

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

MINUTES  
JOINT MEETING  
NOVEMBER 14, 2012 – 8:56 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. Michael Hawkins, Mr. Philip Balkema, Mr. Walter Gutowski, Mr. William Butts and Mr. Bill Alphenaar.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Ms. Elizabeth White, Deputy City Attorney and Legal Advisor to the Boards, Mr. William Bensus and Mr. Nicholas Sefchok of Wilshire Associates, Inc., and Mr. David Hoffman and Mr. James Anderson of Gabriel, Roeder, Smith and Company.

There were no public comments regarding agenda items.

Mr. Tryc made the motion to approve the minutes of the Joint meeting of September 19, 2012. The motion was seconded by Mr. VanderPloeg and carried.

Mr. Bensus and Mr. Sefchok presented the quarterly performance report to Trustees. Mr. Bensus introduced Mr. Sefchok, who has worked with Wilshire for approximately five years. In a Capital Market Update through November 9, 2012, Mr. Bensus noted that the October unemployment rate was at 7.9% and 171,000 non-farm payroll jobs were added, and the CPI was up 0.6% in September and 2.0% over the past year. The Federal Reserve Bank announced its plans for QE3, which will purchase \$40 billion per month in mortgage-backed securities until noticeable improvements are seen in the labor markets. The ISM non-manufacturing index increased by 0.9 to 54.2 in October, the 34<sup>th</sup> consecutive month of non-manufacturing sector expansion. Housing starts rose in September by 15.0%, up 34.8% when compared to September 2011. In the U.S. Equity market, YTD, Financials lead all U.S. sectors (up 19.0%), while Utilities were the largest laggard (down 4.1%). YTD large cap stocks are outperforming small cap stocks and value stocks are leading growth stocks. In the Non-U.S. Equity markets, most global equity markets rallied in the third quarter, with surprising resilience in the European exchanges. The European Central Bank's actions to shore up the Euro, and record low yields on the safest European sovereign debt, gave investors confidence to buy local-market stocks, even in the face of public unrest in Spain and Greece. 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 until at least 2015 and additional easing is likely. As of November 9, 2012, YTD, the S&P 500 was up 11.8%, the Russell 2000 was up 8.6%, the Wilshire 5000 was up 11.4%, the ACWI was up 9.5%, the Barclays Aggregate Bond Index was up 4.4% and the Wilshire RESI Index was up 12.5%. 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 09/30/12**

<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	6.35	30.18	13.20	1.04	8.01
RUSSELL 2000	5.25	31.91	12.99	2.21	10.17
NAREIT GLOBAL RE INDEX	5.51	30.59	12.91	N/A	N/A
MSCI ACWI X-US	7.40	14.48	3.17	-4.12	9.84
BARCLAYS AGGREGATE	1.59	5.16	6.19	6.53	5.33
91 DAY T-BILLS	0.03	0.07	0.11	0.72	1.82

**General Retirement System**

Asset Commitments as of 09/30/12:

Domestic Equity	50.00%
Fixed Income	29.00%
Cash Equivalents	0.80%
Real Estate	5.20%
Private Equity	0.60%
International Equity	14.40%

Asset Allocation to Managers:

NTGI	16.1%
PIMCO	5.7%
Wellington Management Company	12.0%
Ziegler Lotsoff Capital Management	16.2%
Baird Advisors	14.1%
Western Asset Management	14.9%
Cash Account	0.8%
Neuberger Berman	14.4%
CBRE Clarion	5.2%
Adams Street Partners	0.4%
FLAG Capital	0.2%

**Quarterly Summary of the General Retirement System**

	<u>Market Value</u> <u>09/30/12</u>	<u>Market Value</u> <u>06/30/12</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$366.7 million	\$350.9 million	\$15.8 million	5.62%	2 <sup>nd</sup> percentile
Total U.S. Equity	\$183.5 million	\$176.5 million	\$7.0 million	6.80%	28 <sup>th</sup> percentile
Total Non-U.S. Equity	\$52.8 million	\$48.9 million	\$3.9 million	8.12%	31 <sup>st</sup> percentile
Total Fixed Income	\$106.4 million	\$103.2 million	\$3.2 million	3.12%	32 <sup>nd</sup> percentile
Total Real Estate	\$19.0 million	\$18.2 million	\$800 thousand	4.71%	15 <sup>th</sup> percentile
Total Private Equity	\$2.0 million	\$1.9 million	\$100 thousand	-1.10%	N/A
NTGI	\$59.2 million	\$56.8 million	\$2.4 million	6.36%	55 <sup>th</sup> percentile
PIMCO	\$20.8 million	\$20.4 million	\$400 thousand	8.50%	5 <sup>th</sup> percentile
Wellington Mgmt. Co.	\$44.1 million	\$43.5 million	\$600 thousand	5.68%	47 <sup>th</sup> percentile
Ziegler Lotsoff Cap. Mgmt.	\$59.4 million	\$55.8 million	\$3.6 million	7.34%	14 <sup>th</sup> percentile
Neuberger Berman	\$52.8 million	\$48.9 million	\$3.9 million	8.12%	18 <sup>th</sup> percentile
Baird Advisors	\$51.8 million	\$50.4 million	\$1.4 million	2.70%	18 <sup>th</sup> percentile
Western Asset Mgmt.	\$54.6 million	\$52.8 million	\$1.8 million	3.52%	6 <sup>th</sup> percentile
CBRE Clarion	\$19.0 million	\$18.2 million	\$800 thousand	4.53%	15 <sup>th</sup> percentile
Adams Street Partners	\$1.4 million	\$1.3 million	\$100 thousand	-1.10%	N/A
FLAG Capital	\$616 thousand	\$600 thousand	\$16 thousand	N/A	N/A

### Police and Fire Retirement System

<u>Asset Commitments as of 09/30/12:</u>		<u>Asset Allocation to Managers:</u>	
Domestic Equity	50.40%	NTGI	16.2%
International Equity	14.10%	PIMCO	5.8%
Fixed Income	28.70%	Wellington Management Company	12.2%
Cash Equivalents	1.00%	Ziegler Lotsoff Capital Management	16.3%
Real Estate	5.20%	Baird Advisors	13.8%
Private Equity	0.60%	Western Asset Management	14.9%
		Cash Account	1.0%
		Neuberger Berman	14.1%
		CBRE Clarion	5.2%
		Adams Street Partners	0.4%
		FLAG Capital	0.2%

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

	<u>Market Value</u> <u>09/30/12</u>	<u>Market Value</u> <u>06/30/12</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$338.3 million	\$322.4 million	\$15.9 million	5.61%	2 <sup>nd</sup> percentile
Total U.S. Equity	\$170.5 million	\$162.8 million	\$7.7 million	6.79%	23 <sup>rd</sup> percentile
Total Non-U.S. Equity	\$47.7 million	\$44.1 million	\$3.6 million	8.13%	31 <sup>st</sup> percentile
Total Fixed Income	\$97.1 million	\$94.2 million	\$2.9 million	3.15%	29 <sup>th</sup> percentile
Total Real Estate	\$17.4 million	\$16.7 million	\$700 thousand	4.71%	15 <sup>th</sup> percentile
Total Private Equity	\$2.0 million	\$1.9 million	\$100 thousand	-1.10%	N/A
NTGI	\$54.7 million	\$52.6 million	\$2.1 million	6.36%	55 <sup>th</sup> percentile
PIMCO	\$19.5 million	\$18.5 million	\$1.0 million	8.50%	5 <sup>th</sup> percentile
Wellington Mgmt. Co.	\$41.2 million	\$40.3 million	\$900 thousand	5.85%	47 <sup>th</sup> percentile
Ziegler Lotsoff Cap. Mgmt.	\$55.1 million	\$51.4 million	\$3.7 million	7.34%	14 <sup>th</sup> percentile
Neuberger Berman	\$47.7 million	\$44.1 million	\$3.6 million	8.12%	18 <sup>th</sup> percentile
Baird Advisors	\$46.6 million	\$45.4 million	\$1.2 million	2.74%	16 <sup>th</sup> percentile
Western Asset Mgmt.	\$50.5 million	\$48.8 million	\$1.7 million	3.52%	6 <sup>th</sup> percentile
CBRE Clarion	\$17.4 million	\$16.7 million	\$700 thousand	4.71%	15 <sup>th</sup> percentile
Adams Street Partners	\$1.4 million	\$1.3 million	\$100 thousand	-1.10%	N/A
FLAG Capital	\$616 thousand	\$600 thousand	\$16 thousand	N/A	N/A

{Mr. Gutowski left the meeting at 9:23 a.m.} The reports were received and filed by Chairman Scripps.

Mr. Bensur and Mr. Sefchok presented Trustees with a report on Commodities. Mr. Sefchok provided an overview the commodities market by noting that historically, commodities have displayed low correlations to traditional equity and fixed income asset classes and the addition of commodities is expected to provide diversification benefits at the total portfolio level. Commodities help reduce the risk for the overall portfolio and they offer a hedge against unexpected inflation; however, there are different options in order to gain exposure to them that each carry their own challenges. Mr. Bensur reviewed the investment process and the Dow Jones Commodity Index and the S&P Goldman Sachs Commodities Index. He commented that unlike other securities, commodities cannot be held over a long period of time; investors sell futures contracts as they approach expiration and buy the next contract. The gain or loss from this roll yield is a significant component in calculating total return. He explained the concepts of contango (negative roll return) and backwardation (positive roll return). If a commodities exposure is added to the portfolios, Wilshire recommends an investment manager that has a diversified basket of commodities. Mr. Balkema voiced his concern regarding the uncertainty of the commodities market. Mr. Bensur stated that although it is a different orientation, this type of exposure will further diversify the portfolio and reduce the overall risk. Mr. Bensur noted that they recommend an active v. passive commodities manager. He reviewed Wilshire's search criteria when looking for a commodities investment manager; the suggested mandate would be \$35 million (\$18 million from the General

Retirement System and \$17 million from the Police & Fire Retirement System). The following four managers were presented for Trustee consideration: 1) CoreCommodity Management; 2) Credit Suisse Asset Management; 3) Schrodgers; and 4) Wellington Management. He discussed the various products each manager offers, including strategies, returns, sector weightings and fees. Credit Suisse is the most conservative, CoreCommodity and Wellington are moderate and Schrodgers is aggressive. Based upon the asset allocation study that was presented to Trustees at the August 15, 2012 Board meeting, Wilshire recommended portfolio #3, which is 40% U.S. Equity, 15% Non-U.S. Equity, 30% Fixed Income, 5% Private Equity, 5% Global Real Estate Securities and 5% Commodities. If Trustees decided to implement a commodities allocation, the funding would come from the equities exposure. Chairman Scripps stated that Trustees need to approve the asset allocation; Wilshire recommended portfolio #3. Then if they approve portfolio #3, Trustees would need to decide how to implement the commodities portion; he recommended interviewing Wellington Management at the next Board meeting. Mr. VanderPloeg made the motion on behalf of the Police & Fire Retirement System to adopt portfolio #3 as outlined in the asset allocation study provided by Wilshire at the August 15, 2012 Board meeting and to interview Wellington Management at the December 19, 2012 Board meeting. The motion was seconded by Mr. VanderWall and carried. Mr. Tryc made the motion on behalf of the General Retirement System to adopt portfolio #3 as outlined in the asset allocation study provided by Wilshire at the August 15, 2012 Board meeting and to interview Wellington Management at the December 19, 2012 Board meeting. The motion was seconded by Mr. Alphenaar and carried. Mr. Timkovich commented that he was not certain that he wants to implement a commodities allocation, but is interested in what Wellington has to present. The report was received and filed by Chairman Scripps.

