

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

MINUTES
JOINT MEETING
MAY 17, 2023 – 8:05 a.m.
233 East Fulton

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

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Mr. David Lindberg, Mr. Stephen DiGirolamo, Mr. Jake McClelland, and Mr. Ryan Lennie of Wilshire, and Mr. Charlie Groeschell and Mr. Jeffrey Simmons of Baird Advisors.

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

Ms. Korzen introduced Mr. Travis Brown; he is the new Retirement Systems Assistant as Ms. Lori Fairman retired in March. Trustees welcomed Mr. Brown to the staff.

There were no public comments regarding agenda items.

Mr. Tryc made the motion to approve the minutes of the Joint Meeting of March 15, 2023. The motion was seconded by Mr. Timkovich and carried.

Mr. Charlie Groeschell, Managing Director and Senior Portfolio Manager, and Mr. Jeffrey Simmons, Managing Director and Senior Portfolio Manager, of Baird Advisors (Baird) presented their firm's annual report to Trustees. Mr. Simmons noted that Baird was founded in 1919 in Milwaukee and has total assets under management of more than \$119.6 billion. In 2004 Baird became employee-owned and they have 5,000 associates. He commented on Baird's diversity and inclusion efforts as well as their approach to ESG integration. Mr. Simmons reviewed their risk-controlled taxable portfolio management. He noted that their investment philosophy is two-fold: 1) structure the portfolio to achieve the return of the benchmark; and 2) add incremental value through a bottom-up, risk-controlled process. Baird seeks to consistently add 15-50 basis points of incremental return. He stated that risk control is the foundation of their investment discipline and internal research drives their investment process. Mr. Groeschell reviewed Baird's mortgage and asset-backed securities strategy, as well as their credit strategy. He noted their risk controls for the portfolio and stated that the portfolio is positioned: 1) to have attractive yield advantages over respective benchmarks; 2) to maintain sufficient liquidity for uncertain environments; 3) to benefit from spread sector outperformance; and 4) to be positioned neutral in duration to the yield curve. Mr. Groeschell provided Baird's perspective on the current environment and noted that 2023 has so far experienced a tug of war with interest rates and spreads. There has been an aggressive Fed policy response to interest rates as outsized inflation required outsized hikes. He stated that the market's expectation for the Fed's rate path is moving sharply lower. The population is not growing and is aging in the U.S. A slow labor force and productivity growth are limiting potential GDP and the job market is still very tight. Mr. Simmons stated that Treasury yields, YTD, have been volatile as well as the yield curve; however, Treasury

yields had begun to stabilize in April. He commented on the banking situation and noted that although banks are experiencing isolated stress, there does not appear to be a systemic crisis and banks are still in good shape overall. Bank sales in March did add to volatility in mortgages, which in turn presented opportunities. Investment grade corporate credit fundamentals are still solid. Mr. Groeschell noted that debt service is set to rise significantly as 50% of U.S. debt matures within 3 years. He reviewed the City of Grand Rapids Retirement Systems' objectives, risk controls, portfolio guidelines and characteristics, and provided the following net investment return statistics for the portfolios:

	<u>General Retirement System</u>	<u>Police & Fire Retirement System</u>	<u>Bloomberg U.S. Aggregate Index</u>
March 2023	2.29%	2.32%	2.54%
Year-to-Date	2.98%	3.05%	2.96%
1-Year	(4.47)%	(4.49)%	(4.78)%
3-Year	(2.08)%	(2.05)%	(2.77)%
5-Year	1.26%	1.24%	0.91%
7-Year	1.37%	1.37%	0.88%
10-Year	1.82%	1.83%	1.36%
<u>Since Inception</u>			
Cumulative Return	100.74%	100.58%	86.83%
Annualized Return	3.53%	3.53%	3.16%

The report was received and filed by Chairman Hawkins.

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 7.3% for the first quarter and is down 8.6% for the past 12 months. Large-cap stocks outperformed Small-cap stocks by 400 basis points and Growth stocks vastly outperformed Value stocks for the quarter. The yield curve inversion that began during the 3rd quarter of 2022 worsened during the first quarter of 2023. The Federal Reserve's aggressive action has pushed the short-term rate to a spread of 1.37% above the benchmark 10-year. The probability of a recession in the next 12 months, according to the Federal Reserve Bank of New York, currently stands at 62%. Banking weakness appeared in Europe as the Swiss bank, Credit Suisse, saw billions in depositor outflows in one day due to concerns of instability within the organization. Swiss authorities quickly devised a plan to have UBS acquire the smaller bank at a reduced price, with Credit Suisse investors and creditors losing nearly everything. China is quickly seeing benefits from its relaxed COVID-related restrictions. The U.S. Treasury yield curve was up in the short-end but fell across the remainder of the curve. The 10-year Treasury yield ended the quarter at 3.47%, down 41 basis points from December. The FOMC increased the overnight rate by 0.25% in both January and March, targeting a range of 4.75% to 5.00%. Mr. Lindberg also provided information on Wilshire's return and risk assumptions and their forecast over time as well as a summary economic review of all the major asset classes and a coronavirus timeline. 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 03/31/23

<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	3.63	-6.32	11.53	6.18	6.57
Policy Index	3.59	-6.49	10.95	5.41	5.59
Police & Fire Retirement System	3.71	-6.30	11.54	6.12	6.55

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Policy Index	3.59	-6.49	10.95	5.41	5.59
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General Retirement System

<u>Asset Commitments as of 03/31/23:</u>		<u>Asset Allocation to Managers:</u>	
Domestic Equity	16.6%	NTAM	11.1%
Non-U.S. Equity	16.6%	PIMCO	3.3%
Fixed Income	23.9%	Wellington Management Company	2.2%
Global Low Volatility	10.2%	Neuberger Berman	8.3%
Real Estate	4.6%	Harding Loevner	8.3%
Private Equity	7.9%	BlackRock	10.2%
Commodities	5.1%	CenterSquare	4.6%
Midstream Energy	4.9%	Wellington Commodities	5.1%
TIPS	5.0%	Brown Brothers Harriman	5.0%
Private Credit	4.8%	Harvest Fund Advisors	4.9%
Cash Equivalents	0.4%	Adams Street Partners	6.8%
		Aberdeen Asset Management	1.1%
		Grosvenor Capital	3.7%
		50 South Capital	1.1%
		Baird Advisors	12.3%
		Western Asset Management	11.6%
		Cash Account	0.4%

Police and Fire Retirement System

<u>Asset Commitments as of 03/31/23:</u>		<u>Asset Allocation to Managers:</u>	
Domestic Equity	17.4%	NTAM	11.5%
Non-U.S. Equity	16.9%	PIMCO	3.4%
Fixed Income	23.8%	Wellington Management Company	2.5%
Global Low Volatility	9.9%	Neuberger Berman	8.5%
Real Estate	4.7%	Harding Loevner	8.4%
Private Equity	7.5%	BlackRock	9.9%
Commodities	5.2%	CenterSquare	4.7%
Midstream Energy	5.1%	Wellington Commodities	5.2%
TIPS	4.6%	Brown Brothers Harriman	4.6%
Private Credit	4.4%	Harvest Fund Advisors	5.1%
Cash Equivalents	0.6%	Adams Street Partners	6.6%
		Aberdeen Asset Management	0.9%
		Grosvenor Capital	3.4%
		50 South Capital	1.0%
		Baird Advisors	12.3%
		Western Asset Management	11.5%
		Cash Account	0.6%

The report was received and filed by the Chairman.

Mr. David Lindberg, Mr. Stephen DiGirolamo, Mr. Jake McClelland, and Mr. Ryan Lennie of Wilshire provided Trustees with an additional educational report on Global Investment Solutions. Mr. Lindberg noted that Wilshire offers customized approaches with a decades-long history of both advising and managing assets. Wilshire recognizes that the challenge for asset owners involves scale and the process is critical. He stated that a global investment solution provides performance that tracks well to policy decisions and adds intentional value aligned to active risk decisions. He provided an historical background on Wilshire Advisors by noting that since 1972, Wilshire has been dedicated to improving investment

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incomes for institutional investors and financial intermediaries worldwide. He noted that Wilshire has 500+ clients, \$83 billion in assets under management and \$1.3 trillion in assets under advisement. Wilshire has 311 associates worldwide with 74 investment professionals, 44 CFA charterholders and 9 individuals with a CAIA designation. Mr. Lindberg stated that the value proposition for Grand Rapids is to utilize Wilshire’s capabilities and scale in the most efficient way possible with Global Investment Solutions. This proposal would be a delegated implementation as scale and process are critical. This would expand the current advisory scope to mostly discretionary, but the Retirement Systems would retain the most important policy decisions. The Systems would get the “best use” of Wilshire’s service offerings with the same investment research, manager research, investment philosophy, and client team. Global Investment Solutions would provide the Retirement Systems with: 1) scale; 2) reduced overall costs; 3) increased operational efficiencies; 4) succession planning; and would allow both Boards to focus primarily on their most important decision – asset allocation policy. He noted that both Boards would continue to decide the asset allocation policy and associated risks and Wilshire would still act as advisor to the Boards. The Retirement Systems would have their own dedicated portfolio manager. Wilshire would implement the Boards’ decisions and Wilshire would take care of manager selection and retention (via separate accounts and/or Wilshire established Commingled Investment Trusts designed for retirement systems). Wilshire would also take care of fund rebalancing, generation of cash flow necessary for benefit payments and certain legal and administrative matters. The client service to the Retirement Systems would remain the same. Some of the outcomes with this proposal would be: 1) eliminate need for annual manager presentations; 2) focus investment reviews solely on the most important decision; 3) greater sharing of fiduciary risk with Wilshire as a partner; 4) the Retirement Systems office can spend time more efficiently on plan level issues; and 5) the portfolios are managed on Wilshire’s broad scale investment platform. The custody agreement with Northern Trust would remain in place. Mr. Lindberg stated that the Retirement Systems can expect the portfolios’ performance to track closely to the Boards’ policy decisions with lower costs, as Wilshire’s scale is more commensurate with larger plan asset sizes. The Boards can customize construction and choose to retain certain desired managers as appropriate. He provided an overview of the schedule of responsibilities as they are today v. what they would be with Global Investment Solutions. Mr. Lindberg provided annualized performance figures (net of fees) for the total portfolio of all discretionary managed clients:

	<u>Portfolio Return</u>	<u>Policy Return</u>
Quarter	4.0%	4.5%
1-Year	(17.5)%	(17.3)%
3-Year	(0.6)%	(1.0)%
5-Year	2.3%	2.2%
10-Year	5.3%	5.0%
20-Year	6.6%	5.6%
Since Inception*	5.8%	5.6%

*Inception date: 05/31/2002

Wilshire uses the scale of its discretionary business to expand the lineup within their multi-manager portfolios, maintaining alpha potential while reducing active management risk to drive greater portfolio efficiency. Mr. Lindberg reviewed Wilshire’s Private Equity, Private Credit, and Private Real Assets experience. He provided Trustees with a table outlining a cost comparison between the current portfolio managers and the proposed portfolio, which combines plan assets. According to the table, the current fees for Wilshire are \$233,000 annually v. the proposed Wilshire fee of \$795,000 annually, however, they are offering to rebate 100% of Wilshire’s AFS fees to the advisory fee (\$445,000), so that would make their annual fee \$350,000. He also noted that presently total manager fees are \$3,487,000 annually and Wilshire’s Global Investment Solution would be able to lower this to an estimated \$2,460,000 annually. This would

cover both plans. Chairman Hawkins asked how long this rebate would be in effect; Mr. Lindberg stated the rebate would be permanent as long as they are in this program. Chairman Hawkins asked what the termination clause would be; Mr. Lindberg stated it is considered an at-will arrangement, therefore it could be terminated with a 30-day notice. Mr. Balkema asked if Trustees implemented this solution and decide to terminate it later, how difficult would it be to undo the solution and revert back to hiring managers. Mr. Lindberg stated that Public Markets investments are fully liquid but the Private Equity and Private Credit would be long-term. Chairman Hawkins asked who would be completing the monthly required Public Act 314 reports. Mr. Lindberg stated that those reports are something that could be discussed to possibly have Wilshire prepare if desired. Mr. Michaud asked how many clients does Wilshire have currently with \$400+ million in assets. Mr. Lennie stated that Wilshire has about 3 clients presently with \$1 billion in assets in this program and about 4-5 clients with assets in the \$400 million + range. Mr. Michaud asked how long these clients have been in this program. Mr. Lennie stated their longest client has been in this program since 2002. Other clients average around 5-6 years. Mr. Michaud asked why Wilshire is now proposing this program to the Retirement Systems. Mr. Lindberg stated that Wilshire never marketed the program in the past and it grew organically. He stated in the past 3-5 years, they have realized how they can help their clients achieve the scale and process needed to manage their investments more efficiently. Chairman Hawkins asked if any clients were in the program but terminated their participation. Mr. Lennie stated there were two such clients; one terminated as it was only intended to be a temporary arrangement, and the other client terminated the relationship as they decided to move to a different platform. Mr. Butts asked Mr. Lindberg to provide Trustees with a list of underlying managers within their CITs; Mr. Lindberg agreed and stated he will provide this information to Trustees at a later date. Mr. Timkovich asked how/if custody would change; Mr. Lindberg stated it would not change and Northern Trust would still be the custodian. Mr. Lindberg stated that each CIT has its own custodian, but Northern would still list the asset as a line item on their reports. Mr. Lennie stated that the CIT accounts are custodied at Wilmington Trust. Trustees will continue to learn more about this opportunity at future Board meetings.

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

Chairman Hawkins noted that the Operations Committee will consist of Mr. Timkovich, Mr. Mitchell, and Mr. Fabiano. The Securities Litigation Committee will consist of Mr. Ewald, Mr. Tryc, and Mr. Balkema.

Chairman Hawkins recognized Commission Nathaniel Moody by stating that this evening he will be receiving the 2023 Liberty Bell Award for outstanding service regarding justice. Trustees congratulated Mr. Moody on his achievement.

Chairman Hawkins commented that today is the Executive Director's birthday; Trustees wished her well.

Chairman Hawkins noted that Mr. Fabiano will be attending at the 2023 Spring MAPERS Conference to be held May 21 – 23.

Chairman Hawkins noted that the following Trustees and their spouses attended dinner last night with Mr. Groeschell, Mr. Simmons, and Mr. Lindberg: Chairman Hawkins, Mr. Tryc, Mr. Timkovich, Mr. Moody, and Mr. Ewald.

Mr. Michaud commented that there is an influx of fraud regarding direct deposit changes for individuals' pensions. He reminded everyone to ensure that the changes are coming from the participant and being deposited into his/her account. He also provided an update on Michigan pension tax changes, Public Act 4 of 2023. He stated that on March 7, 2023, the Governor signed into law Public Act 4 of 2023 ("PA 4") (formerly House Bill 4001) which phases in a state income tax reduction for retirees over the course of four years. In summary, PA 4 allows retirees to choose between: (1) the limitations on the

deductibility of retirement and pension income as currently outlined in the Income Tax Act of 1967; or (2) the new limitations. He reviewed the various new limitations. He also added that in addition to the aforementioned changes, beginning with the 2023 tax year, retirees in receipt of retirement or pension benefits for services as: (1) a public police officer; (2) fire department employee; (3) state police trooper or sergeant; or (4) a corrections officer employed by a county sheriff in a county jail, work camp, or other facility that housed adult prisoners, may elect to deduct from income 100% of their retirement or pension benefits under PA 4. Mr. Michaud commented that as always, retirees should be directed to contact their own tax professionals with questions regarding the impact and applicability of PA 4 to their individual circumstances.

The meeting adjourned at 9:59 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, June 21, 2023, at 8:10 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems