

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

MINUTES
JOINT MEETING
JUNE 19, 2013 – 8:18 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. Michael Hawkins, Mr. Philip Balkema, and Mr. Walter Gutowski. Absent: Mr. Thomas VanderPloeg, Mr. Bill Butts, and Mr. Bill Alphenaar.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Ms. Catherine Mish, City Attorney, Ms. Mary Ellen Stanek and Mr. Charles Groeschell of Baird Advisors, Mr. Alan Matijas and Ms. Camilla Martin of Wellington Management Company, and Mr. Gregory Sundstrom, City Manager.

Mr. Tryc made the motion to excuse the absences of Mr. VanderPloeg, Mr. Butts and Mr. Alphenaar. The motion was seconded by Mr. VanderWall and carried.

There were no public comments regarding agenda items.

Mr. Balkema made the motion to approve the minutes of the Joint Meeting of May 15, 2013. The motion was seconded by Mr. Tryc 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. Stanek noted that Baird was founded in 1919 in Milwaukee and has total assets under management of more than \$18.5 billion. They have a disciplined, research driven approach. Baird has 2,800 associates and 100+ office locations in the U.S., Europe and Asia. She noted that Baird is ranked #1 "most trusted" research in the Greenwich Associates survey from 2004-2013 and they were the "Cross Border Deal of the Year" for 2012 according to *The M&A Advisor*. Ms. Stanek reviewed Baird's investment philosophy and outlined 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. She provided Baird's market outlook by stating that Baird sees moderate growth with continued headwinds in the U.S. economy, wages should remain benign with core consumer inflation near the Fed's target, the Fed policy should remain extraordinarily accommodative, the fiscal policy is at a crossroads and a wide range of potential outcomes are still possible. Mr. Groeschell noted that things are definitely getting better in the U.S. as the unemployment rate is at 7.5%, consumer confidence is at 84.5, vehicles sales are rising, as are corporate profits. The outlook for the bond market is that rates could stay low for an extended period of time, the yield curve remains steep, yield spreads modestly tighten further, the high level of uncertainty continues and risk control discipline is critical now more than ever. The portfolios are expected to experience additional outperformance due to the yield advantage over the benchmark and spread sectors are fair to attractive despite the narrowing of yield spreads. Baird will focus on risk control and structure the portfolios more and more to a defensive posture and maintain broad diversification to mitigate single issuer risk. Mr. Groeschell reviewed the City of Grand Rapids Retirement Systems' objectives and portfolio guidelines and provided the following return statistics for the portfolios:

	<u>General Retirement System</u>	<u>Police & 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	9.98%	9.81%	6.54%
2011	8.06%	7.83%	7.84%
2012	7.00%	7.13%	4.22%
2013 Q1	0.08%	0.09%	-0.12%
April	1.32%	1.33%	1.01%
May*	-1.77%	-1.72%	-1.78%
Year-to-Date	-0.39%	-0.33%	-0.91%
<u>Since Inception</u>			
Cumulative Return	70.37%	70.28%	61.86%
Annualized Return	5.33%	5.33%	4.81%

*Preliminary performance.

The report was received and filed by the Chairman.

Mr. Alan Matijas, Vice President and Relationship Manager and Ms. Camilla Martin, Portfolio Coordinator, of Wellington Management Company (WMC) presented their firm's annual report to Trustees. Ms. Martin stated that WMC has \$784 billion of client assets under management: 39% in equities; 46% in fixed income; and 15% in multi-strategies. WMC has over 2,000 employees in 11 offices and over 2,100 institutional clients based in more than 50 countries. WMC is managed by 21 global industry analysts; this deep industry expertise creates a competitive advantage as their analysts have an average of 20 years of experience. WMC has \$70 billion in assets under management in its Small Cap 2000 portfolio and has 5-7% analyst turnover. WMC's Small Cap 2000 portfolio investment objective is to outperform the Russell 2000 Index by keeping its industry weights close to the benchmark and utilizing the analysts' highest conviction ideas to construct a diversified and fully invested portfolio with primarily U.S. small cap stocks. WMC utilizes bottom-up stock picking by their analysts and their disciplined rebalancing adds value and reduces risk. Annualized investment returns through March 31, 2013 for the General and Police & Fire Retirement Systems' portfolios were reported as follows:

	<u>YTD</u>	<u>1 Yr.</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>10 Yrs.</u>	<u>Since Inception*</u>	
Ret. Systems	14.5%	19.5%	17.5%	12.8%	14.2%	11.1%	
Russell 2000	12.4%	16.3%	13.5%	8.2%	11.5%	7.5%	
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Ret. Systems	19.7%	-1.9%	36.3%	44.4%	-39.0%	2.1%	16.0%
Russell 2000	16.3%	-4.2%	26.9%	27.2%	-33.8%	-1.6%	18.4%

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Ret. Systems	9.4%	21.6%	39.4%	-16.4%	7.0%	12.7%
Russell 2000	4.6%	18.3%	47.3%	-20.5%	2.5%	-3.0%

*Inception date is 08/31/99

Ms. Martin provided a review of WMC's portfolio management team, the partnership structure at WMC and the Small Cap 2000 portfolio construction. She commented on the top contributors and detractors for the one-year period ending 12/31/12 and for the three-month period ending 03/31/13. Mr. Matijas also provided Trustees with a review of the Wellington Management (WM) Commodities portfolios. He noted that WM's investment objective is to outperform their strategic benchmark (an equal sector-weighted custom commodities index). WM employs fundamental research-based active management. There are approximately 50 commodities in the opportunity set with maturities ranging between one month and ten years and they have sector allocation flexibility. The contribution-to-relative-risk approach guides portfolio positioning. The collateral is managed to achieve high quality and liquidity. Investment returns through March 31, 2013 for the General and Police & Fire Retirement Systems' portfolios were reported as follows:

	<u>Since Inception</u>
Retirement Systems	-5.4%
Strategic Benchmark	-5.7%
Production-Weighted S&P GSCI	-3.6%

He reviewed the portfolios' performance attribution, sector positioning and characteristics. Mr. Matijas commented that individual commodity markets are influenced by independent drivers and noted WM's market outlook on the various different commodities. The report was received and filed by Chairman Scripps.

Ms. Korzen presented the renewal quote for the Fiduciary Liability insurance policy for the Retirement Systems for the period 07/01/13 – 06/30/14 from Arthur J. Gallagher. The premium for the policy, if renewed with the same terms, would increase from \$14,100 to \$15,150 (a 7.4% increase) for the Police & Fire Retirement System and from \$14,900 to \$15,950 (a 7.0% increase) for the General Retirement System. Ms. Korzen asked the carrier why there were such substantial increases in the premiums; they stated that the increase is partially due to higher asset values and partially due to a straightforward premium increase. Chairman Scripps stated that the problem is that there are very few companies that offer this type of insurance so there are not many vendors to compare against. Mr. Balkema asked if the Retirement Systems utilizes the City's agent of record; Ms. Korzen said yes. Ms. Korzen recommended approval of the renewal quote. Mr. VanderWall made the motion on behalf of the Police & Fire Retirement System to renew the Fiduciary Liability policy with Federal Insurance Company as outlined by Arthur Gallagher Risk Management Services, Inc. The motion was seconded by Mr. Balkema and carried. Mr. Tryc made the motion on behalf of the General Retirement System to renew the Fiduciary Liability policy with Federal Insurance Company as outlined by Arthur Gallagher Risk Management Services, Inc. The motion was seconded by Mr. Timkovich and carried.

Mr. Gutowski commented that Trustees recently approved a five-year lease with the Masonic Center for the Retirement Systems Office (RSO), but noted that there is a lot of vacant space in City Hall and questioned whether it would be prudent for the office to be located there. He asked that this option be explored. Chairman Scripps stated that historically the RSO has been located away from City Hall as this is what the members wished. He commented that if the RSO moved back into City Hall, it may become an issue with members, but he did not have a problem with exploring the possibility. Mr. Balkema stated his opinion that having the RSO out of City Hall gave the members more privacy when discussing retirement issues and also there was the perception that a department located in City Hall is controlled by City Hall and that this being an independent trust with an independent Board is viewed as more independent when it is not located in City Hall. Mr. Gutowski stated that since pension costs are increasing it may be more prudent to have the RSO

located in City Hall thus paying the rent to the City versus an outside entity. Chairman Scripps commented that the amount that is spent annually on occupancy rental is insignificant compared to the assets of the plans. Mr. Gutowski stated that recently the DDA vacated the 9th floor of City Hall and that may be the best possibility, especially for confidentiality issues. Chairman Scripps stated that the costs of moving the RSO and the fact that they just signed a five-year lease with the Masonic Center need to be taken into consideration. Ms. Korzen stated she would speak to Mr. Gary Reimer, Director of Facilities and Fleet Management at the City, regarding this issue and report her findings back to Trustees at the August 2013 Board meeting. Mr. Tryc stated there would also be additional costs to the employees (parking) if they move the RSO to City Hall and those costs would need to be factored in. Mr. Balkema stated that square footage will also be an important consideration as well as what type of long-term arrangement could be made to guarantee that the RSO could stay there for a long period of time. Mr. Gutowski stated that it may turn out that there are no cost savings to move the RSO to City Hall, but at least Trustees will have done their due diligence in this matter.

Mr. Gutowski apologized for arriving late at the May 15, 2013 Police & Fire Retirement System Board meeting, thus missing the discussion on the Richard Morningstar disability request. He stated that it appears that a history of the member is not obtained showing any habits (i.e. – tobacco or alcohol use). He commented that it might be prudent to put together a questionnaire that asks the members about various medical conditions and social habits. Chairman Scripps agreed and stated that often the doctors will provide some information on this in their narrative reports, but not always. Ms. Korzen asked if that questionnaire should be made part of the application; Trustees agreed. She asked Mr. Gutowski to forward his ideas for this questionnaire to her and she can create the checklist and share it with Trustees for their approval.

The Executive Director commented that the contract for the additional investment with Adams Street Partners has been signed; she is awaiting copies of that agreement and the initial capital call.

Ms. Korzen stated at the last Joint Board meeting Trustees discussed the possibility of hiring MMro for the disability case management and noted that Ms. White has been extensively involved in that process so she would like to wait until Ms. White is back at the August 2013 Joint Board meeting to continue that discussion.

The meeting adjourned at 9:39 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, August 21, 2013, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems