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

MINUTES
JOINT MEETING
NOVEMBER 18, 2020 – 8:08 a.m.
VIA ONLINE CONFERENCE

The meeting was called to order by Chairman Hawkins, Kent County, MI. Other members present: Mr. David Tryc, Kent County, MI, Mr. Martin Timkovich, Kent County, MI, Mr. Philip Balkema, Kent County, MI, Mr. William Butts, Kent County, MI, Mr. Phillip Mitchell, Kent County, MI, Ms. Donijo DeJonge, Kent County, MI, Mr. Nathaniel Moody, Kent County, MI, and Mr. Robert Veenstra, Kent County, MI. Absent: Mr. Craig VanderWall.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Kent County, MI, Mr. Thomas Michaud, Legal Advisor to the Boards, Mr. David Lindberg and Mr. Calvin Born, Jr. of Wilshire Associates, Inc., Mr. John Ackler of Brown Brothers Harriman, Mr. Anthony Merhige and Mr. Eric Conklin of Harvest Fund Advisors, 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, Mecosta County, MI.

Mr. Butts made the motion to excuse the absence of Mr. VanderWall. The motion was seconded by Mr. Mitchell and carried.

There were no public comments regarding agenda items.

Mr. Butts made the motion to approve the minutes of the Joint Meeting of September 16, 2020. The motion was seconded by Mr. Timkovich and carried.

Mr. John Ackler, CFA and Senior Vice President and Fixed Income Product Specialist, of Brown Brothers Harriman (BBH) presented his firm’s annual report to Trustees. Mr. Ackler noted that BBH offers a select number of value-oriented investment strategies where they believe they can generate attractive results over full market cycles. As of 09/30/20, BBH had $76 billion in assets under management. He reviewed BBH’s organization, people, and process. He noted that BBH ascribes most of the rebound in risk assets to the unprecedented, massive injection of liquidity by the Fed. There is no precedent for the scale of the Fed’s intervention. Continued Fed purchases are on a pace to increase its balance sheet another $1.4 trillion over the next year. Mr. Ackler commented that massive quantitative easing has led to an unprecedented injection of liquidity into the financial system, lifting risk asset prices and the Fed’s monetary policy helped drive a decline in real yields along with a steeper curve. Attractive valuations, strong inflows and supportive monetary policy have led to a rise in breakeven inflation rates across the curve. He provided a U.S. TIPS market update and noted that regarding monetary policy, the Fed has enacted policies and views that are supportive of inflation and inflation expectations. The Fed will seek to achieve inflation that averages 2% over time, allowing for inflation above 2% following periods of below-target inflation and policy will also be asymmetrically guided by shortfalls in employment. The new frameworks suggest policy will remain accommodative for a long time and the September Summary of Economic Projections shows 13 of 17 Fed officials expect the Fed Funds rate to remain on hold through the year 2023. Mr. Ackler stated that yearly headline CPI is 1.4%, core CPI is 1.7% and energy and travel components have been the largest detractors to CPI this year. BBH believes that inflationary pressures are rising in the post-pandemic environment, and TIPS as an attractive investment to protect against these risks while at their low valuations. The current market pricing provides TIPS investors an opportunity to benefit not only from an inflationary shift, but merely a return to a more normal 2% inflation level. Mr. Ackler provided

Trustees with an overview on BBH's inflation-indexed securities fund and provided fund characteristics as of September 30, 2020, noting the following return statistics:

	3 mo.*	YTD*	1yr.	3 yr.	5 yr.	Since Inception
BBH Inflation Linked Index Fund	2.95%	9.16%	9.91%	5.68%	4.57%	3.67%
Bloomberg Barclays U.S. TIPS Index	3.03%	9.22%	10.08%	5.79%	4.61%	3.76%

*Returns are not annualized.

The report was received and filed by Chairman Hawkins.

Mr. Anthony Merhige, Senior Managing Director and COO, and Mr. Eric Conklin, Senior Managing Director and Managing Partner of Harvest Fund Advisors (HFA) presented their firm's annual report to Trustees. Mr. Merhige noted that HFA has $5.6 billion in assets under management; was founded in 2005 and partnered with Blackstone in 2017 as Blackstone's publicly traded MLP and yield oriented investment platform; and has 18 team members. Mr. Merhige reviewed HFA's advantages and representative client types. Mr. Conklin provided an overview of what midstream infrastructure is and how it connects the supply and demand for U.S. natural resources. He stated that critical infrastructure assets are priced at a discount. HFA is focused primarily on fundamental value-oriented public energy investments. He reviewed the management team and investor base, noting HFA serves approximately 625 total unique institutional clients. Mr. Conklin commented on HFA's investment process and provided a summary on both portfolios, noting the following return statistics for the portfolios:

	General Retirement System	**Police & Fire Retirement System**	**S&P MLP TR Index**
3Q20	-10.24%	-10.22%	-14.31%
YTD	-37.92%	-37.91%	-42.75%
Since Inception:			
Annualized Return	-12.33%	-12.35%	-14.60%
Cumulative Return	-52.68%	-52.73%	-59.22%

He reviewed the position detail for the holdings within the portfolios, provided background on the best and worst performers, and gave a summary on the portfolio and its attribution detail. Mr. Conklin noted that there is no yield to be found in traditional fixed income, so allocators must get creative. HFA believes that midstream equity yields have decoupled from the quality of their underlying cash flows as well as from comparable real-asset sectors. Midstream yields have significantly widened despite record distribution coverage and midstream free cash flow is the best in class when compared to S&P 500 subsectors. He stated that at present, over 60% of midstream cash flow comes from take-or-pay contracts and structural changes could alleviate longtime burdens on the asset class. U.S. energy infrastructure will be critical for decades and oil demand impact is expected to be temporary. HFA expects manageable 2020 and 2021 supply impact to U.S. oil production. The report was received and filed by Chairman Hawkins.

Mr. David Lindberg and Mr. Calvin Born, Jr. presented the quarterly performance reports to Trustees. Mr. Lindberg commented that economic news from the third quarter was mixed, with a focus on employment conditions remaining a key element of the recovery. Temporary job losses continue to fall while permanent losses rise. Both initial jobless claims and continuing claims are falling from highs reported last quarter. Although the U.S. has experienced an overnight rate near zero before, this year is the first time that the bellwether 10-year Treasury has been below 1%. Interest rates have a natural floor, and as rates approach a bottom, yield (and price) changes can become asymmetrical. The U.K. suffered a contraction of nearly -20% during the quarter. The government's furlough program, supporting employees' wages, has kept the unemployment rate to just 4%. Euro zone manufacturing activity is on the rise, led by particular strength in Germany. The Chinese economy grew during the quarter after more than half of the country was shut down in February. The 10-year Treasury yield ended the quarter at 0.69%, up just 3 basis points from June. The FOMC met three times during the quarter with no change to their overnight rate. In a meaningful step, the Committee addressed a revised policy that allows inflation to move above the 2% target before increasing interest rates. Mr. Mitchell asked if Wilshire will continue to monitor the situation in the Midstream Energy Infrastructure space; Mr. Lindberg said yes. Mr. Lindberg stated that the allocation that the Retirement Systems has to TIPS could provide more protection than normal bonds; TIPS may have a low return, but they can help offset other negative aspects of the portfolios. 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 09/30/20

Plan	**QTR.**	**1 YEAR**	**3 YEARS**	**5 YEARS**	**10 YEARS**
General Retirement System	**4.69**	**4.99**	**5.07**	**7.04**	**7.64**
Policy Index	**3.81**	**2.42**	**4.13**	**5.94**	**6.37**
Police & Fire Retirement System	**4.71**	**4.95**	**5.03**	**7.01**	**7.63**
Policy Index	**3.81**	**2.42**	**4.13**	**5.94**	**6.37**

General Retirement System

Asset Commitments as of 09/30/20:	
Domestic Equity	18.3%
International Equity	18.7%
Fixed Income	24.2%
Cash Equivalents	0.7%
Real Estate	4.5%
Private Equity	5.8%
Commodities	4.2%
Midstream Energy Infr.	3.5%
TIPS	5.7%
Private Credit	4.5%
Global Low Volatility	9.8%

Asset Allocation to Managers:	
NTAM	11.8%
PIMCO	2.2%
Wellington Management Company	4.5%
Baird Advisors	12.0%
Western Asset Management	12.3%
Cash Account	0.7%
Neuberger Berman	9.6%
Harding Loevner	9.3%
CenterSquare	4.6%
Adams Street Partners	4.6%
Aberdeen Asset Management	1.3%
Grosvenor	3.4%
50 South Capital	1.1%
Wellington Commodities	4.2%
Harvest Fund Advisors	3.6%
Brown Brothers Harriman	5.8%
BlackRock	9.9%

Police and Fire Retirement System

Asset Commitments as of 09/30/20:	
Domestic Equity	18.7%
International Equity	19.0%
Fixed Income	24.7%
Cash Equivalents	0.7%
Real Estate	4.4%
Private Equity	5.6%
Commodities	4.3%
Midstream Energy Infr.	3.5%
TIPS	5.1%
Private Credit	4.3%
Global Low Volatility	9.6%

Asset Allocation to Managers:	
NTAM	12.0%
PIMCO	2.3%
Wellington Management Company	4.5%
Baird Advisors	12.6%
Western Asset Management	12.3%
Cash Account	0.7%
Neuberger Berman	9.7%
Harding Loevner	9.5%
CenterSquare	4.5%
Adams Street Partners	4.4%
Aberdeen Asset Management	1.2%
Grosvenor	3.3%
50 South Capital	1.1%

Wellington Commodities	4.4%
Harvest Fund Advisors	3.5%
Brown Brothers Harriman	5.2%
BlackRock	9.7%

The report was received and filed by the Chairman.

Mr. Lindberg and Mr. Born next presented the 2020 Asset Liability Analyses for the General and Police & Fire Retirement Systems. Mr. Lindberg stated that the asset allocation decision is the most important decision investors can make as it drives approximately 90% of return variation. Wilshire recommends revisiting the asset allocation decision every three to five years, or sooner, as market conditions warrant; 2018 was the last time this issue was addressed. Mr. Lindberg noted that this asset liability study will focus on current market challenges and address longer-term liquidity considerations. He commented that today, investors are challenged by: 1) a low/zero rates and low yielding environment; 2) the negative impact of COVID-19, and enormous monetary and fiscal response; and 3) the almost non-existent compensation for taking on interest rate risk. Mr. Born reviewed the current policy and capital market assumptions. He stated that portfolios with factor neutrality are desirable. Both Retirement Systems have an increased demand for cash over the long-term. Wilshire modeled and evaluated both Retirement Systems' long-term cash needs over the next 10 years and longer and tried to balance liquidity and the need for expected return in this low return environment. He reviewed data on projected liability considerations and noted that each Retirement System will begin to have different cash needs in approximately 12-15 years. The General Retirement System's net cash flows begin to create an increasing demand for cash at a faster pace than the Police & Fire Retirement System. Illiquid assets as a percent of total fund assets does not meaningfully grow for the next 12-15 years. Mr. Lindberg stated that the current policy is efficient in an optimization framework; however, investors are faced with a challenge today in this low return environment. Mr. Born noted that defensive assets such as fixed income are projected to only return 1.05% over the next 10 years. Wilshire recommends: 1) reduce the allocation to core fixed income; 2) replace the "plus" component that is part of core fixed income; 3) add new multi-asset credit in a defensive growth allocation to help improve returns; and 4) maintain real assets exposure with a modest reduction to inflation-linked bonds. Mr. Born stated that Wilshire's recommendations modestly increase both the expected return and expected risk, improve the projected funded status for both plans, and there would be little downside protection give-up v. the current policy in their simulation output. He reviewed the projected returns utilizing this "higher return" policy. Mr. Born reviewed Wilshire's asset allocation inputs and modeling process. He discussed both systems' plan status and projected benefit payments. Wilshire's asset class return, risk and correlation assumptions are developed on multi-year forward looking expected rates of return and historical risk and correlation, adjusted to incorporate recent trends. Mr. Born reviewed the efficient frontier and alternative policies for Trustee consideration. He provided simulation outputs for the General Retirement System and noted the probability of reaching 7.00%. He also provided simulations outputs for the Police & Fire Retirement System and noted the probability of reaching 7.15%. Mr. Lindberg commented that default/insolvency is the most severe outcome from having insufficient liquidity, but there are many other, more likely, disruptive impacts that a lack of liquidity can impose on an investment portfolio. He reviewed Wilshire's liquidity metric and noted that it has two levels: market level and stressed level of liquidity. He also provided Trustees with two additional reports, *The Investor's Challenge: "Runnin' Against the Wind"* and *The Investor's Challenge Nominal Bonds: "Running on Empty."* Mr. Born commented that Wilshire is proposing to reduce the allocation to fixed income by approximately half and allocate the other half to multi-asset credit, which are bonds that focus more on the "plus" aspect. They also recommend reducing the TIPS allocation by approximately 1.5% and reallocate that to public equities. Trustees voiced their concerns regarding this proposal. Mr. Butts asked if there would be a problem if everyone employed this tactic and what the impacts of the recent negative velocity will be. Mr. Lindberg stated that multi-asset credit managers hold bonds and are more active in their approach which helps to keep volatility in control and strike a balance with the expected return. Mr. Mitchell stated he is concerned with the track record of multi-asset credit managers as they have not been in business very long. Mr. Lindberg stated that all multi-asset credit managers are in public market assets (bonds). Mr. Timkovich asked if they could prepare an education piece on multi-asset credit managers; Mr. Lindberg stated yes, and they will send Trustees additional information before the December 2020 Joint Board meeting. Chairman Hawkins voiced his concern that what Wilshire is proposing seems to be too much risk for too little return. Mr. Butts asked if any of the Retirement Systems' current managers offer a multi-asset credit product; Mr. Lindberg said yes. Mr. Lindberg noted that Wilshire will prepare reports on multi-asset credit and potential managers and send them to Trustees in the next few weeks so that they can discuss this issue at the December 2020 Joint Board meeting.

Chairman Hawkins asked Mr. Lindberg to address the recent organizational change at Wilshire. Mr. Lindberg stated that at the end of this year Wilshire will have two new equity partners which will allow Mr. Tito to retire. The two new partners will have a majority interest in Wilshire. They need the consent of all their clients in order to proceed. The contract the Retirement Systems has with Wilshire will not change, nor will the investment team. Ownership will only change at the top. Mr. Michaud reviewed the consent form and stated that it seems reasonable. Mr. Tryc made the motion on behalf of the General Retirement System to consent to the proposed organizational change as outlined by Wilshire Associates. The motion was seconded by Mr. Butts and carried. Mr. Mitchell made the motion on behalf of the Police & Fire Retirement System to consent to the proposed organizational change as outlined by Wilshire Associates. The motion was seconded by Mr. Balkema and carried.

The Executive Director presented the 2021 Board meeting schedule. She noted that the schedule does not include the list of conferences due to the current uncertainty of the COVID-19 pandemic. Mr. Michaud commented that there have been recent changes to the Open Meetings Act. There are now additional requirements. Trustees are now required to state where they are calling from if the meeting is conducted online and the agendas (no attachments) must be posted on the Retirement Systems' website. Beginning in 2021, Trustees need to attend the meeting in person unless one of the following applies: 1) he/she is on active military duty; 2) he/she has a medical condition; or 3) a state of emergency has been issued for the state. In 2022, the only exception to attending the meeting in person will be if the Trustee is on active military duty. The meetings must have at least a physical quorum to proceed. The Retirement Systems may likely need to offer virtual online options to vendors. If Trustees are uncomfortable or unavailable to attend a given meeting in person beginning next year, they can attend virtually; however, they will not count toward the quorum. Mr. Balkema asked if it is a possibility to use the 6th floor conference room at the Masonic Center as has been done in the past; Ms. Korzen stated she will check into that. Ms. Korzen noted that she has brought in a large TV monitor so that Trustees can see vendor presentations at the Board meetings if they are presenting via Zoom. Ms. DeJonge stated that she is a caregiver to her parents and asked if that is permissible under the medical condition; Mr. Michaud stated it more than likely would be as the guidelines are very broad. Ms. Korzen stated that MAPERS is trying to petition the Michigan state legislature to allow virtual board meetings during 2021. The schedule was received and filed by the Chairman.

Ms. Korzen noted that as of today, the Retirement Systems office staff will be working from home for the next three weeks per the recent emergency order issue by the Michigan Department of Health and Human Services. She also commented that the new server and two new PCs for the office have been installed.

Chairman Hawkins reminded Trustees that have not turned in their evaluation of the Executive Director to do so in the next few weeks. Trustees will discuss the results at the December 2020 Joint Board meeting.

There were no comments on items not on the agenda.

The meeting adjourned at 10:53 a.m.

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

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems

11/18/20