

GENERAL RETIREMENT SYSTEM
and
POLICE and FIRE RETIREMENT SYSTEM

BOARD OF TRUSTEES
CITY OF GRAND RAPIDS
MICHIGAN

MINUTES
JOINT MEETING
DECEMBER 19, 2012 – 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, Mr. Michael Hawkins, Mr. Philip Balkema, Mr. William Butts, and Mr. Bill Alphenaar. Absent: Mr. Walter Gutowski.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Ms. Elizabeth White, Deputy City Attorney and Legal Advisor to the Boards, Mr. Donald Broggi and Ms. Tracey Sheak of Scott + Scott, Mr. William Bensus and Mr. John Ruscetti of Wilshire Associates, and Mr. David Chang, Mr. Richard Hoffman and Mr. Alan Matijas of Wellington Management Company.

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

There were no public comments regarding agenda items.

Mr. Balkema made the motion to approve the minutes of the Joint Meeting of November 14, 2012. The motion was seconded by Mr. Hawkins and carried.

Ms. Korzen presented a request for renewal of the Business Owner's Insurance Policy for the period 12/31/12 – 12/31/13, noting that the annual premium increased slightly from \$663 to \$701. Mr. Balkema made the motion to approve the renewal request of the Business Owner's Insurance Policy underwritten by Citizens Insurance Company for the period 12/31/12 – 12/31/13. The motion was seconded by Mr. Tryc and carried.

Mr. Bensus provided a recap of the decision by Trustees at the last Board meeting to interview Wellington Management Company for the purpose of possibly implementing a commodities allocation. He stated that Wilshire is confident in Wellington's product and felt that an allocation to commodities makes sense in order to assist in mitigating risk.

Mr. David Chang, Mr. Richard Hoffman and Mr. Alan Matijas of Wellington Management Company (WMC) provided Trustees with a report regarding their commodities product. Mr. Matijas provided an update on WMC before presenting the report on Commodities to Trustees. He noted that WMC was founded in 1928 and has been a private partnership since 1979. WMC is independent, has no public shareholders and no outside capital. They have 125 active partners in the firm, \$748 billion in client assets, over 2,000 employees and 543 investment professionals. Mr. Chang provided an overview on WMC's investment philosophy as it pertains to commodities: 1) diversify the portfolio through their strategic, custom benchmark and a broad opportunity set; 2) analyze long-term supply, demand and cost trends utilizing resources across WMC; 3) take advantage of price extremes based on a valuation and contrarian framework; 4) maximize the roll yield through active curve management; and 5) utilize a contribution-to-risk approach to portfolio construction. WMC's investment objective is to seek to outperform their strategic benchmark, an equal sector-weighted custom commodities index. WMC employs a fundamental, research-based active management approach with approximately 50 commodities in the opportunity set. Their maturities range between one month and ten years, have sector allocation flexibility and their collateral is managed to achieve high quality and liquidity. Mr. Hoffman reviewed the commodities market benchmark characteristics and returns since July 2003. WMC's

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commodities portfolio has an intermediate and long-term investment focus and research. Mr. Hoffman reviewed the commodities portfolio investment process: 1) valuation (production cost curve, demand sensitivity and relative commodity valuations); 2) fundamentals (supply/demand balance, capacity utilization and inventory levels); 3) sentiment (market positioning and option volatility); 4) curve (roll yield, seasonality and volatility); 5) instrument (cost and liquidity); and 6) portfolio (contribution-to-risk analysis and diversified exposures). They invest in individual commodities (i.e. – futures, options, swaps and ETFs) with their net exposure from 0% - 30%, or 10% in excess of the benchmark weight; the gross exposure can vary from 0% - 60% and out-of-benchmark positions are permitted. Sector weightings are $\pm 15\%$ relative to the benchmark. The aggregate portfolio's net exposure is 90% - 100%; gross exposure is 90% - 200% (150% long versus 50% short) and it is fully collateralized. Mr. Chang reviewed WMC's risk management for the portfolio, the current focus within the commodities market and returns through October 31, 2012. He commented that WMC's active commodities strategy is strengthened by their commitment to the natural resources area, experienced fundamental research team, diversified strategic benchmark, broad commodity opportunity set and guidelines and risk controls. The report was received and filed by the Chairman.

Mr. Bensur and Trustees discussed the presentation by WMC. Mr. Bensur noted his opinion that WMC is a well-organized and well-managed company. He stated that their strategic benchmark is unique to their product; however, it is similar to the other standard benchmarks. He reminded Trustees that an allocation to commodities is not intended as a return generator, but more of a diversifier or cushion against an unanticipated rise in inflation. Mr. Alphenaar clarified that Wilshire is recommending a 5% allocation of total portfolio assets to commodities; this amount would reduce the current equity allocation. Mr. Balkema asked what the fees are for this product; Mr. Bensur stated they are 75 basis points, which is similar to equity products. Chairman Scripps asked if there would be any negotiation on the fees; Mr. Bensur stated that since it is a commingled account, probably not, but he can ask. Following Trustee discussion, Mr. VanderPloeg made the motion on behalf of the Police & Fire Retirement System to allocate 5% of the total portfolio to a commodities account, to be funded from the U.S. equities allocation; and upon successful contract negotiations, enter into a contract with Wellington Management Company for their commingled fund commodities product at the earliest possible date. The motion was seconded by Mr. VanderWall and carried. Mr. Timkovich made the motion on behalf of the General Retirement System to allocate 5% of the total portfolio to a commodities account, to be funded from the U.S. equities allocation; and upon successful contract negotiations, enter into a contract with Wellington Management Company for their commingled fund commodities product at the earliest possible date. The motion was seconded by Mr. Tryc and carried.

Mr. Donald Broggi and Ms. Tracey Sheak of Scott + Scott presented Trustees with an overview of their firm. Mr. Broggi reviewed the securities litigation monitoring services that they have been providing the Retirement Systems for the past four years. He provided an overview of his firm and noted they have been involved in some of the largest securities fraud cases in the last 16-17 years. They have approximately 40 attorneys and have grown consistently in the last three to four years. They prosecute securities fraud cases, have an antitrust practice and they provide portfolio monitoring. They alert the Retirement Systems anytime, through equity purchases, there is a securities fraud case and how to file proof of claim forms to recover funds. He commented that over the last 17 years, there has been an average of 217 fraud cases per year; Trustees need to be aware of them and the potential impact to the Retirement Systems. In the past five years, there has been an average of \$45 billion returned to shareholders through successful prosecution of fraud cases. He reviewed the process for settling a securities fraud case and how the firm monitors clients' portfolios to identify any potential losses. Mr. Timkovich asked how they are paid. Mr. Broggi stated that Scott + Scott only gets paid if they represent their client specifically in a case and that case is litigated (some cases take 4-5 years to litigate). They have to be appointed in a leadership position in a case and the case has to be successful at trial or in a settlement and then they receive a contingency fee which ranges from 15-25% off of the total class recovery. Scott + Scott puts up all fees and costs. Ms. Korzen noted that Northern Trust files the proof of claim forms for the Retirement Systems and periodically Fifth Third Bank will file these forms as they pertain to securities that were held by the Retirement Systems when Old Kent Bank was the custodian.

Mr. VanderWall made the motion to go into Executive Session for the purpose of discussing current securities litigation with Scott + Scott and to include Ms. Korzen, Ms. White and Ms. Balkema. The motion was seconded by Mr. Tryc and carried.

Executive Session began at 9:43 a.m.

Executive Session ended at 10:05 a.m.

Mr. Broggi commented that if Trustees have any questions regarding the monitoring process they can contact him at any time. Mr. VanderPloeg asked how many cases Scott + Scott files per year; Mr. Broggi stated they file about 25 per year. Ms. Korzen asked how many public pension funds they monitor; he stated they monitor 80 - 100. Mr. Timkovich asked for clients that have more than one securities litigation monitoring firm how does the client determine which firm to use. Mr. Broggi stated that it mainly comes down to whichever firm notifies the client first. If there is simultaneous notification by the firms, then the client can inquire of each firm to ascertain what their experience has been in that type of litigation to help them decide which firm would serve their interest best.

There were no comments on items not on the agenda.

Ms. Korzen commented that the Code of Conduct policy requires that Trustees and staff complete an annual disclosure statement; Ms. Balkema provided Trustees with the form. She stated that the forms are due by the January 16, 2013 Board meetings.

The meeting adjourned at 10:19 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, January 16, 2013, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems