

City of Grand Rapids General Retirement System

***SUMMARY ANNUAL REPORT TO MEMBERS
DECEMBER 31, 2013***

Dear Retirement System Members and Retirants:

The Retirement System, which is managed by the Board of Trustees, is designed to help you meet your financial needs should you become disabled, retire or die.

The Board's fiduciary responsibility to you is to supervise the general administration of the System and invest its assets. Our Board retains professional advisors to assist us in fulfilling these duties.

We have prepared this summary report to give you a brief overview of the Retirement System and how it operates. We hope you will find it useful and informative. However, a summary cannot cover all the details of the System, which is governed by the provisions of Michigan Public Act 314 of 1965, as amended, the City of Grand Rapids Retirement Ordinance, and the Board's official rules and regulations. Additional information about the System, including the Retirement Ordinance and the actuarial valuation, is available online at www.grpensions.org and in our office at 233 E. Fulton, Suite 216, Grand Rapids, MI.

Respectfully submitted,

***Board of Trustees
City of Grand Rapids General Retirement System***

Board of Trustees

- J. Patrick Scripps – Chairman
- David J. Tryc – Vice Chairman
- Martin P. Timkovich – Member Trustee
- Michael Hawkins – Citizen Trustee
- Walter Gutowski – Employer Trustee
- William D. Butts – Member Trustee
- Bill Alphenaar – Citizen Trustee

Retirement System Service Providers

- Gabriel Roeder Smith and Company – Actuary
- BDO, USA – Auditor
- The Northern Trust Company – Custodial Bank
- Wilshire Associates, Inc. – Investment Consultant

Investment Managers

- Adams Street Partners – Private Equity
- Baird Advisors – Core Fixed Income
- CBRE Clarion – Real Estate
- FLAG Capital – Private Equity
- Neuberger Berman – International Equity
- Northern Trust Global Investments – Passive Core Equity
- PIMCO – Enhanced Index Equity
- Wellington Management Company – Core/Growth Equity & Commodities
- Western Asset Management – Core Plus Fixed Income
- Ziegler Lotsoff Capital Management – Core Equity

Statement of Plan Net Position as of June 30, 2013 and June 30, 2012

| | <u>2012</u> | <u>2013</u> | <u>Change from Prior Year</u> <u>In Dollars</u> | <u>As %</u> |
|---------------------------------------|-------------------|-------------------|--|----------------|
| Assets: | | | | |
| Cash and money market funds | \$4,498,364 | \$4,248,397 | (\$249,967) | (5.6%) |
| Common stocks and equity mutual funds | 224,864,157 | 234,454,433 | 9,590,276 | 4.3% |
| Fixed Income | 101,870,301 | 103,116,259 | 1,245,958 | 1.2% |
| Real Estate | 18,155,898 | 19,035,348 | 879,450 | 4.8% |
| Private Equity | 1,859,521 | 2,698,463 | 838,942 | 45.1% |
| Commodities | - | 15,375,749 | 15,375,749 | 100.0% |
| Securities Lending Collateral | <u>21,479,237</u> | <u>23,309,582</u> | <u>1,830,345</u> | <u>8.5%</u> |
| Total cash and investments | 372,727,478 | 402,238,231 | 29,510,753 | 7.9% |
| Receivables | <u>1,442,524</u> | <u>1,187,083</u> | <u>(255,441)</u> | <u>(17.7%)</u> |
| Total assets | 374,170,002 | 403,425,314 | 29,255,312 | 7.8% |

| | | | | |
|--|----------------------|----------------------|---------------------|-------------|
| Liabilities | | | | |
| Administrative expenses and investment management fees payable | 296,828 | 334,665 | 37,837 | 12.7% |
| Pending trades – purchases | 1,165,540 | 69,031 | (1,096,509) | (94.1%) |
| Amounts due broker under securities lending agreement | <u>21,479,237</u> | <u>23,309,582</u> | <u>1,830,345</u> | <u>8.5%</u> |
| Total liabilities | 22,941,605 | 23,713,278 | 771,673 | 3.4% |
| Net position held in trust for pension benefits | | | | |
| | \$351,228,397 | \$379,712,036 | \$28,483,639 | 8.1% |

Statement of Changes in Plan Net Position as of June 30, 2013 and June 30, 2012

| | <u>2012</u> | <u>2013</u> | Change from Prior Year | |
|---|----------------------|----------------------|------------------------|---------------|
| | | | <u>In Dollars</u> | <u>As %</u> |
| Additions: | | | | |
| Contributions | \$12,204,511 | \$12,069,185 | (\$135,326) | (1.1%) |
| Net investment income (loss) | 7,209,159 | 44,013,431 | 36,804,272 | 510.5% |
| Securities Lending | <u>26,503</u> | <u>29,514</u> | <u>3,011</u> | 11.4% |
| Total additions | 19,440,173 | 56,112,130 | 36,671,957 | 188.6% |
| Deductions | | | | |
| Benefits | 26,732,325 | 27,152,432 | 420,107 | 1.6% |
| Administrative expense | <u>509,371</u> | <u>476,059</u> | <u>(33,312)</u> | <u>(6.5%)</u> |
| Total deductions | 27,241,696 | 27,628,491 | 386,795 | 1.4% |
| Net increase (decrease) | (7,801,523) | 28,483,639 | 36,285,162 | (465.1%) |
| Net position held in trust for pension benefits: | | | | |
| Beginning of year | 359,029,920 | 351,228,397 | (7,801,523) | (2.2%) |
| End of year | \$351,228,397 | \$379,712,036 | \$28,483,639 | 8.1% |

Funded Status as of June 30, 2013 and June 30, 2012

| | <u>2012</u> | <u>2013</u> |
|---------------------------------|---------------|---------------|
| • Actuarial accrued liabilities | \$448,864,237 | \$455,914,323 |
| • Applied Assets | \$349,486,629 | \$353,299,470 |
| • % Funded | 77.86% | 77.49% |

System Investment Performance as of 12/31/13 (Net of Fees)

| | <u>1-Year</u> | <u>3-Years</u> | <u>5-Years</u> | <u>7-Years</u> | <u>10-Years</u> |
|-------------------|---------------|----------------|----------------|----------------|-----------------|
| Total Fund Return | 16.8% | 10.4% | 15.5% | 5.7% | 7.1% |

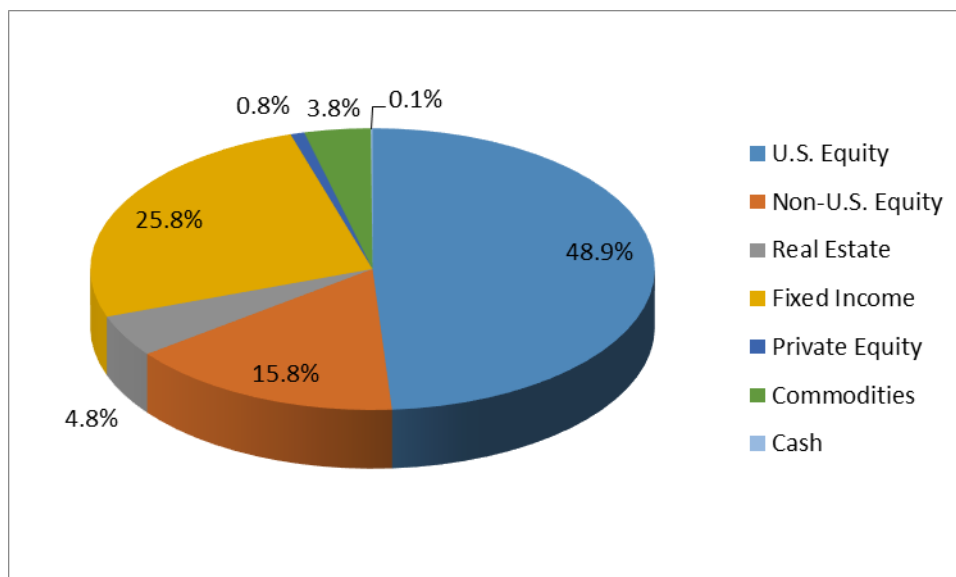
System Revenues and Expenditures as of June 30, 2013

June 30, 2013

| | | |
|----|-----------------------------------|---------------------|
| 1. | Balance – Beginning of Year | \$351,228,397 |
| 2. | Revenues: | |
| | a. Employee Contributions | \$3,933,341 |
| | b. Employer Contributions | \$8,135,843 |
| | c. Investment Income | <u>\$45,018,173</u> |
| | d. Total Revenues | \$57,087,357 |
| 3. | Expenditures: | |
| | a. Benefit Payments | \$27,037,516 |
| | b. Refund of Member Contributions | \$114,916 |
| | c. Expenses | <u>\$1,451,287</u> |
| | d. Total Expenditures | \$28,603,719 |
| 4. | Balance – End of Year | \$379,712,035 |

The Board of Trustees has confirmed that the General Retirement System provides for the payment of the required employer contribution and the employer contributions shown above represent the required employer contribution for the year covered. The System had \$0.00 of “soft dollar” expenses.

Investments as of December 31, 2013



System Itemized Budget as of June 30, 2013

| <u>Expense</u> | <u>Actual</u> <u>YTD</u> | <u>FYE 06/30/13</u> <u>Target</u> | <u>Variance</u> <u>to Target</u> | <u>Expended by</u> <u>06/30/12</u> | <u>Variance to</u> <u>06/30/12</u> |
|--------------------------------------|-----------------------------|--------------------------------------|-------------------------------------|---------------------------------------|---------------------------------------|
| Professional Services | | | | | |
| - Actuarial | \$30,400 | \$42,000 | \$11,600 | \$23,350 | \$7,050 |
| - Audit | \$11,800 | \$11,300 | (\$500) | \$10,620 | \$1,180 |
| - Consultant | \$107,500 | \$106,000 | (\$1,500) | \$104,750 | \$2,750 |
| - Custodial* | \$53,540 | \$70,000 | \$16,460 | \$59,443 | (\$5,903) |
| - Investment Mgmt. | \$920,373 | \$950,000 | \$29,627 | \$901,131 | \$19,242 |
| - Legal Services | \$68 | \$500 | \$432 | \$0 | \$68 |
| Insurance | | | | | |
| - Business Owners | \$350 | \$350 | \$0 | \$332 | \$18 |
| - Fiduciary Liability | \$0 | \$14,900 | \$14,900 | \$14,900 | (\$14,900) |
| - Life & Disability | \$724 | \$730 | \$6 | \$724 | \$0 |
| - Worker's Compensation | \$848 | \$848 | \$0 | \$0 | \$848 |
| Due Diligence & Education | | | | | |
| - Due Diligence | \$1,181 | \$2,000 | \$819 | \$644 | \$537 |
| - Conferences | \$12,236 | \$22,000 | \$9,764 | \$20,215 | (\$7,979) |
| - Other Education | \$3,626 | \$3,000 | (\$626) | \$2,735 | \$891 |
| Administration | | | | | |
| - Accufund Consultant | \$886 | \$1,600 | \$714 | \$1,205 | (\$319) |
| - Medical Evaluations | \$8,546 | \$6,000 | (\$2,546) | \$3,780 | \$4,766 |
| - Meetings | \$347 | \$600 | \$253 | \$448 | (\$101) |
| - Occupancy Rental | \$13,750 | \$14,000 | \$250 | \$13,750 | \$0 |
| - Office Supplies | \$13,686 | \$16,000 | \$2,314 | \$14,876 | (\$1,190) |
| - Memberships | \$400 | \$450 | \$50 | \$434 | (\$34) |
| - Salaries & Wages | <u>\$210,832</u> | <u>\$275,000</u> | <u>\$64,168</u> | <u>\$231,360</u> | <u>(\$20,528)</u> |
| Total Expenses | \$1,391,093 | \$1,537,278 | \$146,185 | \$1,404,697 | (\$13,604) |

*Custody fees shown above are before offset from Securities Lending income. Total income for FYE 06/30/13 was \$29,514.

Disclaimer: The data above is a summary of expenses compared to arbitrarily selected "targets." These "targets" are not intended to be goals or budget objectives, just simple comparisons. Many of the figures are contractual or uncontrollable, such as asset manager fees (based on market values), occupancy (based on rental agreement) and Medical Evaluations (the number of which is purely based on the number of disability retirement applications). The use of this document is intended to monitor expenses, not judge the System's performance.

The System's total aggregate cost for professional training and education, including travel costs, authorized by Michigan Public Act 314 for a fiscal year shall not exceed \$150,000 or an amount equal to the total number of system board members multiplied by \$12,000, whichever is less. Beginning January 1, 2013, the Department of Treasury shall adjust the dollar amounts for these costs by an amount determined by the State Treasurer at the end of the immediately preceding calendar year to reflect the cumulative annual percentage change in the Consumer Price Index.

Actuarial Valuation Information as of June 30, 2013

| | |
|---|---------------------------------------|
| • Active Members: | 786 |
| • Number of Retirees/Beneficiaries: | 1,091 |
| • Average Annual Retirement Allowance: | \$25,330 |
| • Total Annual Retirement Allowance: | \$27,635,082 |
| • Valuation Payroll: | \$43,783,450 |
| • Employer's Normal Cost as % of Valuation Payroll: | 7.84% |
| • Employer's Contribution Rate: | 28.25% |
| • Weighted Average of Member Contributions: | 7.93% |
| • Actuarial Assumed Rate of Investment Return: | 7.38% |
| • Actuarial Assumed Rate of Long-Term Wage Inflation: | 4.00% - 8.00% |
| • Smoothing Method Utilized: | 5-Year Smoothed Market |
| • Amortization Method Utilized: | Level Dollar, Closed |
| • Amortization Period Remaining: | 25 Years |
| • Actuarial Cost Method Utilized: | Individual Entry Age |
| • System Membership Status: | Closed (except for new APAGR members) |