

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

MINUTES
JOINT MEETING
JUNE 15, 2011 – 8:11 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, Ms. Dianette Hight, Mr. Michael Hawkins, Mr. Philip Balkema, and Mr. Walter Gutowski. Absent: Mr. James Stokes.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Ms. Elizabeth White, Deputy City Attorney and Legal Advisor to the Boards, Ms. Mary Ellen Stanek and Mr. Charles Groeschell of Baird Advisors, and Mr. Donald Reid and Ms. Allison Brink of Ziegler Lotsoff Capital Management.

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

There were no public comments regarding agenda items.

Mr. Tryc made the motion to approve the minutes of the Joint Meeting of May 18, 2011. The motion was seconded by Mr. Hawkins and carried.

Ms. Mary Ellen Stanek, CFA, Managing Director and Chief Investment Officer and Mr. Charles Groeschell, Managing Director and Senior Portfolio Manager, of Baird Advisors (Baird) presented their firm's annual report to Trustees Ms. Stanek noted that Baird has total assets under management of more than \$15.2 billion and they have a disciplined, research driven approach. Baird has over 2,600 associates and 100+ office locations in the U.S., Europe and Asia. She reviewed Baird's investment philosophy and outlined their investment process, which is twofold: 1) to structure portfolios to achieve the return of the benchmark for each client; and 2) to add incremental value through a multi-step, risk-controlled process. Ms. Stanek noted that Baird's goal is to add an incremental return of 15-50 basis points through multiple investment strategies. She provided Baird's market outlook by stating that spread volatility has come full circle. {Mr. VanderWall arrived at 8:19 a.m.} Baird expects additional outperformance and the portfolio is positioned to benefit from the steep yield curve and spread sector outperformance. She stated that risk control discipline is critical in a higher risk environment. The U.S. economy is experiencing a modest recovery with continued significant restraints, wages remain benign though signs of rising inflation are evident. In the housing markets, prices are in a long bottoming process and in the financial markets, stock and bond prices are discounting a sustainable though modest recovery. Mr. Groeschell noted there is still a weak employment picture, core consumer price inflation is below the Fed target, wage pressure is virtually non-existent, there are improving credit fundamentals, U.S. corporate cash is at records levels, there

is strong demand and declining supply for corporate bonds, and Europe remains unsettled. Mr. Groeschell reviewed the City of Grand Rapids Retirement Systems' objectives and portfolio guidelines and provided the following return statistics for the portfolios:

	<u>General Retirement System</u>	<u>Police & Fire Retirement System</u>	<u>Barclays Aggregate Index</u>
2003 (Mar.-Dec.)	3.25%	3.25%	2.60%
2004	4.88%	4.88%	4.34%
2005	3.13%	3.15%	2.43%
2006	4.75%	4.77%	4.33%
2007	6.15%	6.07%	6.97%
2008	-1.10%	-1.56%	5.24%
2009	9.52%	10.22%	5.93%
2010	9.98%	9.81%	6.54%
2011 Q1	1.18%	1.14%	0.42%
April	1.31%	1.32%	1.27%
May*	1.25%	1.21%	1.31%
Year-to-Date	3.79%	3.71%	3.02%
<u>Since Inception</u>			
Cumulative Return	53.52%	53.38%	49.74%
Annualized Return	5.33%	5.32%	5.01%

*Preliminary performance.

The report was received and filed by the Chairman.

Mr. Donald Reid, Co-Chief Investment Officer-Equities, Chief Financial Officer and Senior Portfolio Manager and Ms. Allison Brink, Director of Marketing, of Ziegler Lotsoff Capital Management (ZLCM), presented their firm's annual report to Trustees. Ms. Brink stated that Ziegler Capital Management and Lotsoff Capital Management became Ziegler Lotsoff Capital Management effective June 10, 2011. The combined firm has nearly \$4 billion in assets across the fixed income, active equity and alternatives spectrum. The firm is an LLC owned by senior management employees, the Ziegler companies and Rizvi Traverse Management, LLC. She reviewed the organizational structure of ZLCM. Mr. Reid noted that ZLCM's philosophy is that cash flow analysis (adjusted for inflation and cost of capital) provides the most accurate measure of a company's value. Their objective is to find companies that: 1) are trading below fair value; 2) are likely to rise to fair value; 3) are likely to have their fair values rise over time; and 4) have management teams who understand how to create wealth. ZLCM utilizes a three-step investment process: 1) quantitative scoring – utilizes a discounted cash flow analysis to score and rank stocks within a universe; 2) fundamental evaluation – employs a combination of in-house, sell-side and other various research sources to determine which analysts and/or outside research can add incremental value to their knowledge of the stock; and 3) portfolio construction – using the most attractive stocks by sector and focusing on risk control. {Mr. VanderPloeg arrived at 9:08 a.m.} ZLCM employs an investment process that combines a quantitative model that scores stocks with a fundamental evaluation that confirms the attractiveness of the top scoring stocks. They seek out companies where the internal rate of return is higher than the cost of capital and those companies whose growth is managed to maintain

attractive rates of return on capital. Ms. Brink noted that ZLCM attempts to remain sector neutral, hold no more than 140 securities and outperform the S&P 500 Index by 2.5%. The performance returns for the period ending May 31, 2011 were as follows:

	<u>General Retirement System</u>	<u>Police & Fire Retirement System</u>	<u>S&P 500</u>
2004 Q4	9.10%	9.05%	9.23%
2005	8.38%	8.37%	4.91%
2006	13.48%	13.53%	15.80%
2007	6.32%	6.34%	5.49%
2008	-41.48%	-41.43%	-37.00%
2009	32.78%	32.80%	26.44%
2010	14.68%	14.71%	15.09%
2011 Q1	5.44%	5.47%	5.92%
Q2 (2 Months)	1.65%	1.64%	1.80%
Annualized Since Inception*	4.75%	4.77%	4.99%

*Inception Date: 09/07/04

The report was received and filed by Chairman Scripps.

Ms. Korzen commented that the renewal quote for the Fiduciary Liability insurance policy for the Retirement Systems for the period 07/01/11 – 06/30/12 from Gallagher came in the same as last year’s quote. The policy covers both systems and the coverage is \$5,000,000 with a \$50,000 deductible. Ms. Korzen stated that the premium would remain unchanged at \$15,725, if the Retirement Systems continue with the combined policy. The City would pay \$350 of that premium, which represents the waiver of recourse coverage that cannot be paid from the trust funds. Following Trustee discussion, Mr. VanderWall made the motion to renew the combined policy as outlined in the renewal quote from Arthur A. Gallagher Insurance Agency. The motion was seconded by Mr. Tryc and carried.

The Executive Director next discussed the proposed draft policy of the Code of Conduct that was handed out to Trustees at the May 18, 2011 Joint Board meeting. Trustees discussed the policy at length and provided feedback on some minor changes to the policy. Ms. Korzen stated she would incorporate the changes that were discussed and provide a revised draft of the policy at the August 17th Joint Board meeting.

Board approval was requested for attendance at the following conferences: 2011 Baird Advisors Institutional Investors Conference to be held September 11 – 12 and the 2011 Fall MAPERS Conference to be held September 18 – 20. Ms. Hight made the motion to approve attendance of the aforementioned conferences by Trustees and staff per the Trustee Training, Educational Development and Due Diligence policy in place. The motion was seconded by Mr. Tryc and carried.

The Executive Director informed Trustees that the Retirement Systems office received notification from the Masonic Center that the monthly rent of \$2,291.66 will remain the same through June 30, 2012. The report was received and filed by Chairman Scripps.

The meeting adjourned at 9:53 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, August 17, 2011, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems