

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

MINUTES  
JOINT MEETING  
JUNE 16, 2010 – 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, Ms. Dianette Hight, Mr. James Stokes, Mr. Michael Hawkins and Mr. Philip Balkema. 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, Ms. Mary Ellen Stanek and Mr. Charles Groeschell of Baird Advisors, Mr. Donald Reid and Ms. Allison Brink of Lotsoff Capital Management and Mr. Mark Nottley of Municipal Consulting Services.

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

There were no public comments regarding agenda items.

Mr. VanderPloeg made the motion to approve the minutes of the Joint Meeting of May 19, 2010. The motion was seconded by Mr. Balkema and carried.

Ms. Mary Ellen Stanek, CFA, Managing Director and Chief Investment Officer and Mr. Charles Groeschell, Managing Director and Senior Portfolio Manager, of Baird Advisors (Baird) presented their firm's annual report to Trustees {Ms. Hight arrived at 8:07 a.m.}. Ms. Stanek noted that Baird has total assets of more than \$16.1 billion under management and they have a disciplined, research driven approach {Mr. Stokes arrived at 8:08 a.m.}. Baird has 2,450 associates and 100+ office locations in the U.S., Europe and Asia. She reviewed Baird's investment philosophy and reviewed their investment process which is twofold: 1) to structure portfolios to achieve the return of the benchmark for each client; and 2) to add incremental value through a multi-step, risk-controlled process. Ms. Stanek noted that Baird's goal is to add an incremental return of 15-50 basis points through multiple investment strategies. She provided Baird's market outlook by stating the U.S. economy is experiencing a moderate recovery with significant restraints, inflation will be modestly higher starting in 2011, in the housing markets, prices should stabilize though foreclosures are still rising and in the financial markets, stock and bond prices are discounting a sustainable economic recovery. Too much debt created a credit bubble and the proportion of government debt to GDP is growing sharply. Ms. Stanek noted that consumers are saving more and spending less, there is still a very weak employment picture, household net worth is still 40% below the 2006-2007 peak, there is a very steep Treasury yield curve and it is not business as usual as spread volatility goes to extremes. Mr. Groeschell noted that patience was rewarded in 2009 with additional outperformance expected in 2010, there will be attractive value in financials and selective mortgage-backed and asset-backed securities and a risk control discipline will be critical in a higher risk environment. He stated that Baird's mortgage and asset-backed securities strategy will be to implement a highly selective risk-controlled approach emphasizing structure and collateral and perform ongoing stress tests on specific issues they own. Mr. Groeschell reviewed the City of Grand Rapids Retirement Systems' objectives and portfolio guidelines and provided the following return statistics for both portfolios:

	<u>General Retirement System</u>	<u>Police &amp; Fire Retirement System</u>	<u>Barclays Aggregate Index</u>
2003 (Mar.-Dec.)	3.25%	3.25%	2.60%
2004	4.88%	4.88%	4.34%
2005	3.13%	3.15%	2.43%
2006	4.75%	4.77%	4.33%
2007	6.15%	6.07%	6.97%
2008	-1.10%	-1.56%	5.24%
2009	9.52%	10.22%	5.93%
2010 Q1	3.59%	3.70%	1.78%
April	1.61%	1.57%	1.04%
May*	0.63%	0.43%	0.84%
Year-to-Date	5.92%	5.78%	3.71%

Since Inception

Cumulative Return	42.47%	42.47%	41.47%
Annualized Return	5.00%	5.00%	4.90%

\*Preliminary performance.

The report was received and filed by the Chairman.

Mr. Donald Reid, Chief Investment Officer, Chief Financial Officer and Senior Portfolio Manager and Ms. Allison Brink, Chief Marketing Officer, of Lotsoff Capital Management (LCM), presented their firm's annual report to Trustees. Ms. Brink stated that LCM was founded in 1981 and has 30 employees and \$1.5 billion in assets under management. She also stated that LCM has recently added four senior investment professionals to a credit strategy. Mr. Reid noted that after a strong showing in the first quarter of 2010, fears that debt problems in Greece would spread to other Euro countries caused a significant retreat in U.S. indexes. He believes there will be moderate growth in the economy in the coming months. The Fed continues to keep interest rates extremely low, but has begun to remove their support for various markets and the housing tax credit has also expired. He commented that BP's oil spill in the Gulf of Mexico continues to drive down energy stocks as we are likely to see more regulation, higher costs and less growth in off-shore markets for the near future. LCM employs an investment process that combines a quantitative model that scores stocks with a fundamental evaluation that confirms the attractiveness of the top scoring stocks. Their objective is to find companies that: 1) are trading below fair value; 2) are likely to rise to fair value; 3) are likely to have their fair values rise over time; and 4) have management teams who understand how to create wealth. LCM utilizes a three-step investment process: 1) quantitative scoring – utilizes a discounted cash flow analysis to score and rank stocks within a universe; 2) fundamental evaluation – employs a combination of in-house, sell-side and other various research sources to determine which analysts and/or outside research can add incremental value to their knowledge of the stock; and 3) portfolio construction – using the most attractive stocks by sector and focusing on risk control. They seek out companies where the internal rate of return is higher than the cost of capital and those companies whose growth is managed to maintain attractive rates of return on capital. Ms. Brink noted that LCM attempts to remain sector neutral, hold no more than 140 securities and outperform the S&P 500 Index by 2.5%. The performance returns for the period ending May 31, 2010 were as follows:

	<u>General Retirement System</u>	<u>Police &amp; Fire Retirement System</u>	<u>S&amp;P 500</u>
2004 Q4	9.10%	9.05%	9.23%

2005	8.38%	8.37%	4.91%
2006	13.48%	13.53%	15.80%
2007	6.32%	6.34%	5.49%
2008	-41.48%	-41.43%	-37.00%
2009	32.78%	32.80%	26.44%
2010 Q1	5.54%	5.53%	5.39%
Q2 (2 Months)	-7.35%	-7.33%	-6.52%
Annualized Since Inception*	1.43%	1.45%	1.67%

\*Inception Date: 09/07/04

The report was received and filed by Chairman Scripps.

The Executive Director notified Trustees that the City has recently changed its agent of record for insurance to Arthur A. Gallagher, and noted that the Retirement Systems can perhaps gain some economies of scale by using the same agent for their Fiduciary Liability insurance. Following Trustee discussion, Mr. Balkema made the motion to name Arthur A. Gallagher as the Agent of Record for all insurance policies. The motion was seconded by Mr. Timkovich and carried. Ms. Korzen commented that the renewal quote for the Fiduciary Liability insurance policy for the Retirement Systems for the period 07/01/10 – 06/30/11 from Gallagher came in the same as last year’s quote from Wells Fargo. The policy covers both systems and the coverage is \$5,000,000 with a \$50,000 deductible. Ms. Korzen stated that the premium would remain unchanged at \$15,725, if the Retirement Systems continue with the combined policy. The City would pay \$350 of that premium, which represents the waiver of recourse coverage that cannot be paid from the trust fund. Following Trustee discussion, Mr. VanderWall made the motion to renew the combined policy as outlined in the renewal quote from Arthur A. Gallagher Insurance Agency. The motion was seconded by Mr. VanderPloeg and carried.

Ms. Hight commented that at the last Joint Board meeting Trustees decided to table the issue of whether or not to have Gabriel, Roeder, Smith and Company (GRS) inform the Executive Director of any work requests they may receive from the City and their results. Ms. Korzen stated that there is no contract with GRS, but rather a retainer agreement. She stated that since the last Board meeting she has had discussions with the City Manager and felt confident that issue is being addressed. She assured the City Manager that due to the nature of some work requests and their confidentiality issues, the Retirement Systems Office would respect these issues. Ms. Hight suggested that perhaps there should be a policy in place that states if the City puts in a work request to GRS, the Executive Director should be notified of the request and given information on the results that are provided to the City. Trustees may not need to see the results unless they are germane, but the work request should be channeled through Ms. Korzen; Chairman Scripps agreed. Mr. VanderPloeg confirmed that the information request will be run through Ms. Korzen however Trustees may not need to be made aware of the request depending upon the nature of it. Ms. Korzen agreed and stated that it may not be appropriate to share the information request with Trustees as it may be bargaining related. Ms. Hight made the motion to adopt a policy to have Gabriel, Roeder, Smith and Company submit all requests regarding either of the Retirement Systems to the Executive Director and any results that are provided to any parties be provided to the Executive Director as well. The motion was seconded by Mr. Timkovich. Mr. Balkema commented that he did not like the word “submit” as it implies there is an approval process involved. He stated that Trustees may not need to see the results unless it is germane to their duties. Mr. VanderPloeg agreed and added that perhaps the more important issue is that the proper questions are asked during the work request. Mr. Balkema amended Ms. Hight’s earlier motion so that the Executive Director is advised of any work requests Gabriel, Roeder, Smith and Company receives regarding either Retirement System and that she inform Trustees of such requests only as it pertains to their duties. The motion was seconded by Mr. Timkovich and carried. Ms. Korzen asked Trustees if they would like to have a written policy regarding this issue; Trustees decided a formal written policy is not necessary as it is reflected in the minutes.

Board approval was requested for attendance at the following conferences: 2010 Baird Advisors Institutional Investors Conference to be held September 12 – 13 and the 2010 Fall MAPERS Conference to be held September 26 – 28. Mr. VanderWall made the motion to approve attendance of the aforementioned conferences by Trustees and staff per the Trustee Training, Educational Development and Due Diligence policy in place. The motion was seconded by Mr. Tryc and carried.

The Executive Director next requested to address the Board regarding the premium sharing issue and her contract. She stated that it was never her intent to be confrontational regarding this issue however she wants to be fair to the Retirement Systems and herself. It was never her intent to not ever premium share but she felt there were other issues that were part of that process that needed to be addressed. Philosophically, she does not have any problems with premium sharing; she stated she believes it is appropriate for employees to share in the costs of their benefits. She reviewed the past 10 years since she became the Executive Director and noted that only two of the current Trustees were associated with the retirement systems when she was appointed Executive Director. She stated that although there has been a lot of Board member turnover during the last ten years, the fact remains that the difference between the salary that was awarded to the Executive Director for calendar year 2000 and today's Executive Director salary is approximately 14.68%; during the same time frame, the City's pay ranges have increased by 20.41%. The reason she had an issue with the premium sharing is that she believes Trustees have not properly addressed the pay discrepancy issue. She stated that compensation and benefits are a total package and should be reviewed together. She commented that previously Old Kent Bank was handling the custody and accounting for the Retirement Systems and due to poor performance they were replaced with The Northern Trust Company in 2001. The Retirement Systems Office took over the accounting duties at that time with no additional staffing, and the accounts balance perfectly each month. She stated that if a person comes into a job and does as good of a job as the prior person, it is not unreasonable to expect that his/her compensation will keep pace. The Executive Director noted that she thinks it is a good process to go through with Municipal Consulting Services (MCS) with respect to the compensation and classification study. She stated that typically in the City people are not hired in at less than what the prior person made with the exception of some of the appointed employees, who later had their salaries adjusted to catch up. She stated that she wanted to make Trustees aware of her perspective on this issue and that if any Trustees wish to speak to her regarding a 10% premium sharing arrangement for the remainder of her current contract while the MCS process is underway, she is willing to have that discussion. Ms. Korzen thanked the Board for their time and consideration.

The meeting recessed at 9:08 a.m.

The meeting reconvened at 9:26 a.m.

Mr. Mark Nottley of Municipal Consulting Services, LLC (MCS) provided Trustees with an overview of the issues he would like guidance on with respect to completing the compensation analysis for the Executive Director position. He stated there are three issues that he would like to discuss: 1) the importance of Board consensus in the selection of market comparables; 2) criteria to be considered in the selection of market comparables; and 3) applying the criteria to a listing of potential market comparables. He reviewed a working list of possible factors to be considered in selecting labor market comparables. System-related factors included amount of money under management, number of funds administered, number of active and retired members, investment management responsibilities or not. More job-specific factors are: whether the person reports to a Board or an administrator; number of employees supervised; accounting and financial statements performed/prepared in-house; and should the position be compared to other administrative positions within the Grand Rapids government. Mr. Balkema stated his opinion that the amount of money under investment is important, however, equally as important is the number of investment managers due to the amount of administrative contact that is necessary. Chairman Scripps commented that there are probably plateaus for total amounts of money under management and stated it may not be twice as difficult to manage twice as much money. There is probably some point where it becomes more difficult to manage more money however that is where the plateaus would enter into the equation; Ms. Korzen agreed. Mr. Timkovich stated he felt the

first factor was the least important. Ms. Hight commented that what needs to be determined is which other systems are used as comparables and perhaps those systems that are significantly higher or lower than the Retirement Systems may not be used. Mr. Nottley stated that in his research he has noted that there are some Executive Directors that report to the City Manager for example, but he/she is also the Finance Director with complex responsibilities; that does not seem to be the case here. He asked if Trustees wanted to limit the comparables to funds where the Executive Director reports directly to a Board or also look at some that have this position with similar job complexities and reports to a City Manager. Trustees decided that it might be prudent to look at both groups but be able to somehow filter out the compensation for these individuals that is earned for just Executive Director duties. Mr. Nottley stated he will submit his survey to those systems that fit these criteria and filter out any obvious outliers. If some of the respondents seem to be on the fence, he will still include those in his report and Trustees can decide how much bearing, if any, they will have. Chairman Scripps asked Trustees what their feelings are about comparing the Executive Director position to other administrative positions within Grand Rapids government; Mr. Timkovich stated it can be useful as another reference point however he does not feel it should be given a lot of weight. Mr. VanderWall agreed and stated that he feels what is important is to ascertain what other individuals are being compensated who are performing similar work like the Executive Director in similar positions. Mr. Nottley stated he can provide Trustees with data from similar classifications within the City. Mr. Balkema agreed with Mr. Nottley and stated this issue is important only insofar as it is a political reality check. He stated that these Boards operate somewhat autonomously but only through the grace of the City Commission. Mr. Balkema stated that there needs to be a rational acceptance by everyone who reads the report that it seems to be fair otherwise it will not be plausible. Ms. Hight stated that the weight that is given to this piece might be perhaps 10% because it shouldn't overshadow the comparison of similar positions in similar job settings with similar duties. Ms. Hight asked Mr. Nottley how the process has been proceeding with respect to the timeline he outlined in his proposal. Mr. Nottley stated that it is his understanding that the timeline was moved back to a 90-day time frame which he is very comfortable with as he is at the mercy of people responding to his surveys. He stated that the process is in on track and he has spoken with Ms. Korzen a few times. Ms. White commented that the contract stipulates that the final report is due to the Board 60 days from the date the contract was executed which was around May 10, 2010. Mr. Nottley stated that while the process will not be done by the 2<sup>nd</sup> week of July, there is another component to this process. He stated he is going to put a survey together for selecting labor market comparables and he will be in contact with those organizations and he will probably be done with that in 45 days. Once that is wrapped up he can generate a report in 10 days so that portion could be dealt with rather quickly however there is a performance evaluation piece as well. His understanding is to bring this data from the labor market comparables survey to Trustees at the August Joint Board meeting and at this meeting introduce the concept of performance evaluation so Trustees can gain a sense of not only what pay parameters they should be looking at but also how they should be administering the pay process. Chairman Scripps asked Mr. Nottley how much time should be allotted for this; he stated at least one hour, so Trustees may wish to call a special meeting to address this process. Mr. Hawkins stated it would be helpful if Mr. Nottley could provide Trustees copies of his report in advance of the August Board meeting so that they can review the materials and come to the meeting with informed questions; Mr. Nottley agreed. Ms. Hight asked Mr. Nottley to provide Trustees with a timeline of the process; Mr. Nottley stated he would do so. Mr. Nottley provided Trustees a list of potential comparable pension systems for wage comparisons. He stated that he has reviewed the job duties with Ms. Korzen and he will probably speak with her again regarding this issue as well as speak with the staff. He noted that the title is not the main thrust of this comparison; rather the job duties are. Ms. Hight stated that it is not important to only consider what duties are currently being performed but also look at what duties Trustees will need this person to perform going forward. Mr. Nottley stated his study will only consider what is being done today; however, he will be glad to share his thoughts with Trustees as to what he sees as skills that they may need in the future in this position. Mr. Balkema stated that with respect to the list of comparable pension systems it may be prudent for Mr. Nottley to take into consideration the cost of living factor for each respective community. Mr. Nottley stated he has proprietary software that can adjust those salaries to bring them in line with the cost of living in Grand Rapids. Mr. Timkovich asked Ms. Korzen if the number of bargaining units influences the amount of work she does; she stated that other than ensuring all of their pension benefits are accurate in the ordinance it is just a matter of applying them administratively, so this

issue impacts her job minimally. Mr. Stokes asked if the survey should encompass pension systems outside the state of Michigan as this state has its own set of economic circumstances and including pension systems from outside this state may complicate the study. Mr. Timkovich stated that there are not enough pension systems in the state of Michigan that operate like the City of Grand Rapids pension systems. Mr. VanderPloeg stated that many of the pension systems in Michigan participate with MERS and are not administering their own pension systems. Ms. Korzen stated she would be surprised if two or three similar pension systems could be identified in the state of Michigan that operate like the City of Grand Rapids. Mr. Nottley stated he needs to ascertain what actually constitutes each one of the positions listed in the comparable pension system list and if out of state comparable pension systems are used he needs to be able to adjust the salary to Grand Rapids wages. He stated that the report will summarize where the Retirement Systems position is similar and where it differs with respect to the comparables and for any cash-based benefits there will be a matrix outlining the data and also a written narrative showing the differences. Ms. Korzen suggested to Mr. Nottley that the Retirement Systems' actuary might be a valuable resource to contact to see if they could provide him with a list of similar pension systems. He stated he spoke with our actuary and received some of this information, but he can speak with him again. Chairman Scripps asked Mr. Nottley if he received the clarification on the issues he needed; he responded yes.

The meeting adjourned at 10:10 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, August 18, 2010, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen  
Executive Director  
General and Police & Fire Retirement Systems