

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

MINUTES
JOINT MEETING
FEBRUARY 19, 2014 – 8:05 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, Mr. William Butts, 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. Gary Fencik and Mr. Steven Wilde of Adams Street Partners, Mr. William Bensur of Wilshire Associates, Inc., and Ms. Catherine Mish, City Attorney.

There were no public comments regarding agenda items.

Mr. VanderPloeg made the motion to approve the minutes of the Joint meeting of January 15, 2014. The motion was seconded by Mr. Hawkins and carried.

Mr. Gary Fencik, Partner and Mr. Steven Wilde, CFA and Partner of Adams Street Partners (ASP) presented their firm’s annual report to Trustees. Mr. Fencik noted that ASP is a 100% employee-owned private equity firm. They have offices in Chicago, London, Menlo Park, Singapore, Beijing and Tokyo. ASP has \$25 billion in assets under management. They reviewed their organization, people and process. Mr. Fencik noted that the Retirement Systems’ former relationship manager, Mr. Miguel Gonzalo is now working directly with the CIO of ASP with respect to portfolio construction. Mr. Wilde reviewed the diverse global investor base as of September 30, 2013. He stated that ASP has an integrated global offering with access to top-performing investments across the entire global private equity opportunity set. They have diversification across five dimensions: strategy; time; manager; subclass; and geography. Mr. Fencik reviewed the 2014 global investment program with respect to the U.S. markets, developed markets and emerging markets and noted that there have been enhancements to ASP’s global program. Mr. Wilde stated that recent investment performance has been strong, portfolio company fundamentals are generally healthy, the credit markets are buoyant in the U.S., the venture market is bifurcated and emerging markets are experiencing a healthy break from the euphoria of previous years. He reviewed the primary investment strategies for the U.S., developed markets and emerging markets. ASP strives to offer enhanced returns, mitigate poor outcomes, and provide access to opportunities which may provide outsized returns. Mr. Wilde 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 September 30, 2013:

<u>ASP 2010 Fund Name</u>	<u>Subscription</u>	<u>Investment Commitments</u>	<u>Gross IRR*</u>	<u>M.V. (NAV)</u>	<u>Dist. Rec. (D)</u>	<u>Total Value (NAV+D)</u>
U.S. Fund	\$5,000,000	\$3,967,346	20.19%	\$2,010,580	\$209,866	\$2,220,446
Non-U.S. Developed	\$3,000,000	\$2,623,460	16.05%	\$1,031,278	\$86,456	\$1,117,734
Non-U.S. Emerging	\$1,000,000	\$722,166	-3.40%	\$241,220	\$0	\$241,220
Direct Fund	\$1,000,000	\$1,000,000	19.76%	\$742,090	\$0	\$742,090
ASP 2013 Global Fund	<u>\$10,000,000</u>	<u>\$2,515,994</u>	<u>0.24%</u>	<u>\$392,290</u>	<u>\$0</u>	<u>\$392,290</u>
Participant Total	\$20,000,000	\$10,828,966	17.98%	\$4,417,458	\$296,322	\$4,713,780

*Since Inception

Mr. Fencik provided Trustees with an historical review of vintage-year performance on investment commitments. The report was received and filed by Chairman Scripps.

Mr. Bensur presented the quarterly performance report to Trustees. In a Capital Market Update through February 13, 2014, Mr. Bensur noted that the Federal Reserve continued its tapering program in January, scaling down large-asset purchases to \$65 billion per month. The January unemployment rate was 6.6% and 113,000 non-farm payroll jobs were added; real GDP increased at an annual rate of 3.2% in the fourth quarter of 2013. Retail sales rose by 0.2% in December, up 4.1% over the past year; housing starts decreased 9.8% from November, but were up 1.6% from last year; and crude oil was trading near \$100 per barrel. In the U.S. Equity market, YTD, Utilities lead U.S. large cap sectors (up 5.3%), while Energy was the largest laggard (down 4.7%). YTD large cap stocks were outperforming small cap stocks and growth stocks were leading value stocks. In the Non-U.S. Equity markets, the European Union was still struggling with political uncertainty in Greece as well as lackluster economic expansion and/or recession throughout the region; and emerging market stocks continued to find performance hampered by concerns of China's slowing economy and political unrest in Brazil, Turkey and Egypt. 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 13, 2014, YTD, the S&P 500 was down 0.8%, the Russell 2000 was down 1.3%, the Wilshire 5000 was down 0.6%, the ACWI was down 2.1%, the Barclays Aggregate Bond Index was up 1.6% and the Wilshire RESI Index was up 6.8%. Mr. Bensur provided Trustees with a report detailing Wilshire's asset allocation update and 2014 capital market assumptions. He commented on the return and risk comparison between 2013 v. 2014 for the major asset classes and provided information on historical return comparisons from 12/31/1925 – 12/31/2013 for stocks, bonds, and cash. He noted that Wilshire will be providing the asset liability study at the May 2014 Joint board meeting. 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 12/31/13**

<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	10.52	32.41	16.18	17.94	7.40
RUSSELL 2000	8.72	38.82	15.67	20.08	9.07
NAREIT GLOBAL RE INDEX	-0.49	4.39	8.14	N/A	N/A
MSCI ACWI X-US	4.76	15.29	5.14	12.81	7.56
BARCLAYS AGGREGATE	-0.14	-2.02	3.26	4.44	4.55
DJ UBS COMMODITY INDEX	-1.05	N/A	N/A	N/A	N/A
91 DAY T-BILLS	0.02	0.07	0.10	0.12	1.67

General Retirement System

<u>Asset Commitments as of 12/31/13:</u>		<u>Asset Allocation to Managers:</u>	
Domestic Equity	48.9%	NTAM	15.2%
Fixed Income	25.8%	PIMCO	6.3%
Cash Equivalents	0.1%	Wellington Management Company	12.5%
Real Estate	4.8%	Ziegler Capital Management	15.0%
Private Equity	0.8%	Baird Advisors	12.5%
International Equity	15.8%	Western Asset Management	13.4%
Commodities	3.8%	Cash Account	0.1%
		Neuberger Berman	15.8%
		CBRE Clarion	4.8%
		Adams Street Partners	0.6%
		FLAG Capital	0.2%
		Wellington Commodities	3.8%

Quarterly Summary of the General Retirement System

	<u>Market Value</u> <u>12/31/13</u>	<u>Market Value</u> <u>09/30/13</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$411.6 million	\$394.7 million	\$16.9 million	5.42%	44 th percentile
Total U.S. Equity	\$201.5 million	\$187.6 million	\$13.9 million	9.99%	41 st percentile
Total Non-U.S. Equity	\$65.0 million	\$62.4 million	\$2.6 million	4.27%	77 th percentile
Total Fixed Income	\$106.3 million	\$105.9 million	\$400 thousand	0.35%	52 nd percentile
Total Real Estate	\$19.6 million	\$19.5 million	\$100 thousand	0.69%	64 th percentile
Total Private Equity	\$3.4 million	\$3.0 million	\$400 thousand	3.30%	N/A
Total Commodities	\$15.6 million	\$16.0 million	(\$400 thousand)	-2.81%	N/A
NTAM	\$62.7 million	\$57.5 million	\$5.2 million	10.52%	34 th percentile
PIMCO	\$25.9 million	\$23.4 million	\$2.5 million	10.71%	26 th percentile
Wellington Mgmt. Co.	\$51.2 million	\$50.0 million	\$1.2 million	9.88%	39 th percentile
Ziegler Cap. Mgmt.	\$61.7 million	\$57.1 million	\$4.6 million	9.28%	79 th percentile
Neuberger Berman	\$65.0 million	\$62.4 million	\$2.6 million	4.27%	70 th percentile
Baird Advisors	\$51.3 million	\$51.3 million	\$0	0.01%	61 st percentile
Western Asset Mgmt.	\$55.0 million	\$54.6 million	\$400 thousand	0.67%	19 th percentile
CBRE Clarion	\$19.6 million	\$19.5 million	\$100 thousand	0.69%	64 th percentile
Adams Street Partners	\$2.5 million	\$2.2 million	\$300 thousand	16.33%	N/A
FLAG Capital	\$835 thousand	\$834 thousand	\$1 thousand	-7.60%	N/A
Wellington Commodities	\$15.6 million	\$16.0 million	(\$400 thousand)	-2.81%	N/A

Police and Fire Retirement System

Asset Commitments as of 12/31/13:

Domestic Equity	50.1%
International Equity	15.1%
Fixed Income	25.0%
Cash Equivalents	0.2%
Real Estate	5.0%
Private Equity	0.9%
Commodities	3.7%

Asset Allocation to Managers:

NTAM	15.5%
PIMCO	6.3%
Wellington Management Company	13.0%
Ziegler Capital Management	15.3%
Baird Advisors	11.9%
Western Asset Management	13.1%
Cash Account	0.2%
Neuberger Berman	15.1%
CBRE Clarion	5.0%
Adams Street Partners	0.6%
FLAG Capital	0.2%
Wellington Commodities	3.7%

Quarterly Summary of the Police & Fire Retirement System

	<u>Market Value</u> <u>12/31/13</u>	<u>Market Value</u> <u>09/30/13</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$387.7 million	\$370.2 million	\$17.5 million	5.49%	40 th percentile
Total U.S. Equity	\$194.2 million	\$178.2 million	\$16.0 million	10.00%	40 th percentile
Total Non-U.S. Equity	\$58.6 million	\$56.2 million	\$2.4 million	4.27%	77 th percentile
Total Fixed Income	\$97.1 million	\$96.7 million	\$400 thousand	0.37%	52 nd percentile
Total Real Estate	\$19.3 million	\$19.2 million	\$100 thousand	0.69%	64 th percentile
Total Private Equity	\$3.4 million	\$3.0 million	\$400 thousand	3.30%	N/A
Total Commodities	\$14.5 million	\$14.9 million	(\$400 thousand)	-2.81%	N/A
NTAM	\$60.2 million	\$54.5 million	\$5.7 million	10.52%	34 th percentile
PIMCO	\$24.3 million	\$22.0 million	\$2.3 million	10.71%	26 th percentile

Wellington Mgmt. Co.	\$50.3 million	\$47.6 million	\$2.7 million	9.89%	38 th percentile
Ziegler Cap. Mgmt.	\$59.2 million	\$54.2 million	\$5.0 million	9.29%	79 th percentile
Neuberger Berman	\$58.6 million	\$56.2 million	\$2.4 million	4.27%	70 th percentile
Baird Advisors	\$46.2 million	\$46.2 million	\$0	0.04%	58 th percentile
Western Asset Mgmt.	\$50.9 million	\$50.6 million	\$300 thousand	0.67%	19 th percentile
CBRE Clarion	\$19.3 million	\$19.2 million	\$100 thousand	0.69%	64 th percentile
Adams Street Partners	\$2.5 million	\$2.2 million	\$300 thousand	16.34%	N/A
FLAG Capital	\$835 thousand	\$834 thousand	\$1thousand	-7.60%	N/A
Wellington Commodities	\$14.5 million	\$14.9 million	(\$400 thousand)	-2.81%	N/A

The report was received and filed by the Chairman.

Mr. Bensur commented that some of the investment accounts within each portfolio have exceeded their target allocation, so a rebalancing of accounts would be prudent. A rebalancing policy already exists for the Retirement Systems and Mr. Bensur will work with Ms. Korzen to rebalance the accounts to ensure they are more in line with their target percentages.

Mr. Bensur next provided Trustees with a report concerning the recent developments with Western Asset Management (WAM). The two main areas of focus are: 1) organizational turnover; and 2) the more recent U.S. Securities and Exchange Commission (SEC) and Department of Labor (DOL) settlement announcements. Wilshire continues to closely monitor WAM. He reviewed Wilshire's concerns with the high degree of organizational turnover and the recent SEC and DOL sanctions against WAM involving a system coding error and cross trading processes. Wilshire has engaged in multiple conversations with senior management at WAM to ascertain the impact of this announcement on the future investment operations of the firm. As a result of the conversations, Wilshire believes that in both instances WAM has already taken steps to remedy the operational issues that permitted the infractions to occur. However the SEC has ordered WAM to hire a third party to conduct an audit of its operations and compliance policies and procedures. As a result of these developments at WAM, Wilshire is reducing WAM's organizational score and will continue to evaluate this situation as it evolves. The report included copies of announcements from WAM and responses to the information in report. Wilshire does not recommend any change at this time; however, Mr. Bensur stated that there are two risks with WAM: 1) headline risk; and 2) fallout risk. He stated that there are suitable candidates for WAM if Trustees wish to pursue that option. He reiterated that there is nothing that Trustees need to do today, but this issue should be addressed again at the May 2014 Joint Board meeting when the asset liability study is presented. Mr. Balkema commented that the coding error while perhaps not a huge issue illustrates sloppiness and inattention to detail at WAM. Ms. White suggested that Trustees contact WAM and have them address these issues with Trustees at a Board meeting. Chairman Scripps commented that Trustees do not meet in April, so perhaps a special joint meeting of Trustees could be scheduled for April 16th. Mr. Bensur confirmed that this date will work for his schedule. Chairman Scripps asked Mr. Bensur if he could also provide Trustees with the asset liability study at this special joint meeting; Mr. Bensur stated that could probably be arranged. Mr. Bensur stated he will ask Mr. James Hirschmann of WAM to attend the meeting. Ms. Korzen suggested also having Ms. Frances Coombes from WAM at the meeting. The report was received and filed by the Chairman.

Mr. Bensur commented on the recent personnel changes at PIMCO and FLAG Capital. He stated that Wilshire is not recommending any changes to either one of these allocations at this time but wished to make Trustees aware of these situations.

There were no comments on items not on the agenda.

Board approval was requested for attendance at the following conferences: 2014 Wilshire Client Conference to be held May 4 - 6, the 2014 NCPERS Conference to be held April 27 – May 1 and the 2014 Spring MAPERS Conference to be held May 18 – 20. Mr. VanderPloeg made the motion to approve attendance of the aforementioned conferences by Trustees, legal counsel and staff per the Trustee Training, Educational Development and Due Diligence policy. The motion was seconded by Mr. Tryc and carried.

The meeting adjourned at 10:10 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, March 19, 2014, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems