

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

MINUTES  
JOINT MEETING  
AUGUST 21, 2013 – 8:08 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. Philip Balkema, Mr. Walter Gutowski, Mr. William Butts, and Mr. Bill Alphenaar.

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

There were no public comments regarding agenda items.

Mr. VanderPloeg made the motion to approve the minutes of the Joint meeting of June 19, 2013. The motion was seconded by Mr. Tryc and carried.

Mr. Bensur presented the quarterly performance report to Trustees. In a Capital Market Update through August 16, 2013, Mr. Bensur noted that Mr. Bernanke recently assured a House panel that there is no “present course” to ending the Fed’s bond-buying program. The July unemployment rate decreased to 7.4% and 162,000 non-farm payroll jobs were added; GDP increased at an annual rate of 1.7% in the second quarter of 2013. Retail sales increased by 0.2% in July and 5.4% over the past 12 months; housing starts increased 5.9% in July, up 20.9% versus one year ago; and crude oil prices were trading near \$107 per barrel. In the U.S. Equity market, YTD, Consumer Discretionary lead U.S. large cap sectors (up 23.4%), while Telecoms were the largest laggard (up 6.9%). YTD small cap stocks are outperforming large cap stocks and value stocks are leading growth stocks. In the Non-U.S. Equity markets, the European Union is still struggling with political uncertainty in Greece as well as lackluster economic expansion and/or recession throughout the region; and emerging market stocks continued to find performance hampered by concerns of China’s slowing economy and political unrest in Brazil, Turkey and Egypt. 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 to change while the unemployment rate is above 6.5%. As of August 16, 2013, YTD, the S&P 500 was up 17.7%, the Russell 2000 was up 21.6%, the Wilshire 5000 was up 18.2%, the ACWI was up 6.6%, the Barclays Aggregate Bond Index was down 3.3% and the Wilshire RESI Index was down 1.0%. 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 06/30/13**

<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	2.92	20.60	18.45	7.00	7.30
RUSSELL 2000	3.09	24.20	18.67	8.77	9.53
NAREIT GLOBAL RE INDEX	-3.63	14.27	15.98	N/A	N/A
MSCI ACWI X-US	-3.11	13.63	7.99	-0.80	8.62
BARCLAYS AGGREGATE	-2.32	-0.69	3.51	5.19	4.52

08/21/13

<b>DJ UBS COMMODITY INDEX</b>	<b>-9.44</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>91 DAY T-BILLS</b>	<b>0.02</b>	<b>0.11</b>	<b>0.11</b>	<b>0.29</b>	<b>1.72</b>

### General Retirement System

#### Asset Commitments as of 06/30/13:

Domestic Equity	47.2%
Fixed Income	27.8%
Cash Equivalents	0.4%
Real Estate	5.0%
Private Equity	0.7%
International Equity	14.8%
Commodities	4.1%

#### Asset Allocation to Managers:

NTGI	14.6%
PIMCO	5.8%
Wellington Management Company	12.1%
Ziegler Lotsoff Capital Management	14.7%
Baird Advisors	13.4%
Western Asset Management	14.3%
Cash Account	0.4%
Neuberger Berman	14.8%
CBRE Clarion	5.0%
Adams Street Partners	0.5%
FLAG Capital	0.2%
Wellington Commodities	4.1%

### Quarterly Summary of the General Retirement System

	<u>Market Value</u> <u>06/30/13</u>	<u>Market Value</u> <u>03/31/13</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$379.3 million	\$384.8 million	(\$5.5 million)	-0.26%	69 <sup>th</sup> percentile
Total U.S. Equity	\$179.0 million	\$177.2 million	\$1.8 million	3.05%	48 <sup>th</sup> percentile
Total Non-U.S. Equity	\$56.2 million	\$57.5 million	(\$1.3 million)	-2.27%	68 <sup>th</sup> percentile
Total Fixed Income	\$105.4 million	\$107.9 million	(\$2.5 million)	-2.31%	62 <sup>nd</sup> percentile
Total Real Estate	\$19.0 million	\$19.7 million	(\$700 thousand)	-3.52%	91 <sup>st</sup> percentile
Total Private Equity	\$2.7 million	\$2.3 million	\$400 thousand	2.63%	N/A
Total Commodities	\$15.4 million	\$17.3 million	(\$1.9 million)	-11.31%	N/A
NTGI	\$55.2 million	\$53.6 million	\$1.6 million	2.93%	34 <sup>th</sup> percentile
PIMCO	\$22.1 million	\$21.7 million	\$400 thousand	2.06%	85 <sup>th</sup> percentile
Wellington Mgmt. Co.	\$45.9 million	\$47.8 million	(\$1.9 million)	3.56%	31 <sup>st</sup> percentile
Ziegler Lotsoff Cap. Mgmt.	\$55.8 million	\$54.1 million	\$1.7 million	3.18%	23 <sup>rd</sup> percentile
Neuberger Berman	\$56.2 million	\$57.5 million	(\$1.3 million)	-2.27%	62 <sup>nd</sup> percentile
Baird Advisors	\$51.0 million	\$52.2 million	(\$1.2 million)	-2.19%	19 <sup>th</sup> percentile
Western Asset Mgmt.	\$54.4 million	\$55.7 million	(\$1.3 million)	-2.43%	48 <sup>th</sup> percentile
CBRE Clarion	\$19.0 million	\$19.7 million	(\$700 thousand)	-3.35%	91 <sup>st</sup> percentile
Adams Street Partners	\$1.8 million	\$1.7 million	\$100 thousand	7.20%	N/A
FLAG Capital	\$849 thousand	\$769 thousand	\$80 thousand	-9.48%	N/A
Wellington Commodities	\$15.4 million	\$17.3 million	(\$1.9 million)	-11.31%	N/A

### Police and Fire Retirement System

#### Asset Commitments as of 06/30/13:

Domestic Equity	47.6%
International Equity	14.3%
Fixed Income	27.1%
Cash Equivalents	0.9%
Real Estate	5.3%
Private Equity	0.8%
Commodities	4.0%

#### Asset Allocation to Managers:

NTGI	14.8%
PIMCO	5.9%
Wellington Management Company	12.4%
Ziegler Lotsoff Capital Management	14.6%
Baird Advisors	13.0%
Western Asset Management	14.2%
Cash Account	0.9%
Neuberger Berman	14.3%
CBRE Clarion	5.3%

08/21/13

Adams Street Partners	0.5%
FLAG Capital	0.2%
Wellington Commodities	4.0%

**Quarterly Summary of the Police & Fire Retirement System**

	<u>Market Value</u> <u>06/30/13</u>	<u>Market Value</u> <u>03/31/13</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$354.5 million	\$357.8 million	(\$3.3 million)	-0.22%	53 <sup>rd</sup> percentile
Total U.S. Equity	\$168.8 million	\$165.9 million	\$2.9 million	3.05%	35 <sup>th</sup> percentile
Total Non-U.S. Equity	\$50.6 million	\$51.8 million	(\$1.2 million)	-2.27%	68 <sup>th</sup> percentile
Total Fixed Income	\$96.2 million	\$98.5 million	(\$2.3 million)	-2.30%	57 <sup>th</sup> percentile
Total Real Estate	\$18.8 million	\$19.4 million	(\$600 thousand)	-3.35%	91 <sup>st</sup> percentile
Total Private Equity	\$2.7 million	\$2.4 million	\$300 thousand	2.63%	N/A
Total Commodities	\$14.3 million	\$16.1 million	(\$1.8 million)	-11.31%	N/A
NTGI	\$52.3 million	\$50.8 million	\$1.5 million	2.93%	34 <sup>th</sup> percentile
PIMCO	\$20.8 million	\$20.4 million	\$400 thousand	2.06%	85 <sup>th</sup> percentile
Wellington Mgmt. Co.	\$44.0 million	\$44.6 million	(\$600 thousand)	3.56%	31 <sup>st</sup> percentile
Ziegler Lotsoff Cap. Mgmt.	\$51.7 million	\$50.1 million	\$1.6 million	3.17%	23 <sup>rd</sup> percentile
Neuberger Berman	\$50.6 million	\$51.8 million	(\$1.2 million)	-2.27%	62 <sup>nd</sup> percentile
Baird Advisors	\$46.0 million	\$46.9 million	(\$900 thousand)	-2.15%	17 <sup>th</sup> percentile
Western Asset Mgmt.	\$50.3 million	\$51.6 million	(\$1.3 million)	-2.43%	48 <sup>th</sup> percentile
CBRE Clarion	\$18.8 million	\$19.4 million	(\$600 thousand)	-3.35%	91 <sup>st</sup> percentile
Adams Street Partners	\$1.8 million	\$1.7 million	\$100 thousand	7.21%	N/A
FLAG Capital	\$849 thousand	\$769 thousand	\$80 thousand	-9.48%	N/A
Wellington Commodities	\$14.3 million	\$16.1 million	(\$1.8 million)	-11.31%	N/A

Ms. Korzen commented that there have been a number of personnel changes at Western Asset Management (WAM) lately, Steve Walsh will be retiring soon and other key personnel have left the firm including Mr. Carieri. Mr. Sefchok stated that Wilshire believes this issue is alarming and they are conducting due diligence with WAM as they have several clients invested with them. Wilshire believes it is a deep organization and the structure is fine; however, going forward, they will recommend alternatives to the Retirement Systems if they believe there is an issue. The report was received and filed by the Chairman.

Mr. Bensur commented on the disappointing performance of Ziegler Lotsoff Capital Management (ZLCM). He noted that when Ziegler and Lotsoff combined their two entities, they had two equity products and kept them separate. They are now combining the two products. Wilshire feels that the product seems sound, and the returns for the new product are better than the one that the Retirement Systems originally hired Lotsoff to manage. He stated that ZLCM should be monitored as this product is not the same as the one that Trustees initially bought. Mr. Bensur noted that Wilshire provided Trustees with a memo outlining their thoughts on ZLCM and that they had conducted a site visit with ZLCM in July. Mr. Sefchok stated he and another colleague spent approximately half a day at ZLCM and they met with the marketing, portfolio managers and trading individuals. They reviewed the organization, team and strategy; all three of these have changed since ZLCM was initially hired in 2004. Lotsoff merged with Ziegler a few years ago; Mr. Joe Pappo recently retired; the team and strategy have undergone significant changes. There is not a lot of risk in this new strategy. Mr. Alphenaar asked if the Retirement Systems are gaining much by staying with ZLCM versus a different strategy. Mr. Bensur reminded Trustees that they may wish to consider whether or not they wish to continue having an active large cap manager and whether or not they wish to continue the relationship with ZLCM. Mr. VanderPloeg asked Mr. Bensur about the fees that ZLCM charges; he stated they are low relative to an actively managed large cap product; however, if the product will be taking on more of an enhanced index look, they would be considered somewhat high. Typical fees for actively managed large cap portfolios are 50-75 basis points. Mr. Sefchok stated that the combined product for ZLCM, the large cap core select product, will be run largely by Ziegler staff. Chairman Scripps commented that he would like to see the Retirement Systems continue to invest in an active large cap equity strategy. Mr. VanderWall stated that perhaps Trustees

should stay the course with ZLCM for now, watch their progress, but also look at other options for an active large cap equity manager; Mr. Gutowski agreed. Trustees asked Mr. Bensur to bring a report to them at the November 2013 Joint Board meeting outlining alternative large cap equity managers to compare to ZLCM. The report was received and filed by the Chairman.

Mr. Gutowski asked Ms. Korzen if she had obtained any information on the possibility of leasing office space through the City of Grand Rapids. She stated that she has met with Mr. Gary Reimer a few times and toured the City-owned space that is currently available; however, they have not reached the point of discussing costs. Mr. Gutowski asked if she had inquired as to the cost of breaking the current lease with the Masonic Center; she stated she has not explored that yet as she would prefer getting cost information from the City first.

Chairman Scripps commented that he has not yet received the Trustees' evaluations of the Executive Director. A number of Trustees indicated they have not received the information; Ms. Korzen stated she emailed it in July but will resend it to all Trustees. Chairman Scripps asked Trustees to be on the lookout for the information and to return the evaluations to him within the next week or so. Mr. Gutowski addressed his concern that the Retirement Systems Office should perhaps consider the same type of transformation process that City departments are going through; each department has basically been asked to cut 10% of its expenses. Mr. VanderWall stated that he had heard positive feedback on Ms. Korzen's involvement on the MAPERS Board and commended her for her efforts.

Board approval was requested for attendance at the following conferences: 2013 Baird Institutional Client Conference to be held September 8 - 9, the 2013 Fall MAPERS Conference to be held September 22 – 24, the 2013 NCPERS Public Safety Conference to be held October 27 – 30 and the 2013 P2F2 Conference to be held October 27 - 30. The P2F2 conference will cover a significant amount of information on GASB 67 and 68 which would be beneficial with respect to upcoming audits. Mr. Balkema made the motion to approve attendance of the aforementioned conferences by Trustees, legal counsel and staff per the Trustee Training, Educational Development and Due Diligence policy. The motion was seconded by Mr. Hawkins and carried.

Ms. Korzen provided Trustees with an updated copy of the Rules and Regulations regarding the Trustee election process. She asked Trustees to review it and if they have any changes they would like to make, to suggest them prior to the next Joint Board meeting in September. Mr. Timkovich commented that sometime in the near future Trustees should change the verbiage to open the member trustee elections in the General Retirement System to retired members as the plan is now closed to new hires in all bargaining units except APAGR.

The meeting adjourned at 9:30 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, September 18, 2013, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen  
Executive Director  
General and Police & Fire Retirement Systems