

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

MINUTES
JOINT MEETING
NOVEMBER 17, 2021 – 8:48 a.m.
233 E. Fulton, Suite 216

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

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Mr. John Ackler of Brown Brothers Harriman (via telephone), Mr. Anthony Merhige and Mr. John Simkiss of Harvest Fund Advisors, Mr. David Lindberg of Wilshire Associates, Inc., and Police Officer Justin Ewald.

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

There were no public comments regarding agenda items.

Mr. Balkema made the motion to approve the minutes of the Joint Meeting of September 15, 2021. The motion was seconded by Mr. Tryc and carried.

Mr. Anthony Merhige, Senior Managing Director and COO, and Mr. John Simkiss, Senior Managing Director and Portfolio Strategist, of Blackstone Harvest (BH) presented their firm’s annual report to Trustees. Mr. Merhige noted that BH has a 35-year investment record, \$649 billion in assets under management as of 03/31/21, and 40+ investing strategies. He stated that Harvest is Blackstone’s public midstream infrastructure equities platform. Harvest has approximately \$7.9 billion in assets under management as of 09/30/21, 17 team members, was founded in 2005, and joined Blackstone in 2017. Harvest’s focus is on institutions. Mr. Merhige noted that midstream connects the supply and demand for U.S. natural resources and Harvest’s portfolio is aligned to themes driving volumes. Critical infrastructure assets are priced at a discount. Mr. Simkiss commented on Harvest’s investment process and provided a summary on both portfolios, noting the following return statistics for the portfolios:

	<u>General Retirement System</u>	<u>Police & Fire Retirement System</u>	<u>S&P MLP TR Index</u>
YTD	46.37%	46.31%	48.01%
<u>Since Inception:</u>			
Annualized Return	-2.78%	-2.81%	-4.19%
Cumulative Return	-17.20%	-17.33%	-24.88%

He reviewed the position detail for the holdings within the portfolios and provided background on the best and worst performers. Mr. Simkiss commented that very little yield can be found in traditional fixed income, so allocators must get creative. Harvest’s compelling income stream is back by real-asset cash flows and they believe midstream equity yields have decoupled from the quality of their underlying cash flows. He noted that midstream is generating increasing amounts of free cash flow after distributions, allowing for a substantial return of capital. He stated that some of the potentials for midstream are: 1) upcoming dividend increases are catalysts,

which highlight compelling valuations; and 2) growth of portfolio yield may be substantial. Midstream is positioned to perform well in a period of rising interest rates. He stated that at present, roughly 60% of midstream cash flow comes from take-or-pay contracts. U.S. energy infrastructure will be critical for decades and natural gas continues to help decarbonize the U.S. power stack. He commented that structural changes could alleviate longtime burdens on the asset class. Natural gas demand has been steady despite COVID-19, and oil demand is expected to continue recovering; Harvest expects resilient 2021 and 2022 U.S. oil production. The report was received and filed by Chairman Hawkins.

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. In early September, the firm announced that it will be selling its global custody business to State Street Bank, with an expected closing date by the end of 2021. Mr. Ackler noted that State Street will be the custodial bank for BBH. He commented that this is a good fit for BBH and it will not materially impact BBH’s investment management or private banking businesses, or their relationship with clients. BBH’s model and partnership structure also remain unchanged. BBH will continue to have their headquarters in New York. He stated that BBH has \$91 billion in assets under management as of 09/30/21. He reviewed BBH’s investment management by client type and fixed income strategy by product. Mr. Ackler provided Trustees with background on BBH’s organization, people, and process. He gave Trustees an overview on TIPS by providing information on the history of TIPS and their benefits. He commented that up through 09/30/21 the headline CPI was at 5.4% and core CPI was at 4.0% - their highest levels in over a decade. Prices surged in sectors experiencing pent-up demand and supply chain bottlenecks. TIPS returned 3.5% year-to-date, outperforming nominal Treasuries by 600 basis points. Returns were supported by rising inflation expectations early in the year, later supplemented by strong inflation accruals. He provided an overview of the inflation-indexed fixed income market as of 09/30/21 with respect to CPI and fund flows. Mr. Ackler noted that BBH contends that that supply chains are recovering more slowly than earlier thought, so it may take longer for CPI inflation to recede as a result. Inflation expectations suggest that investors expect CPI to revert back to 2%-2.5% in the near future. The Federal Reserve has maintained an aggressive easy monetary stance since 2008 with few interruptions. Enormous additional ease was added as COVID hit, none of which has been removed even though the economy is in a self-reinforcing recovery. He stated that since the start of the pandemic, the growth of TIPS issuance lagged that of nominal Treasuries, and Fed purchases have driven net supply negative. Real yields remain at historically low levels, below zero across the entire curve and breakeven inflation rates rose sharply to start the year behind the optimistic outlook, accommodative policy, and accelerating inflation data. Mr. Ackler provided Trustees with an overview on BBH’s inflation-indexed securities fund and provided fund characteristics as of September 30, 2021, noting the following return statistics:

	<u>3 mo.*</u>	<u>YTD*</u>	<u>1 yr.</u>	<u>3 yr.</u>	<u>5 yr.</u>	<u>Since Inception</u>
BBH Inflation-Indexed Securities Fund	1.54%	3.48%	4.84%	7.16%	4.12%	3.85%
Bloomberg U.S. TIPS Index	1.75%	3.51%	5.19%	7.45%	4.34%	3.98%

*Returns are not annualized.

The report was received and filed by Chairman Hawkins.

Mr. David Lindberg presented the quarterly performance report to Trustees. Mr. Lindberg commented that the U.S. stock market was up 0.1% for the third quarter. Large-cap outperformed small-cap, and large-cap growth was the only U.S. segment in positive territory this quarter. Consumer sentiment dropped dramatically during the third quarter; the University of Michigan’s Consumer Sentiment Index fell to its lowest point in almost a decade. July brought a surge in Coronavirus infections and the Taliban seized control of Kabul, the capital city of Afghanistan, in less than a week’s time. Economic conditions in the U.K. appear to be rapidly deteriorating; their economy grew by just 0.1% in July, hampered by supply-chain issues and COVID-19 infections. At the same time, inflation has spiked, with consumer prices in the U.K. rising 3.2% in August. Emerging Markets experienced a meaningful drop in the third quarter, down 8.0%. The U.S. Treasury yield curve was up, generally during the third quarter, with yields in the 3- to 10-year maturities range rising the most. The 10-year Treasury yield ended the quarter at 1.49%. The FOMC met twice with no change to their overnight rate. The current intent is for a 25-basis point increase in the overnight rate before the end of 2022. Mr. Lindberg provided Trustees with Wilshire’s September 2021 asset class assumptions, an economic review, and an extensive update on the U.S.

equity market, non-U.S. equity market, U.S. fixed income market, and private equity 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 09/30/21

<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	1.30	23.53	10.55	9.48	9.88
Policy Index	0.93	22.36	9.43	8.41	8.49
Police & Fire Retirement System	1.21	23.52	10.48	9.45	9.88
Policy Index	0.92	22.36	9.43	8.41	8.49

General Retirement System

Asset Commitments as of 09/30/21:

Domestic Equity	18.1%
International Equity	18.3%
Fixed Income	20.7%
Cash Equivalents	0.7%
Real Estate	5.3%
Private Equity	7.9%
Commodities	4.8%
Midstream Energy	5.2%
TIPS	5.0%
Private Credit	4.4%
Global Low Volatility	9.5%

Asset Allocation to Managers:

NTAM	12.0%
PIMCO	3.4%
Wellington Management Company	2.9%
Baird Advisors	10.2%
Western Asset Management	10.7%
Cash Account	0.7%
Neuberger Berman	9.3%
Harding Loevner	9.1%
CenterSquare	5.4%
Adams Street Partners	6.5%
Aberdeen Asset Management	1.5%
Grosvenor PC	3.3%
50 South Capital	1.1%
Wellington Commodities	4.8%
Harvest Fund Advisors	5.2%
Brown Brothers Harriman	5.0%
BlackRock	9.5%

Police and Fire Retirement System

Asset Commitments as of 09/30/21:

Domestic Equity	19.0%
International Equity	19.0%
Fixed Income	20.8%
Cash Equivalents	0.8%
Real Estate	5.1%
Private Equity	7.6%
Commodities	4.9%
Midstream Energy	5.0%
TIPS	4.5%
Private Credit	4.1%
Global Low Volatility	9.2%

Asset Allocation to Managers:

NTAM	12.4%
PIMCO	3.5%
Wellington Management Company	3.2%
Baird Advisors	10.5%
Western Asset Management	10.5%
Cash Account	0.8%
Neuberger Berman	9.7%
Harding Loevner	9.5%
CenterSquare	5.1%
Adams Street Partners	6.3%
Aberdeen Asset Management	1.4%
Grosvenor PC	3.1%
50 South Capital	1.1%
Wellington Commodities	4.9%
Harvest Fund Advisors	5.0%
Brown Brothers Harriman	4.5%

The report was received and filed by the Chairman.

Mr. Lindberg next presented Trustees with an analysis of the Private Credit and Private Equity markets. He noted that the current asset allocation policy 5% target to Private Equity in both the General and Police & Fire Retirement Systems. The approximate actual allocations to Private Equity as of 09/30/21 were 7.9% for the General Retirement System and 7.4% for the Police & Fire Retirement System. Valuations and returns have been aided by strong a market environment throughout most of 2020 and 2021. Historically, Private Equity commitments have occurred every two years, with the most recent commitment happening in 2019. Mr. Lindberg stated that given the existing 2% to 3% overweight to Private Equity, Wilshire recommends no commitment for 2021 and to revisit the pacing analysis during 2022. This will allow time for the Private Equity allocation to move closer to the 5% target and the use of fund-of-funds allows for limited impact to vintage year diversification. He also recommended revisiting the Private Credit pacing analysis at the same time during 2022. 50 South has begun distributing capital and will continue to do so over the next several years. Grosvenor's evergreen fund structure continues to make new investments, providing ongoing exposure. He noted that the December 2020 asset liability study confirmed the ability of both systems to continue to make commitments to illiquid asset classes while utilizing some illiquidity helps to improve the expected return in a low return environment. Wilshire recommended no changes to Private Credit or Private Equity at this time. The report was received and filed by the Chairman.

The Executive Director presented the proposed 2022 Board meeting schedule. Mr. Tryc made the motion to accept the 2022 Board meeting schedule. The motion was seconded by Mr. Veenstra and carried.

Ms. Korzen noted that the Operations Committee recently discussed the topic of the actuarial provider for the Retirement Systems. She noted that there are not many qualified actuarial firms with reasonable rates from which to choose. Mr. Timkovich stated that Trustees and staff are satisfied with the current actuary firm, Gabriel, Roeder, Smith, and Company (GRS). Mr. Mitchell commented that it is the Operations Committee's recommendation to stay with GRS for at least the next year and then consider issuing an RFP for actuarial services.

Mr. Michaud reported on a proposed change to Public Act 202 that would lower the investment rate of return from 7.00% to 6.85%; it is only a proposal at this point. He also stated that beginning in 2022 most of the exceptions for Trustees to attend Board meetings either by phone or virtually will expire. The only exception that will still be allowed is if the Trustee is away on active military duty. MAPERS has proposed a bill to allow Trustees of pension boards to participate virtually beginning in 2022. He will keep them posted of the progress of the bill.

Ms. Korzen next presented an issue brought to the Retirement Systems' attention by BlackRock (BR). BR has sent out a notice to their clients outlining expanded proxy voting capabilities. She stated that Retirement Systems will be able to vote their own proxies, beginning in 2022. Chairman Hawkins stated there are four options regarding proxy voting: 1) own your proxy voting-vote according to the plan's policies and using their own voting infrastructure; 2) choose from a menu of third-party proxy voting policies; 3) vote directly on selected resolutions or companies; and 4) continue to use BR's proxy voting service that will vote a client's proxy based on their policies and infrastructure. Mr. Lindberg stated that BR is a top tier manager and Wilshire recommends continuing the practice of letting BR vote the Retirement Systems' proxies. He noted that proxy voting language exists in every investment manager's contract, which works well. Ms. DeJonge asked if the Retirement Systems have an ESG policy or if not, should they have one. Mr. Lindberg stated that while there is not a specific policy addressing ESG, the topic is addressed in each manager's investment guidelines and contract and the Retirement Systems rely on each manager's expertise and this is noted in their mandate. Mr. Michaud stated that the Retirement Systems could ask each manager going forward to incorporate a slide in their annual presentation addressing the subject and what they are doing regarding ESG.

Chairman Hawkins stated that December's board meetings will likely be canceled, since there will be no substantial business before the Boards. He and Trustees thanked Mr. Robert Veenstra for his service on the Board and wished him well.

There were no comments on items not on the agenda.

The meeting adjourned at 10:17 a.m.

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

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems