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

MINUTES
JOINT MEETING
JANUARY 20, 2010 – 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. James Stokes, Ms. Dianette Hight, Mr. Michael Hawkins, Mr. Philip Balkema and Mr. Walter Gutowski. Absent: Mr. Thomas VanderPloeg.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Ms. Elizabeth White, Deputy City Attorney and Legal Advisor to the Boards, Mr. Matthew Clark and Ms. Erika Lowe of Pacific Investment Management Company, Mr. Gary Fencik of Adams Street Partners, and Mr. William Bensur of Wilshire Associates, Inc.

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

There were no public comments regarding agenda items.

The next item on the agenda was the approval of the minutes of the Joint Meeting of December 16, 2009 {Ms. Hight arrived at 8:07 a.m.}. Ms. Hight clarified the section pertaining to the Executive Director's contract by noting that one option that was being offered is a six-month extension beginning February 1, 2010 – July 31, 2010 under the current terms of the contract which include the 30-day notice of cancellation provision {Mr. Timkovich arrived at 8:10 a.m.}. Following Trustee discussion, Ms. Hight made the motion to approve the minutes of the Joint Meeting of December 16, 2009. The motion was seconded by Mr. Gutowski and carried.

Mr. Matthew Clark, CFA and Vice President and Ms. Erika Lowe, Vice President and Account Manager of Pacific Investment Management Company (PIMCO), presented their firm's annual report to Trustees. Ms. Lowe noted that she will be moving on to another position within PIMCO and will no longer be the representative for the Retirement Systems; Mr. Clark will assume that role. Ms. Lowe and Mr. Clark provided Trustees with an overview of PIMCO's organization, people and process. The following returns were reported for the period ending December 31, 2009:

	10 yrs.	5 yrs.	3 yrs.	1 yr.	3 mo.	6 mo.	Since 09/30/87	Since Inception*
StocksPLUS L.P.	-0.5%	0.4%	-5.3%	39.9%	7.5%	27.9%	8.9%	-1.1%
S&P 500	-1.0%	0.4%	-5.6%	26.5%	6.0%	22.6%	8.2%	-1.4%

*Inception date: 08/31/00

Mr. Clark noted that there has been a reversal of powerful trends that fueled growth in the past which means slower growth in the future and lower investment returns due to globalization, de-regulation and financial innovation/leverage. The implications from these changes are that alpha means more in a world of lower prospective investment returns, policy rates remain lower longer in a low growth economy, and risk premiums will be higher in a lower leverage world. Mr. Clark stated that a "new normal" economic and market reality is likely to translate to persistently higher risk premiums, potentially providing abundant alpha opportunities for StocksPLUS. The current yield advantage remains attractive compared to the historical average and the structural yield advantage has offered a consistent source of outperformance over the life of the StocksPLUS strategy. He stated that policy responses stabilized the system and fueled the technical rally and the riskiest sectors performed the best within this rally. The stimulus drove the second quarter growth in 2009, but 2010 will be challenged as the stimulus fades. PIMCO's outlook for 2010 includes such things as lower consumption levels and lower growth, the Fed will likely retain low rates although overleveraged consumers may be reluctant to borrow, and global reliance on exports to the U.S. will create growth headwinds. PIMCO now has $940.4 billion in total assets under management. Mr. Clark commented that PIMCO's portfolio strategy is to harvest gains and focus on fundamental valuations. They will accomplish this by maintaining extended durations and broad yield curve exposure to capture additional yield and sell options on interest rate swaps to boost the portfolio yield. In addition, PIMCO will retain significant allocations to Treasuries/Money Markets for liquidity management purposes, continue to scale back holdings on agency mortgages prior to the end of the Fed purchase program, reduce credit exposure in the area of Corporates as risk premiums have compressed, and focus on countries where debt is paired with strong reserves. The report was received and filed by Chairman Scripps.

At the November Board meeting, Trustees asked Mr. Bensur to bring in a firm to give a presentation on Private Equity (PE). Mr. Gary Fencik, Partner, of Adams Street Partners (ASP), provided Trustees with a report outlining the PE market and his firm. He stated that the benefit of investing in PE allows for investments in companies that are not listed on a publicly traded exchange. PE is appealing from a total portfolio perspective because of potentially attractive risk-adjusted returns, its imperfect correlation with other asset classes, and the PE markets are inefficient as transactions are negotiated. Mr. Fencik did comment that PE is a long-term investment, relatively illiquid and does carry high risk, particularly on an individual transaction basis. He reviewed the different types of PE partnership subclasses: 1) Venture Capital; 2) Buyout; 3) Mezzanine/Subordinated Debt; 4) Restructuring/Distressed Debt; and 5) Special Situations. Mr. Fencik noted that there are four things that create excess returns in PE: 1) inefficiency of access to investment opportunities; 2) price discipline; 3) ability to add value (and correct potential declines in value) post-investment; and 4) ability to exit the investment. He stated that global PE fundraising has gone down recently and that economic recoveries have historically been attractive investment periods. Mr. Fencik explained the different options for investing in PE: 1) discretionary asset management; 2) non-discretionary consultant; 3) do-it-yourself partnerships; and 4) do-it-yourself direct. He reviewed the configuration of a PE Fund of Funds and how they work. He then reviewed ASP's organization, qualifications and investment process. He stated that in a PE portfolio the key is balance as although this asset class may be cyclical, it is very difficult to predict those cycles. Mr. Fencik explained how to help lessen the J-Curve effect by diversifying the investments within a PE portfolio; also investing in Secondaries will help; however, Mr. Bensur commented that it would not be prudent to channel all of the plan's PE investments into Secondaries. Mr. Fencik stated that most PE investors start seeing returns between years 3-7. Ms. Hight voiced her concern that an investment in PE might have impacts on actuarial valuations and the more information that can be obtained regarding this type of investment and its potential returns would be helpful. Mr. Timkovich asked if ASP has an accounting staff that produces the necessary valuations on their investments that would be acceptable to the City's auditors; Mr. Fencik responded yes and stated that their firm is audited and everything they invest in is audited. Mr. Bensur stated that although the reports are provided by ASP quarterly, they are lagging by one quarter as that is the nature of this type of investment. Mr. Tryc asked what happens if Trustees make a strategic allocation to PE and once a commitment is made and pays out over time, how do they get out of the allocation. Mr. Bensur stated that if a strategic allocation to PE is made, there will be maintenance on those commitments made throughout its horizon. He also stated that it is likely that as the investment relationship progresses, there will be a number of separate commitments made so that the time frames for each one will be varied. Mr. Timkovich asked Mr. Fencik to speak about fees. Mr. Fencik stated that ASP charges a 1% fee on the committed capital with some discounts factored in and is scaled down by 10% per year toward the latter part of the program. Mr. Bensur explained that the J-Curve represents the fees that are paid before there are investments. He stated that there is carried interest that represents fees to the general partners as well. He stated that ASP's expected return over the long-term is 15% and Wilshire's expectation is 10%. Mr. VanderWall asked if there could be a scenario where commitments have been made to a PE portfolio and as they evolve they cause the allocation to exceed the basket clause in P.A. 314. Mr. Bensur responded yes and that there would be no way to get out of the commitment. That is why the allocation is carefully implemented in conjunction with the rest of the investment program to avoid this.

Mr. Bensur provided Trustees with a preliminary report on performance of the plans' investment managers as of December 31, 2009. {Mr. Gutowski left the meeting at 10:19}. He discussed each of the managers individually and noted that most of the managers had a value-added quarter and year. Mr. Bensur stated that he believes that the point of entry into a PE allocation is good and it would be prudent for Trustees to consider an allocation as it allows the plans to gain access to out-sized returns and there are a lot of good players in that space. The fees can be high but the potential for a 10-15% net return would be worth the expense. Mr. Bensur explained that the next step would be to consider implementation tools. Ms. Hight voiced her concern that what happens if a PE relationship is entered into with a manager and perhaps halfway through the commitment the relationship is not working out; Mr. Bensur replied that once a commitment is made with a PE manager it cannot be exited without a large cost to the plans. Ms. Korzen stated that other commitments could be made with different PE firms instead of always just using one firm; this would also help with diversification. Mr. Bensur commented that if Trustees are going to consider a PE allocation they should look at more than one firm before selecting one. Chairman Scripps asked Mr. Bensur to prepare a report outlining five suitable PE candidates and have Mr. Pease present it at the February Board meeting.

There were no comments on items not on the agenda.

Board approval was requested for attendance at the following conferences: MAPERS One Day Seminar to be held February 5, the 2010 Annual NCPERS Conference to be held May 2 – 6 and the Spring 2010 MAPERS Conference to be held May 23 – 25. Mr. Timkovich 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. VanderWall and carried.

Mr. Hawkins stated that the committee is still compiling information from suitable consulting firms and hopes to bring back a report at the February Board meeting that will assist Trustees in selecting a firm to assist in the Executive Director compensation and classification study.

The meeting adjourned at 10:40 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, February 17, 2010, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems