

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

MINUTES
JOINT MEETING
NOVEMBER 20, 2013 – 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, Mr. Michael Hawkins, Mr. Philip Balkema, Mr. Walter Gutowski and Mr. William Butts. Absent: 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. Marlin Pease and Mr. J.M. Ruscetti of Wilshire Associates, Inc., and Mr. Gregory Sundstrom, City Manager.

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

There were no public comments regarding agenda items.

Mr. Tryc made the motion to approve the minutes of the Joint meeting of September 18, 2013. The motion was seconded by Mr. VanderPloeg and carried.

Mr. Pease and Mr. Ruscetti presented the quarterly performance report to Trustees. In a Capital Market Update through November 15, 2013, Mr. Pease noted that the Federal Reserve announced on September 18th that they will continue their large-asset purchasing program (QE3), and Mr. Bernanke recently assured a House panel that there is no “present course” to ending the Fed’s bond-buying program. The October unemployment rate was little changed at 7.3% and 204,000 non-farm payroll jobs were added; GDP increased at an annual rate of 2.8% in the third quarter of 2013. Retail sales decreased by 0.1% in September, but were up 3.2% over the past 12 months; housing starts decreased 0.9% in August, up 19.0% versus one year ago; and crude oil prices were trading near \$95 per barrel. In the U.S. Equity market, YTD, Consumer Discretionary lead U.S. large cap sectors (up 38.4%), while Telecoms were the largest laggard (up 13.2%). YTD small cap stocks are outperforming large cap stocks and growth and value stocks are nearly even. In the Non-U.S. Equity markets, the European Union is still struggling with political uncertainty in Greece as well as lackluster economic expansion and/or recession throughout the region; and emerging market stocks continued to find performance hampered by concerns of China’s slowing economy and political unrest in Brazil, Turkey and Egypt. 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 to change while the unemployment rate is above 6.5%. As of November 15, 2013, YTD, the S&P 500 was up 28.5%, the Russell 2000 was up 32.9%, the Wilshire 5000 was up 29.6%, the ACWI was up 13.4%, the Barclays Aggregate Bond Index was down 1.5% and the Wilshire RESI Index was up 4.7%. 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 09/30/13

<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	5.25	19.35	16.26	10.01	7.57

RUSSELL 2000	10.21	30.05	18.28	11.15	9.64
NAREIT GLOBAL RE INDEX	2.44	10.95	10.50	N/A	N/A
MSCI ACWI X-US	10.09	16.48	5.95	6.26	8.77
BARCLAYS AGGREGATE	0.57	-1.68	2.86	5.41	4.59
DJ UBS COMMODITY INDEX	2.13	N/A	N/A	N/A	N/A
91 DAY T-BILLS	0.02	0.10	0.10	0.16	1.70

General Retirement System

Asset Commitments as of 09/30/13:

Domestic Equity	47.5%
Fixed Income	26.8%
Cash Equivalents	0.1%
Real Estate	4.9%
Private Equity	0.8%
International Equity	15.8%
Commodities	4.1%

Asset Allocation to Managers:

NTGI	14.6%
PIMCO	5.9%
Wellington Management Company	12.6%
Ziegler Lotsoff Capital Management	14.5%
Baird Advisors	13.0%
Western Asset Management	13.8%
Cash Account	0.1%
Neuberger Berman	15.8%
CBRE Clarion	4.9%
Adams Street Partners	0.6%
FLAG Capital	0.2%
Wellington Commodities	4.1%

Quarterly Summary of the General Retirement System

	<u>Market Value</u> <u>09/30/13</u>	<u>Market Value</u> <u>06/30/13</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$394.7 million	\$379.3 million	\$15.4 million	5.13%	43 rd percentile
Total U.S. Equity	\$187.6 million	\$179.0 million	\$8.6 million	6.55%	67 th percentile
Total Non-U.S. Equity	\$62.4 million	\$56.2 million	\$6.2 million	11.02%	31 st percentile
Total Fixed Income	\$105.9 million	\$105.4 million	\$500 thousand	0.51%	67 th percentile
Total Real Estate	\$19.5 million	\$19.0 million	\$500 thousand	2.23%	49 th percentile
Total Private Equity	\$3.0 million	\$2.7 million	\$300 thousand	2.14%	N/A
Total Commodities	\$16.0 million	\$15.4 million	\$600 thousand	4.00%	N/A
NTGI	\$57.5 million	\$55.2 million	\$2.3 million	5.25%	62 nd percentile
PIMCO	\$23.4 million	\$22.1 million	\$1.3 million	5.76%	39 th percentile
Wellington Mgmt. Co.	\$50.0 million	\$45.9 million	\$4.1 million	10.72%	19 th percentile
Ziegler Lotsoff Cap. Mgmt.	\$57.1 million	\$55.8 million	\$1.3 million	4.75%	80 th percentile
Neuberger Berman	\$62.4 million	\$56.2 million	\$6.2 million	11.02%	31 st percentile
Baird Advisors	\$51.3 million	\$51.0 million	\$300 thousand	0.54%	63 rd percentile
Western Asset Mgmt.	\$54.6 million	\$54.4 million	\$200 thousand	0.49%	66 th percentile
CBRE Clarion	\$19.5 million	\$19.0 million	\$500 thousand	2.23%	49 th percentile
Adams Street Partners	\$2.2 million	\$1.8 million	\$400 thousand	7.380%	N/A
FLAG Capital	\$834 thousand	\$849 thousand	(\$15 thousand)	-8.97%	N/A
Wellington Commodities	\$16.0 million	\$15.4 million	\$600 thousand	4.00%	N/A

Police and Fire Retirement System

Asset Commitments as of 09/30/13:

Domestic Equity	48.2%
International Equity	15.2%
Fixed Income	26.1%
Cash Equivalents	0.5%
Real Estate	5.2%

Asset Allocation to Managers:

NTGI	14.7%
PIMCO	5.9%
Wellington Management Company	12.8%
Ziegler Lotsoff Capital Management	14.6%
Baird Advisors	12.5%

Private Equity	0.8%	Western Asset Management	13.7%
Commodities	4.0%	Cash Account	0.5%
		Neuberger Berman	15.2%
		CBRE Clarion	5.2%
		Adams Street Partners	0.6%
		FLAG Capital	0.2%
		Wellington Commodities	4.0%

Quarterly Summary of the Police & Fire Retirement System

	<u>Market Value</u> <u>09/30/13</u>	<u>Market Value</u> <u>06/30/13</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$370.2 million	\$354.5 million	\$15.7 million	5.12%	43 rd percentile
Total U.S. Equity	\$178.2 million	\$168.8 million	\$9.4 million	6.57%	65 th percentile
Total Non-U.S. Equity	\$56.2 million	\$50.6 million	\$5.6 million	11.02%	31 st percentile
Total Fixed Income	\$96.7 million	\$96.2 million	\$500 thousand	0.50%	76 th percentile
Total Real Estate	\$19.2 million	\$18.8 million	\$400 thousand	2.23%	49 th percentile
Total Private Equity	\$3.0 million	\$2.7 million	\$300 thousand	2.14%	N/A
Total Commodities	\$14.9 million	\$14.3 million	\$600 thousand	4.00%	N/A
NTGI	\$54.5 million	\$52.3 million	\$2.2 million	5.25%	62 nd percentile
PIMCO	\$22.0 million	\$20.8 million	\$1.2 million	5.76%	39 th percentile
Wellington Mgmt. Co.	\$47.6 million	\$44.0 million	\$3.6 million	10.72%	19 th percentile
Ziegler Lotsoff Cap. Mgmt.	\$54.2 million	\$51.7 million	\$2.5 million	4.77%	79 th percentile
Neuberger Berman	\$56.2 million	\$50.6 million	\$5.6 million	11.02%	31 st percentile
Baird Advisors	\$46.2 million	\$46.0 million	\$200 thousand	0.52%	65 th percentile
Western Asset Mgmt.	\$50.6 million	\$50.3 million	\$300 thousand	0.49%	66 th percentile
CBRE Clarion	\$19.2 million	\$18.8 million	\$400 thousand	2.23%	49 th percentile
Adams Street Partners	\$2.2 million	\$1.8 million	\$400 thousand	7.38%	N/A
FLAG Capital	\$834 thousand	\$849 thousand	(\$15 thousand)	-8.97%	N/A
Wellington Commodities	\$14.9 million	\$14.3 million	\$600 thousand	4.00%	N/A

Mr. Pease and Mr. Ruscetti provided Trustees with a report outlining the recent developments with Western Asset Management (WAM). They noted that while WAM has had an abnormally high number of senior investment personnel departures over the past three years and experienced stability issues, Wilshire does not recommend any change at this time. They stated that Wilshire will continue to monitor WAM closely and assess any related organizational developments, either positive or negative and provide timely reporting of material changes. The report was received and filed by the Chairman.

Per the Trustees' request at the August 21, 2013 Joint Board meeting, Mr. Pease and Mr. Ruscetti provided Trustees a report outlining a large cap core equity manager review due to the organizational changes and disappointing performance of Ziegler Lotsoff Capital Management (ZLCM). Mr. Pease noted that Wilshire believes the large cap segment of the U.S. equity market is efficient and in efficient markets, using passive management is an important strategy for institutional investors to consider. He reviewed Wilshire's manager search and selection process and provided Trustees with an in-depth review of the following investment managers and their strategies: 1) Columbia Management Investment Advisors, LLC; 2) J.P. Morgan Asset Management; 3) MFS Investment Management; 4) NorthPointe Capital; 5) Santa Barbara Asset Management; 6) Seizert Capital Partners; and 7) Ziegler Lotsoff Capital Management. Wilshire's investment manager search and selection process involves the following steps: 1) determine the asset class and sub-style; 2) identify a list of high quality, institutionally-oriented managers; 3) analyze quantitative and qualitative information to determine the most suitable fit; 4) review search document with the investment committee; 5) negotiate investment guidelines, fees and terms; 6) determine the transition plan; and 7) fund the account. Mr. VanderPloeg asked if the two Michigan firms would have still been included in this process had Trustees not asked to have them included; Mr. Pease commented that these firms have been utilized by Wilshire and whether or not they pass through their research process also depends upon the individual client's needs. He

stated that if Wilshire was preparing a search document for the Retirement Systems now, ZLCM would not have been on the list due to their organizational issues. Mr. Ruscetti reviewed Wilshire's data gathering and verification process, manager selection process, and manager scoring model. He reviewed each of the seven candidates' products and their firms as well as their fee structures and return information. He noted that all seven candidates offer separately managed accounts. Chairman Scripps stated that he believes there are large cap equity managers in today's marketplace that can outperform; however, he is becoming more and more convinced that since the large cap equity space is efficient, it might be prudent to utilize a passive approach. Mr. Hawkins asked if the quoted fees are negotiable; Mr. Ruscetti said yes. Chairman Scripps stated he would like to see Wilshire complete an asset liability study in the first part of 2014 and keep this issue active along with that process. He said although Trustees are concerned about the ZLCM organization, there is no urgent need to replace them right now. Mr. Ruscetti agreed with the Chairman and stated that this report is merely a large cap review and that after the asset liability study is conducted, if Trustees wish to pursue replacing ZLCM then a formal search document will be prepared by Wilshire. Chairman Scripps noted that if Trustees reached the point that they wish to move the assets from ZLCM, they could be moved to the NTGI S&P 500 Index account very quickly. Trustees asked Wilshire to prepare an asset liability report during the first quarter of 2014 and decided to keep the large cap equity situation as is, and to revisit the issue after review of the asset liability study. The report was received and filed by the Chairman.

Chairman Scripps commented that he recently reviewed the performance evaluation questionnaires that were completed by Trustees regarding the Executive Director. He stated this is a two-part process: 1) quantitative scoring; and 2) a goals and objectives section. He stated that the average score for the Executive Director was 3.66 on a scale of 1-4 (with 4 being the highest); this was up from last year's score of 3.24. He said that there was significant progress made toward some goals and some work that will need to be done in other areas. He stated that 2014 will be the middle year in her 3-year contract so no action is necessary at this time other than to receive and file the review. He will work with Ms. Korzen on her goals for 2014 and encouraged Trustees to provide feedback on this issue.

There were no comments on items not on the agenda.

Ms. Korzen next addressed the disability case management proposal by MMro that was presented to Trustees at the Joint Board meeting on May 15, 2013. Trustees had a number of questions that they wished to have clarified. She noted that one of the big concerns Trustees had with this process was duty disability versus non-duty disability and how MMro's recommendations might impact Trustees' ability to make decisions within that framework. She explained the differences between the two to MMro and they have a better understanding that it is the Trustees' decision to determine whether or not a disability is duty-related and they would be sensitive to that when providing their comments regarding causality. The cost for the I.M.E.s that they quoted was a bit higher than what the Retirement Systems pay now but they are willing to lock in rates of \$700 - \$950 for the 1-year term. They only charge additional fees for medical review if there is a huge volume of medical records (more than 300-400 pages). In the rare instance they expect it to exceed this range they would contact Ms. Korzen for pre-approval. They are also willing to lock in their own fees for up to two years although they are only requesting a one-year contract. She explained the appeals process and that it is an opportunity for the member (and his/her attorney if one is retained) to provide Trustees extra materials that they may not have had access to during the process. MMro understood that this would be something handled by Trustees and not them. The re-exam follow-up is also determined by Trustees and MMro understood they would not be needed for that process to select who is re-examined; however, they could give clinical reasons and recommendations if the Trustees wish. Ms. Korzen commented that she has been receiving some member feedback on the current physician service that the Retirement Systems utilizes and it has not all been positive. She stated she would like to develop a survey to be given to members to complete after their visit with the Board's physician. If Trustees decide to hire MMro, this would also be a chance to provide perhaps a better physician experience; she recommended hiring MMro for one year. She stated that their fee schedule is \$545 per new application which would include corresponding with the member and providing a packet of information to Trustees regarding the case. There is a fee of \$390 for periodic claim review which would be a rare occurrence and the I.M.E. fees would be \$700-\$950, depending upon the case. Physician peer review would be \$265 per hour but they felt this would be rarely utilized given the volume and nature of our cases. Approval would be sought before conducting this type of review. Mr. Balkema clarified that they have access

to different physicians; Ms. Korzen said yes however there may be some overlap of physicians from the current service to MMro as many physicians work with more than one service. She stated that staff is starting to flag the physicians that have received negative reviews. Mr. Timkovich asked if part of MMro's process is identifying the proper physician to obtain in each case; Ms. Korzen said yes. Following Trustee discussion, Mr. Timkovich made the motion on behalf of the General Retirement System to hire MMro for a one-year contract, pending legal review of the proposed contract. The motion was seconded by Mr. Hawkins and carried. Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to hire MMro for a one-year contract, pending legal review of the proposed contract. The motion was seconded by Mr. Gutowski and carried.

The meeting adjourned at 9:42 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, December 18, 2013, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems