

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

MINUTES  
SPECIAL JOINT MEETING  
July 16, 2014 - 8:00 a.m.  
233 East Fulton Street

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. Bill Wallace and Mr. Benjamin Segal, of Neuberger Berman, Mr. James Evans, Mr. John Ackler and Mr. Jason Johnson of Brown Brothers Harriman, Mr. David Martinelli and Mr. Nicholas Gaspari of Harvest Fund Advisors, LLC, Mr. William Bensur and Mr. J.M. Ruscetti of Wilshire Associates, Inc., Mr. Gregory Sundstrom, City Manager, and Ms. Catherine Mish, City Attorney.

This special joint meeting was called for the purpose of reviewing Neuberger Berman’s annual report to Trustees, for educational presentations from Brown Brothers Harriman (TIPS) and Harvest Fund Advisors (MLPs), and to hold a discussion about the proposed ordinance amendment regarding the meeting location for the Retirement Systems’ Boards.

Mr. Bill Wallace, CFA, Senior Vice President and Relationship Manager and Mr. Benjamin Segal, CFA, Managing Director and Portfolio Manager of Neuberger Berman (NB) presented their firm’s annual report to Trustees. Mr. Wallace stated the hopefully within the next year, NB will be 100% employee-owned. Mr. Segal commented that he will be relocating to Singapore for the next 2-3 years; however, there will be no change in his duties regarding the portfolios. He will be back in the U.S. at least once per quarter and will be visiting clients as time permits. He provided an overview of NB and recent developments within the firm; he stated that NB is 90% employee owned by 400 employees. Mr. Segal noted that NB was founded in 1939 and today is among the world’s largest private employee-controlled asset management companies. NB has over \$247 billion in assets under management; he also reviewed the global equity team structure. Mr. Wallace commented that NB’s approach to international equity is to implement an all-cap portfolio with an attractive long-term risk/return profile driven by fundamental research. Their process emphasizes strategic analysis, valuation and risk management. Their screens narrow the universe to a manageable set of companies that undergo in-depth analysis. NB has proprietary screening and comprehensive fundamental analysis and they construct and monitor risk-managed portfolios through adherence to pre-determined guidelines. The portfolio typically contains 80-110 names. Mr. Wallace reviewed the City of Grand Rapids Retirement Systems’ objectives and portfolio guidelines and provided the following return statistics for both portfolios for periods ending May 31, 2014:

**Annualized Returns**

	May <u>2014</u>	<u>YTD</u>	<u>1 Yr.</u>	<u>3 Yr.</u>	<u>5 Yr.</u>	Since Inception <u>06/30/06</u>
General Retirement System	1.32	2.31	15.86	5.06	12.97	3.53
Police & Fire Retirement System	1.32	2.31	15.86	5.06	12.95	3.57
MSCI ACWI Ex-U.S.	2.05	4.10	15.03	5.11	10.97	4.74
MSCI EAFE Index	1.76	4.11	18.54	7.79	11.92	4.31

Mr. Segal reviewed the equity fund characteristics, holdings, sector allocations and attribution, market cap allocation, and regional and country allocations for the portfolios. He also reviewed the top 10 contributors and top 10 detractors for the portfolios as of May 31, 2014. The report was received and filed by Chairman Scripps.

Mr. Bensus next commented that the primary purpose of this meeting is to have educational presentations by TIPS and MLP managers so that Trustees can learn about areas in the real assets category in the marketplace. The Retirement Systems do not currently invest in these areas but recently approved them for future allocations, pending additional training. He commented that there are signs in the marketplace that inflation may be picking up so it may be prudent for Trustees to consider further diversifying the portfolios by investing other real assets. If there is not an increase in inflation and Trustees have implemented TIPS and MLP portfolios, this will not hurt the plans rather they will help reduce risk.

Mr. James Evans, CFA, Senior Vice President and TIPS Portfolio Manager, Mr. John Ackler, Senior Vice President and Fixed Income Specialist, and Mr. Jason Johnson, Senior Vice President and Relationship Manager of Brown Brothers Harriman (BBH) presented an overview of their firm's TIPS strategy to Trustees. Mr. Johnson provided Trustees with an overview of BBH by noting that they are a privately owned financial service firm that is a focused provider of investment management, private banking, and global custody services. They were founded in 1818; are owned and managed by 38 general partners; have approximately 4,300 employees in 17 locations globally, with all investment professionals located in New York. BBH manages a select number of value orientated investment strategies where they believe they can generate outstanding results over full market cycles. BBH has \$63 billion in assets under management. Mr. Evans provided general facts regarding TIPS, noting that they protect investors against inflation through principal accruals equivalent to changes in headline CPI, U.S. TIPS pay coupon interest on their adjusted principal balance, and timely payment of principal and interest is guaranteed by the U.S. government. The first TIPS auction was held in 1997 and since then the U.S. TIPS market has grown to \$1 trillion, auctions are held monthly in maturities of 5, 10, or 30 years and the daily trading volume of U.S. TIPS averages over \$10 billion. He reviewed the mechanics of TIPS and gave return examples on TIPS v. nominal Treasuries. Mr. Ackler noted that relative to most alternatives, TIPS offer efficient, liquid, and low cost access to inflation protection without credit risk; TIPS' principal is indexed to headline CPI. TIPS have often been undervalued and the U.S. TIPS market is the largest and deepest inflation indexed securities market. Mr. Johnson commented that BBH's inflation-indexed securities investment process focuses on three primary strategy categories: 1) fundamental strategies (real yield duration and real yield slope v. nominal yield slope); 2) non-directional strategies (roll-down, auction cycle trading, seasonal patterns, deflation floor, and index extension); and 3) opportunistic strategies (nominal bonds-breakeven, and non-dollar linkers). He reviewed each one of their strategy categories in greater detail and provided comparative yields of sovereign inflation-indexed issuers as of May 31, 2014; globally, real rates remain historically low. He stated that the BBH TIPS composite has generated an average excess return of 48 basis points per annum since inception (gross of fees), with an information ratio of 0.73 and positive attribution from all major strategies. On a rolling 3-year basis, BBH has outperformed the market index 94% of the time. Mr. Ackler provided the following return statistics for the BBH Institutional Investment Management U.S. TIPS composite as of May 31, 2014:

	<u>1 Yr.</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>10 Yrs.</u>	<u>Since Inception*</u>
BBH	0.25%	4.14%	5.89%	5.51%	6.84%
Barclays Capital U.S. TIPS Index	0.40%	3.73%	5.59%	5.22%	6.36%

\*April 1, 1997

Mr. Evans noted that some of the key themes in the TIPS market are: 1) despite Federal Reserve tapering, U.S. real yields are significantly lower in 2014; 2) gasoline and other commodity prices have trended higher in 2014; 3) inflation remains below the Fed's target rate; 4) inflation protection remains attractively priced by historic standards; and 5) relative roll-down opportunities persist. The report was received and filed by Chairman Scripps.

{Mr. VanderPloeg left the meeting at 9:46 a.m.}

Mr. David Martinelli, Managing Partner, and Mr. Nicholas Gaspari, Investment Analyst of Harvest Fund Advisors, LLC (HFA) presented an overview of their firm's MLP strategy to Trustees. Mr. Martinelli provided Trustees with an overview of the MLP space by noting that an MLP (Master Limited Partnership) is an organization structure with publicly traded partnership interests. MLPs must have 90% of income from "qualifying sources"; this means income and gains derived from the exploration, development, mining, production, processing, refining, transportation or marketing of any mineral or natural resource. The coverage universe has a market cap of \$950 billion and over 140 securities. Mr. Gaspari reviewed key energy characteristics: process, store, and transport energy products for a fixed fee; operate long-lived tolling assets; not linked to commodity prices (except for coal & upstream MLPs); have high barriers to entry; no electricity assets (e.g. power plant) and no direct retail assets (e.g. gas station). MLPs serve as the "toll roads" of the U.S. energy complex. Major diversified energy players have sought to monetize mature assets and redeploy the proceeds into faster-growing MLPs. Mr. Martinelli reviewed the opportunities within MLPs by noting they offer an attractive portfolio yield, have undervalued growth, and have low broad market correlation. MLPs are experiencing rapid change as new plays and new technology are creating an explosion in production requiring multi-decade infrastructure build-out. There has been an increase in technology due to horizontal drilling, hydraulic fracturing, pad drilling, and 4D seismic activities. Shifting supply sources are creating inefficiency, differentiation, and opportunity in the U.S. natural gas production. The natural gas and crude oil differentials drive infrastructure build-out. New supply sources require significant midstream infrastructure build-out for decades worth of production. Mr. Gaspari noted that HFA believes that MLP equity yields will be re-priced over time to match the quality of their cash flows. He stated that MLPs offer investors a hedge against inflation, commodities, and traditional fixed income instruments. The energy infrastructure has low correlation to both commodity prices and the broader markets and MLP yields have been consistently strong when compared against other asset classes. Mr. Martinelli noted that HFA was founded November 2005 in Wayne, PA and has 17 employees. They employ fundamental, value-oriented investing strategies (long-only). HFA offers pooled funds and customized separately managed accounts. Their investment objectives are to achieve a 15% risk-adjusted return per annum and provide a high cash yield payout to investors. HFA has \$6.4 billion assets under management and of that, \$5.8 billion in their MLP strategy. {Ms. Hofmeyer left the meeting at 10:40 a.m.} He provided a representative client list and noted that HFA is the only MLP investment firm run by a former MLP owner-operator. HFA focuses on a fundamentally driven research process and is built exclusively as a pure-play MLP platform for institutional investors. They have had the same management team since inception and the firm is 100% employee owned; client and management interests are aligned. The report was received and filed by Chairman Scripps.

Mr. William Bensur commented that both educational sessions were informative and noted that Wilshire has prepared search documents for TIPS, MLP and ADR managers that will be distributed to Trustees for the August 2014 Joint Board meeting.

Chairman Scripps next commenced discussion on the proposed ordinance amendment regarding the meeting location for the Retirement Systems' Boards. He stated that it came to his attention just before the last meeting that the City Commission was considering an ordinance change to require the Retirement Systems' Boards to hold their meetings in City Hall. Subsequently, Commissioner Gutowski invited Chairman Scripps to a meeting regarding this subject with Mr. Sundstrom and Mayor Heartwell; they stated their case for why they felt it would be appropriate for the Boards to hold their meetings at City Hall. It is Chairman Scripps' understanding that the proposed ordinance did come before the Committee of the Whole last week and it is going to come before the City Commission next week. Mr. Gutowski stated that in the midst of the City trying to accomplish this task, there was some miscommunication to himself, the City Manager and Commissioner Shaffer. He stated that before the City Commission made a decision, a conversation should have taken place to understand how this change would impact the Board and Retirement Systems office staff; unfortunately, this did not occur. Chairman Scripps agreed with Mr. Gutowski that the Board was not involved in the conversation before the issue was brought to the City Commission. Mr. Gutowski noted that although this issue has been brought up over the past couple of years, it was nothing formal. He encouraged Ms. White to have a dialogue with Ms. Korzen to understand the impacts to the Boards and staff. Mr. Balkema stated his opinion that this is a solution looking for a problem. He was never aware that there was any problem with the Boards meeting at this location; if the City wants the Boards to begin meeting at City

Hall they need to ask, not order them to do so. He served as legal advisor to the Boards beginning in 1970 and served in that capacity for nearly 30 years. In the beginning they met at City Hall, but he can't recall any member of the public or the media attending meetings in City Hall. He continued by stating that the Retirement Systems' Boards are not advising or deciding on issues of public policy. They are in fact Boards of Trustees that administer a trust that is handed to them by the City Commission. The Boards' area of discretion and decision making is very narrow. He stated that as an individual, he is happy to meet in City Hall; however, he is not sure there is a problem that needs to be solved. Mr. Gutowski stated that Mr. Balkema did not sound happy; Mr. Balkema stated he was not happy with the process, having been involved with the City for 33 years, and he was insulted. He was insulted with the process and some of the wording in the cover memo which alluded to things not being done correctly by Trustees, and therefore, they should be ordered to do things correctly. He stated that the Retirement Systems have impeccable reputations and felt that Trustees are owed an apology by the City Commission for the way this was handled. He felt that the Boards are being asked to move their meetings simply for moving's sake. Mr. Timkovich agreed and stated that no one came forward from the City Commission and mentioned this issue so that a dialogue could be started between the City Commission and Trustees. He stated he was hearing comments from retirees asking what Trustees did to irritate the City Commission and from active employees, questions about what the City wants to do with their money. It is his opinion that this proposed ordinance change makes the Boards look bad and they have done nothing wrong. The ordinance names the City Attorney as the Boards' legal advisor and Trustees were not served properly by the City Attorney as it was her responsibility to speak to Trustees about legal changes that affect them and not one word came from the City Attorney's office regarding this issue. Mr. Hawkins asked if there is a conflict of interest having the City Attorney serve as legal advisor to the Boards, in light of this issue. Mr. VanderWall commented that it is more than just a problem of process as he has spoken to numerous active employees and retirees and they are genuinely concerned that there may be some hidden agenda by the City. The autonomy of the Boards in their current location is important to retirees and active members. He agreed the process was unprofessional and the Retirement Systems were not represented well. He referenced that the City claimed "transparency" as a reason for holding the meetings in City Hall, yet he didn't find out about the proposed change until the day before; this made him uncomfortable and he questioned the real reason behind the proposal. He stated his opinion that the Board meetings should remain at the current location. Mr. Butts questioned the timing of this issue and what the hidden agenda is to what seems to be a heavy-handed approach to something that could have been solved in a different way. He asked what benefit Trustees will get out of holding their Board meetings in City Hall. Mr. Gutowski stated he believes that the Mayor wants this to increase transparency to the public. He stated there are a few issues that could be significant. The first is the process by which the Retirement Systems office forwards information to retirees, in particular, Fire retirees. There recently was a newsletter from the Grand Rapids Fire Fighters Building Corp. sent to Fire retirees that did not speak favorably about the City. A second issue was regarding a gun that the Executive Director had at the Retirement Systems office last year. He commented that since the media is always at the City Commission meetings, perhaps they should be at the Retirement Systems' Board meetings. He has suggested on some occasions to the media to come to the Board meetings; they did not. Chairman Scripps stated that he has invited the media to attend the meetings as well; they choose not to. Mr. Balkema stated that the Trustees have not run for public office, and they are not appointed officials. For the most part, Trustees are either elected by the members or volunteering their time to serve on the Board and they are not compensated for this. The Trustees bring a lot of diverse talent to the Boards. It would have been better to have the Mayor or someone from the City Commission come to Trustees to discuss this issue and ask Trustees to meet in City Hall as most other boards meet there. He stated this matter was handled very poorly. Mr. Gutowski stated that the City Attorney feels that the meals that Trustees may have with investment professionals are inappropriate. Mr. Hawkins commented that he gives a lot of his time to the Boards, which takes time away from his business and schedule. He attends all of the Board meetings and reviews all of the extensive materials for each meeting and reiterated that he is not paid for his service. Mr. Hawkins commented that as a Citizen Trustee he is insulted by these insinuations. Mr. VanderWall noted that a meal also allows Trustees more time to speak with the investment managers and consultants to glean additional knowledge. Mr. Balkema commented that another matter that was brought up in the Committee of the Whole concerned the posting of the Retirement Systems' Board meetings. He stated that meeting notices have been posted in City Hall for as long as he can remember, unless the previous City Clerk failed to post them. He stated that the Retirement Systems office has always properly posted meeting notices. Chairman Scripps stated he was unhappy regarding this situation and he has asked Mr. Sundstrom six times over the past year if there was anything the Trustees were not doing that they should or anything they were doing that they shouldn't be doing;

Mr. Sundstrom always responded “no.” If there is something that the City has a problem with Trustees doing, he would appreciate Mr. Sundstrom communicating that to Trustees. He stated that the City is claiming transparency as a reason; however, this process occurred virtually in secret. He understood that the City Attorney told the Deputy City Attorney not to inform the Trustees that this ordinance was placed on the City Commission agenda; that is not transparent. Trustees have always complied with the Open Meetings Act. He stated that Mr. Sundstrom had recently noted a few concerns and they have been addressed. The Retirement Systems’ Boards have been meeting at their current location for more than 22 years and never had a problem. The results for the Retirement Systems are impeccable; expenses are extremely low and returns have been good. It feels punitive the whole way this issue was handled and he opposed the move. He feels it is important to the Boards and the trusts they administer to stay autonomous and independent and remain where they are. Mr. Tryc commented that he feels Trustees were stabbed in the back and he has had a lot of members contact him to note their feeling of distrust with the City and that the City is trying to control the Boards. Mr. Balkema noted that when he first started as legal advisor to the Boards the total assets for both plans were \$35 million, and now they are over \$800 million. Mr. Butts commented that if the tables were turned and this was done to them, the City would be voicing the same concerns. Mr. Timkovich asked what, if anything, Trustees could or should do. Chairman Scripps commented that he wasn’t sure if there was anything they should do. Mr. Sundstrom addressed Trustees and noted that this issue was a direction given to him by the City Commission. He stated this has been an issue that has been under discussion for several months and that staff was at least aware of it. He did agree that the manner in which it was processed was poor and he apologized for that. The issue was rolled out when he was on vacation and the Mayor was responsible for putting it on the agenda. Mr. Gutowski stated that an attempt was made to remove it from the agenda, but it was ultimately the Mayor’s decision whether or not to keep it on the agenda. Mr. Sundstrom stated that the results of the Boards speak for themselves. He has been attending these Board meetings for the last several months at the City Commission’s request as they thought he would attend these meetings and find problems; however, he found none. He has been impressed by the level of conversation in these meetings. He stated what is at issue is that this is not the Boards’ money, the employees’ or retirees’ money, but rather the City of Grand Rapids’ money. The City of Grand Rapids is responsible for the payment of monies to retirees. He agreed that the way the Board has been constructed to administer the plans has been a good thing, but this is City of Grand Rapids money. This represents approximately 25% of City employee expenditures and to suggest letting Trustees do what they wish without having input from the City would be totally irresponsible from the City’s standpoint. Having the Retirement Systems’ Boards meet in City Hall would be helping the City Commission fulfill their fiduciary duties regarding the plans to make sure they understand what is going on with the plans. Mr. Gutowski stated he has not heard this from his colleagues on the City Commission and asked for clarification from Mr. Sundstrom. He stated that pension issues have been discussed in briefing sessions with City Commissioners at least three to four times and that he would not pursue the issue if a majority of City Commissioners did not want it. Mr. Hawkins commented that the reason a City Commissioner is on the Boards is to attend meetings and report back to other City Commissioners. Furthermore, if a City Commissioner has a desire to learn about what is going on in the Retirement Systems, shouldn’t he/she attend the meetings regardless of whether they are held here or at City Hall? He questioned whether full attendance by City Commissioners would take place if the meetings were moved to City Hall. Mr. Sundstrom stated he has not heard any discussion for City Commissioners to infringe on the decision making authority by the Boards. He stated that the responsibility to manage over \$800 million is more important than employees who subscribe to conspiracy theories. The notion is transparency and the City Commission can be informed as to what is going on with the Retirement Systems; not performance issues. He also stated that where the Boards meet is not a publicly-owned building and they would like to see the meetings held in a publicly-owned building. Trustees have voiced a concern that being in City Hall would diminish an employee’s expectation of privacy; this is a low priority on his list. The Retirement Systems office would still be located here. Mr. VanderWall asked why City Commissioners don’t consult with Mr. Gutowski on what is going on with the Retirement Systems as he is a Trustee on both Boards. Mr. VanderWall pointed out that it is not just the City’s money in the plans; employees make contributions as well. Mr. Sundstrom agreed and noted that the plans have also generated significant investment earnings, but it is the City’s liability. Chairman Scripps stated that the Retirement Systems publish a great deal of information on the operations of the plans and if someone has a question regarding any of it, they can contact the office. Mr. Sundstrom stated that transparency is a matter of perception. {Chairman Scripps left the meeting at 11:27 a.m.} Mr. VanderWall commented that as long as he has been on the Board he has not seen any City Commissioners at the Board meetings. Ms. Mish stated that this process started well over six months ago; she was asked to draft an ordinance

change and City Commissioners were briefed on this issue in February 2014; Mr. Gutowski was part of that briefing. At that time there was a concern by Mr. Gutowski about the May 6<sup>th</sup> election, so he requested that the ordinance change not go forward until after the May 6<sup>th</sup> election. The City Commission was briefed again in June 2014. She stated that the City Commission was under the impression that Ms. Korzen was informed about this issue by Ms. Mari Beth Jelks back in February 2014. She stated that Ms. White had asked a number of times what the status was of the proposed ordinance change and when the pension boards could be notified; she was told that a meeting with the City Manager, the Chairman of the Boards, Mr. Gutowski and the Mayor was a better method than having her act as a messenger to Trustees. The meeting did transpire and the Mayor stated that the proposed ordinance change should be placed on the City Commission agenda. Mr. Tryc stated that he found it hard to believe that if this issue was being contemplated back in February 2014 that no one on the Boards was notified or asked to discuss the matter. Mr. Gutowski disagreed and stated he had this conversation approximately two years ago. Mr. Tryc stated they have had the discussion to potentially move back to City Hall, but not that there was a proposed ordinance change to move the Board meetings to City Hall; Mr. Timkovich agreed. Mr. Sundstrom commented that when the present lease is up for the Retirement Systems office there will likely be a lot of pressure to have the office move back to City Hall. The City would rather have the office rent space from the City than pay rent to a private party. Ms. Korzen stated that her concern is that the City Commission may not be aware of how well the Retirement Systems are run. There are a number of other systems that model their plans after the City of Grand Rapids Retirement Systems. Mr. Sundstrom stated he believes the City Commission is aware of this. Ms. Korzen stated that she does not know of any other similar sized plan in Michigan that holds its Board meetings within the plan sponsor's facility. Ms. Mish agreed with Mr. Balkema's earlier comment regarding the meeting notices not being posted; she stated the former City Clerk may not have been posting them. Ms. Korzen referenced the previous issues addressed by Mr. Gutowski and stated that these issues were only mentioned in passing and no formal discussions or meetings were held to rectify any problems; she was disappointed in the lack of communication. Mr. Timkovich stated that an ordinance change isn't needed to ask Trustees to move their Board meetings to City Hall. Ms. Mish noted that the ordinance change has not yet been amended to read City Hall v. City Commission Chambers, but she will make sure to communicate that desire to the City Commission. Mr. VanderWall stated that he hopes the Trustees' comments that were shared today will be communicated to the City Commission next week. Ms. Korzen confirmed that what the City Commission voted to publish last week was the original ordinance change, not with the amendment to read City Hall instead of City Commission Chambers; Ms. Mish agreed.

The meeting adjourned at 11:44 a.m.

Peggy Korzen  
Executive Director  
Police & Fire and General Retirement Systems