

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

MINUTES  
JOINT MEETING  
FEBRUARY 18, 2015 – 8:07 a.m.  
233 East Fulton

The session was called to order by Chairman Michael Hawkins. Other members present: Mr. David Tryc, Mr. Craig VanderWall, Mr. Martin Timkovich, Mr. Thomas VanderPloeg, Mr. Philip Balkema, Mr. William Butts, Ms. Jane Hofmeyer, and Mr. Elias Lumpkins, Jr. Absent: Mr. J. Patrick Scripps.

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. Marlin Pease, Mr. J.M. Ruscetti, and Mr. Nicholas Sefchok of Wilshire Associates, Inc.

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

Mr. Tryc made the motion to approve the minutes of the Joint meeting of January 21, 2015. The motion was seconded by Mr. Butts and carried.

Mr. Pease, Mr. Ruscetti and Mr. Sefchok presented the quarterly performance report to Trustees. In a Capital Market update, Mr. Sefchok noted that the U.S. stock market finished the year strong, up 5.3% for the 4<sup>th</sup> quarter and 12.7% for all of 2014. Large cap stocks underperformed smaller shares for the quarter while results for growth stocks v. value stocks were mixed. The second half of 2014 brought transformational shifts in two major economic factors, oil prices and the U.S. dollar. Oil finished the year below \$55, a level that has not been sustained since 2004. The U.S. dollar began its rise shortly after the drop in oil commenced and by year end, the U.S. Dollar Index v. major currencies was up 12%. Europe closed 2014 with relatively muted gains, as regional economic growth slowed down markedly in relation to the U.S. economy. Inflation rates in Europe have fallen to levels that have raised the specter of deflation, leading many analysts to expect further intervention by central banks to jump-start economic growth. The U.S. Treasury yield curve ended 2014 considerably flatter, with yields sharply lower in maturities beyond five years. As of February 13, 2015, YTD, the S&P 500 was up 2.1%, the Russell 2000 was up 1.6%, the Wilshire 5000 was up 2.3%, the ACWI was up 3.3%, the Barclays Aggregate Bond Index was up 0.8%, the Barclays TIPS Index was up 0.8%, the Wilshire RESI Index was up 5.4%, the Bloomberg Commodity Index was up 0.1%, and the Alerian MLP Index was down 2.5%. 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 12/31/14**

<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	4.93	13.69	20.41	15.45	7.67
RUSSELL 2000	9.73	4.89	19.21	15.54	7.77
NAREIT GLOBAL RE INDEX	7.89	15.02	15.06	11.25	N/A
MSCI ACWI X-US	-3.87	-3.87	8.99	4.43	4.89

<b>BARCLAYS AGGREGATE</b>	<b>1.79</b>	<b>5.97</b>	<b>2.66</b>	<b>4.45</b>	<b>4.71</b>
<b>DJ UBS COMMODITY INDEX</b>	<b>-12.10</b>	<b>-17.01</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>91 DAY T-BILLS</b>	<b>0.00</b>	<b>0.04</b>	<b>0.07</b>	<b>0.09</b>	<b>1.54</b>

### General Retirement System

<u>Asset Commitments as of 12/31/14:</u>		<u>Asset Allocation to Managers:</u>	
Domestic Equity	44.7%	NTAM	23.7%
Fixed Income	29.7%	PIMCO	9.6%
Cash Equivalents	0.9%	Wellington Management Company	11.5%
Real Estate	5.0%	Baird Advisors	15.0%
Private Equity	1.5%	Western Asset Management	14.7%
International Equity	14.1%	Cash Account	0.9%
Commodities	4.1%	Neuberger Berman	14.1%
		CBRE Clarion	5.0%
		Adams Street Partners	1.0%
		FLAG Capital	0.5%
		Wellington Commodities	4.1%

### Quarterly Summary of the General Retirement System

	<u>Market Value</u> <u>12/31/14</u>	<u>Market Value</u> <u>09/30/14</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$427.2 million	\$417.8 million	\$9.4 million	3.12%	11 <sup>th</sup> percentile
Total U.S. Equity	\$191.2 million	\$185.9 million	\$5.3 million	6.08%	15 <sup>th</sup> percentile
Total Non-U.S. Equity	\$60.4 million	\$59.9 million	\$500 thousand	0.78%	5 <sup>th</sup> percentile
Total Fixed Income	\$126.8 million	\$124.7 million	\$2.1 million	1.68%	27 <sup>th</sup> percentile
Total Real Estate	\$21.4 million	\$19.8 million	\$1.6 million	7.87%	15 <sup>th</sup> percentile
Total Private Equity	\$6.3 million	\$5.3 million	\$1.0 million	7.74%	N/A
Total Commodities	\$17.3 million	\$19.7 million	(\$2.4 million)	-12.16%	N/A
NTAM	\$101.3 million	\$101.0 million	\$300 thousand	4.98%	43 <sup>rd</sup> percentile
PIMCO	\$40.8 million	\$40.4 million	\$400 thousand	4.32%	80 <sup>th</sup> percentile
Wellington Mgmt. Co.	\$49.0 million	\$44.5 million	\$4.5 million	10.07%	13 <sup>th</sup> percentile
Neuberger Berman	\$60.4 million	\$59.9 million	\$500 thousand	0.78%	16 <sup>th</sup> percentile
Baird Advisors	\$63.9 million	\$62.6 million	\$1.3 million	1.96%	19 <sup>th</sup> percentile
Western Asset Mgmt.	\$62.9 million	\$62.1 million	\$800 thousand	1.40%	70 <sup>th</sup> percentile
CBRE Clarion	\$21.4 million	\$19.8 million	\$1.6 million	7.87%	15 <sup>th</sup> percentile
Adams Street Partners	\$4.3 million	\$3.8 million	\$500 thousand	40.77%	N/A
FLAG Capital	\$2.0 million	\$1.5 million	\$500 thousand	1.11%	N/A
Wellington Commodities	\$17.3 million	\$19.7 million	(\$2.4 million)	-12.16%	N/A

### Police and Fire Retirement System

<u>Asset Commitments as of 12/31/14:</u>		<u>Asset Allocation to Managers:</u>	
Domestic Equity	45.1%	NTAM	23.9%
Fixed Income	29.3%	PIMCO	9.6%
Cash Equivalents	0.7%	Wellington Management Company	11.6%
Real Estate	5.1%	Baird Advisors	14.7%
Private Equity	1.5%	Western Asset Management	14.6%
International Equity	14.1%	Cash Account	0.7%
Commodities	4.1%	Neuberger Berman	14.1%
		CBRE Clarion	5.1%

Adams Street Partners	1.1%
FLAG Capital	0.5%
Wellington Commodities	4.1%

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

	<u>Market Value</u> <u>12/31/14</u>	<u>Market Value</u> <u>09/30/14</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$406.7 million	\$397.5 million	\$9.2 million	3.12%	11 <sup>th</sup> percentile
Total U.S. Equity	\$183.2 million	\$177.0 million	\$6.2 million	6.08%	15 <sup>th</sup> percentile
Total Non-U.S. Equity	\$57.5 million	\$57.5 million	\$500 thousand	0.78%	5 <sup>th</sup> percentile
Total Fixed Income	\$119.2 million	\$117.3 million	\$1.9 million	1.67%	28 <sup>th</sup> percentile
Total Real Estate	\$20.8 million	\$19.3 million	\$1.5 million	7.87%	15 <sup>th</sup> percentile
Total Private Equity	\$6.3 million	\$5.3 million	\$1.0 million	7.74%	N/A
Total Commodities	\$16.7 million	\$19.0 million	(\$2.3 million)	-12.16%	N/A
NTAM	\$97.1 million	\$96.0 million	\$1.1 million	4.98%	43 <sup>rd</sup> percentile
PIMCO	\$39.1 million	\$38.2 million	\$900 thousand	4.32%	80 <sup>th</sup> percentile
Wellington Mgmt. Co.	\$47.0 million	\$42.7 million	\$4.3 million	10.07%	13 <sup>th</sup> percentile
Neuberger Berman	\$57.5 million	\$57.0 million	\$500 thousand	0.78%	16 <sup>th</sup> percentile
Baird Advisors	\$59.8 million	\$58.7 million	\$1.1 million	1.94%	19 <sup>th</sup> percentile
Western Asset Mgmt.	\$59.4 million	\$58.6 million	\$800 thousand	1.40%	70 <sup>th</sup> percentile
CBRE Clarion	\$20.8 million	\$19.3 million	\$1.5 million	7.87%	15 <sup>th</sup> percentile
Adams Street Partners	\$4.3 million	\$3.8 million	\$500 thousand	40.77%	N/A
FLAG Capital	\$2.0 million	\$1.5 million	\$500 thousand	1.11%	N/A
Wellington Commodities	\$16.7 million	\$19.0 million	(\$2.3 million)	-12.16%	N/A

Chairman Hawkins next addressed the recent departure of Mr. William Bensur from Wilshire Associates. He noted that in the latter part of January 2015 Trustees were notified that Mr. Bensur would be leaving Wilshire effective February 2, 2015. It was also noted that three other employees would be leaving Wilshire Associates. Ms. Julia Bonafede stated that Mr. Pease has recently rejoined the firm and could serve potentially as a senior consultant to the Retirement Systems as could Mr. David Lindberg who formerly worked with the Retirement Systems. Mr. Sefchok commented that Mr. Bensur had been the face of Wilshire to the Retirement Systems for a very long time; Mr. Bensur started the Pittsburgh office and was responsible for growing the office from three employees to 50. He felt that perhaps it was time for Mr. Bensur to move forward with other personal opportunities; he left Wilshire under his own terms. Mr. Ruscetti stated that he and Mr. Sefchok will continue to work with the Retirement Systems and Wilshire has many other resources available as well to assist. The philosophy and process at Wilshire has not changed. Mr. Balkema stated he was very confident in the team from Wilshire. Mr. VanderWall asked if there was any particular reason that the other three employees left Wilshire. Mr. Sefchok noted that they were afforded an opportunity with Towers Watson and it had nothing to do with Mr. Bensur's departure. Wilshire will be hiring one or two additional individuals to assist him and Mr. Ruscetti. Mr. Pease stated that he is happy to work with Trustees if they wish or if they are more comfortable with Mr. Lindberg, that would be acceptable as well. He noted that there should not be any disruption in services to Trustees. A significant amount of the work that Trustees have seen over the years from Wilshire has been supplied by Mr. Ruscetti and Mr. Sefchok and that will continue to be the case. Mr. Timkovich asked at a firm level if there are teams established. Mr. Sefchok stated that he and Mr. Ruscetti have taken over the majority of Mr. Bensur's former clients and the remaining three to four clients will be served by Mr. Pease or Mr. Lindberg. He commented that it is not uncommon for teams to mix and match on occasion and that works well because it is the same process and philosophy that will be employed by Wilshire.

Mr. Tryc commented that he would be fine with either Mr. Pease or Mr. Lindberg servicing the Retirement Systems as he is familiar with both of them; Mr. VanderPloeg agreed and stated that whichever

person best suits Wilshire's needs would be fine. Ms. Korzen stated that it will probably be Mr. Ruscetti and/or Mr. Sefchok that will be presenting to Trustees for the most part. Following Trustee discussion, Mr. Balkema suggested leaving the decision to Wilshire Associates as Trustees are comfortable with either Mr. Pease or Mr. Lindberg. Trustees agreed.

Chairman Hawkins next addressed the Brown Brothers Harriman (BBH) contract by noting that there had been some issues regarding whether or not BBH could fulfill the terms of Public Act 314. Ms. Korzen stated that the BBH account will be a fund and the contract for the fund is non-negotiable; however, if a plan has any deviations from that contract, a side letter agreement can be arranged. The representatives at BBH initially thought that under Public Act 314, they were responsible for all of the Retirement Systems' assets. Mr. Thomas Michaud consulted with them and informed them that BBH is only responsible for their portion of the Retirement Systems' assets that they invest. Ms. Korzen stated two other issues that surfaced with the BBH contract were: 1) which state the contract would be governed under; and 2) if there is a dispute, which court would hear the case. The contract would be governed under the state in which BBH is located; the Retirement Systems have contracts with other managers that contain this provision. If there would be a dispute, Michigan would be the court that would decide the matter. She stated that earlier this week, BBH sent a revised side letter agreement that Mr. Michaud reviewed and he stated that it does accomplish what the Retirement Systems need. He is comfortable that BBH has come to an agreement that complies with Public Act 314. The contracts should be forthcoming to Ms. Korzen shortly and she and Chairman Hawkins can then sign them.

Chairman Hawkins next addressed the policy regarding the selection of the member's physician in a duty disability retirement request. This issue was briefly discussed at the January 21, 2015 General Retirement System regular meeting. At issue is whether or not a member applying for a duty disability retirement should be allowed to use a physician for an independent medical evaluation that has been paid by the City of Grand Rapids. Chairman Hawkins suggested tabling this issue until the March 18, 2015 Joint Board meeting so as to have the Retirement Systems' new legal counsel present for the discussion. Mr. Tryc made the motion to table this issue until the March 18, 2015 Joint Board meeting. The motion was seconded by Ms. Hofmeyer and carried.

Chairman Hawkins stated that on January 22, 2015 he received an email from City Attorney Catherine Mish stating that the City Attorney's office should not have any continuing role in serving as legal advisor to the Retirement Systems or their Executive Director. He accepted an invitation to meet with Ms. Mish along with Mayor Heartwell, City Manager Sundstrom, Vice Chairs Tryc and VanderWall and Ms. Korzen at City Hall yesterday to discuss the relationship further. He noted at a macro level it was a very good and positive meeting and it took steps toward healing some of the friction that has developed over time. On a micro level, Ms. Mish stated there were two issues outlined in City Code that could trigger her office's decision to withdraw as legal counsel: 1) conflict of interest and 2) best interests of the Retirement Systems. Mr. Sundstrom stated that the City of Grand Rapids was not abandoning the Retirement Systems and the City will continue to support the Retirement Systems office and Trustees. The City Attorney's office will work with the Retirement Systems during the transition to outside legal counsel and will be available to support the Retirement Systems in any way possible or needed. Chairman Hawkins noted that at the meeting Ms. Mish was asked if there was anything that transpired to precipitate this withdrawal as legal counsel. Ms. Mish stated that there were concerns: 1) the meals that are being accepted by board members; 2) the dinners with investment managers are possibly in violation of the Open Meetings Act; and 3) compliance with IRS regulations on the per diem rate. He stated he will be forming a committee to address these operational issues and concerns to ensure compliance with policies and IRS regulations. Mr. Balkema commented that it has been a long standing practice for the Retirement Systems to work with the City Attorney's office on ordinance changes and wanted to make sure that this would continue; Ms. Korzen stated she inquired about this and Ms. Mish agreed and stated that Ms. Korzen and Ms. White would continue to work on ordinance changes as the need arises. Mr. Lumpkins commended Trustees for the work that they do and stated that he looks forward to learning more about the work that Trustees do and the opportunity to contribute. Ms. Hofmeyer chaired the recent subcommittee that reviewed the Request for Information (RFI) responses for outside legal counsel. She stated that five firms were sent the RFI: 1) VanOverbeke, Michaud & Timmony (VMT); 2) Sullivan Ward,

Asher & Patton (SWAP); 3) Varnum, LLP; 4) Miller Johnson; and 5) Warner, Norcross and Judd (WNJ). All of the recipients of the RFI have experience in dealing with public pension plans. The Retirement Systems received responses from all firms except Warner, Norcross and Judd. Ms. Hofmeyer reviewed some of the responses to key questions from the RFI. The subcommittee's focus was on two primary areas: 1) the firm's background and experience in public pension law; and 2) fees. After reviewing the four submissions, it was decided that VMT and SWAP had most closely aligned with these two primary areas. VMT represents more than 50 Michigan public pension plans and SWAP represents approximately 15 Michigan public pension plans. The fees were the same for each firm; \$180/hour and \$90/hour for travel time. Upon review of all of the documentation by the firms, the subcommittee made the recommendation to hire VanOverbeke, Michaud & Timmony. Mr. Balkema agreed with their recommendation and although he usually prefers to hire local firms, they appeared to have priced themselves out of the market. He is impressed with Mr. Thomas Michaud and his dedication and knowledge of Public Act 314 and he is very attentive to the Retirement Systems and quick to respond to Trustees' needs. VMT is very in tune with what is transpiring in Lansing regarding potential changes to Public Act 314 and legislation that will impact public pension systems in Michigan. Mr. VanderPloeg made the motion on behalf of the Police & Fire Retirement System to retain VanOverbeke, Michaud & Timmony as legal counsel for the Police & Fire Retirement System. The motion was seconded by Mr. VanderWall and carried. Mr. Tryc made the motion on behalf of the General Retirement System to retain VanOverbeke, Michaud & Timmony as legal counsel for the General Retirement System. The motion was seconded by Mr. Timkovich and carried. Mr. Timkovich asked that Ms. Mish's concerns be conveyed to Mr. Michaud; Ms. Korzen stated she will consult with Mr. Michaud. Ms. White asked what the timing would be to transition from her serving as legal advisor to the Boards and having Mr. Michaud begin as legal advisor. Ms. Korzen stated that she will speak with Mr. Michaud and coordinate with him and Ms. White. Mr. Lumpkins commented that sometimes the media will have a different slant on issues and that perhaps Trustees should consider preparing a statement that would address where the Retirement Systems are headed and the cooperation that will continue between the City of Grand Rapids and the Retirement Systems office; Trustees agreed. Trustees conveyed their sincere thanks to Ms. White for her service to the Retirement Systems office and look forward to continued collaboration with her on future ordinance changes. Ms. White thanked Trustees as well for their support.

Chairman Hawkins commented that the wording in the current Trustee Training, Educational Development and Due Diligence policy states that Trustees, the Executive Director, Pension Board staff members, and legal advisor are permitted to travel under the policy and that it is intended to encourage attendance at conventions, conferences, training, meetings, or due diligence visits relative to the administration of the pension plan. It also reads that "Persons departing the Pension Board via resignation, retirement, etc. are excluded from participation under this policy." Mr. Lumpkins was recently appointed to the Boards as Employer Trustee and will only be able to serve for a one-year term. He stated it would be beneficial to make an exception to this policy to allow Mr. Lumpkins the opportunity to attend one of the conferences as he would certainly benefit from the wealth of information that is provided. Mr. Balkema made the motion to make an exception to the Trustee Training, Educational Development and Due Diligence policy to allow Mr. Lumpkins to attend one in-state conference and one out-of-state conference if it works for his schedule. The motion was seconded by Mr. VanderPloeg and carried. Mr. VanderPloeg encouraged Mr. Lumpkins to attend the Trustee Education Development sections of the conferences as they are geared specifically for new Trustees. Ms. Korzen agreed and stated that at the Spring MAPERS conference Mr. Michaud's colleague conducts a three-hour presentation on topics for new Trustees that is very comprehensive.

Board approval was requested for attendance at the following conferences: MAPERS One Day Seminar to be held March 13<sup>th</sup>, 2015 by Mr. VanderWall, Mr. Tryc, Mr. VanderPloeg and Ms. Korzen; Wilshire Client Conference to be held April 19 – 21 by Mr. Scripps and Mr. VanderWall; the 2015 NCPERS Conference to be held May 3 – 7 by Chairman Hawkins, Mr. Scripps, Mr. VanderPloeg, Mr. Tryc, Mr. Lumpkins, and Ms. Balkema; and the 2015 Spring MAPERS Conference to be held May 17 – 19 by Chairman Hawkins, Mr. VanderPloeg, Mr. Tryc, Mr. VanderWall, and Ms. Korzen. Mr. VanderPloeg made the motion to approve attendance of the aforementioned conferences by Trustees and staff per the Trustee Training, Educational Development and Due Diligence policy. The motion was seconded by Mr. Tryc and carried. Mr.

Balkema made the motion to also approve Mr. Scripps and Mr. VanderWall conducting a due diligence visit to PIMCO and coordinate the visit with the Wilshire Client Conference. The motion was seconded by Mr. Tryc and carried.

There were no public comments on items not on the agenda.

Chairman Hawkins commented he would like to establish a committee to review operations of the Retirement Systems and address the concerns that were expressed earlier from the meeting with Ms. Mish. He stated that the committee will be comprised of Mr. Scripps, Mr. VanderPloeg and Mr. Timkovich.

The meeting adjourned at 9:59 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, March 18, 2015, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen  
Executive Director  
General and Police & Fire Retirement Systems