

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

MINUTES
JOINT MEETING
FEBRUARY 16, 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, Mr. James Stokes, Ms. Dianette Hight, Mr. Michael Hawkins, Mr. Philip Balkema and 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. Miguel Gonzalo of Adams Street Partners, and Mr. Marlin Pease and Mr. John Ruscetti of Wilshire Associates, Inc.

There were no public comments regarding agenda items.

Mr. VanderWall made the motion to approve the minutes of the Joint meeting of January 19, 2011. The motion was seconded by Mr. Tryc and carried.

Mr. Miguel Gonzalo, CFA and Partner of Adams Street Partners (ASP) presented his firm's annual report to Trustees. Mr. Gonzalo noted that ASP is an employee-owned private equity firm. Their goals are to: 1) generate long-term returns that consistently outperform private equity industry benchmarks and are commensurate with the above-average risks of the asset class; 2) access top-performing private equity investments; 3) invest in a diversified portfolio representing the best global opportunities; and 4) invest with a knowledgeable partner willing to share ideas and insights. He stated that top-quartile returns require consistency, equal manager weightings and portfolio diversification, reviewed how ASP is integrated strategically and globally and commented on ASP's organizational structure. He provided Trustees with a list of past and present companies represented in their portfolios. He stated that inefficiency of access to investment opportunities, price discipline, the ability to add value post-investment and the ability to exit the investment are the things that create excess returns in private equity. Private Equity investments are in companies that are not listed on a publicly-traded exchange and are appealing because they offer potentially attractive, risk-adjusted returns, have imperfect correlation with other asset classes and their transactions are negotiated. The down-side to Private Equity investments are: 1) they are a long-term investment; 2) they are relatively illiquid; and 3) they carry high risk, particularly on an individual transaction basis. Mr. Gonzalo reviewed the Private Equity Fund program at ASP and provided Trustees with a review of the City of Grand Rapids General and Police & Fire Retirement Systems' portfolios as of December 31, 2010 (estimated):

<u>ASP 2010 Fund Name</u>	<u>Subscription</u>	<u>Investment Commitments</u>	<u>No. of 2010 Investments</u>	<u>Dollars Drawn</u>	<u>M.V. (NAV)</u>	<u>Dist. Rec. (D)</u>	<u>Total Value (NAV+D)</u>
U.S. Fund	\$5,000,000	\$800,000	22	\$530K	\$560K	\$0	\$560K
Non-U.S. Developed	\$3,000,000	\$350,000	10	\$120K	\$100K	\$0	\$100K

Non-U.S. Emerging	\$1,000,000	\$90,000	3	\$0	\$0	\$0	\$0
Direct Fund	<u>\$1,000,000</u>	<u>\$1,000,000</u>	<u>11</u>	<u>\$164K</u>	<u>\$140K</u>	<u>\$0</u>	<u>\$140K</u>
Participant Total	\$10,000,000	\$2,240,000	46	\$814K	\$800K	\$0	\$800K

He commented that the City of Grand Rapids General and Police & Fire Retirement Systems' 2010 subscriptions are slightly behind commitment pace and slightly ahead of their draw pace. ASP has access to top-performing investments across the entire global private equity opportunity set and they diversify across five dimensions: 1) strategy (primary, secondary and direct); 2) time; 3) manager; 4) subclass; and 5) geography. Mr. Gonzalo provided Trustees with a private equity industry update by noting that the industry recovery is underway, returns have increased across the board, debt markets have improved as banks and investors have become more aggressive, the venture landscape has improved and exit markets are open for select companies. He also noted that the IPO market is recovering and although the record buyout activity pace in 2007 slowed dramatically, it has since picked up in the second and third quarters of 2010. The report was received and filed by Chairman Scripps.

Mr. Pease presented the quarterly performance report to Trustees. In a Capital Market Update through February 14, 2011, Mr. Pease noted that the FOMC confirmed continued economic recovery, but believes the pace is "insufficient to bring about a significant improvement to the labor markets," GDP increased at an annual rate of 3.2% in the fourth quarter – up 2.9% in 2010, the unemployment rate decreased to 9.0% in January, the ISM non-manufacturing index increased for the 14th consecutive month to 59.4% in January – up 2.3% from December, PPI increased by 1.1% in December – up 4.0% in 2010, retail sales increased 0.3% in January and the Consumer Confidence Index increased to 60.6 in January; an increase from 53.3 in November. In the U.S. Equity market YTD, the Wilshire 5000 has risen 6.2%, large cap stocks are outperforming small cap stocks, and growth stocks are leading value stocks in both large and small cap. In the Non-U.S. Equity market at the World Economic Forum, European finance leaders offered an upbeat outlook for global growth over the next year with EM countries leading the way, China's GDP grew by 9.8% in the fourth quarter and political unrest in Egypt has contributed to financial underperformance in the emerging markets. In the Fixed Income market the FOMC held rates at current levels during its January meeting. Fed Funds rate increases are not expected as long as unemployment remains high and wages remain stagnant, and the 10-year Treasury yield is 3.62%. As of February 14, 2011, YTD, the S&P 500 was up 6.2%, the Russell 2000 was up 5.5%, the Wilshire 5000 was up 6.2%, the ACWI Index was up 2.4%, the Barclays Aggregate Bond Index was down 0.7% and the Wilshire RESI Index was up 5.9%. 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 12/31/10**

<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	10.76	15.05	-2.87	2.29	1.41
RUSSELL 2000	16.25	26.85	2.22	4.47	6.33
NAREIT GLOBAL RE INDEX	5.59	17.48	N/A	N/A	N/A
MSCI ACWI FR X-US	7.20	11.15	-5.03	4.82	5.54
BARCLAYS AGGREGATE	-1.30	6.54	5.91	5.80	5.84
91 DAY T-BILLS	0.04	0.13	0.79	2.42	2.38

General Retirement System

Asset Commitments as of 12/31/10:

Domestic Equity	52.4%
International Equity	15.1%
Fixed Income	26.9%
Cash Equivalents	0.2%
Real Estate	5.2%
Private Equity	0.1%

Asset Allocation to Managers:

Lotsoff Capital Management	16.5%
NTGI	16.5%
PIMCO	5.8%
Wellington Management Company	13.6%
Baird Advisors	12.9%
Western Asset Management	13.9%
Cash Account	0.2%
Neuberger Berman	15.1%
ING Clarion	5.2%
Adams Street Partners	0.1%

Quarterly Summary of the General Retirement System

	<u>Market Value</u> <u>12/31/10</u>	<u>Market Value</u> <u>09/30/10</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$348.1 million	\$328.0 million	\$20.1 million	7.53%	10 th percentile
Total U.S. Equity	\$182.6 million	\$164.7 million	\$17.9 million	11.89%	40 th percentile
Total Non-U.S. Equity	\$52.7 million	\$50.6 million	\$2.1 million	9.05%	4 th percentile
Total Fixed Income	\$93.6 million	\$93.8 million	(\$200 thousand)	-0.36%	41 st percentile
Total Real Estate	\$18.1 million	\$18.1 million	\$0	5.83%	17 th percentile
Total Private Equity	\$409 thousand	\$241 thousand	\$168 thousand	1.18%	N/A
Lotsoff Capital Mgmt.	\$57.4 million	\$52.4 million	\$5.0 million	10.73%	54 th percentile
NTGI	\$57.4 million	\$52.5 million	\$4.9 million	10.74%	57 th percentile
PIMCO	\$20.2 million	\$18.7 million	\$1.5 million	10.96%	45 th percentile
Wellington Mgmt. Co.	\$47.4 million	\$41.1 million	\$6.3 million	15.25%	67 th percentile
Neuberger Berman	\$52.7 million	\$50.6 million	\$2.1 million	9.05%	27 th percentile
Baird Advisors	\$45.1 million	\$45.5 million	(\$400 thousand)	-1.00%	44 th percentile
Western Asset Mgmt.	\$48.5 million	\$48.3 million	\$200 thousand	0.24%	4 th percentile
ING Clarion	\$18.1 million	\$18.1 million	\$0	5.83%	46 th percentile
Adams Street Partners	\$409 thousand	\$241 thousand	\$168 thousand	1.18%	N/A

Police and Fire Retirement System

Asset Commitments as of 12/31/10:

Domestic Equity	51.8%
International Equity	15.2%
Fixed Income	27.3%
Cash Equivalents	0.4%
Real Estate	5.2%
Private Equity	0.1%

Asset Allocation to Managers:

Lotsoff Capital Management	16.3%
NTGI	16.3%
PIMCO	5.7%
Wellington Management Company	13.5%
Baird Advisors	13.0%
Western Asset Management	14.3%
Cash Account	0.4%
Neuberger Berman	15.2%
ING Clarion	5.2%
Adams Street Partners	0.1%

Quarterly Summary of the Police & Fire Retirement System

	<u>Market Value</u> <u>12/31/10</u>	<u>Market Value</u> <u>09/30/10</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$311.8 million	\$292.5 million	\$19.3 million	7.48%	14 th percentile
Total U.S. Equity	\$161.4 million	\$145.1 million	\$16.3 million	11.89%	40 th percentile
Total Non-U.S. Equity	\$47.5 million	\$44.5 million	\$3.0 million	9.11%	1 st percentile
Total Fixed Income	\$85.2 million	\$85.7 million	(\$500 thousand)	-0.34%	37 th percentile
Total Real Estate	\$16.2 million	\$16.0 million	\$200 thousand	5.82%	22 nd percentile
Total Private Equity	\$409 thousand	\$241 thousand	\$168 thousand	1.18%	N/A
Lotsoff Capital Mgmt.	\$51.0 million	\$46.2 million	\$4.8 million	10.72%	54 th percentile
NTGI	\$50.8 million	\$45.8 million	\$5.0 million	10.74%	57 th percentile
PIMCO	\$17.7 million	\$16.7 million	\$1.0 million	10.96%	45 th percentile
Wellington Mgmt. Co.	\$42.0 million	\$36.4 million	\$5.6 million	15.25%	67 th percentile
Neuberger Berman	\$47.5 million	\$44.5 million	\$3.0 million	9.11%	26 th percentile
Baird Advisors	\$40.6 million	\$41.0 million	(\$400 thousand)	-0.96%	42 nd percentile
Western Asset Mgmt.	\$44.6 million	\$44.7 million	(\$100 thousand)	0.24%	4 th percentile
ING Clarion	\$16.2 million	\$16.0 million	\$200 thousand	5.82%	46 th percentile
Adams Street Partners	\$409 thousand	\$241 thousand	\$168 thousand	1.18%	N/A

Chairman Scripps asked what Wilshire's thoughts were about Lotsoff Capital Management (LCM) as their performance recently has been behind that of their benchmark. Mr. Pease noted that LCM visited Wilshire about six months ago and he feels that LCM still has a very good team in place; however, the large cap stock arena is a very difficult area to add excess return on an active basis. He does not feel their process is broken; their team is still intact. Mr. Timkovich questioned why the Retirement Systems are paying an active large cap manager investment fees when they are returning at or below the benchmark. Ms. Korzen noted that the fees that are paid to LCM are low, 35 basis points versus most other active large cap managers who charge around 60-70 basis points. Chairman Scripps commented that the market that LCM invests in probably has some cycles to it and they are in different styles. Mr. Pease stated that it is difficult for active large cap managers to outperform as their market is efficient. Ms. Hight commented that she would be interested to see how LCM's peers are performing during the same time periods outlined in the Wilshire report. Mr. Ruscetti then noted that yesterday CB Richard Ellis purchased ING Clarion (ING) and a number of its divisions, both public and private real estate. They added seven members from the CB Ellis group to the area that handles the Retirement Systems' REIT portfolios. As of right now, the investment policy and process has not changed however there will be cultural change that will occur and Wilshire's investment management group has a meeting set up with them tomorrow. Wilshire will continue to monitor the situation and inform Trustees of any pertinent information. The reports were received and filed by Chairman Scripps.

Ms. Korzen next addressed the Neuberger Berman account (NB) by noting that currently the Retirement Systems have separately managed accounts because NB did not have a fund available at the time they were hired. She stated that there are some sizeable fees assessed by Northern Trust for these accounts, some complex IRS documents that need to be dealt with each year and global account documents that need to be completed for various reasons. In addition, NB desires to invest in China B-shares, which is a separate market in China, and the document that Northern Trust requires to be signed for this is written in Chinese. They can provide an unofficial transcript of the document, but not an official transcript. Wilshire has contacted NB and their fund is now open and available to shift securities from the separately managed accounts into their global fund. If this is done, the custodial fees would go away and the account would appear like the other fund accounts on the Northern Trust statements. Ms. Korzen stated that the fees for their global fund are a bit higher; however, the returns have been higher

than the separately managed accounts. Ms. Korzen recommended transitioning the NB portfolios from the separately managed accounts into their global fund. She stated that the fund has greater flexibility and presents a greater opportunity set without the Retirement Systems taking on the individual risk of signing all of the documents themselves; the fund does all of the administration and documentation requirements and that is why the fee for this type of account is a bit higher than the separately managed accounts. Ms. Hight asked what Wilshire's recommendation would be; Mr. Pease stated that he believes it makes sense to transition the portfolios from the separately managed accounts to the global fund not only because of the administrative efficiencies but because of the greater opportunity set. Mr. VanderWall asked what the transaction fees would be to transition the portfolios; Mr. Pease stated that the process should be done seamlessly and there should be a very minimal cost as the holdings are virtually the same. Ms. Hight asked if Mr. Segal is managing both the separately managed accounts and the global fund accounts; Ms. Korzen said yes. Mr. Ruscetti stated that State Street is the custodian of the global fund. He commented that if Trustees decide to transition the NB portfolios to the global fund there may be an impact on the 13th Check; the new book value of the fund would be the current market value when the transition is complete. Chairman Scripps stated it shouldn't be significant. Mr. Timkovich made the motion on behalf of the General Retirement System to transition the separately managed account at Neuberger Berman to their global fund. The motion was seconded by Mr. Tryc and carried. Mr. VanderPloeg made the motion on behalf of the Police & Fire Retirement System to transition the separately managed account at Neuberger Berman to their global fund. The motion was seconded by Mr. VanderWall and carried.

Mr. Pease next provided Trustees with a report outlining suitable Private Equity firms. He noted that the City of Grand Rapids Retirement Systems targeted a 5.0% allocation to Private Equity in the 1st quarter of 2010 and due to the nature of this asset class, additional commitments are required over time to reach this 5.0% target. Implementing this Private Equity allocation through a "fund of funds" account structure allows for both diversification and access to top-tier partnerships. He reviewed the four firms that Wilshire believes are appropriate for Trustees' consideration for an additional allocation: 1) Adams Street Partners; 2) FLAG Capital; 3) HarbourVest Partners; and 4) Mesirow Financial. Mr. Ruscetti provided background on each of the four firms. He noted that FLAG and Mesirow have lower fund sizes compared to Adams Street Partners and HarbourVest Partners. Mr. Timkovich asked if Trustees decide to make an additional allocation into Private Equity, would it work similarly like the one with Adams Street Partners; Mr. Ruscetti said yes it could. He stated that FLAG will be having a feeder product available approximately in the 3rd quarter of this year. Mr. Ruscetti stated that all four of the candidates deal with quality companies and Wilshire is comfortable with all four firms. Mr. VanderPloeg asked if there is concern if an additional allocation was given to Adams Street Partners that the plans would be doubling up on their investments within that portfolio. Mr. Pease said Trustees could decide to allocate additional monies to Adams Street Partners however there could be some overlap in the commitments with them and it might be prudent to gain additional exposure in the Private Equity markets with a different investment manager as this could further diversify this allocation. Mr. VanderPloeg clarified that the goal is to devote \$15 million per system in total to Private Equity so if the last third of the investment was given to Adams Street Partners that would allow some separation from the vintage years. Ms. Korzen stated that the target may be more than \$15 million as it was agreed to commit a total of 5% of each system's assets, and assets have increased in value since the allocation decision was first made. Mr. Hawkins asked if there is some benefit to invest with a smaller firm; Mr. Pease said yes as it gives a different tone to the Private Equity allocation by looking at different investments and it will be more concentrated. Ms. Hight asked why Adams Street Partners was selected last year; Mr. VanderPloeg stated that they made a presentation to Trustees, and Trustees liked what they had to offer. Mr. VanderPloeg noted that the number of partnerships that Mesirow has is significantly less than the other three candidates and asked if this means that Mesirow has fewer opportunities. Mr. Pease stated that Mesirow could be almost viewed as an emerging Private Equity firm. They are a high quality firm but they are just starting to get the high profile posture in the marketplace and they may not have as many opportunities as the other managers; there are pros and cons to this. Ms. Korzen asked if Mesirow has a low number of partnerships, does that mean

there is more of a risk to investors if the investments do not perform well, but if they do perform well the return could be significant; Mr. Pease agreed and stated this would apply to FLAG as well. Mr. VanderPloeg made the motion to bring in FLAG Capital and Mesirow Financial for presentations to the Boards on April 20, 2011. The motion was seconded by Mr. Vanderwall. Ms. Hight asked for clarification as to why Mesirow was included in the report and perhaps not another firm that was similar to FLAG Capital. Mr. Pease stated that it was not Wilshire's intent to pair the four firms in terms of size, but rather to provide four quality investment firms for Trustees' consideration. Mr. Tryc noted that Mesirow's expected closing for their fund is listed as the 1st quarter of 2011. Mr. Pease commented that they frequently set those targets however the date is fluid. Chairman Scripps asked if Trustees decided to set up a special joint Board meeting on April 20, 2011 to hear presentations from FLAG and Mesirow, would that be too late for Mesirow. Mr. Pease stated that he could speak with the representatives at Mesirow and convey that information to Trustees. Mr. VanderPloeg's motion carried. Mr. Timkovich asked if Trustees wanted to tentatively make two Private Equity commitments over the next nine months so that the \$15 million would be fully committed by the end of the year. Chairman Scripps said nothing of that nature was voted on previously and Trustees were previously discussing one commitment per year for three years. Chairman Scripps asked Mr. Pease to coordinate the presentations and contact Mesirow regarding the fund closure issue and report the information back to the Executive Director.

Ms. Korzen noted that she received the annual fee notice from Wilshire Associates; the fee is adjusted each year based on the CPI increase over the prior 12-month period. This year's fee increased by \$3,000 to \$208,000.

The meeting adjourned at 9:55 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, March 16, 2011, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems