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

MINUTES
SPECIAL JOINT MEETING
April 16, 2014 - 8:00 a.m.
233 East Fulton Street

The meeting was called to order by Chairman J. Patrick Scripps. Other members present: Mr. David Tryc, Mr. Craig VanderWall, Mr. Martin Timkovich, Mr. Michael Hawkins, and Mr. William Butts. Absent: Mr. Thomas VanderPloeg, Mr. Philip Balkema, Mr. Walter Gutowski and Ms. Jane Hofmeyer.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Ms. Elizabeth White, Deputy City Attorney and Legal Advisor to the Boards, Ms. Frances Coombes, Mr. James Hirschmann, and Mr. Julien Scholnick of Western Asset Management, Mr. William Bensur, Mr. Stephen Marshall, and Mr. Nicholas Sefchok of Wilshire Associates, Inc. and Ms. Mari Beth Jelks, Managing Director of Administrative Services – Human Resources for the City of Grand Rapids.

Mr. Hawkins made the motion to excuse the absences of Mr. VanderPloeg, Mr. Balkema, Mr. Gutowski and Ms. Hofmeyer. The motion was seconded by Mr. Tryc and carried.

This special joint meeting was called to have Ms. Coombes, Mr. Hirschmann and Mr. Scholnick of Western Asset Management provide Trustees with their annual report and to review an asset allocation analysis prepared by Wilshire Associates, Inc.

Ms. Frances Coombes, Client Service Executive, Mr. James Hirschmann, President and CEO, and Mr. Julien Scholnick, CFA and Portfolio Manager, of Western Asset Management (WAM) presented their firm's annual report to Trustees. Mr. Hirschmann provided Trustees with an update on WAM's recent performance and personnel changes within the organization. He commented on the recent U.S. Securities and Exchange Commission (SEC) and Department of Labor (DOL) settlement announcements. He stated that WAM has been very cooperative and has paid the fines that were assessed and has moved forward. WAM is committed to having a very ethical, client-oriented firm. He stated that WAM completes one to one and a half million trades per year and that mistakes can happen; however, they invest heavily in their compliance area to mitigate this possibility. Mr. Hawkins asked Mr. Hirschmann to review the charges from the SEC and DOL. Mr. Hirschmann stated that the first issue involved a security which was limited to no more than 25% in ERISA accounts; the SEC and DOL had a different opinion. The security was coded incorrectly when it was first entered into WAM's system. All but one of WAM's clients that were affected by this agreed with WAM's stance; however, WAM decided to settle. The second involved cross-trading processes and WAM decided to settle in this matter as well. Mr. Hirschmann apologized to Trustees for any embarrassment these issues may have caused them. WAM was unhappy with the way the issues were presented to the public as the press release indicated some fraud had taken place; however, that was not the case and in both matters WAM's insurance carrier covered the settlements which would confirm that WAM committed no fraudulent activity. Mr. Bensur asked if there have been any changes in WAM's client base since the beginning of the year. Mr. Hirschmann stated that they have lost some accounts and gained some accounts; three accounts were lost due to the SEC and DOL issue. Mr. Bensur asked if there have been changes this year to their personnel and their securitization area. Mr. Hirschmann stated the only personnel change since the end of last year was the announcement of Mr. Keith Gardner's intent to retire in 2016 and they have a replacement already lined up. With respect to the securitization area, he stated that WAM feels they are well positioned in this area having added more personnel. Mr. Timkovich asked what safeguards have been put in place by WAM to ensure that these problems don't happen again. Mr. Hirschmann stated that the ERISA issue was a coding error and additional resources have been allocated to WAM's software. With respect to the cross-trading process, although what WAM did was not illegal, they have decided they will no longer engage in this type of activity. Mr. Scholnick provided Trustees with an update of WAM and noted that as of December 31, 2013 WAM has 835 staff members working in eight countries and $451.6 billion in assets under management. He reviewed the firm's investment management team, investment philosophy and process; WAM employs a long-term, fundamental value orientation and diversified strategies. Mr. Scholnick provided a market review and noted that global growth is slow but set to improve, inflation levels should remain benign, corporate credit fundamentals remain fair and valuations are mildly compelling. He also stated that housing and mortgage fundamentals should continue to improve while emerging markets face a more challenging environment and it is one that will require better investor differentiation. These themes will pose some of the following strategy considerations; 1) tactical duration and yield curve management; 2) maintain a structural overweight to longer dated U.S. treasuries as a diversifier and hedge against volatility surprises; 3) continue a modest overweight to investment-grade corporates, especially financials; and 4) hold moderate exposure to high-yield and bank loans. Mr. Scholnick reviewed various aspects of the portfolios' sector exposure and allocation. He commented on Treasury yield curves, and provided an index comparison between option-adjusted spreads and excess returns. He stated that GDP growth has underperformed January expectations in each of the last three years. The wage growth remains subdued but it is uncertain if the Fed policy is at a turning point. He commented on the historical yield curve slope and reviewed the corporate credit cycle. Mr. Scholnick provided the following return statistics for both portfolios as of March 31, 2014:

	3 months	1 Yr.	3 Yrs.	5 Yrs.	Since Inception*
General Retirement System	3.1%	1.8%	5.9%	12.8%	6.2%
Police & Fire Retirement System	3.1%	1.8%	5.9%	12.8%	6.1%
Barclays Aggregate Index	1.8%	-0.1%	3.7%	4.8%	4.8%

*April 30, 2004

The report was received and filed by Chairman Scripps.

Chairman Scripps asked Mr. Bensur to comment on Western Asset Management (WAM). Mr. Bensur stated that from an investment standpoint, WAM is just as good as any other investment firm. He recommended that Trustees hold the portfolios with WAM, but keep a watchful eye on them. He stated that the language in the complaints was totally disproportionate to the actual fine. There is not an investment reason to terminate the relationship with WAM. They have performed well for the Retirement Systems.

Mr. William Bensur, Mr. Stephen Marshall and Mr. Nicholas Sefchok of Wilshire Associates, Inc. provided Trustees with an asset allocation analysis for the Retirement Systems. Mr. Bensur commented that over time, the City of Grand Rapids Retirement Systems have evolved broadly diversified institutional oriented asset allocation policies. In the current study, Wilshire analyzed the following effects on the portfolio: 1) a reduction in the portfolio's "home-country equity bias"; and 2) allocations to additional real asset categories (Treasury Inflation Protected Securities – TIPS and Master Limited Partnerships – MLPs). Mr. Marshall reviewed Wilshire's asset allocation philosophy and investment consulting process and noted that the primary goal of asset allocation is to maximize the safety of promised benefits and minimize the cost of funding these benefits. Short-term volatility is also important. Wilshire employs a top-down approach which considers: 1) fund objectives; 2) asset allocation (this drives 90% of the variation of a portfolio's return); 3) investment structure (this drives 5-7% of return); and 4) manager selection. Mr. Marshall reviewed Wilshire's model inputs and asset class assumptions and noted that Wilshire's asset class return, risk and correlation assumptions are developed on 10-year forward looking expected rates of return and historical risk and correlation, adjusted to incorporate recent trends. Wilshire based this study on the June 30, 2013 (General Retirement System) and December 30, 2012 (Police & Fire Retirement System) actuarial valuations from Gabriel, Roeder, Smith and Company. Mr. Bensur discussed the investment limitations of Michigan Public Act 314 on public retirement systems. He reviewed the current portfolios and provided three alternatives (Wilshire recommends Alternative A):

	Current Policy	Alternative A	Alternative B	Alternative C
U.S. Equity	40.0%	22.5%	25.0%	28.5%
Non-U.S. Equity	15.0%	22.5%	25.0%	25.0%
Private Equity	5.0%	5.0%	5.0%	5.0%
Total Growth Assets	**60.0%**	**50.0%**	**55.0%**	**58.5%**
U.S. Core Fixed Income	30.0%	25.0%	25.0%	16.5%
Cash	0.0%	0.00%	0.0%	0.0%
Total Stable/Fixed Income	**30.0%**	**25.0%**	**25.0%**	**16.5%**
Global REITS	5.0%	5.0%	5.0%	5.0%
Commodities	5.0%	5.0%	5.0%	5.0%
MLPs	0.0%	5.0%	5.0%	5.0%
TIPS	0.0%	10.0%	5.0%	10.0%
Total Inflation Hedging	**10.0%**	**25.0%**	**20.0%**	**25.0%**
Total Allocation	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Expected Median Return	**6.69%**	**6.72%**	**6.87%**	**6.98%**
Standard Dev. of Return	**11.29%**	**10.04%**	**10.82%**	**11.28%**
Asset Volatility:				
Growth Assets	90.8	85.2	87.4	89.1
Stable/Fixed Income	5.0	4.7	4.0	2.4
Inflation Hedging	4.2	10.1	8.6	8.6

Mr. Sefchok reviewed various asset allocation and contributions to volatility comparisons between the policy for the portfolios prior to 2009, the policy adopted in 2009, the policy adopted in 2012 and the recommended portfolio, Alternative A in 2014. Mr. Marshall commented that the probability of earning a 7.50% return increases with risk, but the probability of loss increases as well. He reviewed some of the decision factors that Wilshire utilized such as employer contribution rates, funded status, and economic costs for each plan under the current portfolio and each alternate portfolio. Mr. Bensur reviewed the assumptions that were utilized for both the General and Police & Fire Retirement Systems in this analysis. He stated that Alternative A decreases the current target allocation to U.S. equity from 40% to 22.5% which would be accomplished by rebalancing the U.S. equity composite and making a decision on the active large stock exposure managed by Ziegler Capital. Trustees could consider keeping the Ziegler portfolios, replacing Ziegler with another active large cap equity manager, or terminate the relationship with Ziegler and place the assets in the NTAM S&P 500 Index fund. Alternative A increases the target allocation to non-U.S. equity from 15% to 22.5% and proposes having Wilshire search for a non-U.S. equity investment manager for an ADR strategy to comply with P.A. 314 legislation. He noted that under P.A. 314, ADRs count as U.S. securities. This would also help to eliminate home-country equity bias. If Alternative A is selected, it would decrease the target allocation to fixed income from 30% to 25% and presently, the fixed income component is at roughly 25% and Wilshire recommends holding the WAM portfolios for now. Alternative A also increases the target allocation to inflation hedging assets from 10% to 25%. He recommended conducting investment manager searches for new exposures to MLPs and TIPS. Mr. Bensur stated that Wilshire can provide Trustees with an educational report on the mechanics of MLPs. Ms. Johnson-Jelks asked what things the City should be concerned with regarding the General Retirement System, since it is basically a closed plan, in terms of funding. Mr. Marshall stated the City should be concerned with the duration of the liabilities. He stated that right now, the liabilities are very long. He also recommended that the City should be keeping an eye on the contribution rates to the plans. As of right now, these two areas have experienced little change. Mr. Bensur commented that Wilshire recommends identifying a private equity fund to allocate $15 million ($7.5 million per plan) during 2014 as the private equity market value is currently below the target allocation; however, Trustees should be thoughtful about an additional allocation and if it does not present itself this year that is alright too. He stated that as the private equity program evolves, the market value plus unfunded commitments should be in a range of 150% - 200% of the target. Mr. Bensur commented that Alternative A's expected return marginally increases (3 basis points) but expected risk is reduced by 125 basis points and the Sharpe ratio, or risk-adjusted performance, improves. Mr. VanderWall asked if Trustees decided to implement Alternative A would there be a high amount of costs involved; Mr. Bensur stated that there should not be. Chairman Scripps clarified that the investing landscape has changed somewhat from just stocks and bonds to: 1) growth assets; 2) stability/fixed income assets; and 3) inflation hedging assets. Mr. Butts commented that he believes Alternative A is a reasonable plan because it may not be prudent if Trustees wait too much longer to realign the portfolios to meet the plans' needs. Mr. Hawkins stated that he believes Alternative A would be a prudent way to help the plans meet their obligations. Mr. VanderWall noted that Alternative A would seem to help stem the effects of unwanted events that happen in the marketplace. Mr. Bensur stated that over the past couple of years the returns for the Retirement Systems have been very good, but if nothing is done to the asset allocation, that will change. He stated that no action is necessary today and recommended that Trustees review the information and discuss it again at the May Joint Board meeting. Mr. Timkovich asked how the implementation would proceed if Trustees decided to adopt Alternative A; Mr. Bensur stated that would be a Board decision but it could perhaps be implemented by the end of 2014. Mr. Timkovich asked to have an educational piece on MLPs sent to Trustees; Mr. Sefchok stated one is already prepared and will be sent to Trustees in the next few days.

The meeting adjourned at 10:48 a.m.

Peggy Korzen
Executive Director
Police & Fire and General Retirement Systems