

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

MINUTES
JOINT MEETING
AUGUST 15, 2012 – 8:11 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, Mr. Michael Hawkins, Mr. Walter Gutowski, and Mr. William Butts. Absent: Mr. Philip Balkema and Mr. Bill Alphenaar.

Also present: Ms. Peggy Korzen, Executive Director, Ms. Elizabeth White, Deputy City Attorney and Legal Advisor to the Boards, Mr. William Bensur and Mr. Steven Marshall of Wilshire Associates, Inc., and Ms. Mari Beth Jelks, Managing Director of Administrative Services.

Mr. VanderPloeg made the motion to excuse the absences of Mr. Balkema and Mr. Alphenaar. The motion was seconded by Mr. Gutowski and carried.

There were no public comments regarding agenda items.

Mr. Gutowski made the motion to approve the minutes of the Joint meeting of June 20, 2012. The motion was seconded by Mr. Butts and carried.

Ms. Korzen next presented a review of the vacant Office Assistant III (OA III) position in the Retirement Systems Office. She commented that this position has been an OA III for approximately 20 years and had served the office well for a time; however, due to the turnover in the position, she felt it was necessary to review the position and the duties that are expected in order to better serve the office and curb the turnover in that position. She noted that she and Ms. Mari Beth Jelks reviewed the position and related duties versus the job description and discovered that there are some things that should be fine-tuned. Ms. Jelks thanked Trustees for their professionalism and effectiveness in administering the Retirement Systems. She then reviewed the evaluation process that the City goes through when high turnover is experienced in a position. The position has evolved and become more complex than an OA III level, thus creating a need to reclassify the position to be more in line with the duties that are expected. The new classification, Retirement Systems Assistant, will be a range 15A, which is the same level as an Office Assistant IV and Administrative Secretary; positions that are commensurate with the top-level clerical positions within most City departments. Mr. VanderPloeg asked if the GREIU bargaining unit will need to agree with this new classification; Ms. Jelks stated that she has met and will continue to meet with leadership of the GREIU to work out the salary range for the classification. After meeting with the GREIU, Ms. Jelks will request that the Civil Service Board establish this classification and compensation, and the City Commission will be asked to update the salary ordinance to include the new classification. Mr. Gutowski asked how this new classification would compare to Ms. Balkema and Ms. Williams in the office; Ms. Korzen responded that both Ms. Balkema and Ms. Williams are in the APA bargaining unit, but their positions are higher ranges than the new classification. Mr. Gutowski commented that the reclassification of this position is a small price to pay for continuity in the office. Mr. VanderWall made the motion to approve reclassifying the current Office Assistant III position within the Retirement Systems Office to Retirement Systems Assistant at a range 15A. The motion was seconded by Mr. Tryc and carried.

Mr. Bensus presented the quarterly performance report to Trustees. In a Capital Market Update through August 10, 2012, Mr. Bensus noted that the July unemployment rate remained at 8.3% and 163,000 jobs were added, and the CPI was unchanged in June; 1.7% over the past year. The ISM non-manufacturing index rose by 0.5 in July to 52.6, the 31st consecutive month of non-manufacturing sector expansion. The U.S. trade deficit decreased to \$42.9 billion in June, a decline of \$5.1 billion from May. U.S. retail sales declined by 0.5% in June but remain up 3.8% over the past 12 months; personal income increased 0.5%. Housing starts rose in June by 6.9%, up 23.6% when compared to June 2012; existing home sales fell by 5.4% in June but were up 4.5% year over year. In the U.S. Equity market, the markets have regained a significant portion of the value they lost in April and May and the Telecom sector is leading the S&P 500 Index (19.3% YTD) while the Utilities sector is lagging (4.0% YTD). YTD large cap stocks are outperforming small cap stocks and growth stocks are leading value stocks. In the Non-U.S. Equity markets, uncertainty across Europe continues and concerns about the stability of the European Union persist. In Spain, the cost of insuring against sovereign default is at record levels and in China, disappointing economic data showed industrial production, imports and retail sales falling well short of expectations. In the Fixed Income market the Fed Funds Target Rate is 0.0% to 0.25% and the Federal Discount Rate is 0.75%. Fed funds rate increases are not expected until at least 2013 or 2014. European yield spreads are widening as contagion remains a critical concern throughout Europe. As of August 10, 2012, YTD, the S&P 500 was up 13.3%, the Russell 2000 was up 9.1%, the Wilshire 5000 was up 12.6%, the ACWI was up 7.1%, the Barclays Aggregate Bond Index was up 3.4% and the Wilshire RESI Index was up 15.0%. 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 06/30/12**

<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	-2.75	5.44	16.39	0.21	5.62
RUSSELL 2000	-3.47	-2.06	17.80	0.54	7.00
NAREIT GLOBAL RE INDEX	2.12	2.36	19.50	N/A	N/A
MSCI ACWI X-US	-7.61	-14.56	6.97	-4.62	6.74
BARCLAYS AGGREGATE	2.06	7.48	6.93	6.80	5.63
91 DAY T-BILLS	0.03	0.05	0.12	0.98	1.86

General Retirement System

<u>Asset Commitments as of 06/30/12:</u>		<u>Asset Allocation to Managers:</u>	
Domestic Equity	50.31%	NTGI	16.2%
Fixed Income	29.41%	PIMCO	5.8%
Cash Equivalents	0.64%	Wellington Management Company	12.4%
Real Estate	5.17%	Ziegler Lotsoff Capital Management	15.9%
Private Equity	0.53%	Baird Advisors	14.4%
International Equity	13.93%	Western Asset Management	15.0%
		Cash Account	0.6%
		Neuberger Berman	13.9%
		CBRE Clarion	5.2%
		Adams Street Partners	0.4%
		FLAG Capital	0.2%

Quarterly Summary of the General Retirement System

	<u>Market Value</u> <u>06/30/12</u>	<u>Market Value</u> <u>03/31/12</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$350.9 million	\$361.5 million	(\$10.6 million)	-1.77%	30 th percentile

08/15/12

Total U.S. Equity	\$176.5 million	\$187.7 million	(\$11.2 million)	-3.27%	27 th percentile
Total Non-U.S. Equity	\$48.9 million	\$51.8 million	(\$2.9 million)	-5.61%	33 rd percentile
Total Fixed Income	\$103.2 million	\$100.9 million	\$2.3 million	2.26%	28 th percentile
Total Real Estate	\$18.2 million	\$17.9 million	\$300 thousand	1.18%	N/A
Total Private Equity	\$1.9 million	\$1.5 million	\$400 thousand	8.93%	N/A
NTGI	\$56.8 million	\$60.0 million	(\$3.2 million)	-2.74%	37 th percentile
PIMCO	\$20.4 million	\$22.6 million	(\$2.2 million)	-1.75%	14 th percentile
Wellington Mgmt. Co.	\$43.5 million	\$45.1 million	(\$1.6 million)	-2.44%	7 th percentile
Ziegler Lotsoff Cap. Mgmt.	\$55.8 million	\$60.0 million	(\$4.2 million)	-4.97%	88 th percentile
Neuberger Berman	\$48.9 million	\$51.8 million	(\$2.9 million)	-5.61%	17 th percentile
Baird Advisors	\$50.4 million	\$49.2 million	\$1.2 million	2.46%	22 nd percentile
Western Asset Mgmt.	\$52.8 million	\$51.7 million	\$1.1 million	2.06%	70 th percentile
CBRE Clarion	\$18.2 million	\$17.9 million	\$300 thousand	1.18%	72 nd percentile
Adams Street Partners	\$1.3 million	\$1.5 million	\$200 thousand	8.93%	N/A
FLAG Capital	\$600 thousand	\$450 thousand	\$150 thousand	N/A	N/A

Police and Fire Retirement System

Asset Commitments as of 06/30/12:

Domestic Equity	50.48%
International Equity	13.67%
Fixed Income	29.21%
Cash Equivalents	0.90%
Real Estate	5.16%
Private Equity	0.58%

Asset Allocation to Managers:

NTGI	16.3%
PIMCO	5.7%
Wellington Management Company	12.5%
Ziegler Lotsoff Capital Management	15.9%
Baird Advisors	14.1%
Western Asset Management	15.1%
Cash Account	0.9%
Neuberger Berman	13.7%
CBRE Clarion	5.2%
Adams Street Partners	0.4%
FLAG Capital	0.2%

Quarterly Summary of the Police & Fire Retirement System

	<u>Market Value</u> <u>06/30/12</u>	<u>Market Value</u> <u>03/30/12</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$322.4 million	\$330.8 million	(\$8.4 million)	-1.76%	29 th percentile
Total U.S. Equity	\$162.8 million	\$171.8 million	(\$9.0 million)	-3.26%	40 th percentile
Total Non-U.S. Equity	\$44.1 million	\$46.7 million	(\$2.6 million)	-5.62%	34 th percentile
Total Fixed Income	\$94.2 million	\$92.1 million	\$2.1 million	2.25%	33 rd percentile
Total Real Estate	\$16.7 million	\$16.4 million	\$300 thousand	1.18%	N/A
Total Private Equity	\$1.9 million	\$1.5 million	\$400 thousand	8.93%	N/A
NTGI	\$52.6 million	\$54.8 million	(\$2.2 million)	-2.74%	37 th percentile
PIMCO	\$18.5 million	\$20.6 million	(\$2.1 million)	-1.57%	14 th percentile
Wellington Mgmt. Co.	\$40.3 million	\$41.3 million	(\$1.0 million)	-2.44%	7 th percentile
Ziegler Lotsoff Cap. Mgmt.	\$51.4 million	\$55.0 million	(\$3.6 million)	-4.97%	88 th percentile
Neuberger Berman	\$44.1 million	\$46.7 million	(\$2.6 million)	-5.62%	17 th percentile
Baird Advisors	\$45.4 million	\$44.3 million	\$1.1 million	2.46%	22 nd percentile
Western Asset Mgmt.	\$48.8 million	\$47.8 million	\$1.0 million	2.06%	70 th percentile
CBRE Clarion	\$16.7 million	\$16.4 million	\$300 thousand	1.18%	72 nd percentile
Adams Street Partners	\$1.3 million	\$1.5 million	\$200 thousand	8.93%	N/A
FLAG Capital	\$600 thousand	\$450 thousand	\$150 thousand	N/A	N/A

Mr. VanderWall asked if now would be an appropriate time to make the third allocation to Private Equity. Mr. Bensur commented that it may be prudent to wait until early 2013 in order to give careful

consideration to which investments are available. He stated that this topic will be discussed again at the November 2012 Joint Board meeting. The reports were received and filed by Chairman Scripps.

Mr. Bensur and Mr. Marshall presented Trustees with an Asset Allocation Study from Wilshire Associates, Inc. {Mr. Timkovich left the meeting at 8:56 a.m.}. Mr. Bensur introduced Mr. Marshall who has worked for Wilshire for approximately nine years; his expertise is in the actuarial field. Mr. Bensur provided an overview of the asset/liability analysis by noting that there have been demographic shifts, decreasing capital marketing opportunities and increased contribution requirements. Asset allocation is designed to manage the risk to the core mission of a defined benefit plan, which is to fund the benefits promised to participants. Mr. Bensur commented 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 to consider. Wilshire's Asset Liability Valuation (ALV) model provides a methodology for selecting a policy portfolio that considers both goals. Mr. Bensur reviewed Wilshire's investment consulting process and their model inputs for the asset allocation analysis and recommendations. Mr. Marshall reviewed the current policy for both retirement systems, their funding levels and six alternative portfolios. He commented on the expected nominal returns with alpha expectations, the expected real return and Sharpe ratios for each portfolio. Mr. Marshall reviewed the compound annual returns for one, three, five and ten years for each portfolio based on this analysis and the unfunded liability (expected and worst case) for year one and year ten for each portfolio. Wilshire recommended alternative portfolio #3 for the Board's consideration. This portfolio would consist of 40% U.S. Equity, 15% Non-U.S. Equity, 30% Fixed Income, 5% Private Equity, 5% Global Real Estate Securities and 5% Commodities. The total basket clause would then be at 10%. The expected return for this portfolio would be approximately 6.41%. He stated that some of the benefits by selecting alternative portfolio #3 would be: 1) adding Commodities to the portfolios would help reduce home country bias; 2) improving the risk/return trade-off and the Sharpe ratio; 3) returns decrease marginally (11 basis points) but risk drops 76 basis points; 4) the return with alpha expectations included is 7.46%; and 5) this portfolio represents the best trade-off when comparing the expected unfunded liability versus the worst case unfunded liability over a ten-year period. Mr. Bensur commented that achieving a 7.50% return is a challenge in today's capital market environment and adds substantial risks to the portfolio and P.A. 314 imposes further constraints on the investment portfolios; Trustees discussed the limitations of P.A. 314 and how the Retirement Systems' portfolios should allocate their assets within its boundaries. Mr. Bensur provided two additional alternatives: one that eliminates home country equity bias; and one that eliminates home country equity bias and adds a commodities exposure. Mr. Bensur suggested that Trustees do not need to approve any changes today; he stated he will provide an educational report on commodities prior to the November 2012 Joint Board meeting, and discuss the report and this study again at that meeting. Chairman Scripps agreed and stated that hopefully by November legislative action will be taken on the proposed changes to P.A. 314. The report was received and filed by Chairman Scripps.

The Executive Director next addressed the current Records Retention Policy for the Retirement Systems Office by noting that the law office for MAPERS, VanOverbeke, Michaud & Timmony, P.C., provided Ms. Korzen with a proposed formal records retention policy and disposal schedule. This update was recommended due to proposed legislation calling for increased transparency and disclosure by state and local government entities, including local retirement systems. Ms. Korzen reviewed the proposed policy and incorporated the items specific to the City of Grand Rapids Retirement Systems. Following Trustee discussion, Mr. VanderPloeg made the motion to adopt the Record Retention Policy and Disposal Schedule as outlined by the Executive Director. The motion was seconded by Mr. VanderWall and carried. (See attached policy resolution, pages)

Mr. VanderPloeg asked Trustees if they would like to consider adding an additional law firm to provide securities litigation monitoring services. He stated that it is common for institutions to have two or three firms providing securities litigation monitoring. Trustees agreed that it may be prudent to have a second set of eyes reviewing this issue. Mr. VanderPloeg noted that the current securities litigation monitoring firm, Scott + Scott stated they have no problem with the Retirement Systems adding a second firm. There have been a number of firms that have provided information regarding their securities

litigation monitoring services. The issue is how to determine who would be the best fit for the Retirement Systems when all of the firms provide this service at no charge. Chairman Scripps asked to consider VanOverbeke, Michaud & Timmony, the law firm representing the MAPERS Board, as they have assisted the Retirement Systems in the past with other issues. Mr. VanderPloeg agreed to review the potential candidates with Ms. Korzen and provide Trustees with a recommendation at a later date.

Chairman Scripps suggested that a standing committee be formed to review the non-investment management service providers to the Retirement Systems. The committee would meet on a regular basis to review the providers to ensure that they are competitive with comparable service providers. Mr. Gutowski made the motion to authorize a committee to review the non-investment management service providers to the Retirement Systems. The motion was seconded by Mr. VanderPloeg and carried. The committee will consist of Mr. Hawkins (Chairperson), Mr. Balkema and Mr. Butts.

Ms. Korzen noted that one of her goals that Trustees approved was to become a member of the MAPERS Board; Ms. Korzen was appointed to that Board last fall. She has subsequently found out that MAPERS Board members are required to arrive two days before the start of their fall and spring conferences; the MAPERS Board covers the cost of the hotel for Friday night but not Saturday night. She requested that Trustees authorize having the Retirement Systems pay for the Saturday night hotel stay. She noted that MAPERS no longer charges registration fees for her attendance at their conferences and that in most cases the hotel cost would be less expensive than registration fees. Mr. Gutowski made the motion to cover the cost of Ms. Korzen's Saturday night hotel expenses during MAPERS conferences throughout her tenure on the MAPERS Board. The motion was seconded by Mr. Tryc and carried.

The Executive Director commented that the audit RFP was mailed out to prospective firms today and their responses are due by September 21, 2012. She will keep the newly formed committee and Trustees updated as to the status of the process.

The meeting adjourned at 10:09 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, September 19, 2012, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems