

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

MINUTES
JOINT MEETING
SEPTEMBER 17, 2014 – 8:06 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, Mr. Walter Gutowski, Mr. William Butts, and Ms. Jane Hofmeyer. Absent: Mr. Thomas VanderPloeg.

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 Bensur of Wilshire Associates, Inc., Mr. Thomas Michaud of VanOverbeke, Michaud, and Timmony, P.C., Mr. Gregory Sundstrom, City Manager, and Ms. Sara VanderWerff, City Comptroller.

Chairman Scripps noted that there may be a change in the way that Trustees consider the global assets in the portfolio. Mr. Bensur and Mr. Michaud will address this issue; therefore, there will be no presentations today from the two prospective ADR managers.

Ms. VanderWerff commented that at the August 20, 2014 Joint Board meeting it was noted that she had requested some documentation from the Retirement Systems office and that request had been complied with. She stated that she would appreciate further cooperation from Trustees and staff as there may be additional requests made.

Mr. Balkema made the motion to excuse the absence of Mr. VanderPloeg. The motion was seconded by Mr. Hawkins and carried.

Mr. Timkovich made the motion to approve the minutes of the Joint meeting of August 20, 2014. The motion was seconded by Mr. Tryc and carried.

Mr. William Bensur of Wilshire Associates, Inc. noted that at the April 16, 2014 Special Joint Board meeting, Trustees made a decision to approve an allocation to an ADR manager based upon Wilshire's understanding of P.A. 314 provisions and limitations, with the goal of eliminating the home-country bias. The current exposure is 15% per system to Neuberger Berman (NB) for global equities, and the plan was to have an ADR manager put in place at a 7.5% allocation per plan. P.A. 314 has a limitation of 20% of plan assets that can be allocated to foreign (global) content. Because ADRs are considered to be US equity, the ADR strategy was proposed so as not to violate P.A. 314. The presentations from the ADR managers were canceled due to information received at the fall 2014 MAPERS conference this past weekend. Mr. Bensur stated he still is in favor of the allocation that was suggested and approved; however, there appears to be some debate as to whether or not ADRs are necessary in order to comply with P.A. 314. Mr. Michaud introduced himself and noted that his firm specializes in representing Michigan public funds; they represent approximately 50 pension funds within the state. He stated that Trustees can treat something for legal purposes differently than they do for asset allocation purposes. As an example, Trustees can treat a REIT as domestic equity or as real estate for purposes of legal compliance. Mr. Michaud noted that the same holds true for ADRs. They are securities that are comprised of underlying shares of foreign companies that are bundled together and brought over to the U.S., packaged and sold on a U.S. exchange as an ADR; these can be considered as a domestic equity exposure. He stated there is no guideline for this exposure; Mr. Michaud stated that P.A. 314 imposes a 70% exposure limitation on domestic equities. Depending on how an

asset allocation is labeled or treated can impact the asset classes that make up that exposure. There is nothing in P.A. 314 that states that Trustees cannot be more restrictive. P.A. 314 was recently redesigned so as to make it easier to meet its legal limitations. Mr. Bensus asked whether the plans could each have 22.5% by asset allocation policy directed to non-U.S. equity securities and not violate the law; Mr. Michaud said no as P.A. 314 imposes a 20% limitation to non-U.S. equity exposures. Ms. Korzen stated that was not her understanding from the discussions at the 2014 fall MAPERS conference. Chairman Scripps stated that any of the assets in the non-U.S. equity portfolio that trade on a U.S. stock exchange, are considered domestic equities; Mr. Michaud stated they could be classified that way. Chairman Scripps noted his opinion that probably a fair number of securities within the NB portfolios could be classified that way. Mr. Bensus agreed but stated that it could go the other way and Trustees cannot control that function as they cannot tell an investment manager where to trade a stock. Mr. Timkovich asked how a stock would be treated if NB buys a stock in London that happens to also trade on a U.S. stock exchange. Mr. Michaud commented in that scenario that stock would not be considered as a domestic security; it is where the security is purchased that determines domestic v. global. Mr. Bensus stated that the only way to control this content within the portfolios from an investment standpoint is to implement the ADR strategy. Mr. Michaud stated that most boards consider an asset allocation to be global if they trade on a foreign exchange. Ms. Korzen clarified that section 14 in P.A. 314 states that Trustees can count an ADR or global securities as global content under the equity basket; however, the 20% limitation for global securities is still in place and that ADRs would be needed to exceed the 20% limitation for global securities; Mr. Michaud agreed. Chairman Scripps asked if there is less return in the ADR universe compared to the non-U.S. equity universe; Mr. Bensus stated he would need to research this; however, he would tend to believe that a skilled manager could derive returns out of the ADRs that are comparable to that of a non-U.S. equity manager. Chairman Scripps asked if there is a cost for Trustees to accomplish this; Mr. Bensus stated no and noted that he did not feel there is anything bad or inefficient in utilizing ADRs. Chairman Scripps commented that he felt that Trustees would limiting the portfolios by investing in ADRs. Mr. Bensus stated that Trustees could do one of the following things: 1) they could increase the exposure to NB to 22.5%, but he could not recommend that; 2) Trustees could find another all country ex-U.S. manager and hire them for the additional 7.5%; or 3) execute an ADR strategy that was approved in April 2014. Mr. Hawkins stated that there are two concurrent issues: the law and Trustees' investment policy. In his opinion, the law trumps the investment policy. Trustees have approximately a 2.5% cushion between the law and policy. Chairman Scripps asked how Trustees wish to proceed. Mr. Butts summarized and noted that Trustees have these choices: 1) implement an ADR strategy; or 2) amend the current asset allocation. Mr. Balkema stated that in order to eliminate the home-country bias as Wilshire has suggested, an allocation to ADRs would be prudent in order to stay within legal limitations of P.A. 314; Mr. Bensus agreed. Mr. Butts asked if there was any compelling reason not to consider ADRs. Trustees stated no and that they would like to have the two ADR managers that were scheduled for today make presentations to Trustees at a later date. Mr. Gutowski asked when the decision was made to cancel the presentations for today; Chairman Scripps stated that he made this decision due to information received at the 2014 fall MAPERS conference this past weekend because at that time the evidence appeared to indicate that ADRs might not be necessary and there was no sense in bringing in representatives from great distances to make a presentation for something that might not be necessary. Following Trustee discussion, Mr. VanderWall made the motion to postpone the ADR manager presentations by Harding Loevner and Thomas White International from today's meeting until October 2014 or whatever date is feasible for all. The motion was seconded by Mr. Gutowski and carried.

Mr. Thomas Michaud of VanOverbeke, Michaud, and Timmony, P.C. next presented Trustees with information on P.A. 314 regarding the Board's authority and responsibility to hire expert assistance. He provided Trustees with a document outlining fiduciary responsibility. He reviewed fiduciary standards, advisory team members, plan compliance, and plan documents that establish and control the management of plan assets. While Trustees are not tasked with the day-to-day operations of the plans, they are tasked with ensuring that the pertinent pieces are there to manage the plan from an investment and benefit administration side of the equation. Fulfilling these duties often requires the assistance of outside professionals. P.A. 314 gives Trustees the authority to specifically retain those services and use trust fund assets to pay for those services. He stated there is typically a legal advisor specified in the ordinance but P.A. 314 authorizes Trustees to obtain outside legal counsel as they deem necessary to serve the best interests of the plan beneficiaries. Mr. Gutowski asked how Trustees proceed when there is a conflict in opinions; Mr. Michaud stated that Trustees make the decision on how to proceed on an issue. The Retirement Systems' Boards are quasi-judicial in nature and Trustees are in place to make decisions on behalf

of the plans. Trustees need to weigh all of the factors and make decisions, so it is prudent to obtain outside recommendations. He encouraged Trustees to share the report he provided as it is important for everyone to understand what the Trustees' fiduciary rights and responsibilities are. Mr. Gutowski stated that it would be helpful to share this report with his colleagues on the City Commission. He stated that the City Attorney is of the opinion that Trustees are City Officials and because of that, under City Charter, they should not accept a meal from their advisors. Trustees have asked the City Attorney to research this issue further; to date they have not received a legal opinion. Mr. Michaud stated it is important for Trustees to understand their role as a pension Trustee and their role in other capacities they may hold on a day to day basis. When Trustees come to the Board meetings they are acting as Trustees because they are operating a trust fund, which is a separate and distinct entity, and a separate and distinct responsibility from any other duties they may have in other capacities. Trustees may be an elected official in some other capacity, but when they come together at the Board meetings, it is not a City Board, nor a City department; it is a pension trust fund which is a unique category because they are not City Officials. A person may be a Trustee on the Board by virtue of being an elected official, but when they come to the Board meetings, they are a Trustee. He stated that Trustees cannot have outside influences dictating unilaterally how the Board is supposed to operate. The City may have other operating guidelines and to a certain degree, Trustees should be aware of those guidelines, and if they can comply with them it may be appropriate, but that is a decision that the Boards should make. He stated his opinion that Trustees are not elected officials; they are Trustees and that is a higher responsibility and more liability than an elected official has. Mr. Butts commented that in the City Charter section that is being referenced, the words "to procure" are used, not "to accept." To procure something is much different than to accept something. Mr. Gutowski has recently learned that it is Commissioner Bliss that is concerned about Trustees receiving these meals. He stated he disagrees with the Mayor regarding the location of the meetings for the Boards, as Trustees are operating under best practices and this would trump the need for transparency. As far as the meals are concerned he feels this is not a huge issue but understands some individuals may have an issue with this. He asked for Mr. Michaud's opinion on this topic. Mr. Michaud stated there is now a legal requirement to have an ethics or code of conduct policy. Trustees need to adopt this type of policy which sets forth the expectations, understanding and rules on how Trustees are supposed to operate when they interact with retirees, investment professionals, and members of the public. So with respect to dealing with investment professionals, whether they are current or prospective, the Board should have an understanding of what the rules are. He stated he is a big advocate of disclosure and transparency. The Boards are subject to the Open Meetings Act, and the Freedom of Information Act. The guidelines Trustees adopt should address these areas and how they are complying with them and recognize past practices with respect to interacting with investment professionals. He stated he is a big advocate of education and feels it is important for Trustees to obtain the necessary education to carry out their fiduciary duties. There should be an understanding of what the costs are when Trustees need to travel to obtain necessary education. If these costs are being paid for with trust fund dollars it has to be a benefit to the retirement system. The benefit could be education for the Trustee or it could be an opportunity for an individual Trustee to obtain the education and come back and share that knowledge with the rest of the Board. It should be a formal process like a business meeting. If a meal happened to be shared between the Trustee and the investment professional that should be openly disclosed to other Trustees and the purpose noted; if it benefits the trust fund, then it would be appropriate. Mr. Gutowski asked if the informal meetings/meals between Trustees (and their significant others) and investment professionals would be inappropriate. Mr. Michaud stated it would be appropriate if the purpose of the meeting was to benefit the trust fund. Mr. Gutowski stated he was unsure if they are. Mr. Hawkins pointed out that there is not a cost to the plans for these meals as they are borne by the investment professionals. Mr. Michaud stated that the fact that Trustees are talking about this issue in a public meeting is a positive thing and it needs to be understood by Trustees if these events are taking place as an educational session or a social gathering. Mr. Hawkins clarified that Trustees set their policies and they should be done after also considering the City's policy, not that they have to align, but disclosure should occur in order to be transparent when Trustees attend a meal with an investment professional. Perhaps it should be disclosed who attended, whether or not his/her significant other did as well, and how much the meal cost in order to avoid any perception that the meal was intended to "buy" the business from Trustees. Mr. Michaud stated there is a difference between perception, a perceived conflict, and a conflict. Since Trustees are in the public eye it is prudent to disclose as much as possible and he feels that it is appropriate to meet with the Boards' investment professionals and Trustees need to focus on the perception of those two and build in a level of formality in the guidelines to counterbalance someone viewing this issue as inappropriate. Ms. Hofmeyer stated that there is nothing in P.A. 314 prohibiting Trustees from socializing with their investment

professionals and to the extent that P.A. 314 differs from City ordinance, P.A. 314 trumps the ordinance; Mr. Michaud agreed. Mr. Timkovich stated that Trustees have adopted code of conduct policies and all of a sudden they are being criticized not because someone disagrees with the policy that was adopted, but because Trustees are doing things that are not allowed by City policy. Chairman Scripps asked Mr. Michaud if the door to their Board meetings must remain open during the meetings per the Open Meetings Act; Mr. Michaud stated no. He stated the door has to be able to be opened, and must remain able to be opened (unlocked). Mr. Gutowski stated that was not the opinion that Trustees received from the City Attorney. Mr. Michaud commented that he saw the signs directing the public to today's Board meetings and felt that was a prudent thing to do. Chairman Scripps clarified that it is Trustees' duty to adopt a policy and consider all of the things that go into that policy (City policy would be part of that as well as the rules of P.A. 314) and operate under that policy; Mr. Michaud agreed. He stated that if Trustees think that a particular gathering might be an issue then disclose it. If the Boards decided to make it a policy that if two or three Trustees get together within a certain area and it needs to be disclosed, then it should be disclosed. It is not required, but Trustees need to decide what they feel is prudent to disclose. Mr. Hawkins stated that all Trustees are professionals and they know that they should use common sense regarding these types of issues. Mr. Gutowski stated that since he is a City Commissioner and a Trustee, he is sometimes pulled in two different directions and that is why he is pushing hard for this issue to be addressed by Trustees. Mr. Hawkins asked Mr. Michaud to address some of the liability issues that his firm's clients have encountered and whether or not the fiduciary liability coverage the Retirement Systems currently has is adequate for plans their size. Mr. Michaud stated that Board members have a personal liability as Trustees. In order to manage or mitigate that risk, boards have accomplished this in a couple of different ways. With respect to investing the plan assets, boards mitigate the risk by hiring investment consultants and managers. These professionals typically carry insurance as well. If a court action is taken against Trustees, the standard of review for Trustees in court is very specific in the law and if Trustees follow the plan and the law the judge should uphold the decision in favor of the Trustees. He stated that some boards have a fiduciary liability insurance policy but this does not mean that Trustees can do whatever they want; it is another layer to insulate the retirement system. When contemplating purchasing a fiduciary liability insurance policy Trustees need to decide what exactly they are trying to mitigate with insurance. He stated that there may be four or five companies that issue this type of insurance. Trustees should periodically survey this area to compare coverage. Mr. Michaud stated Trustees should be aware of what the policy covers and that there usually are a number of exclusions. He stated that fiduciary liability insurance covers the plan and there is a concept called recourse and non-recourse. There are policies that exist to permit insurance companies to go back against the Trustees if a claim is made. Deductibles should also be reviewed to ascertain what loss is trying to be covered. Mr. Gutowski asked if Mr. Michaud has ever looked at the current fiduciary liability policies that the Retirement Systems have in place; Mr. Michaud stated he did not believe he has. Mr. Gutowski asked if it would be prudent to have Mr. Michaud review the policies now rather than wait until the renewal time. Chairman Scripps agreed but noted that Mr. Michaud has not been retained by the Retirement Systems and it would be up to Trustees if they wish to ask him to review the policies. Mr. Hawkins agreed and said that an estimate of the costs to perform this review would need to be provided to Trustees. He stated that an argument could be made that perhaps a fiduciary liability insurance policy is not needed by the Retirement Systems. Mr. Michaud stated that the plans that do not have fiduciary liability insurance have reasoned this way perhaps because the premium costs saved over the long run could in effect self-insure them. He stated that it should be an affirmative decision by Trustees on whether or not to carry fiduciary liability insurance and a clear understanding of what would be covered is necessary. Mr. Gutowski stated that it was his understanding that Mr. Michaud was here today in an advisory role and not charging the Retirement Systems a fee; Mr. Michaud agreed. Mr. Gutowski stated his opinion that he believes that there is a majority consensus by the City Commission that the Retirement Systems should move their office and meetings back to City Hall or some City owned facility but he understood Mr. Michaud to say that the City Commission cannot direct Trustees. Mr. Michaud agreed and stated that the Trustees make that decision. He understands that there is a need to cooperate with all parties involved but there are ways for Trustees to make their decisions and work with the different entities involved. The fact that the employer is making contributions to the plans does not mean that they solely get to decide what the Boards do. He stated that even if the City and the bargaining units agreed to make a pension change that still requires the plans' actuary to be involved in the process as well and a report regarding the impacts of the changes needs to be disseminated to Trustees in a timely manner. Mr. Michaud commented that Trustees are unfortunately placed in an enforcement role. It is not the Trustees' duty to agree or disagree with the proposed changes, but rather to make sure the changes were conceived with accurate data and that they are implemented. If

for some reason Trustees do not receive the actuary report in a timely manner regarding the proposed changes, then Trustees have the right to tell the City and bargaining units that the changes will not take effect. Ms. Korzen asked if Trustees should be receiving the actuary reports before the City and bargaining units even sign the agreement; he responded no, if the ordinance approval date is when the changes are to become effective. Following Trustee discussion, Mr. Gutowski made the motion to have Mr. Michaud prepare an estimate of the costs to review the Retirement Systems' Code of Conduct policy and Fiduciary Liability insurance policies. The motion was seconded by Ms. Hofmeyer and carried.

Chairman Scripps noted that as part of the meeting that transpired on August 5, 2014 it was decided to create a task force and appoint three people from the Retirement Systems and three people from the City to evaluate the feasibility of moving pension fund operations to City Hall, and to possibly explore other avenues to ensure cooperation between the Retirement Systems and the City. Mr. Balkema agreed and added that as part of that process the task force would look at the feasibility of moving the pension fund operations either to City Hall or some other City-owned facility. The committee would then prepare a report on their findings and all associated costs and share it with Trustees and the City Commission. He stated that this may take some time and would not necessarily be completed in one meeting. Chairman Scripps stated he would like to appoint Mr. Gutowski, Mr. Hawkins, and Ms. Balkema to the committee and he would like to ask the group to explore other ways to increase cooperation between the Retirement Systems and the City. He stated that the Mayor has appointed Commissioner David Shaffer, Mr. Gary Reimer (Director of Facilities and Fleet Management), and Mr. Jeffery Dood (Deputy Chief Financial Officer) to this committee. Mr. Tryc asked Mr. Sundstrom if he had any comments regarding the three proposed people to represent the Retirement Systems on the task force; Mr. Sundstrom replied that he had no comment. Ms. Hofmeyer made the motion to appoint Mr. Gutowski, Mr. Hawkins, and Ms. Balkema to the task force committee. The motion was seconded by Mr. Tryc and carried. Mr. Gutowski stated that he has spoken to Commissioner Shaffer regarding this task force and they believe these issues could be addressed in one meeting.

Ms. Korzen noted that Chairman J. Patrick Scripps attended the 2014 Fall MAPERS Conference. Mr. Tryc made the motion to approve Chairman Scripps' attendance of the aforementioned conference per the Trustee Training, Educational Development and Due Diligence policy. The motion was seconded by Mr. Hawkins and carried.

There were no public comments on items not on the agenda.

Ms. Korzen noted that when Trustees voted to hire TIPS and MLP managers subject to successful due diligence visits and contract negotiations, it was prudent to wait to conduct the due diligence visits until an ADR manager was selected. If the ADR manager to be hired is located in the same vicinity as the TIPS and MLP manager, then the visits could be combined in order to save money. Since the ADR manager presentations have been postponed she was unsure how long Trustees wanted to wait to conduct the due diligence visits to Brown Brothers Harriman (BBH) and Harvest Fund Advisors (HFA). If there is a desire to get these visits done and contracts signed before the end of the year then perhaps due diligence visits should be conducted prior to hiring an ADR manager. Mr. Bensur stated that it did make sense in the beginning to wait until all three managers had been selected so as to only have one due diligence visit to the three managers. He also stated that he believes it still makes sense to wait for the ADR manager to be selected in case Trustees select Harding Loevner, as they are also located on the east coast. He commented that even if an ADR manager was selected in October, the due diligence visits could be scheduled soon thereafter and contracts could still be put in place by the end of this year. Chairman Scripps was concerned about the possibility of not being able to negotiate fees with the TIPS and MLP managers due to their pending hiring being made public; Mr. Bensur stated that he was hopeful that they could still negotiate. Mr. Butts suggested waiting to conduct the due diligence visits to BBH and HFA until an ADR manager has been selected, if the two ADR managers are able to make presentations to Trustees in October. Mr. Timkovich stated he did not understand the potential savings of holding on conducting the visits to BBH and HFA as it would not be significant; Chairman Scripps agreed. Mr. Bensur clarified his position that this would be done to achieve efficiency of time as it might be difficult to coordinate two groups of people for separate visits. Following Trustee discussion, Trustees agreed to hold off on the due diligence visits to BBH and HFA until an ADR manager is selected. If the ADR managers are not able to present to Trustees in October then the due diligence visits to BBH and HFA will be

scheduled as soon as possible. Chairman Scripps asked Trustees to contact Ms. Korzen if they are willing to make the due diligence visits.

Chairman Scripps stated that the securities litigation law firm Scott + Scott had requested a teleconference call with Trustees at the August 20, 2014 Joint Board meeting but that call was unable to take place. Ms. Korzen, Ms. White and the Securities Litigation subcommittee participated in a recent conference call with Mr. Broggi and Mr. William Fredericks of Scott + Scott to chart a course of action regarding the case. Chairman Scripps noted that due to the nature of the discussion and the acoustics in the room, the Executive Session would take place in Suite 216. Mr. Tryc made the motion to go into Executive Session for the purpose of discussing information that is exempt from the Freedom of Information Act as it pertains to pending litigation, and to include Ms. Korzen, Ms. White and Ms. Balkema. The motion was seconded by Mr. Hawkins and carried. Roll call vote: yeas: 9, nays: 0.

Executive Session began at 9:52 a.m. and ended at 10:15 a.m.

The meeting adjourned at 10:15 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, November 19, 2014, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
Police & Fire and General Retirement Systems