

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

MINUTES
JOINT MEETING
AUGUST 17, 2011 – 8:05 a.m.
233 East Fulton

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

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Ms. Elizabeth White, Deputy City Attorney and Legal Advisor to the Boards, and Mr. William Bensur of Wilshire Associates, Inc.

Mr. Hawkins made the motion to excuse the absence of Mr. Stokes. The motion was seconded by Mr. Gutowski and carried.

There were no public comments regarding agenda items.

Mr. VanderPloeg made the motion to approve the minutes of the Joint meeting of June 15, 2011. The motion was seconded by Mr. Gutowski and carried.

Mr. Bensur presented the quarterly performance report to Trustees. In a Capital Market Update through August 12, 2011, Mr. Bensur noted that the U.S. debt was downgraded to AA+ by S&P (Moody's maintained its AAA rating); both rating agencies assign a negative outlook. The unemployment rate decreased to 9.1% in July; the CPI decreased in June by 0.2% but was up 3.6% over the past year; the first quarter GDP increased 1.8% but was down from 3.1% in the fourth quarter of 2010; the ISM non-manufacturing index fell to 52.7 in July; June had 1,532 mass layoffs involving 143,444 workers (down 4% since May); the University of Michigan consumer sentiment index fell to 54.9 in July, the lowest level since May 1980; retail sales increased by 0.1% in June; housing starts increased by 14.6% in June; existing home sales decline 0.8% in June; and gold was trading above \$1,700 per ounce. In the U.S. Equity market significant volatility has returned to the markets and politics surrounding the debt ceiling debate have added to the uncertainty; YTD large cap stocks were outperforming small cap stocks and growth stocks were leading value stocks. In the Non-U.S. Equity markets the European Central Bank has resumed purchasing government bonds in an attempt to subside fears surrounding Spanish and Italian debt while also creating liquidity in money markets, and the Bank of Japan extended its asset purchasing program with the intention of weakening the Yen to help Japanese exporters. In the Fixed Income market the FOMC held rates constant during their June meeting, the Fed Funds Target Rate is 0 to 0.25% and the Federal Discount Rate is 0.75%. Fed funds rate increases are not expected for the next two years. As of August 12, 2011, YTD, the S&P 500 was down 5.1%, the Russell 2000 was down 10.4%, the Wilshire 5000 was down 5.7%, the ACWI Index was down 8.7%, the Barclays Aggregate Bond Index was up 6.0% and the Wilshire RESI Index was up 0.9%. Following a review of market returns, the Quarterly Funds Evaluation of the Investment Managers of the General and Police & Fire Retirement Systems was conducted.

SUMMARY OF INDEX RETURNS
PERIODS ENDED 06/30/11

<u>Index</u>	<u>QTR.</u>	<u>1 YEAR</u>	<u>3 YEARS</u>	<u>5 YEARS</u>	<u>10 YEARS</u>
S&P 500	0.09	30.69	3.33	2.94	2.71
RUSSELL 2000	-1.61	37.40	7.77	4.08	6.27

08/17/11

NAREIT GLOBAL RE INDEX	2.94	33.36	N/A	N/A	N/A
MSCI ACWI FR X-US	0.38	29.73	-0.35	3.67	7.48
BARCLAYS AGGREGATE	2.29	3.90	6.46	6.52	5.75
91 DAY T-BILLS	0.04	0.16	0.42	2.00	2.13

General Retirement System

Asset Commitments as of 06/30/11:

Domestic Equity	51.3%
International Equity	15.6%
Fixed Income	27.0%
Cash Equivalents	0.5%
Real Estate	5.4%
Private Equity	0.2%

Asset Allocation to Managers:

Lotsoff Capital Management	16.4%
NTGI	16.5%
PIMCO	5.9%
Wellington Management Company	12.5%
Baird Advisors	13.0%
Western Asset Management	14.1%
Cash Account	0.5%
Neuberger Berman	15.6%
ING Clarion	5.4%
Adams Street Partners	0.2%

Quarterly Summary of the General Retirement System

	<u>Market Value</u> <u>06/30/11</u>	<u>Market Value</u> <u>03/31/11</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$358.9 million	\$359.6 million	(\$700 thousand)	1.07%	61 st percentile
Total U.S. Equity	\$184.1 million	\$188.7 million	(\$4.6 million)	0.10%	23 rd percentile
Total Non-U.S. Equity	\$56.1 million	\$55.0 million	\$1.1 million	1.76%	7 th percentile
Total Fixed Income	\$97.0 million	\$95.1 million	\$1.9 million	1.99%	66 th percentile
Total Real Estate	\$19.3 million	\$18.6 million	\$700 thousand	3.99%	32 nd percentile
Total Private Equity	\$630 thousand	\$484 thousand	\$146 thousand	3.83%	N/A
Lotsoff Capital Mgmt.	\$58.9 million	\$58.7 million	\$200 thousand	0.32%	44 th percentile
NTGI	\$59.3 million	\$60.0 million	(\$700 thousand)	0.12%	55 th percentile
PIMCO	\$21.2 million	\$21.6 million	(\$400 thousand)	0.24%	50 th percentile
Wellington Mgmt. Co.	\$44.7 million	\$48.7 million	(\$4.0 million)	-0.27%	48 th percentile
Neuberger Berman	\$56.1 million	\$55.0 million	\$1.1 million	1.76%	49 th percentile
Baird Advisors	\$46.5 million	\$45.6 million	\$900 thousand	1.90%	67 th percentile
Western Asset Mgmt.	\$50.6 million	\$49.5 million	\$1.1 million	2.07%	43 rd percentile
ING Clarion	\$19.3 million	\$18.6 million	\$700 thousand	3.99%	37 th percentile
Adams Street Partners	\$630 thousand	\$484 thousand	\$146 thousand	3.83%	N/A

Police and Fire Retirement System

Asset Commitments as of 06/30/11:

Domestic Equity	51.0%
International Equity	15.6%
Fixed Income	27.2%
Cash Equivalents	0.7%
Real Estate	5.3%
Private Equity	0.2%

Asset Allocation to Managers:

Lotsoff Capital Management	16.3%
NTGI	16.5%
PIMCO	5.8%
Wellington Management Company	12.5%
Baird Advisors	12.9%
Western Asset Management	14.3%
Cash Account	0.7%
Neuberger Berman	15.6%
ING Clarion	5.3%
Adams Street Partners	0.2%

Quarterly Summary of the Police & Fire Retirement System

	<u>Market Value</u> <u>06/30/11</u>	<u>Market Value</u> <u>03/31/11</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$324.7 million	\$323.8 million	\$900 thousand	1.06%	64 th percentile
Total U.S. Equity	\$165.7 million	\$168.3 million	(\$2.6 million)	0.11%	17 th percentile
Total Non-U.S. Equity	\$50.6 million	\$49.6 million	\$1.0 million	1.76%	7 th percentile
Total Fixed Income	\$88.3 million	\$86.6 million	\$1.7 million	1.96%	69 th percentile
Total Real Estate	\$17.3 million	\$16.6 million	\$700 thousand	3.99%	32 nd percentile
Total Private Equity	\$630 thousand	\$484 thousand	\$146 thousand	3.83%	N/A
Lotsoff Capital Mgmt.	\$52.8 million	\$52.6 million	\$200 thousand	0.32%	44 th percentile
NTGI	\$53.5 million	\$53.4 million	\$100 thousand	0.12%	55 th percentile
PIMCO	\$18.9 million	\$18.8 million	\$100 thousand	0.24%	50 th percentile
Wellington Mgmt. Co.	\$40.5 million	\$43.4 million	(\$2.9 million)	-0.26%	48 th percentile
Neuberger Berman	\$50.6 million	\$49.6 million	\$1.0 million	1.76%	49 th percentile
Baird Advisors	\$41.8 million	\$41.0 million	\$800 thousand	1.83%	73 rd percentile
Western Asset Mgmt.	\$46.5 million	\$45.5 million	\$1.0 million	2.07%	43 rd percentile
ING Clarion	\$17.3 million	\$16.6 million	\$700 thousand	3.99%	37 th percentile
Adams Street Partners	\$630 thousand	\$484 thousand	\$146 thousand	3.83%	N/A

The reports were received and filed by Chairman Scripps.

Ms. Korzen noted that in June she, Mr. Tryc and Mr. VanderPloeg visited FLAG Capital for a due diligence visit, along with Mr. Marlin Pease of Wilshire Associates. She stated that the visit went well and she is waiting for the contracts from FLAG. Mr. Timkovich asked if FLAG closed one of its funds; Ms. Korzen said no, they have not closed that fund yet and as soon as she receives the contracts back from FLAG, she and Ms. White will review them so the accounts can be opened before the fund is closed to investors.

Mr. Bensus commented that recently, Lotsoff Capital Management merged with Ziegler Capital Management and the firm, Ziegler Lotsoff Capital Management (ZLCM) is partly owned by a private firm, Rizvi Traverse Management, LLC (RTM) and partly owned by the employees of ZLCM. Mr. Bensus noted that not much is known about RTM other than they are a passive investment firm located in Michigan. They are not influencing ZLCM's business decisions. Chairman Scripps stated that RTM is operated by two gentlemen who run a mergers and acquisition firm. He stated that during his recent due diligence visit to ZLCM he spoke with Mr. Scott Roberts, Ms. Paula Horn and Ms. Allison Brink and it is their understanding that RTM is a silent investor and at no point do they feel that RTM will exert influence over the firm. Chairman Scripps commented that he felt comfortable with Mr. Roberts; he will be the new CEO of ZLCM while Mr. Don Reid and Mr. Joseph Pappo will be co-CIOs for equities and Ms. Horn will be the CIO of fixed income. Mr. Scripps stated that he also recently met with Baird Advisors for a due diligence visit and they know the fixed income team from Ziegler Capital Management well and they have a lot of respect for them. Mr. Bensus commented that the combination of Ziegler and Lotsoff makes sense and it is Wilshire's recommendation that no changes be made to the portfolios. Ms. Hight agreed that the combination of Ziegler and Lotsoff makes sense, but voiced her concern that there is very little information available regarding RTM. She asked Mr. Bensus if Wilshire Associates would perform some due diligence on RTM. She also noted that ZLCM's performance has been soft recently and they have had organizational changes and those are the types of issues Trustees consider before considering alternative investment managers. Mr. Bensus stated that Ms. Hight brought up a good point, but he felt that the merger between Ziegler and Lotsoff was typical and they sought additional capital from RTM to make it happen. He stated that he could try to find out more information about RTM and pass it along to Trustees. Chairman Scripps does not feel there would much value in checking into RTM as the arrangement was no different than ZLCM going to a bank and borrowing money for the merger; Mr. Bensus agreed. Mr. Timkovich stated as long as RTM does not have a history of acquiring firms and stripping the assets, it should not be an issue. Chairman Scripps stated it appears that the biggest part of RTM's business is taking firms public. He noted that there simply isn't much information available on most private equity firms.

The Executive Director provided Trustees with a draft Code of Conduct Policy for their review incorporating the changes Trustees suggested at the June 15, 2011 Joint Board meeting. The proposed policy includes examples of required reporting as well as an annual disclosure statement that would need to be completed by Trustees and staff by the third Wednesday of each January; the reporting period would begin July 1, 2011. Following Trustee discussion, Mr. VanderPloeg made the motion to adopt the proposed Code of Conduct Policy as written. The motion was seconded by Mr. Gutowski and carried.

There were no comments on items not on the agenda.

Ms. Korzen noted that Scott + Scott has asked the Retirement Systems if they wish to participate in a lawsuit against Bank of New York Mellon (BNY) in its capacity as Trustee for the Countrywide MBS. It is Scott + Scott's contention that BNY did not uphold their fiduciary duty with respect to Countrywide as they were not collecting all of the information on the mortgages that were written by Countrywide and as a result, some of the mortgage backed securities that investors purchased were not really mortgage backed because they did not have all of the required paperwork. The proposed settlement is very meager; approximately \$0.02 on the dollar and is only for securities that the investors still own. The Retirement Systems have already sold some of the securities. Scott + Scott estimate the losses to be approximately \$800,000 for the General Retirement System and \$550,000 for the Police & Fire Retirement System. If the Retirement Systems join the lawsuit, the hope is that the settlement will be better. The proposed settlement as it stands right now releases BNY of all liability, which is not in the best interest of the investors overall. Mr. Balkema clarified that there would be no costs to the Retirement Systems unless there is a recovery; Ms. Korzen said yes. Trustees agreed that they should be a part of the lawsuit as Scott + Scott has recommended. Following Trustee discussion, Mr. Balkema made the motion to authorize Scott + Scott to add the Retirement Systems as plaintiffs in the lawsuit against Bank of New York Mellon in its capacity as Trustee for the Countrywide MBS. The motion was seconded by Mr. Tryc and carried.

The meeting adjourned at 9:05 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, September 21, 2011, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems