

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

MINUTES
JOINT MEETING
FEBRUARY 20, 2013 – 8:34 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. William Butts and Mr. Bill Alphenaar. 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. Miguel Gonzalo of Adams Street Partners, and Mr. Marlin Pease and Mr. J.M. Ruscetti of Wilshire Associates, Inc.

Mr. Tryc 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.

Mr. Timkovich made the motion to approve the minutes of the Joint meeting of January 16, 2013. The motion was seconded by Mr. Hawkins and carried.

Mr. Miguel Gonzalo, CFA and Partner of Adams Street Partners (ASP) presented his firm's annual report to Trustees. Mr. Gonzalo noted that ASP is a 100% employee-owned private equity firm. They have offices in Chicago, London, Menlo Park, Singapore and Beijing. ASP has \$24 billion in assets under management. He reviewed their organization, people and process. Mr. Gonzalo reviewed opportunities in 2013 with respect to buyouts in the U.S. and Europe, venture capital, emerging markets, secondaries and co-investments. He stated that innovation, globalization, secular growth and restructuring remain attractive long-term trends. Some challenges in 2013 will be: 1) economic headwinds which will impact some regions and sectors within private equity more than others; 2) continued regulatory pressure is leading the industry to be mindful of and responsive to the media and regulators; and 3) fundraising is tougher for many, especially in Europe and increasingly in emerging markets. ASP strives to offer enhanced returns, mitigate poor outcomes, and provide access to opportunities which may provide outsized returns. ASP also provides diversification across five dimensions: 1) strategy (primary, secondary and direct); 2) time; 3) manager; 4) subclass; and 5) geography. He reviewed their investment philosophy regarding U.S. investments, developed markets and emerging markets. Mr. Gonzalo reviewed the Private Equity Fund program at ASP and provided Trustees with a review of the City of Grand Rapids General and Police & Fire Retirement Systems' portfolios as of December 31, 2012:

<u>ASP 2010 Fund Name</u>	<u>Subscription</u>	<u>Estimated Investment Commitments</u>	<u>Gross IRR*</u>	<u>Est. M.V. (NAV)</u>	<u>Dist. Rec. (D)</u>	<u>Estimated Total Value (NAV+D)</u>
U.S. Fund	\$5,000,000	\$3,457,000	21.04%	\$1,721,000	\$281,866	\$2,002,866
Non-U.S. Developed	\$3,000,000	\$2,110,000	15.22%	\$767,000	\$86,456	\$853,456

Non-U.S. Emerging	\$1,000,000	\$687,000	-7.10%	\$180,000	\$0	\$180,000
Direct Fund	<u>\$1,000,000</u>	<u>\$1,000,000</u>	<u>14.55%</u>	<u>\$515,000</u>	<u>\$0</u>	<u>\$515,000</u>
Participant Total	\$10,000,000	\$7,254,000	17.51%	\$3,183,000	\$368,322	\$3,551,322

*Since Inception

He provided Trustees with an historical review of vintage-year performance on all secondary investments since inception. The report was received and filed by Chairman Scripps.

Mr. Pease and Mr. Ruscetti presented the quarterly performance report to Trustees. In a Capital Market Update through February 15, 2013, Mr. Pease noted that the Federal Reserve Bank will continue to purchase \$40 billion per month in mortgage-backed securities and long-term treasuries to put downward pressure on longer-term interest rates and add support to the mortgage markets. January unemployment was essentially unchanged at 7.9% and 157,000 non-farm payroll jobs were added, and the CPI was unchanged in December; up 1.7% over the past year. Housing starts rose 12.1%, to the highest annualized level since June 2008. In the U.S. Equity market, YTD, Energy, Financials and Health Care lead U.S. sectors (all up over 8.0%), while Telecom was the largest laggard (up 2.2%). YTD small cap stocks are outperforming large cap stocks and value stocks are leading growth stocks. In the Non-U.S. Equity markets, the non-U.S. equity markets rallied through the second half of 2012 to finish the year stronger than the U.S. markets, despite lingering fiscal turmoil. The European market drove most of this upward trend, finishing the year up 19.1%. The European Central Bank's actions to shore up the Euro, and record low yields on the safest European sovereign debt, gave investors confidence to buy local-market stocks. In the Fixed Income market the Fed Funds Target Rate is 0.0% to 0.25% and the Federal Discount Rate is 0.75%. Fed funds rate increases are not expected to change while the unemployment rate is above 6.5%. As of February 15, 2013, YTD, the S&P 500 was up 6.9%, the Russell 2000 was up 8.8%, the Wilshire 5000 was up 7.4%, the ACWI was up 3.0%, the Barclays Aggregate Bond Index was down 0.7% and the Wilshire RESI Index was up 5.0%. 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 12/31/12**

<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	-0.38	15.98	10.86	1.65	7.38
RUSSELL 2000	1.85	16.34	12.25	3.55	9.72
NAREIT GLOBAL RE INDEX	5.77	28.65	13.41	N/A	N/A
MSCI ACWI X-US	5.85	16.83	3.87	-2.89	9.26
BARCLAYS AGGREGATE	0.21	4.22	6.19	5.95	5.18
91 DAY T-BILLS	0.00	0.10	0.10	0.50	1.80

General Retirement System

Asset Commitments as of 12/31/12:

Domestic Equity	49.2%
Fixed Income	29.3%
Cash Equivalents	0.7%
Real Estate	5.1%
Private Equity	0.7%
International Equity	15.0%

Asset Allocation to Managers:

NTGI	15.7%
PIMCO	5.6%
Wellington Management Company	12.1%
Ziegler Lotsoff Capital Management	15.7%
Baird Advisors	14.2%
Western Asset Management	15.1%
Cash Account	0.7%
Neuberger Berman	15.0%
CBRE Clarion	5.1%
Adams Street Partners	0.4%
FLAG Capital	0.2%

02/20/13

Quarterly Summary of the General Retirement System

	<u>Market Value</u> <u>12/31/12</u>	<u>Market Value</u> <u>09/30/12</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$366.7 million	\$366.7 million	\$0	1.15%	68 th percentile
Total U.S. Equity	\$180.4 million	\$183.5 million	(\$3.1 million)	-0.07%	68 th percentile
Total Non-U.S. Equity	\$55.1 million	\$52.8 million	\$2.3 million	4.27%	69 th percentile
Total Fixed Income	\$107.4 million	\$106.4 million	\$1.0 million	0.87%	38 th percentile
Total Real Estate	\$18.8 million	\$19.0 million	(\$200 thousand)	5.99%	14 th percentile
Total Private Equity	\$2.4 million	\$2.0 million	\$400 thousand	1.71%	N/A
NTGI	\$57.7 million	\$59.2 million	(\$1.5 million)	-0.35%	59 th percentile
PIMCO	\$20.5 million	\$20.8 million	(\$300 thousand)	-0.14%	53 rd percentile
Wellington Mgmt. Co.	\$44.5 million	\$44.1 million	\$400 thousand	0.90%	92 nd percentile
Ziegler Lotsoff Cap. Mgmt.	\$57.7 million	\$59.4 million	(\$1.7 million)	-0.51%	79 th percentile
Neuberger Berman	\$55.1 million	\$52.8 million	\$2.3 million	4.27%	82 nd percentile
Baird Advisors	\$52.1 million	\$51.8 million	\$300 thousand	0.53%	36 th percentile
Western Asset Mgmt.	\$55.3 million	\$54.6 million	\$700 thousand	1.19%	7 th percentile
CBRE Clarion	\$18.8 million	\$19.0 million	(\$200 thousand)	5.99%	14 th percentile
Adams Street Partners	\$1.4 million	\$1.4 million	\$0	1.71%	N/A
FLAG Capital	\$950 thousand	\$616 thousand	\$334 thousand	N/A	N/A

Police and Fire Retirement System

Asset Commitments as of 12/31/12:

Domestic Equity	49.3%
International Equity	14.6%
Fixed Income	28.9%
Cash Equivalents	1.0%
Real Estate	5.5%
Private Equity	0.7%

Asset Allocation to Managers:

NTGI	15.8%
PIMCO	5.5%
Wellington Management Company	12.2%
Ziegler Lotsoff Capital Management	15.8%
Baird Advisors	13.8%
Western Asset Management	15.1%
Cash Account	1.0%
Neuberger Berman	14.6%
CBRE Clarion	5.5%
Adams Street Partners	0.5%
FLAG Capital	0.2%

Quarterly Summary of the Police & Fire Retirement System

	<u>Market Value</u> <u>12/31/12</u>	<u>Market Value</u> <u>09/30/12</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$339.6 million	\$338.3 million	\$1.3 million	1.15%	68 th percentile
Total U.S. Equity	\$167.5 million	\$170.5 million	(\$3.0 million)	-0.07%	62 nd percentile
Total Non-U.S. Equity	\$49.6 million	\$47.7 million	\$1.9 million	4.27%	69 th percentile
Total Fixed Income	\$98.1 million	\$97.1 million	\$1.0 million	0.88%	37 th percentile
Total Real Estate	\$18.5 million	\$17.4 million	\$1.1 million	6.02%	14 th percentile
Total Private Equity	\$2.4 million	\$2.0 million	\$400 thousand	1.71%	N/A
NTGI	\$53.5 million	\$54.7 million	(\$1.2 million)	-0.37%	58 th percentile
PIMCO	\$18.8 million	\$19.5 million	(\$700 thousand)	-0.14%	53 rd percentile
Wellington Mgmt. Co.	\$41.5 million	\$41.2 million	\$300 thousand	0.90%	92 nd percentile
Ziegler Lotsoff Cap. Mgmt.	\$53.7 million	\$55.1 million	(\$1.4 million)	-0.48%	77 th percentile
Neuberger Berman	\$49.6 million	\$47.7 million	\$1.9 million	4.27%	82 nd percentile
Baird Advisors	\$46.9 million	\$46.6 million	\$300 thousand	0.55%	36 th percentile
Western Asset Mgmt.	\$51.2 million	\$50.5 million	\$700 thousand	1.19%	7 th percentile

CBRE Clarion	\$18.5 million	\$17.4 million	\$1.1 million	6.02%	14 th percentile
Adams Street Partners	\$1.4 million	\$1.4 million	\$0	1.71%	N/A
FLAG Capital	\$950 thousand	\$616 thousand	\$334 thousand	N/A	N/A

Mr. VanderWall noted that Trustees should decide soon to go forward with an additional commitment to Private Equity (PE). Mr. Ruscetti asked Trustees if they would like Wilshire to prepare a search document or prepare a report reviewing current PE managers for the portfolios. Trustees commented that they are pleased with both current PE managers. Chairman Scripps asked if there is enough diversification benefit to conduct a search for additional PE managers; Mr. Pease commented that although there are a number of quality PE firms, he did not see a benefit to conduct another search due to the quality of the existing PE managers. Mr. Ruscetti noted that Wilshire can prepare a report that reviews current allocations and unfunded capital commitments that are available in the marketplace and present the report at the May 2013 Joint Board meeting. The reports were received and filed by Chairman Scripps.

Ms. Elizabeth White provided Trustees with some guidance on how disability appeals are handled through the courts. She commented that the things the court considers are: 1) the applicant has the burden to show that he/she has the disability; and 2) that the causation was duty related. The standards that the Board's actions would be judged against are: 1) was the Board arbitrary and capricious in its decision making; and 2) did they disregard materials that were provided to them. She stated that it is a fairly high burden that the applicants have to meet. However, as long as the Board examines the materials that are provided to them in a thoughtful process and if they do not believe the burden has been met, they should put on the record this belief, and substantiate it with comments as to why they believe the burden has not been met. In addition, they should also consider what the experts have said with regard to causation and if there are issues that are brought forth in the materials that may lead to a different conclusion that assisted in their decision process, they should point them out. This will help strengthen the record on appeal going forward.

The meeting adjourned at 9:47 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, March 20, 2013, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems