

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

EDUCATION SESSION
NOVEMBER 19, 2014 – 9:53 a.m.
233 East Fulton

The session was called to order by Vice Chairman David Tryc. Other members present: Mr. Martin Timkovich, Mr. Michael Hawkins, Mr. Philip Balkema, Mr. Walter Gutowski, and Mr. William Butts. Absent: Chairman J. Patrick Scripps, Mr. Craig VanderWall, Mr. Thomas VanderPloeg, and Ms. Jane Hofmeyer.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Ms. Elizabeth White, Deputy City Attorney and Legal Advisor to the Boards, Mr. Nicholas Sefchok of Wilshire Associates, Inc., and Ms. Sara VanderWerff, City Comptroller.

Vice Chairman Tryc noted that since there is no quorum representing the Police and Fire Retirement System Board, items requiring action will be addressed at the December 17, 2014 Joint Board meeting unless a Police and Fire Member Trustee arrives.

Mr. Sefchok presented the quarterly performance report to Trustees. In a Capital Market update through October 31, 2014, Mr. Sefchok noted that the Federal Reserve ended its tapering program in October. The Fed stopped linking its Fed Funds rate to unemployment and continues to focus on goals of maximum employment and 2% inflation through a range of market indicators. The October unemployment rate decreased to 5.8% and 214,000 non-farm payroll jobs were added; real GDP increased at an annual rate of 3.5% in the third quarter of 2014. Retail and food sales decreased by 0.3% in September, but were up 4.3% over the past year; housing starts were up 6.3% in September and 17.8% year over year; and crude oil was trading near \$76 per barrel. In the U.S. Equity market, YTD, health care, utilities, and technology sectors lead the S&P through 2014. YTD large cap stocks were outperforming small cap stocks and growth and value stocks were relatively even. In the non-U.S. equity markets, the European Union was still struggling with lackluster economic expansion and lower than expected inflation; and the recent European/Middle East tensions and potential fallout risk have added to the overall concern across the regions. In the fixed income market the Fed has removed unemployment as the linkage for its benchmark; Fed Funds target rate is 0.0% to 0.25% and the Federal discount rate is 0.75%. As of October 31, 2014, YTD, the S&P 500 was up 2.4%, the Russell 2000 was up 6.6%, the Wilshire 5000 was up 2.8%, the ACWI was down 1.0%, the Barclays Aggregate Bond Index was up 1.0%, the Barclays TIPS Index was up 0.9%, the Wilshire RESI Index was up 7.3%, the Bloomberg Commodity Index was down 0.8%, and the Alerian MLP Index was down 4.6%. 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 09/30/14

<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	1.13	19.74	22.99	15.69	8.11
RUSSELL 2000	-7.36	3.93	21.26	14.28	8.19
NAREIT GLOBAL RE INDEX	-4.59	5.91	14.80	10.49	N/A
MSCI ACWI X-US	-5.27	4.77	11.79	6.03	7.06
BARCLAYS AGGREGATE	0.17	3.96	2.43	4.12	4.62
DJ UBS COMMODITY INDEX	-11.83	-6.58	N/A	N/A	N/A
91 DAY T-BILLS	0.01	0.05	0.07	0.10	1.59

General Retirement System

Asset Commitments as of 09/30/14:

Domestic Equity	44.5%
Fixed Income	29.8%
Cash Equivalents	0.6%
Real Estate	4.7%
Private Equity	1.3%
International Equity	14.3%
Commodities	4.7%

Asset Allocation to Managers:

NTAM	24.2%
PIMCO	9.7%
Wellington Management Company	10.7%
Ziegler Capital Management	0.0%
Baird Advisors	15.0%
Western Asset Management	14.9%
Cash Account	0.6%
Neuberger Berman	14.3%
CBRE Clarion	4.7%
Adams Street Partners	0.9%
FLAG Capital	0.4%
Wellington Commodities	4.7%

Quarterly Summary of the General Retirement System

	<u>Market Value</u> <u>09/30/14</u>	<u>Market Value</u> <u>06/30/14</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$417.8 million	\$428.4 million	(\$10.6 million)	-1.59%	75 th percentile
Total U.S. Equity	\$185.9 million	\$187.2 million	(\$1.3 million)	-0.50%	48 th percentile
Total Non-U.S. Equity	\$59.9 million	\$65.2 million	(\$5.3 million)	-5.85%	78 th percentile
Total Fixed Income	\$124.7 million	\$124.6 million	\$100 thousand	0.43%	15 th percentile
Total Real Estate	\$19.8 million	\$21.9 million	(\$2.1 million)	-4.67%	90 th percentile
Total Private Equity	\$5.3 million	\$4.8 million	\$500 thousand	7.68%	N/A
Total Commodities	\$19.7 million	\$22.0 million	(\$2.3 million)	-8.80%	N/A
NTAM	\$101.0 million	\$100.2 million	\$800 thousand	1.13%	36 th percentile
PIMCO	\$40.4 million	\$40.0 million	\$400 thousand	1.18%	22 nd percentile
Wellington Mgmt. Co.	\$44.5 million	\$47.1 million	(\$2.6 million)	-5.38%	25 th percentile
Ziegler Cap. Mgmt.	\$0	\$102 thousand	(\$102 thousand)	N/A	N/A
Neuberger Berman	\$59.9 million	\$65.2 million	(\$5.3 million)	-5.85%	72 nd percentile
Baird Advisors	\$62.6 million	\$62.8 million	(\$200 thousand)	0.40%	24 th percentile
Western Asset Mgmt.	\$62.1 million	\$61.8 million	\$300 thousand	0.46%	19 th percentile
CBRE Clarion	\$19.8 million	\$21.9 million	(\$2.1 million)	-4.67%	90 th percentile
Adams Street Partners	\$3.8 million	\$3.3 million	\$500 thousand	42.81%	N/A
FLAG Capital	\$1.5 million	\$1.5 million	\$0	-1.78%	N/A
Wellington Commodities	\$19.7 million	\$22.0 million	(\$2.3 million)	-8.80%	N/A

Police and Fire Retirement System

Asset Commitments as of 09/30/14:

Domestic Equity	44.5%
Fixed Income	29.5%
Cash Equivalents	0.7%
Real Estate	4.8%
Private Equity	1.3%
International Equity	14.4%
Commodities	4.8%

Asset Allocation to Managers:

NTAM	24.2%
PIMCO	9.6%
Wellington Management Company	10.7%
Ziegler Capital Management	0.0%
Baird Advisors	14.8%
Western Asset Management	14.7%
Cash Account	0.7%
Neuberger Berman	14.4%
CBRE Clarion	4.8%
Adams Street Partners	0.9%
FLAG Capital	0.4%
Wellington Commodities	4.8%

Quarterly Summary of the Police & Fire Retirement System

	<u>Market Value</u> <u>09/30/14</u>	<u>Market Value</u> <u>06/30/14</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$397.5 million	\$406.7 million	(\$9.2 million)	-1.60%	76 th percentile
Total U.S. Equity	\$177.0 million	\$179.3 million	(\$2.3 million)	-0.50%	48 th percentile
Total Non-U.S. Equity	\$57.0 million	\$60.6 million	(\$3.6 million)	-5.85%	78 th percentile
Total Fixed Income	\$117.3 million	\$116.8 million	\$500 thousand	0.43%	15 th percentile
Total Real Estate	\$19.3 million	\$21.6 million	(\$2.3 million)	-4.71%	91 st percentile
Total Private Equity	\$5.3 million	\$4.8 million	\$500 thousand	7.68%	N/A
Total Commodities	\$19.0 million	\$20.8 million	(\$1.8 million)	-8.81%	N/A
NTAM	\$96.0 million	\$95.9 million	\$100 thousand	1.13%	36 th percentile
PIMCO	\$38.2 million	\$37.8 million	\$400 thousand	1.18%	22 nd percentile
Wellington Mgmt. Co.	\$42.7 million	\$45.1 million	(\$2.4 million)	-5.38%	25 th percentile
Ziegler Cap. Mgmt.	\$0	\$528 thousand	(\$528 thousand)	N/A	N/A
Neuberger Berman	\$57.0 million	\$60.6 million	(\$3.6 million)	-5.85%	72 nd percentile
Baird Advisors	\$58.7 million	\$58.5 million	\$200 thousand	0.40%	24 th percentile
Western Asset Mgmt.	\$58.6 million	\$58.3 million	\$300 thousand	0.46%	19 th percentile
CBRE Clarion	\$19.3 million	\$21.6 million	(\$2.3 million)	-4.71%	91 st percentile
Adams Street Partners	\$3.8 million	\$3.3 million	\$500 thousand	42.82%	N/A
FLAG Capital	\$1.5 million	\$1.5 million	\$0	-1.78%	N/A
Wellington Commodities	\$19.0 million	\$20.8 million	(\$1.8 million)	-8.81%	N/A

Vice Chairman Tryc and Ms. Korzen provided Trustees with an update on the recent due diligence visit to Brown Brothers Harriman (BBH), CBRE Clarion (CBRE), Harding Loevner (HL), Harvest Fund Advisors (HFA), and Neuberger Berman (NB). Vice Chairman Tryc stated that BBH, the TIPS manager, has been in business for 196 years and their staff seemed to be very professional and well suited to manage the TIPS strategy. He noted that at the NB visit Mr. Bensur reminded their team that the Retirement Systems are looking for consistency in their product; lately they seemed to have hit another soft patch. He also told NB that there is no need to hire an active manager and pay the associated higher fees if they are not going to consistently outperform the benchmark. Vice Chairman Tryc commented that they were very impressed with HL. Ms. Korzen noted that HL has a software program that tracks every discussion they have had within the firm and a mechanism to track if the decisions they made worked. Their team seems to work very well together with their method of putting together the portfolio. Ms. Korzen noted that CBRE does have high quality bias in their portfolio which will impact their performance, but overall they have returned 14.7% on the Retirement Systems' investment since entrance into this strategy; CBRE is and should continue to be a good partner for the Retirement Systems. Vice Chairman Tryc noted that they were impressed with HFA's operations. There are some interesting developments in the oil industry which could positively impact the MLP space. He stated that no red flags came up during the visit with HFA. Ms. Korzen stated that the due diligence visits were successful and contract negotiations with BBH, HL and HFA will commence. Mr. Gutowski thanked Vice Chairman Tryc and Ms. Korzen for completing the visits and stated that this discussion was good for Ms. VanderWerff to hear as she is also interested in knowing that the investment managers the Retirement Systems have in place are of high quality. Mr. Hawkins agreed and stated that the Retirement Systems pay Wilshire Associates to assist them in carrying out their fiduciary duties with respect to investment management and Wilshire has done a very good job. Mr. Gutowski stated his opinion that he feels Ms. VanderWerff is genuine and that the requests she has made from the Retirement Systems office are made to help her better serve the City. Ms. VanderWerff stated that Trustees should attempt to stay ahead of the curve with respect to investment management and the purpose for putting out RFPs is to ascertain whether or not you are receiving the best possible service. Vice Chairman Tryc stated that Wilshire is a high quality firm; they do a lot of number crunching and Trustees are comfortable with their process and pleased with their results. Mr. Timkovich agreed and noted that before a potential investment manager candidate is even presented to Trustees for consideration, Wilshire's team has done a significant amount of research and analytics to ensure the best names are submitted. Mr. Gutowski stated his opinion that Ms. VanderWerff has requested a significant amount of information from Ms. Korzen and some of this information may not be under the purview of the City Comptroller and therefore may require Trustees to decide whether or not to release the

information. Ms. VanderWerff disagreed. She referenced GASB 67 and stated that the City needs to report what the unfunded liability and obligation of the Retirement Systems is. Due to the fact that the marketplace has changed from a couple of decades ago, she felt it is necessary to ensure that policies and procedures are in place so that when new employees come on board with the City, there is something in writing to assist in making sure best practices are being carried forward. She stated that the public auditors are commenting on the veracity of the financials but not on the internal controls of the organization. Fraud and corruption in government is rampant and that is not necessarily the case in Grand Rapids but she wants to ensure that the City is doing everything they can to avoid those situations. Mr. Butts commented that since he has been on the Board he has been very comfortable with the job Wilshire has done for the Retirement Systems and their performance has allowed Trustees to focus on the operation of plans.

Ms. Balkema next provided Trustees with a report on the Task Force Committee that met on October 22, 2014 to discuss the feasibility of the Retirement Systems office moving from its current location to a City-owned facility. Mr. Gutowski, Mr. Hawkins, and Ms. Balkema represented the Retirement Systems. She stated that she felt the meeting went well and the committee discussed the various costs and issues associated with breaking the current lease. Upon review and discussion of this information, the committee determined that it would be prudent for the Retirement Systems office to remain at its current location for the duration of its lease (approximately 3½ years) but to revisit this issue six months prior to the expiration of the current lease. The committee also recommended that the Retirement Systems' Board meetings be moved back down to Suite 216 but to have the door to the Board room area remain open during open sessions and continue to have a "sandwich board" announcement for the Board meetings on the Fulton Street sidewalk by the Masonic building, as well as one in front of the Retirement Systems office. Mr. Timkovich asked if the Retirement Systems Assistant is sitting right by the front door, what difference it would make having the door opened or closed. Mr. Hawkins understood Mr. Timkovich's point; however, he felt that the open door would be in the spirit of cooperation by obtaining common ground between the Retirement Systems and the City. Having the open doors and the signage would help with any false perceptions that the Retirement Systems are holding secret meetings in secret locations. Ms. Korzen stated that even though the doors are not legally required to be open during an open meeting, this could be done in the spirit of cooperation; Mr. Gutowski agreed and stated that the committee felt that it had addressed all the concerns in the meeting. He stated that Mayor Heartwell and Mr. Sundstrom were disappointed. He noted that Ms. VanderWerff has brought up concerns that the current level of per diem that is paid to employee Trustees of the Retirement Systems for travel is higher than what the IRS suggests and that the difference between the two perhaps should be reported as income. Mr. Gutowski told Mayor Heartwell that perhaps the Task Force could reconvene for a meeting to discuss this issue; however, perhaps this is an issue that Trustees need to review and discuss. Mr. Balkema commented that the IRS rates are published and all that would need to be done is to review the rates and if the Retirement Systems' rates are higher, either lower them or report the difference as income. Mr. Timkovich stated that the difficulty comes if it is not reported by a 1099 tax form as Trustees may not be able to deduct the offsetting expenses. Ms. Korzen asked Trustees if they would like her to consult with Mr. Michaud to see if he has had other clients that have experienced this issue; Trustees agreed. Mr. Balkema stated that he was unsure how the current rate of the Retirement Systems' per diem was derived. He stated that this is something that should be monitored regularly to ensure compliance with those types of issues.

Ms. Korzen stated that she did recently receive a request from Ms. VanderWerff regarding submission of Trustee/staff travel information for her reporting to the City Commission, but since there is no quorum today for the Police and Fire Retirement System, this issue should be deferred to the December 17, 2014 Joint Board meeting. Mr. Timkovich stated that it would be totally inappropriate to provide this information to the City Commission. Mr. Balkema pointed out that this information is in the minutes. The reports are part of the agenda packet which also available online. Mr. Hawkins asked Ms. VanderWerff if she reviewed the minutes and the agenda packet and asked her if the information provided would be sufficient. Ms. VanderWerff stated it was her understanding that the City Commission does not approve the travel request but rather this requested information was part of the compromise between the City and the Retirement Systems. Ms. Korzen stated that the request made by Ms. VanderWerff was to include the Trustee/staff travel information in the City's format. Her concerns are that the subject of Ms. VanderWerff's report that goes to the City Commission discusses expenditures authorized under City Commission and City Manager policies which do not apply to the Boards and that it refers to monthly reports by City Officials, City department heads, and City employees, which are not inclusive of the Boards. She did not see any other Boards and Commissions on the list of reporting entities.

Ms. VanderWerff stated that the Library and 61st District Court are on the list. Mr. Hawkins asked Ms. VanderWerff again if the information that is provided in the agenda packets is sufficient; Ms. VanderWerff stated it seemed to be similar and that she is trying to get away from creating additional work for her staff. Ms. Korzen stated she does not want to create additional work for her staff either. Mr. Balkema suggested sending this information to her quarterly; Ms. Korzen stated there are months during which there are no travel expenses. Mr. Timkovich asked if this is a requirement of state law to publish this type of information. Ms. Korzen stated that this type of information is part of the budget, which is also available online. Mr. Balkema stated that even though the City Commission has no authority to approve or deny travel by the Trustees/staff of the Retirement Systems perhaps a report supplied by the Retirement Systems office on these expenses could be provided to them for inclusion with other travel expenditures. Trustees agreed to discuss this issue further at the December 17, 2014 Joint Board meeting.

The session adjourned at 11:05 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, December 17, 2014, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems