

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

MINUTES
JOINT MEETING
AUGUST 20, 2014 – 8:43 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 Ms. Jane Hofmeyer. Absent: Mr. William Butts.

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 and Mr. Nicholas Sefchok of Wilshire Associates, Inc., Mr. Lawrence Fumarolo of The Northern Trust Company, Mr. Gregory Sundstrom, City Manager, Ms. Catherine Mish, City Attorney, and Ms. Sara VanderWerff, City Comptroller.

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

There were no public comments regarding agenda items.

Mr. Timkovich made the motion to approve the minutes of the Joint meeting of June 18, 2014 and the minutes of the Special Joint meeting of July 16, 2014. The motion was seconded by Mr. Balkema and carried. {Mr. VanderWall arrived at 8:44 a.m.}

Mr. Bensur presented the quarterly performance report to Trustees. In a Capital Market update through August 15, 2014, Mr. Bensur noted that the Federal Reserve continued its tapering program in July, scaling down large-asset purchases to \$25 billion per month. 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 July unemployment rate increased to 6.2% and 209,000 non-farm payroll jobs were added; real GDP increased at an annual rate of 4.0% in the second quarter of 2014. Retail and food sales rose by 0.3% in May, up 4.3% over the past year; housing starts declined 9.3% in June but were up 7.5% year over year; and crude oil was trading near \$97 per barrel. In the U.S. Equity market, YTD, health care, utilities, and technology sectors lead U.S. large cap sectors through 2014. YTD large cap stocks were outperforming small cap stocks and value stocks were leading growth stocks. 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 August 15, 2014, YTD, the S&P 500 was up 7.1%, the Russell 2000 was down 1.1%, the Wilshire 5000 was up 6.5%, the ACWI was up 3.6%, the Barclays Aggregate Bond Index was up 4.7% and the Wilshire RESI Index was up 19.8%. 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 06/30/14**

<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	5.24	24.62	16.59	18.83	7.78
RUSSELL 2000	2.05	23.64	14.57	20.21	8.70
NAREIT GLOBAL RE INDEX	7.88	14.38	10.19	17.40	N/A
MSCI ACWI X-US	5.03	21.75	5.73	11.11	7.74
BARCLAYS AGGREGATE	2.04	4.37	3.67	4.85	4.93
DJ UBS COMMODITY INDEX	0.08	8.21	N/A	N/A	N/A
91 DAY T-BILLS	0.01	0.06	0.07	0.11	1.63

General Retirement System

Asset Commitments as of 06/30/14:

Domestic Equity	43.7%
Fixed Income	29.1%
Cash Equivalents	0.7%
Real Estate	5.1%
Private Equity	1.1%
International Equity	15.2%
Commodities	5.1%

Asset Allocation to Managers:

NTAM	23.4%
PIMCO	9.3%
Wellington Management Company	11.0%
Ziegler Capital Management	0.0%
Baird Advisors	14.7%
Western Asset Management	14.4%
Cash Account	0.7%
Neuberger Berman	15.2%
Voya Investment Trust Co.	5.1%
Adams Street Partners	0.7%
FLAG Capital	0.3%
Wellington Commodities	5.1%

Quarterly Summary of the General Retirement System

	<u>Market Value 06/30/14</u>	<u>Market Value 03/31/14</u>	<u>Market Difference</u>	<u>Rate of Return</u>	<u>Universe Ranking</u>
Retirement System	\$428.4 million	\$417.2 million	\$11.2 million	3.74%	49 th percentile
Total U.S. Equity	\$187.2 million	\$195.6 million	(\$8.4 million)	4.57%	36 th percentile
Total Non-U.S. Equity	\$65.2 million	\$65.8 million	(\$600 thousand)	2.20%	95 th percentile
Total Fixed Income	\$124.6 million	\$115.1 million	\$9.5 million	2.63%	23 rd percentile
Total Real Estate	\$21.9 million	\$20.2 million	\$1.7 million	8.07%	10 th percentile
Total Private Equity	\$4.8 million	\$3.9 million	\$900 thousand	6.41%	N/A
Total Commodities	\$22.0 million	\$16.2 million	\$5.8 million	3.63%	N/A
NTAM	\$100.2 million	\$58.7 million	\$41.5 million	5.24%	26 th percentile
PIMCO	\$40.0 million	\$26.6 million	\$13.3 million	5.38%	19 th percentile
Wellington Mgmt. Co.	\$47.1 million	\$50.9 million	(\$3.8 million)	2.36%	61 st percentile
Ziegler Cap. Mgmt.	\$102 thousand	\$59.4 million	(\$59.3 million)	N/A	N/A
Neuberger Berman	\$65.2 million	\$65.8 million	(\$600 thousand)	2.20%	86 th percentile
Baird Advisors	\$62.8 million	\$58.4 million	\$4.4 million	2.24%	59 th percentile
Western Asset Mgmt.	\$61.8 million	\$56.7 million	\$5.1 million	3.04%	16 th percentile
Voya Investment Trust Co.	\$21.9 million	\$20.2 million	\$1.7 million	8.07%	10 th percentile
Adams Street Partners	\$3.3 million	\$3.0 million	\$300 thousand	31.71%	N/A
FLAG Capital	\$1.5 million	\$903 thousand	\$597 thousand	-3.60%	N/A
Wellington Commodities	\$22.0 million	\$16.1 million	\$5.9 million	3.63%	N/A

Police and Fire Retirement System

Asset Commitments as of 06/30/14:

Domestic Equity	44.1%
Fixed Income	28.7%
Cash Equivalents	0.7%
Real Estate	5.3%
Private Equity	1.2%
International Equity	14.9%
Commodities	5.1%

Asset Allocation to Managers:

NTAM	23.6%
PIMCO	9.3%
Wellington Management Company	11.1%
Ziegler Capital Management	0.1%
Baird Advisors	14.4%
Western Asset Management	14.3%
Cash Account	0.7%
Neuberger Berman	14.9%
Voya Investment Trust Co.	5.3%
Adams Street Partners	0.9%
FLAG Capital	0.4%
Wellington Commodities	5.1%

Quarterly Summary of the Police & Fire Retirement System

	<u>Market Value</u> <u>06/30/14</u>	<u>Market Value</u> <u>03/31/14</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$406.7 million	\$394.5 million	\$12.2 million	3.77%	48 th percentile
Total U.S. Equity	\$179.3 million	\$185.7 million	(\$6.4 million)	4.58%	36 th percentile
Total Non-U.S. Equity	\$60.6 million	\$59.3 million	\$1.3 million	2.20%	95 th percentile
Total Fixed Income	\$116.8 million	\$109.7 million	\$7.1 million	2.63%	23 rd percentile
Total Real Estate	\$21.6 million	\$19.9 million	\$1.7 million	8.07%	10 th percentile
Total Private Equity	\$4.8 million	\$3.9 million	\$900 thousand	6.41%	N/A
Total Commodities	\$20.8 million	\$15.0 million	\$5.8 million	3.64%	N/A
NTAM	\$95.9 million	\$55.0 million	\$40.9 million	5.24%	26 th percentile
PIMCO	\$37.8 million	\$25.0 million	\$12.8 million	5.39%	19 th percentile
Wellington Mgmt. Co.	\$45.1 million	\$50.3 million	(\$5.2 million)	2.37%	60 th percentile
Ziegler Cap. Mgmt.	\$528 thousand	\$55.3 million	(\$54.8 million)	N/A	N/A
Neuberger Berman	\$60.6 million	\$59.3 million	\$1.3 million	2.20%	86 th percentile
Baird Advisors	\$58.5 million	\$57.2 million	\$1.3 million	2.26%	58 th percentile
Western Asset Mgmt.	\$58.3 million	\$52.5 million	\$5.8 million	3.04%	16 th percentile
CBRE Clarion	\$21.6 million	\$19.9 million	\$1.7 million	8.07%	10 th percentile
Adams Street Partners	\$3.3 million	\$3.0 million	\$300 thousand	31.71%	N/A
FLAG Capital	\$1.5 million	\$903 thousand	\$597 thousand	-3.60%	N/A
Wellington Commodities	\$20.8 million	\$15.0 million	\$5.8 million	3.64%	N/A

Mr. VanderWall asked if Trustees should consider another allocation to Private Equity. Mr. Sefchok stated that there have been a lot of commitments in the Private Equity space lately, but perhaps toward the end of 2014 might be a better time to investigate the possibility of another allocation into this space. The report was received and filed by the Chairman.

Mr. Bensur next presented an investment manager search document on MLP, TIPS, and ADR managers. He noted that a 10% allocation to U.S. TIPS was approved by Trustees at the April 16, 2014 Special Joint Board meeting. The mandate size will be approximately \$40 million for the General Retirement System and \$40 million for the Police & Fire Retirement System. The following three firms were identified as potential candidates for a TIPS manager: 1) Brown Brothers Harriman (BBH); 2) Income Research and Management (IRM); and 3) Northern Trust Investments (NTI). The report contained an overview of each firm, its TIPS strategy product and various statistical data. Both BBH and IRM offer separately managed accounts while NTI offers a commingled fund. Chairman Scripps asked Mr. Bensur what would be the prudent thing to do regarding this issue. Mr. Bensur stated that Trustees could interview additional managers, or hire one now. He is very comfortable with all three managers. Mr. Timkovich clarified if they choose a separately managed

account that those securities would be available for securities lending; Mr. Bensus said yes. Chairman Scripps stated his opinion that an active manager can help to add value to portfolios. Following Trustee discussion, Mr. Timkovich made the motion on behalf of the General Retirement System to allocate 10% of the total portfolio to a TIPS account, to be funded from the U.S. equities allocation; and upon successful due diligence visit and contract negotiations, enter into a contract with Brown Brothers Harriman to manage an inflation-indexed securities account. The motion was seconded by Mr. Gutowski and carried. Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to allocate 10% of the total portfolio to a TIPS account, to be funded from the U.S. equities allocation; and upon successful due diligence visit and contract negotiations, enter into a contract with Brown Brothers Harriman to manage an inflation-indexed securities account. The motion was seconded by Mr. VanderPloeg and carried. Mr. Bensus noted that a 5% allocation to MLPs was approved by the Trustees at the April 16, 2014 Special Joint Board meeting. The mandate size will be approximately \$21 million for the General Retirement System and \$20 million for the Police & Fire Retirement System. The following three firms were identified as potential candidates for an MLP manager: 1) Chickasaw (CH); 2) Harvest Fund Advisors, LLC (HFA); and 3) Salient Partners (SP). All three managers offer separately managed accounts. The report provided an overview of each firm, its MLP strategy product and various statistical data. Mr. Bensus commented that Wilshire would be comfortable recommending HFA. It is important to have people who understand the operations in this space when considering a manager. Following Trustee discussion, Mr. Tryc made the motion on behalf of the General Retirement System to allocate 5% of the total portfolio to an MLP account, to be funded from the U.S. equities allocation; and upon successful due diligence visit and contract negotiations, enter into a contract with Harvest Fund Advisors to manage an MLP alpha strategy account. The motion was seconded by Mr. Gutowski and carried. Mr. VanderWall made the motion on behalf of the Police & Fire Retirement System to allocate 5% of the total portfolio to an MLP account, to be funded from the U.S. equities allocation; and upon successful due diligence visit and contract negotiations, enter into a contract with Harvest Fund Advisors to manage an MLP alpha strategy account. The motion was seconded by Mr. Balkema and carried. Mr. Bensus commented that the offices for BBH and HFA are not far apart, so a due diligence visit to both could be accomplished in the same trip. Mr. Bensus noted that a 7.5% allocation to ADRs was approved by the Trustees at the April 16, 2014 Special Joint Board meeting. The mandate size will be approximately \$31 million for the General Retirement System and \$29 million for the Police & Fire Retirement System. The following three firms were identified as potential candidates for an ADR manager: 1) Harding Loevner LP (HL); 2) Neuberger Berman (NB); and 3) Thomas White International, Ltd. (TW). HL and NB offer active, fundamental accounts while TW offers an active, quantitative account. He provided an overview of each firm, its ADR strategy product and various statistical data. Mr. Bensus reviewed the cumulative returns (gross of fees) as of March 31, 2014 for each manager for 1, 3, 5, 7, and 10 years, and year-to-date as well as calendar year returns as of December 31, from 2006-2013. Mr. Sefchok commented that if Trustees were looking to eliminate one firm from consideration today he would suggest NB due to the fact that if an allocation to ADRs was given to NB, then NB would manage 22.5% of each plan's total assets. Trustees agreed that they would like to interview HL and TW before making a decision on whom to hire. Chairman Scripps asked if it would be prudent to obtain a clear opinion on the provisions of P.A. 314 before making a decision to implement an allocation to ADRs. He stated that he is not convinced that such an allocation would need to be limited to just ADRs. Mr. Bensus stated that based on his conversation with Mr. Thomas Michaud they have an understanding of P.A. 314, that the present allocation to NB represents 15% non-U.S. equity. There also may be some additional securities (approximately 2.5%) in other existing portfolios that may be considered as part of the non-U.S. equity or basket clause. The total foreign content allowable under P.A. 314 is 20% and the plans are roughly at around 17.5%, thus any additional allocations that could potentially fall within this 20% limitation would not be prudent. ADRs do not count against the foreign content. Implementing an ADR manager would be the only viable option to help eliminate the home-country bias yet still not count against the foreign content limitations of P.A. 314. Chairman Scripps disagreed and questioned the value of having an ADR manager due to the fact that most international securities trade on a U.S. exchange and there are far fewer ADRs than international securities. Mr. VanderPloeg stated he understands both Chairman Scripps' and Mr. Bensus's viewpoints. Chairman Scripps commented that perhaps the boards should have one or two of the ADR managers come make a presentation and he will research P.A. 314 further to obtain clarification. Trustees asked Mr. Bensus and Ms. Korzen to coordinate having HL and TW make presentations at the September 17th Joint Board meeting; Mr. Bensus will also be present. Mr. Tryc asked if it would be prudent to have Mr. Michaud also be present at that meeting to provide Trustees with clarification on the provisions of P.A. 314.

Chairman Scripps next addressed the proposed ordinance amendment regarding the change in meeting location for the Retirement Systems' Board meetings. Mr. Gutowski stated that there have been recent discussions between himself, Mayor Heartwell, Mr. Sundstrom, Chairman Scripps, Mr. Balkema and Ms. Mish regarding the communications between the Retirement Systems and the City Commission. A number of the City Commission's concerns seemed to be ironed out in the meeting. Based upon this meeting, the Mayor put together a list of compromises and it is Mr. Gutowski's opinion that these compromises seemed agreeable to the City Commission. Mr. Gutowski stated that one concern the City Commission has is that travel by Trustees be communicated to them. The list of compromises states that, in lieu of moving the Board meetings to City Hall, the Pension office will: 1) provide complete minutes of Board meetings to City Commissioners and the City Comptroller; 2) hold periodic update meetings with the City Commission in briefing sessions or scheduled Committee of the Whole meetings (performed by the Chairman); 3) present semi-annual actuarial reports to the City Commission in public session; 4) move Board meetings to the more open and accessible 6th floor meeting room at 233 East Fulton Street; 5) eliminate the consent agenda; 6) provide travel reports to the City Commission's Fiscal Committee; 7) prepare and post a "sandwich board" announcement of Board meetings on the sidewalk of 233 East Fulton; 8) the above will be done for a 90 day trial period with evaluation to follow. Ms. Mish will meet with the Pension Boards to provide information regarding the City Charter article on gifts and the Pension Boards and the City Commission will establish a joint committee to explore the feasibility of moving all Pension operations and meetings to City Hall or some other City facility. Mr. Sundstrom provided Trustees with a list of issues that the City Commission wanted to discuss with the Pension Boards, which served as the agenda for the recent meeting. He stated that the compromise was reached in an attempt to ascertain what the City Commission is looking to accomplish and whether or not the issues could be resolved without moving the Board meetings to City Hall. This compromise was shared with all City Commissioners and they were in favor of it and would like to put it into effect as soon as possible. If these compromises are met then Mr. Sundstrom feels the City Commissioners will be happy but if it does not work then his sense is that they will again pursue an amendment to the ordinance to require Board meetings to be held in City Hall. He stated that although there seemed to be unanimous consent regarding this compromise, he thought the Mayor had to call upon the collegiality of the City Commission to give this a chance as some Commissioners wanted to say no from the beginning. Mr. Gutowski reiterated that he does not know which City Commissioners would be opposed to this compromise. He stated his concern that he has colleagues on the Commission that do not wish to talk to him about the concerns they have with the Retirement Systems' Boards; the City Commission is a team. The City Commission was at a point where some members wanted the City Attorney to draft resolutions that would surprise the other Commissioners; that would not be prudent as they are a team, even though they may disagree on things from time to time. This does not make sense as the City is trying to have transparency throughout the organization. Mr. Hawkins commented that this process has not been very transparent. Mr. Balkema noted that at the recent meeting he did make a number of suggestions but made it very clear that they were his suggestions only and they had not been discussed with the Board. He stated he thought it was a very open and honest meeting. There seems to be a lot of anger and angst in City Hall regarding the operation of the Pension Boards, not because they have done anything wrong, but because there are some newly elected officials that look at the \$800 million in employee/employer contributions and investment earnings and are shocked that they do not have any control over it. He stated there is a reason they do not have control over it: it is because it is held in a trust and the Trustees oversee the trust and that is how it is supposed to work. That is why it works well in Grand Rapids and not in other places where politicians try to get involved in how Trustees operate the pension system. The meeting was an attempt to work out of the confrontational mode that had unfortunately developed and probably is unnecessary. He appreciated the input of Mr. Gutowski, Mr. Sundstrom and Ms. Mish during the meeting. It was his understanding that the Pension Boards would try some of these compromises to see if that ameliorated some of the distrust that rightly or wrongly has developed between a few members of the City Commission and the operation of the pension systems. Mr. Balkema stated that this would be an excellent opportunity to show just how well the Trustees and staff run the pension systems. He stated that Trustees and staff have never had anything to hide and this is a good opportunity to show that and possibly be open to opportunities to tweak other areas if needed. These pension plans are a huge financial responsibility for the City if they are not maintained properly and he felt that this might be the reason for this compromise. Mr. Sundstrom stated at the next City Commission meeting on August 26th City Commissioners will likely take action to postpone the ordinance amendment until some date near the first of December to allow for this trial period and evaluation. He stated Ms. Mish came to the meeting

today to discuss with Trustees the City Charter language referenced in the compromise. Chairman Scripps agreed with Mr. Balkema's comments. He did state that one item that Trustees had brought to his attention was the subject of legal representation. He stated that P.A. 314 is very clear that retirement systems can and should have their own legal representation and as a Trustee of both Boards it is irresponsible for him to be involved with these Boards without having legal representation that is for the Pension Boards and the trusts, not the City's interests as well. He would like Trustees to look into the possibility of hiring alternative counsel. Mr. Hawkins, Mr. Tryc, and Mr. VanderPloeg stated they would support that as well. Mr. Hawkins noted that this whole issue has revealed that the Deputy City Attorney, who currently serves as legal advisor to the Boards, has been put in a difficult position and is unable to serve two masters. Mr. Balkema noted that there is clear language in the City ordinance that establishes these Boards, that provides the opportunity for the Boards to obtain outside legal counsel on issues either where there is a conflict of interest or where the City Attorney and Trustees decide that outside legal counsel is needed. He stated he felt it would be appropriate to meet with the City Attorney and decide if there are alternative ways to address this issue. Chairman Scripps stated that with all due respect he feels that it is necessary that the Retirement Systems have their own counsel. He noted that he spoke with Mr. Michaud and he was very clear that P.A. 314 gives Trustees the right and authority to seek their own legal counsel. Mr. VanderPloeg agreed and stated that it complicates the matter having an attorney for the regular course of business and another attorney for when Trustees may need him/her. The issue of moving Board meetings to City Hall was not conveyed to Trustees in a timely fashion and it was too late to go out and hire outside counsel. He feels it would be more beneficial to Trustees and the Pension plans to have an attorney who serves their interests and their interests only. Chairman Scripps stated that Trustees have, without a doubt, responsibility to the trusts and recognizes that the City views these trusts as an obligation and liability of theirs, but he feels it is a healthy tension that the City has its interests and the Retirement Systems have their own. Mr. Gutowski stated that he believes everyone knows this is the Trustees' decision to make and no matter who the legal advisor to the Boards is, he/she will provide legal opinions but ultimately Trustees can decide whether or not to follow that opinion. Chairman Scripps stated that Trustees should and will continue to work with the City to address their concerns, but by the same token he felt that it is irresponsible of Trustees to continue without having exclusive legal representation. Mr. Hawkins asked if anyone is aware of the cost of obtaining outside legal representation. Chairman Scripps stated he does not know what the cost would be as he has not researched the issue. Mr. Hawkins clarified that the Retirement Systems are not currently being billed from the City Attorney's office for their services. Mr. Balkema suggested that Mr. Sundstrom is certainly owed a response to this overture by the City and suggested that Trustees delay any decision on retaining any outside counsel for one to two months to work out the issues with the City as he feels that this would pull a trigger on something that Trustees do not want to see happen. He recommended approving the City's compromise as provided by Mr. Sundstrom with the understanding that Trustees will also investigate (if they so choose) what outside counsel is available and what they may charge and take that issue up again at a subsequent time. Ms. Hofmeyer agreed and stated that hiring outside legal counsel right now would perhaps create an adversarial spirit that we do not want right now. Mr. Hawkins clarified that he was not under the impression that Trustees were contemplating hiring outside counsel right now, rather merely exploring that matter. He stated that Trustees have a responsibility to the trusts and if there is a problem they could be sued, so they should have an attorney that serves the Boards' interests. He felt it is difficult at times to have an attorney from the City as legal advisor as some situations would represent clear conflicts of interest as to whom the attorney will represent, the City or the Pension Boards. Mr. VanderPloeg stated he does not have a problem meeting the terms outlined in the compromise proposed by the City. With regard to the attorney issue, a Pandora's box has been opened. Mr. Sundstrom and Mr. Gutowski are likely to report back to the City Commission that Trustees are looking to hire outside counsel and whether Trustees move forward with this or not that door has been opened. Chairman Scripps commented that he did not believe that Trustees have agreed to do anything yet but he does not have a problem with doing the items listed on the compromise. Mr. Balkema stated his recollection of the recent meeting was that ideas were offered by both sides and that the City would go back and discuss the findings with the City Commission and see if they were agreeable to try the proposed ideas. Mr. Tryc asked if Mr. Sundstrom has ever taken a look at the Trustees' training and travel policy; Mr. Sundstrom stated he has. He stated that Trustees have to be educated regarding the different funds that they invest the trust funds in and it has become more complex over the years. The Boards have a very clear policy on travel and training and gifts. Mr. Balkema commented that the travel reports that the City Commission is now requesting from Trustees are consistent with other travel reports submitted by City of Grand Rapids employees to the Fiscal Committee. Mr. Hawkins stated he does not have a problem submitting travel reports

to the City so that they can be transparent. The issue he has is if the City is trying to now question the travel that the Boards incur so that they can adequately administer the trusts; he did not believe that the City has taken this position. Chairman Scripps stated he is concerned that providing travel reports to the City Commission is step one toward trying to question or limit Trustees' training and travel. Mr. VanderWall commented that he did not see how investigating the possibility of obtaining outside counsel is adversarial. The events over the past few months have brought to light the potential conflicts of interest with solely having the City Attorney's office represent the Boards. He is not advocating replacing the City Attorney as legal advisor to the Boards but suggesting that it may be prudent to explore having outside counsel on retainer for those issues where it may be a conflict of interest for the City Attorney's office to advise the Boards and the City. If Trustees wait 90 days and issues still persist, then they still do not have counsel that serves only the Boards' interests. He would like to at least obtain information on obtaining outside legal counsel and Trustees can decide at a later date whether or not to do so. Chairman Scripps asked Mr. Balkema if looking into this matter would trigger negative events; Mr. Balkema stated that taking action to hire outside counsel at this point in time would be viewed by the City as adversarial, but he was not suggesting that Trustees should not look into possibility of hiring outside legal counsel and discuss it with the City Attorney. Having been the City Attorney for several years he realizes that there are situations where it is uncomfortable to advise both the City and the Pension Boards as there may be a conflict of interest. The operation of the Boards has become much more complicated but there are a number of situations where having the City Attorney as legal advisor can be a valuable resource to Trustees. However, there are times such as now where it would be helpful to Trustees to have an attorney from the outside assisting in providing legal guidance and trying to serve the Trustees' interests. Mr. VanderPloeg reiterated that he has no problem with the City Attorney being present and does not want to exclude her but he also wants an attorney that serves only the Trustees' interests; Trustees can have two attorneys. Chairman Scripps agreed and stated that he has not heard any Trustee state that they wish to exclude the City Attorney but rather be able to have legal opinions that are focused on what is best for the Retirement Systems. Mr. Timkovich stated that Trustees have a fiduciary duty to the trusts that they administer and their beneficiaries, and the events that have transpired over the past six weeks have proven that the supervising attorney owes her fiduciary duty to only the City Commission, not the Trustees. He found it unacceptable that Trustees continue to rely principally on the City Attorney's office for legal advice. From his perspective these issues came out of nowhere based on a misunderstanding of facts. The City Commission should have asked Trustees and/or staff what is going on with the Pension plans; to his knowledge they did not. To say that the City has a current liability of \$700 million for pensions is incorrect; it is the wrong number, is not current and flies in the face of all fact and these misperceptions need to be corrected. He stated that personally he would hope that the ordinance moves forward and they go to court in order to clear up the relationship between the two bodies. Mr. Timkovich stated that the Retirement Systems office is not a department of the City but is suddenly being treated as such and is expected to follow the rules the City Commission puts in place. The Retirement Systems are different governmental units. Mr. Hawkins understood Mr. Timkovich's position, but suggested that in the spirit of cooperation that Trustees should try to work together with the City in addressing these issues and try the compromise that has been proposed. Mr. Timkovich asked if Trustees would actually act contrary to the advice of the City Attorney. Mr. Gutowski stated it would depend on the issue. Mr. VanderPloeg stated all he is asking to do is to supplement the current legal representation for the Boards with someone who will not have a conflict of interest. Mr. Hawkins agreed with Mr. VanderPloeg but disagreed with Mr. Timkovich's comment regarding the City and Trustees going to court over the issues at hand. Mr. Tryc stated that he agrees that Trustees should try to work things out with the City and try the items on the compromise but he did agree with Mr. Timkovich that the City is trying to treat the Retirement Systems office as a department and it is not, and therefore not subject to the same ordinances as City departments. The Retirement Systems are covered by state statute which takes precedence over City ordinance. The state statute provides that the Trustees can hold their meetings at any time and place that they deem appropriate. If an ordinance is passed requiring Trustees to hold their Board meetings at City Hall and Trustees wished to follow the letter of the law and be controversial, they could simply say no they will not comply and be within their legal rights. Mr. Balkema cautioned that undertaking this attitude would perhaps create headlines in the media. Chairman Scripps noted that it does not appear that any Trustees wish to fight with the City Commission; Mr. Gutowski questioned if that was true. Mr. Timkovich defended his earlier statements by noting that there appear to be individuals within the City Commission that are trying to make decisions impacting the Retirement Systems and will continue to try to do so despite the fact that the Retirement Systems office is not a City department. Chairman Scripps proposed to continue working on a

compromise with the City but at the same time look into what the Systems' rights are with respect to exclusive legal representation. Mr. Hawkins agreed and stated that Trustees need to be aware of what the City can do and what Trustees can do with respect to the prospect of moving all Pension operations and meetings back to City Hall. Mr. VanderPloeg asked if Chairman Scripps was suggesting having Mr. Michaud come to a future Board meeting to provide education in this area and explain what his role is as a legal representative for other pension systems, the services he provides and what his fees are. Chairman Scripps stated he thinks that Trustees should explore what their opportunities are. Mr. Timkovich stated it would be helpful to obtain information on the dissonance that exists within the City Commission and perhaps someone should speak with them regarding these issues. Chairman Scripps stated that type of action could be viewed as confrontational; Mr. Timkovich stated that holding off on this issue for a few months is confrontational as well. Chairman Scripps understood his position but felt it is important for Trustees to take the high road and continue to work on the issues the City Commission has outlined, and at the same time work to ascertain what Trustees' rights and obligations are. Mr. VanderWall agreed and stated that these two issues will more than likely be intertwined for the foreseeable future and it is important for Trustees to cooperate with the City. Chairman Scripps asked the Trustees who would like to have an outside attorney make an educational presentation to them if they would be comfortable having Mr. Michaud make that presentation; Trustees said yes. Chairman Scripps asked the Trustees who are interested in working on the proposed compromise if they are agreeable to work on the compromise issues and explore the possibility of outside legal representation simultaneously. Mr. Gutowski stated that perhaps Trustees should allow the City Attorney the opportunity to speak with Trustees regarding her concerns with meals. Chairman Scripps stated he has a huge issue with this point as he believes this whole discussion is based on whether or not Trustees are classified as City Officials. He stated that this issue was discussed during the recent meeting but it was his recollection that at no point during the meeting was anything agreed upon. Mr. Gutowski stated that this issue was an important part of the recent meeting because it was also brought to the attention of the City Attorney that the Mayor receives meals from lobbyists so he felt it would be poor form to not allow Ms. Mish an opportunity to address the Board on this issue. Mr. Sundstrom stated that Trustees should be careful if they think that the Pension Boards and the City should be engaged in a fight; that could happen but it would not be a good idea. He stated that defined benefit plans are already the scourge of the earth as it is, at least for the City's taxpayers. Mr. Gutowski asked Mr. Sundstrom to retract that statement as he believes it to be false. He has spoken with taxpayers in the City and there is huge support for them, especially for police and fire members. Mr. Sundstrom stated it would be better for Trustees and the City to work together and that Mr. Balkema has given Trustees excellent counsel and that unless Trustees know that they have a winning hand they should be careful what they do. The City Commission took an earnest effort and he was very disappointed at the integrity of the comments he has heard at the meeting today that this compromise was not agreed to. He stated the Mayor went to his colleagues and told them he recommended the compromise and his words at the recent meeting were that he was going to recommend this compromise to the City Commission because this is what was agreed upon. Mr. Sundstrom commented that there was an insulting stumble to Trustees and he has apologized for that and he believes that the City Commission is trying to take an honest and earnest step forward with this compromise; he warned Trustees to be careful what they do beyond that. Mr. Gutowski stated that if he had made this recommendation it would have gone nowhere; it had to come from the Mayor. Chairman Scripps stated his recollection that the Mayor stated he would prepare a proposed compromise and forward it to Trustees, and he did not recall stating that Trustees agreed to anything. Mr. Balkema commented that some of the items on the compromise were his suggestions so therefore he agreed with them but he made it clear that they were his suggestions and they were offered in the spirit of compromise. He recalled the Mayor saying that he has offered a path to a great compromise. He did not agree with Ms. Mish's conclusion that Trustees are City Officials and would respectfully like to have much more research conducted on that issue. He stated there is a plethora of opinions in the City Attorney's office with regards to what constitutes a City Official. Perhaps a well-reasoned opinion from that office that proves that Trustees are City Officials would help along that path. Simply providing Trustees with a copy of the Charter provision which has been in place since approximately 1916 does not do that. He stated Ms. Mish is welcome to make a presentation but he would not like to see Trustees get bogged down with that particular issue as that issue is for another day or for further discussion or certainly for further information from that office. Mr. VanderPloeg commented that if Ms. Mish wishes to address the Board then she should do so. Ms. Mish provided a copy of one paragraph from the City Charter and stated that she was not sure if all Trustees were aware of this provision, but knew at least two were. She referenced article 274 which speaks to Officials not to accept favor. Section 4 reads that "Any official or employee of the City who uses his official position or

employment directly or indirectly to procure for himself or for another who accepts for himself or for another, favors, advantages, money, passes, privileges or anything whatever of value other than his regular compensation and expenses, upon terms more favorable than are granted to the public generally, shall upon conviction thereof, be deemed to be guilty of misfeasance in office and shall thereby forfeit his office or employment with the City.” She stated that there has been a question as to who is defined as a “City Official.” It is not her purpose to answer that here today but she merely wanted to share this charter language with Trustees. She stated that an issue has come up that some Trustees, but not all, receive meals provided by consultants and/or investment managers on the Tuesdays before Board meetings. She stated she does not know how often this occurs; she had asked a number of times how often these occur and who attends and was told that all Trustees are invited but it was unknown as to who attends. Ms. Mish stated that whether it is a meal or some other item of monetary value it could be construed according to the charter language as an item of monetary value. She understood that spouses are also invited to these dinners which now doubles the value of the dinner and felt it is no different than being handed cash. She stated whether or not this charter provision applies to Trustees is a subject for a future date for deliberation. She also stated that despite it not being written in this charter section, any violation of this charter constitutes a criminal misdemeanor. Chairman Scripps respectfully disagreed with Ms. Mish that it was agreed to have her come speak to Trustees regarding this issue. He recalled that Mr. Balkema stated in the meeting that he would like to go back and revisit training and travel. Mr. Balkema recalled that he stated that Trustees should revisit the training and travel policy in place to make sure any issues such as per diem are properly addressed and that after the first of the year Trustees should work with the City on establishing a committee to address their desire to have the Retirement Systems office relocate back to City Hall. Chairman Scripps apologized to Ms. Mish as he misunderstood the timing of bringing the meal issue to Trustees for discussion. Mr. Gutowski also apologized to Ms. Mish as he knew that she would be attending today’s meeting to address this issue. Chairman Scripps stated that the goal is to cooperate with the City and be as transparent as possible, without being confrontational. He also reiterated that Trustees are being irresponsible if they do not explore what their rights are and he doesn’t think that legal advice coming from the City Attorney’s office can do that. Mr. Hawkins asked who would be able to render an opinion on whether or not Trustees are City Officials; Mr. VanderPloeg commented that it appears that Ms. Mish believes they are. Ms. Mish stated she never said that. Mr. Balkema noted that there seems to be perceptions within the City that Trustees are City Officials. This is not an easy issue and he thought it would be prudent to obtain a well-reasoned opinion on the subject for further discussion. Mr. Timkovich stated that the training and travel policy has been in place for years and this issue of meals is merely adding fuel to the fire. Mr. Gutowski thought it would be prudent to give Ms. Mish the opportunity to opine on this issue and render her legal opinion at a later date, and then Trustees can either agree or disagree with it. Mr. Timkovich stated he did not think Trustees can disagree. Ms. Hofmeyer suggested having Ms. Mish research this issue and render a legal opinion on it to Trustees and if they agree with her findings that is fine, but if they do not then perhaps Trustees should consider hiring outside legal counsel for this issue. Mr. Hawkins agreed and asked Ms. Mish if she has reviewed the Trustees’ training and travel policy and if so are there issues that need to be corrected. Ms. Mish stated she was given copies of the policy at the August 5th meeting with the Chairman, Mr. Balkema and Mr. Gutowski. She asked if the meals provided by the consultants and investment managers are being disclosed on the annual code of conduct forms prepared by Trustees; Chairman Scripps responded they are not. She stated that regarding training and travel it is her understanding that City Commissioners are not trying to restrict these opportunities; rather, they are interested in seeing the amounts expended. It is a question of knowing who is traveling and how much is spent. She stated the amount spent on training and travel is aggregated and reported annually and does not specify who traveled; she felt this was not transparent enough. Mr. VanderWall noted that Trustees approve the amounts spent on travel at Board meetings; however, these amounts are aggregated with other expenses. Mr. Timkovich stated he has no problem supplying the information; it is a little more information than is required by state law. Chairman Scripps stated that he has no problem supplying the City with this information. Mr. Hawkins commented that he hoped whomever is looking at these expenses would also take them into consideration with other administrative expenses and note how the expenses compare with other systems to ascertain reasonableness. Mr. Balkema stated that if there is a need to tweak existing training and travel and gift policies then it should be done in cooperation by both sides. Mr. Timkovich stated he recalled that the changes that were made to the training and travel policy were due to accommodate the change in P.A. 314 and nothing was noted at that time by anyone that there was an issue with it. Mr. Balkema suggested submitting a written request to Ms. Mish to research the definition of “City Official” and render a written legal opinion to Trustees and also ask for clarification on any other policies that

Trustees wish to have reviewed. Mr. Timkovich stated that this is being driven by not where there is a problem but rather by some unnamed persons in the background who have a history of problems with these sorts of issues. Trustees agreed that they need to ascertain whether or not they are “City Officials.” Mr. VanderPloeg commented that this is a complex issue and needs clarification. Ms. Mish stated she would be more than happy to research this issue further and render a legal opinion to Trustees. Chairman Scripps reiterated that he is 100% committed to working with the City on the list of compromises, but at the same time, the Boards would be irresponsible to not also look into outside legal counsel. Mr. Gutowski clarified that Trustees are not suggesting hiring outside legal counsel but rather obtain education and costs on retaining outside legal counsel; Chairman Scripps agreed. Mr. VanderPloeg stated that Trustees would be starting the process of being educated as to whether they should have outside legal counsel. Trustees agreed that Ms. Korzen would send Ms. Mish an email requesting her to research the definition of “City Official” and render a written legal opinion to Trustees. They also agreed that they would have Mr. Michaud attend the September 17th Joint Board meeting to present an educational session on outside legal counsel and they will also continue to work with the City on resolving the issues that were indicated in the proposed compromise. Mr. Sundstrom commented that he is aware that the City Comptroller has made a request for information from the Pension Board and it is his understanding that she has had significant difficulty in obtaining that information. He felt this is the exact kind of thing that causes the City Commission to have concerns. He stated he did not know what information the City Comptroller is looking for but asked Trustees to get her the information she needs; Chairman Scripps complied. Ms. Korzen had a question of clarification on the list of issues to be discussed with the Pension Boards; she was unclear as to what is meant by “For all other pension decisions, including the non-medical portions of a disability pension, the public should be fully informed.” Mr. Sundstrom stated that he believes there are HIPAA provisions that protect employees from sharing certain medical records however the decision of whether or not someone is granted a disability pension needs to be made public. Ms. Korzen stated it always is. Mr. Sundstrom reiterated that the City Commission is happy with the job being done by the Pension Boards, they just want more transparency. Mr. Gutowski stated that he is not one of the commissioners who believe increased transparency is necessary.

Mr. Lawrence Fumarolo of The Northern Trust Company (NT) presented Trustees with a transition management review on the recent termination of the Ziegler Capital Management (ZCM) portfolios. The objective was to restructure the existing ZCM accounts into the target managers while minimizing transaction costs. Savings were obtained by transferring over 27% of the ZCM portfolios into the target portfolios in-kind, and crossing 5.4% of the securities utilizing external crossing networks. The remaining portion of the trade was cost effectively executed in the open market. The net commissions paid were 1.03 cps. The transition commenced on June 19th and was completed the same day. Implementation shortfall, which is defined by NT as the difference between the performance of the transition portfolio and the performance of the target portfolio, of 3.5 basis points compares very favorably to the median estimate of 8.8 basis points and the 1 standard deviation left tail of 29.2 basis points. The report outlined post-trade analysis statistics and an overview of NT’s transition management process. He noted that the transition was accomplished very efficiently.

Board approval was requested for attendance at the upcoming 2014 Baird Advisors Institutional Investors Conference to be held September 7 – 8 and the 2014 Fall MAPERS Conference to be held September 14 - 16. Mr. Balkema made the motion to approve attendance of the 2014 Baird Advisors Institutional Investors Conference by Chairman Scripps, Mr. Hawkins, Mr. Butts, Mr. Tryc, Mr. VanderPloeg, and Mr. VanderWall, and attendance of the 2014 Fall MAPERS Conference by Mr. Hawkins, Ms. Korzen, Mr. Tryc, and Mr. VanderWall per the Trustee Training, Educational Development and Due Diligence policy. The motion was seconded by Mr. Tryc and carried.

There were no comments on items not on the agenda.

Chairman Scripps reminded Trustees to submit their reviews of the Executive Director for her performance evaluation to him as soon as possible.

Chairman Scripps stated that the securities litigation law firm Scott + Scott had requested a teleconference call with Trustees today to update them on the status of pending litigation. 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. VanderWall and carried. Roll call vote: yeas: 9, nays: 0.

Executive Session began at 11:20 a.m. and ended at 11:29 a.m.

Mr. Broggi of Scott + Scott was not available at the time Trustees placed the conference call. Mr. VanderPloeg made the motion to authorize the Securities Litigation subcommittee to participate in a conference call with Mr. Broggi of Scott + Scott at a future date and chart a course of action regarding this issue and if necessary reconvene the Boards to make a decision. The motion was seconded by Mr. VanderWall and carried.

The meeting adjourned at 11:31 a.m.

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

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems