

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

MINUTES
JOINT MEETING
AUGUST 18, 2010 – 8:21 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. James Stokes, Ms. Dianette Hight, Mr. Michael Hawkins and Mr. Philip Balkema. Absent: Mr. Walter Gutowski.

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. and Mr. Mark Nottley of Municipal Consulting Services.

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

There were no public comments regarding agenda items.

Ms. Korzen noted that the Joint Board meeting minutes from June 16, 2010 needed to be revised to correctly state the motion by Mr. Balkema to change the agent of record for all insurance policies, not just the fiduciary liability policy. Ms. Hight made the motion to approve the revised minutes of the Joint Meeting of May 19, 2010 and the revised minutes of the Joint Meeting of June 16, 2010. The motion was seconded by Mr. Tryc and carried.

Mr. Bensur presented the quarterly performance report to Trustees. In a Capital Market Update through August 16, 2010, Mr. Bensur noted that 2Q GDP grew 2.4%, down from 1Q estimates, the unemployment rate remained at 9.5% in July, PPI increased by 0.2% in July (the first increase in the last four months), import prices decreased 1.3% in June, the Conference Board Consumer Confidence Index declined in July to 50.4, and existing home sales dropped 5.1% in June, but they were up 9.8% over June 2009 figures. In the U.S. equity market, strong earnings reports fueled the S&P 500 to an increase of 7.0% in July 2010, small cap stocks were outperforming large cap stocks and value stocks were leading growth stocks. In the international market, European banks reported stronger than expected earnings, the Japanese Yen was trading at 15-year highs against the U.S. dollar, China's GDP and other economic indicators slowed in 2Q 2010, developed markets were down 6.0% YTD, and emerging markets were up 1.2% YTD. The FOMC held rates at current levels during its August meeting, Fed funds rate increases are not expected as long as unemployment remains high and wages remain stagnant. As of August 16, 2010, YTD, the S&P 500 was down 2.0%, the Russell 2000 was down 0.9%, the Wilshire 5000 was down 1.5%, the ACWI Index was down 4.1%, the Barclays Aggregate Bond Index was up 7.5% and the Wilshire RESI Index was up 12.8%. 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 06/30/10**

<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	-11.43	14.40	-9.82	-0.79	-1.59
RUSSELL 2000	-9.93	21.48	-8.60	0.37	3.00
NAREIT GLOBAL RE INDEX	-9.75	21.69	N/A	N/A	N/A
MSCI ACWI FR X-US	-12.45	10.43	-10.70	3.38	1.86
BARCLAYS AGGREGATE	3.49	9.50	7.55	5.54	6.47
91 DAY T-BILLS	0.04	0.15	1.57	2.76	2.70

General Retirement System

Asset Commitments as of 06/30/10:

Domestic Equity	49.3%
International Equity	14.4%
Fixed Income	31.1%
Cash Equivalents	0.1%
Real Estate	5.1%
Private Equity	0.1%

Asset Allocation to Managers:

Lotsoff Capital Management	15.5%
NTGI	15.7%
PIMCO	5.5%
Wellington Management Company	12.6%
Baird Advisors	14.6%
Western Asset Management	16.4%
Cash Account	0.1%
Neuberger Berman	14.4%
ING Clarion	5.1%
Adams Street Partners	0.1%

Quarterly Summary of the General Retirement System

	<u>Market Value</u> <u>06/30/10</u>	<u>Market Value</u> <u>03/31/10</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$300.8 million	\$326.0 million	(\$25.2 million)	-6.39%	81 st percentile
Total U.S. Equity	\$148.3 million	\$171.2 million	(\$22.9 million)	-10.94%	35 th percentile
Total Non-U.S. Equity	\$43.3 million	\$47.2 million	(\$3.9 million)	-8.60%	7 th percentile
Total Fixed Income	\$93.4 million	\$90.4 million	\$3.0 million	3.57%	38 th percentile
Total Real Estate	\$15.3 million	\$16.8 million	(\$1.5 million)	-8.96%	96 th percentile
Total Private Equity	\$227 thousand	\$0	\$227 thousand	N/A	N/A
Lotsoff Capital Mgmt.	\$46.7 million	\$53.7 million	(\$7.0 million)	-12.69%	81 st percentile
NTGI	\$47.2 million	\$53.9 million	(\$6.7 million)	-11.48%	44 th percentile
PIMCO	\$16.6 million	\$18.7 million	(\$2.1 million)	-11.14%	34 th percentile
Wellington Mgmt. Co.	\$37.8 million	\$44.9 million	(\$7.1 million)	-8.09%	23 rd percentile
Baird Advisors	\$44.0 million	\$42.7 million	\$1.3 million	3.57%	21 st percentile
Western Asset Mgmt.	\$49.4 million	\$47.7 million	\$1.7 million	3.56%	19 th percentile
Neuberger Berman	\$43.3 million	\$47.2 million	(\$3.9 million)	-8.60%	7 th percentile
ING Clarion	\$15.3 million	\$16.8 million	(\$1.5 million)	-8.96%	64 th percentile
Adams Street Partners	\$227 thousand	\$0	\$227 thousand	0.00%	N/A

Police and Fire Retirement System

Asset Commitments as of 06/30/10:

Domestic Equity	48.9%
International Equity	14.2%
Fixed Income	31.3%

Asset Allocation to Managers:

Lotsoff Capital Management	15.4%
NTGI	15.6%
PIMCO	5.6%

Cash Equivalents	0.4%	Wellington Management Company	12.3%
Real Estate	5.1%	Baird Advisors	14.8%
Private Equity	0.1%	Western Asset Management	16.5%
		Cash Account	0.4%
		Neuberger Berman	14.2%
		ING Clarion	5.1%
		Adams Street Partners	0.1%

Quarterly Summary of the Police & Fire Retirement System

	<u>Market Value</u> <u>06/30/10</u>	<u>Market Value</u> <u>03/31/10</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$267.3 million	\$289.8 million	(\$22.5 million)	-6.36%	78 th percentile
Total U.S. Equity	\$130.7 million	\$151.4 million	(\$20.7 million)	-10.93%	32 nd percentile
Total Non-U.S. Equity	\$38.0 million	\$41.5 million	(\$3.5 million)	-8.65%	10 th percentile
Total Fixed Income	\$83.7 million	\$80.9 million	\$2.8 million	3.40%	45 th percentile
Total Real Estate	\$13.6 million	\$14.9 million	(\$1.3 million)	-8.96%	96 th percentile
Total Private Equity	\$227 thousand	\$0	\$227 thousand	N/A	N/A
Lotsoff Capital Mgmt.	\$41.2 million	\$47.5 million	(\$6.3 million)	-12.66%	80 th percentile
NTGI	\$41.7 million	\$47.6 million	(\$5.9 million)	-11.48%	45 th percentile
PIMCO	\$14.9 million	\$17.1 million	(\$2.2 million)	-11.14%	34 th percentile
Wellington Mgmt. Co.	\$33.0 million	\$39.1 million	(\$6.1 million)	-8.08%	23 rd percentile
Baird Advisors	\$39.6 million	\$38.3 million	\$1.3 million	3.21%	38 th percentile
Western Asset Mgmt.	\$44.1 million	\$42.6 million	\$1.5 million	3.56%	19 th percentile
Neuberger Berman	\$38.0 million	\$41.5 million	(\$3.5 million)	-8.65%	7 th percentile
ING Clarion	\$13.6 million	\$14.9 million	(\$1.3 million)	-8.96%	64 th percentile
Adams Street Partners	\$227 thousand	\$0	\$227 thousand	0.00%	N/A

{Mr. VanderPloeg arrived at 9:17 a.m.} The report was received and filed by Chairman Scripps.

The Executive Director informed Trustees that the Retirement Systems office received notification from the Masonic Center that the monthly rent of \$2,291.66 will remain the same through June 30, 2011. The report was received and filed by Chairman Scripps.

Mr. Mark Nottley of Municipal Consulting Services, LLC (MCS) provided Trustees with an overview of the compensation analysis for the Executive Director position. He reviewed the objectives and scope of the study: 1) evaluate and clearly define the duties of the position and develop a new job description; 2) establish (with Board input) the criteria that constitute a similar position and in turn identify a representative labor market for the position; 3) survey the labor market and compile information regarding wages, other cash compensation and employee benefits; 4) present the labor market data in a manner that clearly illustrates the relative compensation levels of the Executive Director and the established labor market then conclude on comparability; 5) assist in defining criteria for ongoing performance evaluation and a technique that can be used to administer this process; and 6) assemble all of the data in a final report document. He stated that the Executive Director's position does not lend itself to an easy market comparison so as a first step in evaluating the position his firm focused on defining related duties and generally understanding the responsibilities borne by the Pension Office. Since the Executive Director's position is not common in Michigan government, the study considered market comparables from pension systems in other states as well as Michigan. The list of comparables was narrowed down with Board input to include positions that have a similar level of responsibility as the Executive Director and other criteria: 1) amount under investment (less important if reasonably comparable); 2) number of pension system participants; 3) lack of direct investment management responsibility; 4) number of money managers; 5) responsibility for records management and bookkeeping/accounting for the system; and 6) number of employees supervised. Mr. Nottley reviewed the

process of completing the study and noted the list of market comparables for the position of Executive Director was narrowed down to 10 systems. He noted that base wage information for each system was obtained and that cash compensation information was equalized to the Grand Rapids market utilizing three different indexes and an average of the indexes showed an average compensation of \$89,796. He stated that the Executive Director's cash compensation, as compared to this study, is approximately 10.5% above the market average if actual wages are compared and approximately 15.2% above the market average if the market-equalized average wage is used for the comparison. He commented that the average seniority for these comparables is 8.7 years. Mr. Nottley stated that Trustees need to consider what to do next with the information that has been provided. He commented that Trustees should first consider what is a reasonable labor market compensation figure; several were provided in the report. He stated that one other area Trustees may wish to consider is the City of Grand Rapids pay plan for Executive and Non-Union Management positions and try to ascertain where the Executive Director's position may fall within that structure. He noted that there are certain advantages in using a pay grade structure such as using it to assist in addressing merit pay. Mr. Nottley also provided Trustees with an overview of the section in the report outlining suggestions on the performance evaluation process and procedural approach. His recommendation was to set up the performance evaluation to coincide with the plans' fiscal year. He noted that the performance evaluation would begin with the Executive Director completing a self-evaluation and then having each Trustee evaluate the Executive Director. The Chairman would tally the rankings from each Trustee, then Trustees would meet to discuss the findings and the Chairman would summarize the results of the findings and provide them to the Executive Director and meet with her to discuss them. Chairman Scripps noted that the Retirement Systems have two different plan years and typically the Executive Director's contract begins January 1 so the review would begin in September. Mr. Balkema commended Mr. Nottley on the report and stated he thought it was very helpful and well-laid out. Ms. Hight commented that it was her understanding that a draft of the study findings would be provided to Trustees first and asked Mr. Nottley what the next steps in the process will be for him in assisting Trustees with this process; Mr. Nottley responded that his assignment is done. Ms. Hight stated that it was her understanding that there would be more assistance with this process from Mr. Nottley. She also noted her opinion that the position description is one of the primary drivers of the compensation package. Mr. Balkema stated that it was his understanding that Mr. Nottley would take the information that he needed and his expertise created the study document and how Trustees use the document is up to them. Consultants that prepare job classification studies don't implement the classification study, they present the information to its intended recipients. Mr. VanderPloeg asked if any of the comparable positions have ranges of pay set up and if any of them were moving through those ranges. Mr. Nottley stated that there are some individuals like that; Ms. Korzen responded that there were at least four out of the 10 comparables in that situation. Mr. VanderPloeg asked if this was taken into consideration in the data presented; Mr. Nottley responded no because he is not interested in their pay structure as it is not necessarily reliable and that there is no guarantee the person started at the bottom of the pay range. Ms. Hight stated that she was not comfortable on how Mr. Nottley derived at the averaging of compensation in the study as some of the respondents have only one or two years in that position and that may be skewing the data. Mr. Nottley stated that the salaries listed for the 10 comparables are what they are being paid today and that the average length of employment in their present positions is 8.7 years. Mr. Hawkins commented that he felt Mr. Nottley completed the task he was given and that the question at hand is how do Trustees move forward to make the necessary decisions regarding the Executive Director's job classification, compensation and performance evaluation. Chairman Scripps stated that Trustees need to define and understand the position better, come up with a performance evaluation and process for that evaluation, devise a compensation structure and then negotiate with the Executive Director. Mr. Stokes reminded Trustees that this process needs to be completed before the end of this year. Mr. Balkema stated that the title of Executive Director is stated in City Code and the only way to change it would be to ask the City Commission to do so. Ms. Hight noted that Mr. Nottley was paid a flat fee for this study and inquired if Trustees have the option to contract with him for additional services. Chairman Scripps stated Trustees do have that ability however did not advocate doing so as he believes there is not a scientific way to approach this issue. Trustees need to take the information that was presented in the study, combine it with Trustees' experience and address what the needs are for the position. Mr. Timkovich asked if the City of Grand Rapids Non-Bargaining Management pay ranges should be considered. Mr. Balkema stated that one reason this range was used previously is that despite the fact that Trustees have some latitude in setting the Executive Director's

compensation, Trustees are cognizant of the political reality that the Retirement Systems are part of an organization and need to respect that. Mr. Hawkins suggested that each Trustee thoroughly read the job description provided in the study, make any additions/deletions, provide what he/she thinks the compensation package for this position should be, provide his/her thoughts on the evaluation process, and submit this information to him. He will then disseminate this information to the rest of the subcommittee and they will review all of the submissions and blend the results and provide them to the full Board at the September 15th Joint Board meeting. Mr. Balkema reminded the subcommittee that each Trustee submission needs to be kept permanently as part of the record. Chairman Scripps clarified that the subcommittee consists of Mr. Hawkins, Ms. Hight, Mr. VanderPloeg and Mr. Gutowski, and asked Ms. White to attend as ex-officio when the subcommittee meets to review all of this information; Ms. White agreed to attend. Ms. Korzen asked a few technical questions: 1) the methodology he used in the Norfolk comparison numbers; and 2) why the Deputy Executive Secretary position in San Luis Obispo was utilized when there is an Executive Secretary who appears to have similar job duties. Mr. Nottley stated that when his office spoke to the system in San Luis Obispo, they asked them which position was most appropriate. Ms. Korzen stated when she spoke with the San Luis Obispo office they informed her that the Deputy Executive Secretary is at the bottom of the pay scale and was hired for succession planning. The Executive Secretary's salary is approximately \$151,000 and he receives a monthly a car allowance as well. Mr. Nottley commented that the duties for the Deputy Executive Secretary were similar to those of the Executive Director for the City of Grand Rapids Retirement Systems and although there may be some nuances to some of these comparables he feels that even if the Executive Secretary position was used in the comparables the difference in salary would increase the overall average about \$5,000 and if it is equalized back to Michigan cost of living it would increase the overall average about \$3,000. Mr. Hawkins requested that each Trustee email him with their thoughts on: 1) the job description for the Executive Director; 2) comprehensive benefits package to be offered to the Executive Director; and 3) the performance evaluation process; Ms. White will also be included in the emails. He asked them to submit this information by August 30, 2010. He also asked Ms. Korzen to email him her thoughts on the job description. Chairman Scripps asked Mr. Hawkins to then take the information from the Trustees and the Executive Director, meet with the rest of the subcommittee between August 30 – September 14, 2010, and report back to the Board at the Joint Board meeting on September 15th with the information; Mr. Hawkins agreed.

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, September 15, 2010, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems