) perform strategic analysis; 4) perform valuation analysis; and 5) construct the portfolio. Mr. Cohen reviewed NB's 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, 2021:

Annualized Returns – Net of Fees

	<u>YTD</u>	<u>1 Yr.</u>	Since Inception of the Fund <u>07/20/18 – 06/30/21</u>
NB World ex-U.S. Trust Class III	10.45%	39.37%	12.50%
MSCI AC World Ex-U.S. Index	9.16%	35.72%	9.40%

Mr. Cohen noted that NB's QuaRP universe helps to mitigate EAFE conventional quality concentration and valuation risk. It is NB's opinion that there is a lot of hidden quality in the index and this hidden quality broadens sector exposures. He reviewed the equity fund characteristics, holdings, sector allocations and attribution, market cap allocation, and regional and country attribution for the portfolios. 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 GCM has \$65.0 billion in assets under management, of which, \$26.0 billion is in absolute return strategies. He noted that GCM began investing in 1971; they have 503 employees and 164 investment professionals. Mr. Rowland stated the opportunistic credit fund V is an evergreen commingled fund providing a single point of entry to an evolving set of differentiated opportunistic credit investments. The fund seeks to capitalize on credit market dislocations and complex situations globally; the investments require intermediate-term liquidity while focusing on structurally inefficient situations. He provided an up/down market analysis and credit strategy attribution as of June 30, 2021 for the GCM Opportunistic Credit Fund V Ltd. and reviewed its portfolio construction as of July 1, 2021. He reviewed GCM's forward looking opportunity set and commented on the target IRR for corporate distressed debt, structured credit, and specialty finance. Mr. Rowland provided the following returns for the period ending June 30, 2021:

	GCM Opp. <u>CF V</u>	Credit Suisse <u>Distressed Loan Index</u>	HFRI Event Driven: <u>Dist./Restructure Index</u>	Credit Suisse <u>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	0.93%	0.83%	11.82%	2.78%
2021 (YTD-6 months)	6.68%	14.67%	13.53%	3.49%
Since 11/2016:				
Cumulative Return	28.51%	22.08%	42.26%	23.10%
Annualized Return	5.52%	4.37%	7.85%	4.55%

The report was received and filed by Chairman Hawkins.

Mr. David Lindberg, Mr. Calvin Born, and Mr. Jake McClelland presented the quarterly performance report to Trustees. Mr. Lindberg commented that the U.S. stock market, represented by the Wilshire 5000 Total Market Index, was up 8.4% for the second quarter of 2021; nearly all 11 sectors were in positive territory. Large-cap outperformed small-cap while style-based results were mixed as large-growth outperformed value while growth underperformed within the small-cap space. Inflation continues to accelerate in 2021, and it is unclear as to whether this is the beginning of a persistent trend or one effect of a rapidly reopening economy. U.S. CPI is up 6.5% (annualized) YTD through May, largely due to a spike in energy prices, with oil up more than 50%. Economic conditions are rapidly improving in the U.K., led by the services sector as retail and hospitality businesses are benefiting from an economy that has almost totally reopened. Conditions in Germany are also improving as pandemic-related restrictions are being lifted. The U.S.

Treasury yield curve flattened during the quarter with yields beyond a 3-year maturity falling and shorter-term rates generally rising. The 10-year Treasury yield ended the quarter at 1.47%, down 27 basis points from March. The forecast by the FOMC for the future overnight rate moved from no change to a 0.5% increase, albeit in 2023. However, the Fed Chair indicated that the Fed would not raise rates “preemptively” on possible inflation fears. Mr. Lindberg provided Trustees with Wilshire’s June 2021 asset class assumptions and an extensive update on employment conditions and the U.S. equity market, non-U.S. equity market, U.S. fixed income market, and the high yield bond 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 06/30/21**

<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	7.18	27.54	10.83	9.94	8.39
Policy Index	6.51	25.73	9.82	8.81	7.29
Police & Fire Retirement System	7.16	27.67	10.81	9.93	8.40
Policy Index	6.51	25.73	9.82	8.81	7.29

General Retirement System

Asset Commitments as of 06/30/21:

Domestic Equity	18.4%
International Equity	19.2%
Fixed Income	20.7%
Cash Equivalents	0.8%
Real Estate	5.3%
Private Equity	6.9%
Global Low Volatility	9.5%
Commodities	4.8%
Midstream Energy Inf.	5.2%
TIPS	4.9%
Private Credit	4.3%

Asset Allocation to Managers:

NTAM	12.2%
PIMCO	3.4%
Wellington Management Company	3.0%
Baird Advisors	10.2%
Western Asset Management	10.7%
Cash Account	0.8%
Neuberger Berman	9.8%
Harding Loevner	9.5%
CenterSquare	5.3%
Adams Street Partners	5.7%
Aberdeen Asset Management	1.3%
Wellington Commodities	4.8%
Harvest Fund Advisors	5.2%
Brown Brothers Harriman	5.0%
BlackRock	9.6%
Grosvenor Capital Management	3.2%
50 South Capital	1.1%

Police and Fire Retirement System

Asset Commitments as of 06/30/21:

Domestic Equity	19.3%
International Equity	19.8%
Fixed Income	20.9%
Cash Equivalents	0.7%
Real Estate	5.1%
Private Equity	6.7%
Global Low Volatility	9.2%
Commodities	4.9%
Midstream Energy Inf.	5.0%

Asset Allocation to Managers:

NTAM	12.6%
PIMCO	3.5%
Wellington Management Company	3.3%
Baird Advisors	10.5%
Western Asset Management	10.5%
Cash Account	0.7%
Neuberger Berman	10.2%
Harding Loevner	9.7%
CenterSquare	5.1%

TIPS	4.5%	Adams Street Partners	5.5%
Private Credit	4.1%	Aberdeen Asset Management	1.2%
		Wellington Commodities	4.9%
		Harvest Fund Advisors	5.1%
		Brown Brothers Harriman	4.5%
		BlackRock	9.3%
		Grosvenor Capital Management	3.1%
		50 South Capital	1.1%

The report was received and filed by Chairman Hawkins. Ms. Korzen asked if now would be a prudent time to perform a mini rebalance between accounts to bring them back closer to their target weights. Mr. Lindberg agreed and stated if a rebalance would be prudent, then it would likely be between the U.S. and non-U.S. equity accounts and the fixed income accounts. He will review the information and contact Ms. Korzen to discuss this further. Mr. Michaud stated that although a specific timeframe for rebalancing accounts does not appear in the investment policy statements, it is understood that rebalancing, when necessary, will occur in a prudent timeframe to move the accounts back to an acceptable range. Following Trustee discussion, Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to authorize the Executive Director to rebalance funds as necessary. The motion was seconded by Mr. VanderWall and carried. Mr. Mitchell made the motion on behalf of the General Retirement System to authorize the Executive Director to rebalance funds as necessary. The motion was seconded by Mr. Butts and carried.

Board approval was requested for attendance at the following conferences: the Baird Advisors Conference to be held September 12 – 13 by Chairman Hawkins, Mr. Tryc, and Mr. VanderWall, and the Fall MAPERS Conference to be held September 19 - 21 by Ms. Korzen, Mr. Tryc, Mr. VanderWall, and Ms. Balkema. Mr. Tryc made the motion to approve attendance of the aforementioned conferences by Trustees and staff per the Trustee Training, Educational Development and Due Diligence policy. The motion was seconded by Mr. Balkema and carried.

There were no comments on items not on the agenda.

Ms. Korzen noted that the contract with Rehmann Robson will be ending after the current audit of the General Retirement System. She presented Trustees with an extension quote from Rehmann Robson; they presented a 3-year option and a 5-year option. She commented that the Operations Committee has reviewed the proposal. While it is prudent to change auditors from time to time, the pool of qualified accounting firms that provide this type of service is very small. She stated that if Trustees decided to renew the contract with Rehmann Robson, they would not be locked into either the 3 years or 5 years as it could be cancelled at any time. Mr. Balkema asked how Rehmann Robson was interacting with the staff and if there were any issues; Ms. Korzen said no, there were no issues. Mr. Mitchell asked if there is a chance that the quoted fees could increase during either the 3-year or 5-year term; Ms. Korzen stated that although that would be unlikely, if it should happen, Trustees could opt out of the contract. Mr. Timkovich asked if there are any state requirements that retirement systems need to change their auditor periodically; Mr. Michaud said no, it is merely good practice to consider making changes. Ms. Korzen stated that the Operations Committee recommends approval of extending the contract with Rehmann Robson. Mr. VanderWall made the motion on behalf of the Police & Fire Retirement System to extend the contract with Rehmann Robson for the 5-year period outlined in their proposal. The motion was seconded by Mr. Balkema and carried. Mr. Tryc made the motion on behalf of the General Retirement System to extend the contract with Rehmann Robson for the 5-year period outlined in their proposal. The motion was seconded by Mr. Timkovich and carried.

Chairman Hawkins reminded Trustees that the Executive Director's evaluation materials have been emailed to them and are due back to him by August 31st. He stated that since this is a contract year for her

and Trustees do not meet in October and the November meeting is quite full, this issue needs to be addressed at the September Board meeting.

Chairman Hawkins disclosed that a number of Trustees attended a dinner last evening with Mr. Lindberg, Mr. McClelland, and Ms. Doyle. In addition to himself and his spouse, in attendance were Mr. & Mrs. Mitchell, Mr. & Mrs. VanderWall, Mr. & Mrs. Timkovich, Mr. & Mrs. Tryc, and Ms. Korzen and guest.

The meeting adjourned at 9:54 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, September 15, 2021, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems