

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

MINUTES  
JOINT MEETING  
FEBRUARY 21, 2024 – 8:05 a.m.  
233 Fulton Street East, Suite 216

The meeting was called to order by Chairman Hawkins. Other members present: Mr. David Tryc, Mr. Justin Ewald, Mr. Martin Timkovich, Mr. Philip Balkema, Ms. Donijo DeJonge, Mr. William Fabiano, and Ms. Holly Jackson. Absent: Mr. William Butts and Mr. Drew Robbins.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards (virtual), Mr. Eric Bachman of PIMCO, Mr. Kevin Gore and Mr. Travis Carr of Western Asset Management, Mr. Jim Anderson and Mr. Jeff Tebeau of Gabriel, Roeder, Smith and Company, Mr. David Lindberg, Mr. Stephen DiGirolamo and Mr. Jake McClelland of Wilshire, and Mr. Michael Oosterbaan, Employee Benefits Manager for the City of Grand Rapids.

Chairman Hawkins welcomed attorney Ms. Holly Jackson to the Boards. Ms. Jackson will replace Mr. Phillip Mitchell. He stated that Trustees look forward to working with Ms. Jackson and her contributions to the Boards.

Mr. Tryc made the motion to excuse the absences of Mr. Butts and Mr. Robbins. The motion was seconded by Mr. Balkema and carried.

There were no public comments regarding agenda items.

Mr. Tryc made the motion to approve the minutes of the Joint Meeting of January 17, 2024. The motion was seconded by Mr. Fabiano and carried.

Mr. Jim Anderson and Mr. Jeff Tebeau of Gabriel, Roeder, Smith and Company (GRS) next presented Trustees with a report on investment return and inflation assumptions. Mr. Tebeau commented on assumed rate of return trends and stated that historically, GRS prepares full experience studies every five years and in recent years, GRS has provided both Boards with annual investment return updates. He stated that the prevailing investment outlook was that falling return expectations were the norm for some time, however 2023 showed significant increases. Assumed rates of return are being reduced across the country; however, there has been some stabilization in the last 3 years. The median rate of return is 7.00% and the lowest rate is 5.25%. Mr. Tebeau reviewed Wilshire's return expectations for 2024 and related data. He noted that the Police & Fire Retirement System allocation is identical to the General Retirement System. The 10-year median return is 6.41%, while in 2023 it was 7.09% and in 2022 it was 4.97%. The 30-year median return is 7.04%, while in 2023 it was 7.35% and in 2022 it was 6.40%. He provided statistics on the forward-looking arithmetic and geometric returns for both the General and Police & Fire Retirement Systems. Mr. Tebeau commented that the current assumption of 6.75% is slightly higher than Wilshire's 10-year forecast, but slightly lower than the results of GRS' independent survey (CMAM). He stated that the forthcoming 2024 GRS CMAM will likely see moderate decreases in CMAs compared to the 2023 version. There is no universal method to setting this assumption, but it is generally based on future forecasts of investment experts and not historical averages. In addition, there is no universal agreement on time horizon for this assumption, but generally it is between 10-20 years. Mr. Tebeau stated that over half of the liability is attributable to benefit payments being made in the next 10-15 years, so what happens in the next 10 years matters. Wilshire's 10-year expectation of 6.41% implies years 11-30 would require returns of ~6.9% to achieve 6.75% long-term, which is a reversal from last year. He did note that survey data is not an exact science rather it is based on an average of averages and does not take into account client specific strategies or

knowledge. Mr. Tebeau stated that 2023’s investment returns were a welcome comeback from 2022’s dismal experience. In light of recent market performance and current economic conditions, most investment experts have decreased their forecasts for the next 10-20 years. Changing the actuarial assumed rate of return should not impact the asset allocation strategy or actual investment return to the Systems. CMAs have changed materially beginning in 2023 and the probability of exceeding the current return assumption of 6.75% is 51.5% according to GRS’ 2023 CMAM. The maturity of the Retirement Systems, especially the General Retirement System, means significant near-term cash outflows which warrant consideration when selecting a return assumption. Mr. Tebeau stated that a 6.75% return assumption remains reasonable and GRS will revisit this issue with the Retirement Systems annually.

Mr. Jim Anderson and Mr. Jeff Tebeau of Gabriel, Roeder, Smith and Company (GRS) next presented Trustees with a report on funding policies. Mr. Anderson reviewed the funding objectives for both plans and discussed the elements of an actuarial funding policy (actuarial cost method, asset smoothing method, amortization period, funding target, and contributions). He also reviewed risk management issues to be considered with respect to the funding policy such as assumption changes, the amortization method, and risk measures. He noted that since both plans are largely the same, GRS recommends considering a market value corridor with respect to asset smoothing. He stated his opinion that one of the big issues regarding the amortization policy is the length of the current amortization periods for both plans and the lack of the ability to assign different periods to different sources of UAAL. Mr. Anderson commented that especially in the General Retirement System, 30 years is too long given that most active members will be retired in 7-10 years. He stated that perhaps Trustees should consider adding a method for dealing with the contribution lag, adding a method for dealing with a net credit payment when there exists an unfunded liability, and adding what action to take when the plan is more than 100% funded. Mr. Anderson commented that Trustees should consider strengthening the language about contributing at least the normal cost when between 100% and 120% funded and consider adding the review of key assumptions and risk mitigation strategies when overfunded. He also stated it might be prudent to consider adding more details as to how the City contributions are calculated. He noted that he will be discussing this issue with the City Commission in the near future as they have the authority to change the amortization periods of the plans.

Mr. Eric Bachman, Senior Vice President and Account Manager, of Pacific Investment Management Company (PIMCO), presented his firm’s annual report to Trustees. Mr. Bachman noted that the StocksPLUS product was launched in 1986 and has \$27 billion in assets under management. He explained how the StocksPLUS strategy is constructed and commented that it has a track record of consistent outperformance. Mr. Bachman reviewed the StocksPLUS team and provided a market recap discussing the performance drivers in 2023. He commented on PIMCO’s interest rate strategies and spread sector strategies and their impact on the portfolios. StocksPLUS focuses on high quality, liquid sources of return. He reviewed key aspects of the portfolios such as duration, spread, inflation, currency, and liquidity. Mr. Bachman noted that within fixed income there are attractive yields and diversification, and their bond alpha portfolio has attractive forward-looking return potential. There is currently a global divergence in monetary policy. He commented that across developed markets, inflation is likely moderating to 2-3% and markets have already aligned with historical “soft landing” cutting cycles. The following returns were reported for the period ending December 31, 2023:

	<u>10 yrs.</u>	<u>5 yrs.</u>	<u>3 yrs.</u>	<u>1 yr.</u>	<u>6 mo.</u>	<u>3 mo.</u>	Since <u>09/30/87</u>	Acct. <u>Inception*</u>
StocksPLUS L.P.	11.9%	15.5%	9.0%	27.2%	8.5%	11.9%	10.5%	7.4%
S&P 500	12.0%	15.7%	10.0%	26.3%	8.0%	11.7%	10.1%	7.1%

\*Inception date: 09/01/00

PIMCO is focused on securitized credit and they have added to agency MBS exposure within the portfolio. Mr. Bachman stated that peak inflation and rising unemployment remain consistent with rate cuts and markets are already pricing a substantial cutting cycle. While soft landings are possible, risks remain. He noted that PIMCO has \$1.74 trillion in assets under management, 50 years of experience in the industry, 976 investment professionals, 3,405 total employees, and clients in 50+ countries. The report was received and filed by Chairman Hawkins.

Mr. Kevin Gore, Client Service Executive, and Mr. Travis Carr, Product Specialist and CFA, of Western Asset Management (WAM) presented their firm’s annual report to Trustees. Mr. Gore provided Trustees with an update of WAM and noted that WAM was founded in 1971; as of December 31, 2023 WAM had 123 investment professionals on five continents and seven offices, with \$388.9 billion in global assets under management. Mr. Gore reviewed the firm’s investment management team, investment philosophy and process and provided a business update on the firm. WAM employs a long-term, fundamental value discipline and multiple diversified strategies. Mr. Carr reviewed the risk strategies that WAM employs for the portfolios by noting that they believe integrating risk management into portfolio construction and in the independent review of portfolio risks strengthens its effectiveness. He stated that risk management is a team effort and robust communication and escalation procedures underpin the independence and transparency of risk management. Mr. Gore noted that WAM’s investment strategy seeks to maximize return via a well-diversified, long-term value-based core fixed income portfolio that includes limited opportunistic exposure to the “plus” sectors (high yield and non-U.S. and emerging market debt). He stated that the U.S. Core Plus strategy had \$74.1 billion in assets under management as of December 31, 2023. Mr. Gore reviewed the attribution statistics, sector and credit sector exposures and portfolio positioning and provided the following return statistics for both portfolios as of December 31, 2023:

	<u>1 Yr.</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>10 Yrs.</u>	<u>Since Inception*</u>
General Retirement System	6.3%	-4.6%	1.6%	2.8%	4.4%
Police & Fire Retirement System	6.3%	-4.6%	1.6%	2.8%	4.3%
Bloomberg U.S. Agg. Unhedged Index	5.5%	-3.3%	1.1%	1.8%	3.2%

\*April 30, 2004

Mr. Carr reviewed WAM’s attribution statistics, investment results, sector exposure, credit sector exposure, and portfolio positioning v. the Bloomberg U.S. Aggregate Unhedged Index. He reviewed WAM’s outlook for 2024 and noted that they believe that disinflation is ongoing but uneven, central banks will ease policies to normalize real interest rates, and the economy has remained resilient, but is set to slow down. He commented that core inflation is right around the Fed’s target recently and there is more disinflation to come in the U.S. The U.S. labor market is moving back towards some balance while the U.S. wage growth is normalizing. Mr. Carr commented that WAM believes U.S. growth moderation is likely to continue as the FOMC discussion turns towards cuts, but the FOMC also forecasts Fed funds remaining well above the inflation rate. He noted that while interest rates remain elevated, Europe is experiencing stagnant growth with inflation closing in on target. While China has had an underwhelming post-COVID economic rebound, Japan is experiencing wage pressure building as employment and growth outlook brightens. He stated that the emerging market central banks have been ahead of the curve as they tightened policy aggressively starting in 2021, and they have already started to cut rates despite the Fed indicating no cuts in the U.S. until late 2024. Mr. Carr provided Trustees with statistics on spread sector excess returns, U.S. Treasury yield curves, high-yield fundamentals, and noted that corporates have solid cash flow and debt metrics. He stated that credit rating upgrade opportunities still exist, agency mortgage-backed securities remain fundamentally attractive, and mortgage credit offers attractive relative value. Mr. Carr stated that WAM’s fixed income outlook for 2024 is: 1) U.S. growth will slow, but should avoid recession; 2) global growth has downshifted and China is now a source of deflation; 3) U.S. core PCE is already near the Fed target; 4) global inflation will continue to recede; 5) the U.S. dollar will weaken moderately; 6) emerging markets, particularly in Latin America, should outperform; and 7) geopolitical uncertainty continues to add volatility. The report was received and filed by Chairman Hawkins.

Mr. David Lindberg commented that he apologized if Trustees were under the impression that Wilshire was headed in a different direction than what Trustees desired for the plans. He commented that Wilshire continues to be active in searches and RFP processes and that they will remain available for the Retirement Systems to help in any way going forward.

Mr. David Lindberg, Mr. Stephen DiGirolamo, and Mr. Jake McClelland presented the quarterly performance report to Trustees. Mr. Lindberg commented that the U.S. stock market was up 12.1% for the fourth

quarter and was up 26.1% for the past 12 months. Small-cap stocks outperformed large-cap stocks by 165 basis points and large growth stocks outperformed large value stocks during the third quarter and led by 35% points for all of 2023. The Eurozone likely fell into a mild recession in 2023 and recent data suggests that conditions are not improving. Business activity declined in December as new orders fell and job cuts were reported. Germany, the Eurozone's largest economy, continues to suffer due to high energy prices and interest rate hikes. The outlook in China is complicated with recent data showing contraction in the factory and services sectors. The U.S. Treasury yield curve was down across the maturity spectrum during the quarter and to a greater degree in the long end of the curve. Credit spreads were down as well during the quarter. The FOMC left the overnight rate unchanged, targeting a range of 5.25% to 5.50%. 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 RETURNS  
PERIODS ENDED 12/31/23**

<u>Plan</u>	<u>QTR.</u>	<u>1 YEAR</u>	<u>3 YEARS</u>	<u>5 YEARS</u>	<u>10 YEARS</u>
<b>General Retirement System</b>	<b>7.13</b>	<b>10.76</b>	<b>5.00</b>	<b>8.63</b>	<b>6.23</b>
<b>Policy Index</b>	<b>7.24</b>	<b>11.07</b>	<b>4.82</b>	<b>7.73</b>	<b>5.45</b>
<b>Police &amp; Fire Retirement System</b>	<b>7.34</b>	<b>11.13</b>	<b>5.01</b>	<b>8.67</b>	<b>6.23</b>
<b>Policy Index</b>	<b>7.24</b>	<b>11.07</b>	<b>4.82</b>	<b>7.73</b>	<b>5.45</b>

**General Retirement System**

Asset Commitments as of 12/31/23:

Domestic Equity	17.0%
Non-U.S. Equity	17.4%
Fixed Income	23.8%
Global Low Volatility	9.8%
Real Estate	5.0%
Private Equity	7.1%
Commodities	4.7%
Midstream Energy	5.1%
TIPS	4.8%
Private Credit	4.7%
Cash Equivalents	0.5%

Asset Allocation to Managers:

NTAM	11.5%
Wellington Management Company	2.1%
PIMCO	3.4%
Neuberger Berman	8.6%
Harding Loevner	8.8%
BlackRock	9.8%
CenterSquare	5.0%
Wellington Commodities	4.7%
Brown Brothers Harriman	4.8%
Harvest Fund Advisors	5.1%
Adams Street Partners	6.3%
HighVista Strategies	0.8%
Grosvenor Capital	3.7%
50 South Capital	1.0%
Baird Advisors	12.2%
Western Asset Management	11.6%
Cash Account	0.5%

**Police and Fire Retirement System**

Asset Commitments as of 12/31/23:

Domestic Equity	18.5%
Non-U.S. Equity	17.4%
Fixed Income	23.4%
Global Low Volatility	10.1%
Real Estate	5.0%
Private Equity	6.8%
Commodities	4.8%
Midstream Energy	4.9%
TIPS	4.4%
Private Credit	4.3%
Cash Equivalents	0.4%

Asset Allocation to Managers:

NTAM	12.0%
Wellington Management Company	2.8%
PIMCO	3.7%
Neuberger Berman	8.7%
Harding Loevner	8.7%
BlackRock	10.1%
CenterSquare	5.0%
Wellington Commodities	4.8%
Brown Brothers Harriman	4.4%
Harvest Fund Advisors	4.9%
Adams Street Partners	6.1%

HighVista Strategies	0.7%
Grosvenor Capital	3.4%
50 South Capital	0.9%
Baird Advisors	12.0%
Western Asset Management	11.4%
Cash Account	0.4%

The reports were received and filed by Chairman Hawkins.

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

Chairman Hawkins commented that at the end of January, the Retirement Systems were made aware that AndCo will soon be acquired by Mariner Financial Advisors (Mariner). Mr. Tryc, Mr. Ewald, Ms. Korzen, and he held a conference call with Mr. Michael Welker of AndCo to discuss this matter. Mr. Welker indicated that the new name of the firm will be Mariner Institutional and that AndCo is being acquired to allow more capital and resources. Mariner does not engage in the same type of business that AndCo does and vice versa. Mr. Welker assured Trustees and Ms. Korzen that there will be no changes to the team at AndCo. Mr. Welker reiterated that the Retirement Systems have an at will contract and if any time during the first year Trustees are not satisfied with them, they can terminate the contract and receive a full refund of fees. Ms. DeJonge noted that Mariner will also be acquiring a company called Fourth Street Performance Partners, and asked what business they engage in. It appears that Fourth Street does not provide the same type of services that AndCo or Mariner does. Trustees each gave his/her opinion on the issue of the acquisition of AndCo. Mr. Michaud commented that there was a lot of time and energy put forth into the due diligence process for the investment consultant and noted that he did not see any legal issues with respect to the AndCo contract. The contract is structured in the best interest of the Retirement Systems and a fee reduction was negotiated into the contract. He stated that his other clients that have AndCo as their investment consultant have been receptive to the upcoming acquisition. Following Trustee discussion, Trustees decided to go forward with the transition from Wilshire to AndCo. Ms. Korzen noted that the contract with AndCo begins March 1, 2024 and questioned when she should send the termination letter to Wilshire. Mr. Michaud suggested sending the termination letter once the transition process with AndCo is complete and the termination will be effective immediately.

The meeting adjourned at 10:07 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, March 20, 2024, at 8:05 a.m., 233 Fulton Street East, Grand Rapids, Michigan.

Peggy Korzen  
 Executive Director  
 General and Police & Fire Retirement Systems