Mr. Hawkins commented that the committee to review the audit RFP responses recently met and the four firms that responded were: 1) BDO Seidman, LLP, 2) Hungerford, Aldrin, Nichols & Carter, PC., 3) Plante & Moran, LLP and 4) The Rehmann Group. He stated that the committee reviewed the responses and looked for information on each organization's experience, size of their firm and fees. They also reviewed the current relationship with Plante & Moran and any other factors, noting that the City of Grand Rapids presently uses BDO Seidman. After a thorough analysis of each firm, the committee felt that BDO Seidman would be the best candidate. Ms. Korzen commented that there have been recent challenges with Plante & Moran with respect to responsiveness and timeliness. The pricing between the four candidates was competitive, but BDO Seidman was the lowest bid. The committee therefore recommends BDO Seidman for a three year audit contract for the General and Police & Fire Retirement Systems.

Chairman Scripps next addressed the Executive Director's contract renewal. He noted that the results of the questionnaires from the Trustees were very favorable. 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. Balkema commented that City Code permits Trustees to extend a contract to the Executive Director for up to three years and felt it would be in everyone's best interest to make the contract for three years. Following Trustee discussion, Mr. Balkema made the motion to extend a three-year contract to Ms. Korzen with the same terms outlined in her present contract and conduct an annual performance and compensation review. The motion was seconded by Mr. VanderPloeg and carried.

Mr. VanderPloeg commented that he and Ms. Korzen recently met to review the materials that have been submitted to the Retirement Systems Office to hire another Securities Litigation monitoring firm. They were looking for a firm that was actively searching the marketplace for mergers, acquisitions, corporate filings and any irregularities; these would be firms that look for the problems before the litigation has been filed. He noted that they had narrowed down the candidates to three and asked Trustees how they would like to proceed to narrow this number down to one. Following Trustee discussion, Trustees asked Mr. VanderPloeg and Ms. Korzen to coordinate a meeting with each of the firms. Ms. Korzen will let Trustees know when the meetings are arranged so that if they wish to attend they may do so. Mr. VanderPloeg and the Executive Director will keep the Board apprised of the status of this issue.

The Executive Director next addressed the old separately managed Neuberger Berman (NB) accounts by stating that there is one security remaining in each account. Northern Trust has been in contact with NB on how to move those securities to the current NB fund accounts. The solution they proposed is to set up a new investment management agreement with NB for a few days to move the securities. Mr. VanderWall made the motion on behalf of the Police & Fire Retirement System to authorize Ms. Korzen to set up a new investment management agreement with NB for the sole purpose of moving the securities from the old actively managed NB account into the current NB fund account. The motion was seconded by Mr. Balkema and carried. Mr. Tryc made the motion on behalf of the General Retirement System to authorize Ms. Korzen to set up a new investment management agreement with NB for the sole purpose of moving the securities from the old actively managed NB account into the current NB fund account. The motion was seconded by Mr. Hawkins and carried.

Ms. Korzen next presented an update on the vacant Retirement Systems Assistant position in the Retirement Systems Office. She noted it has passed the Civil Service Board and the City Commission. A job posting went out on November 9, 2012 and will be open until November 26, 2012. After that time, prospective applicants will take a test and then interviews for the position will soon follow.

Board approval was requested for attendance at the following conferences: the 2013 Wilshire Client Conference to be held April 21-23, the 2013 Annual NCPERS Conference to be held May 18-23, and the Spring 2013 MAPERS Conference to be held June 2-4. Mr. VanderPloeg made the motion to approve attendance of the aforementioned conferences by Trustees, legal counsel and staff per the Trustee Training, Educational Development and Due Diligence policy. The motion was seconded by Mr. Hawkins and carried.

The meeting adjourned at 10:30 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, December 19, 2012, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen  
Executive Director  
General and Police & Fire Retirement Systems