

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

MINUTES
JOINT MEETING
NOVEMBER 16, 2011 – 8:10 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. James Stokes, Ms. Dianette Hight, Mr. Michael Hawkins and Mr. Philip Balkema. Absent: Mr. Thomas VanderPloeg and Mr. Walter Gutowski.

Also present: Ms. Lisa Balkema, Retirement Services Specialist, Ms. Elizabeth White, Deputy City Attorney and Legal Advisor to the Boards, Mr. William Bensur of Wilshire Associates, Inc., and Mr. William Butts.

Chairman Scripps introduced Mr. William Butts, who was elected as the new Member Trustee of the General Retirement System to begin his term the first Monday in January 2012. Trustees welcomed Mr. Butts.

There were no public comments regarding agenda items.

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

Ms. Hight made the motion to approve the minutes of the Joint meeting of August 17, 2011 and September 21, 2011. The motion was seconded by Mr. Timkovich and carried.

Mr. Bensur presented the quarterly performance report to Trustees. In a Capital Market Update through November 10, 2011, Mr. Bensur noted that the U.S. debt was downgraded to AA+ by S&P (Moody's maintained its AAA rating); both rating agencies assign a negative outlook. "Operation Twist" was implemented by the U.S. Federal Reserve; the unemployment rate decreased to 9.0% in October; the CPI rose by 0.3% in September and was up 3.9% over the past year; the first and second quarter GDP were revised down to increases of 0.4% and 1.0% respectively; the ISM non-manufacturing index fell to 52.9 in October; retail sales increased by 1.1% in September; existing home sales decreased 3.0% in September; and gold was trading above \$1,750 per ounce. In the U.S. Equity market the Wilshire 5000 experienced its worst quarter since the fourth quarter of 2008; YTD large cap stocks were outperforming small cap stocks and growth stocks were leading value stocks. In the Non-U.S. Equity markets the recent expansion of power to European Financial Stability Fund was ratified by Euro-region countries; Italian bond yields fell as the Italian Senate approved austerity measures; China inflation slowed to 5.5% in October, slightly above expectations but continuing a downward trend; and the Asian Development Bank forecasted a slowing but robust growth expectation of 7.5% for developing countries. In the Fixed Income market the Fed Funds Target Rate is 0.0% to 0.25% and the Federal Discount Rate is 0.75%. Fed funds rate increases are not expected for at least the next two years. As of November 10, 2011, YTD, the S&P 500 was up 0.3%, the Russell 2000 was down 6.4%, the Wilshire 5000 was down 0.8%, the ACWI Index was down 12.5%, the Barclays Aggregate Bond Index was up 6.9% and the Wilshire RESI Index was up 3.6%. 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 09/30/11**

<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	-13.86	1.15	1.22	-1.18	2.81
RUSSELL 2000	-21.86	-3.53	-0.37	-1.01	6.12
NAREIT GLOBAL RE INDEX	-17.30	-6.89	N/A	N/A	N/A
MSCI ACWI X-US	-19.85	-10.81	0.52	-1.57	6.83
BARCLAYS AGGREGATE	3.82	5.26	7.97	6.53	5.67
91 DAY T-BILLS	0.02	0.14	0.21	1.73	2.02

General Retirement System

Asset Commitments as of 09/30/11:

Domestic Equity	48.5%
Fixed Income	31.6%
Cash Equivalents	0.5%
Real Estate	4.7%
Private Equity	0.2%

Asset Allocation to Managers:

NTGI	15.9%
PIMCO	5.7%
Wellington Management Company	10.8%
Ziegler Lotsoff Capital Management	16.1%
Baird Advisors	15.4%
Western Asset Management	16.3%
Cash Account	0.5%
Neuberger Berman	14.4%
ING Clarion	4.7%
Adams Street Partners	0.2%

Quarterly Summary of the General Retirement System

	<u>Market Value</u> <u>09/30/11</u>	<u>Market Value</u> <u>06/30/11</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$313.7 million	\$358.9 million	(\$45.2 million)	-11.56%	91 st percentile
Total U.S. Equity	\$152.2 million	\$184.1 million	(\$31.9 million)	-16.12%	34 th percentile
Total Non-U.S. Equity	\$45.1 million	\$56.1 million	(\$11 million)	-19.57%	54 th percentile
Total Fixed Income	\$99.2 million	\$97.0 million	\$1.6 million	2.19%	46 th percentile
Total Real Estate	\$14.9 million	\$19.3 million	(\$4.4 million)	-17.51%	N/A
Total Private Equity	\$724 thousand	\$630 thousand	\$94 thousand	0.92%	N/A
NTGI	\$49.9 million	\$59.3 million	(\$9.4 million)	-13.87%	30 th percentile
PIMCO	\$17.9 million	\$21.2 million	(\$3.3 million)	-15.58%	64 th percentile
Wellington Mgmt. Co.	\$33.9 million	\$44.7 million	(\$10.8 million)	-21.96%	46 th percentile
Ziegler Lotsoff Cap. Mgmt.	\$50.5 million	\$58.9 million	(\$8.4 million)	-14.43%	39 th percentile
Neuberger Berman	\$45.1 million	\$56.1 million	(\$11 million)	-19.57%	65 th percentile
Baird Advisors	\$48.2 million	\$46.5 million	\$1.7 million	3.54%	26 th percentile
Western Asset Mgmt.	\$51.0 million	\$50.6 million	\$400 thousand	0.83%	76 th percentile
ING Clarion	\$14.9 million	\$19.3 million	(\$4.4 million)	-17.51%	37 th percentile
Adams Street Partners	\$724 thousand	\$630 thousand	\$94 thousand	0.92%	N/A

Police and Fire Retirement System

Asset Commitments as of 09/30/11:

Domestic Equity	48.4%
International Equity	14.3%
Fixed Income	31.7%
Cash Equivalents	0.7%
Real Estate	4.8%
Private Equity	0.3%

Asset Allocation to Managers:

NTGI	15.9%
PIMCO	5.6%
Wellington Management Company	10.9%
Ziegler Lotsoff Capital Management	15.9%
Baird Advisors	15.2%
Western Asset Management	16.5%
Cash Account	0.7%
Neuberger Berman	14.3%
ING Clarion	4.8%
Adams Street Partners	0.3%

Quarterly Summary of the Police & Fire Retirement System

	<u>Market Value</u> <u>09/30/11</u>	<u>Market Value</u> <u>06/30/11</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$284.8 million	\$324.7 million	(\$39.9 million)	-11.55%	85 th percentile
Total U.S. Equity	\$137.7 million	\$165.7 million	(\$28.0 million)	-16.13%	52 nd percentile
Total Non-U.S. Equity	\$40.7 million	\$50.6 million	(\$9.9 million)	-19.57%	54 th percentile
Total Fixed Income	\$90.2 million	\$88.3 million	\$1.9 million	2.11%	42 nd percentile
Total Real Estate	\$13.6 million	\$17.3 million	(\$3.7 million)	-17.47%	N/A
Total Private Equity	\$724 thousand	\$630 thousand	\$94 thousand	0.92%	N/A
NTGI	\$45.4 million	\$53.5 million	(\$8.1 million)	-13.87%	30 th percentile
PIMCO	\$16.0 million	\$18.9 million	(\$2.9 million)	-15.58%	64 th percentile
Wellington Mgmt. Co.	\$31.1 million	\$40.5 million	(\$9.4 million)	-21.96%	46 th percentile
Ziegler Lotsoff Cap. Mgmt.	\$45.3 million	\$52.8 million	(\$7.5 million)	-14.40%	39 th percentile
Neuberger Berman	\$40.7 million	\$50.6 million	(\$9.9 million)	-19.57%	65 th percentile
Baird Advisors	\$43.3 million	\$41.8 million	\$1.5 million	3.39%	30 th percentile
Western Asset Mgmt.	\$46.9 million	\$46.5 million	\$400 thousand	0.83%	76 th percentile
ING Clarion	\$13.6 million	\$17.3 million	(\$3.7 million)	-17.47%	36 th percentile
Adams Street Partners	\$724 thousand	\$630 thousand	\$94 thousand	0.92%	N/A

Mr. Bensus commented on Ziegler Lotsoff Capital Management's (ZLCM) performance and noted that if Trustees wish to change this manager, it would not be prudent to change while ZLCM is not performing well as this would lock in those negative results forever. Chairman Scripps commented that Ms. Allison Brink and Mr. Scott Roberts of ZLCM will be attending the December 2011 Joint Board meeting. Ms. Brink did inform Chairman Scripps that through October 2011, YTD, ZLCM had a 12.00% net return v. the S&P 500 Index return of 10.92%. Mr. Hawkins commented that the Retirement Systems have been with Neuberger Berman (NB) for five years now and asked Mr. Bensus how long should Trustees give a manager before evaluating whether or not to keep them; Mr. Bensus responded there is no real clear answer; however, five years would be a reasonable time frame. Mr. Bensus commented that Wilshire still believes that NB is an institutional quality firm, they have good people and processes; operationally they just had a bad start. He did not recommend making any changes to this asset allocation. He also noted that last week, NB announced that they will be purchasing the remaining portion of their ownership from the Lehman estate. Mr. Hawkins asked if Trustees should consider replacing NB or ZLCM when the next asset allocation study is done; Chairman Scripps stated that Trustees can consider those options at any time; however, he confirmed that Mr. Bensus is not advocating replacing either manager at this time; Mr. Bensus agreed. Mr. Bensus commented that Baird Advisors and Western Asset Management do not hold many Treasuries in their portfolios and when the recent flight to quality occurred last quarter that impacted their performance. He stated that Wilshire still believes that both firms are high quality, institutional oriented managers and they do not recommend any changes. Chairman Scripps commented that a contract is still trying to be worked out with FLAG Capital and these things take some time. The reports were received and filed by Chairman Scripps.

Chairman Scripps next addressed the Executive Director's contract renewal. He noted that the committee met with Ms. Korzen recently to review the results of the questionnaires that were received from Trustees and it is the committee's recommendation to extend a contract to Ms. Korzen for the next year at the same terms outlined in her present contract. Mr. VanderWall made the motion to extend a one-year contract to Ms. Korzen with the same terms outlined in her present contract. The motion was seconded by Mr. Tryc and carried. Mr. Balkema asked if that means there is no pay increase; Chairman Scripps said yes. Mr. Stokes asked if Ms. Korzen is relatively comfortable with this proposed contract renewal. Chairman Scripps said he would need to check with her; however, Ms. Hight stated that she spoke with Ms. Korzen yesterday and she conveyed her agreement with the proposed contract renewal.

Ms. Balkema next addressed the proposed state of Michigan taxation on pensions. She noted that Governor Snyder had signed legislation amending the Michigan Income Tax Act. Beginning January 1, 2012, administrators of pension and retirement benefits are required to withhold Michigan income tax from payments to retirees. This legislation has been challenged and the Michigan State Supreme Court has yet to render its decision on whether or not this legislation is constitutional. Mr. Michaud provided a sample letter that can be sent out to retirees that would be affected by this legislation should it become law. She asked Trustees if they would like the Retirement Systems Office to send the letter out to retirees; they agreed one should be sent to those retirees affected by this, as soon as possible. Mr. Balkema commented that there may also be a bifurcated opinion from the Supreme Court which could further complicate the legislation.

Ms. Hight also introduced Mr. William Butts as the new Member Trustee for the General Retirement System beginning the first Monday in January 2012. She noted she had worked with him in the past and commented on his credentials; Mr. Butts is an accountant and presently an income tax examiner with the City. Chairman Scripps noted that he and Ms. Korzen have a meeting scheduled with Mr. Butts in the next couple of weeks to familiarize him with the Retirement System. Trustees welcomed Mr. Butts to the Board.

The meeting adjourned at 9:23 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, December 21, 2011, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems