

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

MINUTES
JOINT MEETING
JUNE 20, 2012 – 8:03 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. Michael Hawkins, Mr. Philip Balkema, Mr. Bill Butts and Mr. Bill Alphenaar. Absent: Mr. Martin Timkovich, Mr. Thomas VanderPloeg and 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, 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. Tryc made the motion to excuse the absences of Mr. Timkovich, Mr. VanderPloeg and Mr. Gutowski. The motion was seconded by Mr. VanderWall and carried.

There were no public comments regarding agenda items.

Mr. Balkema made the motion to approve the minutes of the Joint Meeting of May 16, 2012. The motion was seconded by Mr. Tryc 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. {Mr. Butts arrived at 8:05 a.m.} Ms. Stanek noted that Baird has total assets under management of more than \$16.6 billion and they have a disciplined, research driven approach. Baird has over 2,700 associates and 100+ office locations in the U.S., Europe and Asia. She noted that Baird is ranked #1 "most trusted" research in the Greenwich Associates survey from 2004-2012 and they were the "Investment Banking Firm of the Year" for 2011 according to *The M&A Advisor*. Ms. Stanek 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. She provided Baird's market outlook by stating that yield spreads have tightened in recent months, but they still see attractive opportunities. Baird's portfolios are positioned to benefit from the steep yield curve and keep duration neutral overall and emphasize securities with attractive yield curve "roll down." The portfolios are positioned to benefit from spread sector outperformance by maintaining significant underweights to the U.S. Treasury sector. She stated that risk control discipline is critical in a higher risk environment. The U.S. economy is experiencing modest growth with continued restraints and wages remain benign with elevated consumer inflation rolling over given the slack in the U.S. labor markets. In the housing markets, prices are in a rocky bottoming process and in the financial markets, stock and bond prices are discounting a long period of modest growth. Mr. Groeschell noted there is a significant slack in the U.S. economy, the European debt crisis is still a concern, high long-term unemployment is a concern, wage pressure is virtually non-existent and housing affordability is the best it has been in 30 years. 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	8.06%	7.83%	7.84%
2012 Q1	1.10%	1.16%	0.30%
April	1.27%	1.26%	1.11%
May*	0.95%	0.94%	0.90%
Year-to-Date	3.35%	3.40%	2.33%
<u>Since Inception</u>			
Cumulative Return	65.20%	64.88%	60.39%
Annualized Return	5.57%	5.55%	5.24%

*Preliminary performance.

The report was received and filed by the Chairman.

Mr. Donald Reid, 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 ZLCM has \$4.1 billion in assets under management. The firm is headquartered in Chicago, has 55 employees and employs strategies across the fixed income, active equity and alternatives spectrum. She reviewed the organizational structure of ZLCM. Mr. Reid noted that ZLCM began the year expecting moderate growth in the economy and less investor risk aversion as Europe and China seemed to have stabilized their respective problems. In the 1st quarter 2012, the portfolios performed quite well; however, events in the 2nd quarter reversed the optimism of the 1st quarter and saw indications of a slower economy and increased investor risk aversion, resulting in a reversal of portfolio performance led by the financial and technology sectors. The portfolios are now positioned to be more defensive than normal and ZLCM believes that Europe can and will stabilize their financial situation with aggressive action. He reviewed the portfolio characteristics and noted ZLCM's philosophy 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. 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, 2012 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	1.20%	1.32%	2.09%
2012 Q1	14.07%	14.02%	12.58%
Q2 (2 Months)	-8.47%	-8.45%	-6.60%
Annualized Since Inception*	3.92%	3.95%	4.26%

*Inception Date: 09/07/04

The report was received and filed by Chairman Scripps.

Ms. Korzen presented the renewal quote for the Fiduciary Liability insurance policy for the Retirement Systems for the period 07/01/12 – 06/30/13 from Arthur J. Gallagher. She noted that there has been some concern over the past year by Trustees regarding this policy as both systems have been combined on a single policy. It may be prudent to consider separate policies for each system in the event there is a lawsuit against both systems. Gallagher had obtained quotes from the current carrier, Chubb, and another carrier, State National Group. The current policy, if left with the same terms, would increase to \$18,075. The premium would be slightly less if a higher deductible is chosen. Another option that was proposed by Chubb was to issue separate policies for each system. Each policy would have a \$5,000,000 liability limit and \$50,000 deductible, which is the same coverage the two systems currently share. The cost for the General Retirement System would be \$14,900 and the cost for the Police & Fire Retirement System would be \$14,100. The quote from State National Group would be \$31,801 for one policy covering both systems with a \$5,000,000 liability limit and \$50,000 deductible. If a separate policy is issued for each system, the premium for the General Retirement System would be \$19,206 and the premium for the Police & Fire Retirement System would be \$17,342. Ms. Korzen recommended having separate policies for each system and selecting the quote from Chubb with the \$50,000 deductible as proposed. Ms. White commented that it makes sense to have separate policies; however, Trustees should decide how high of a deductible is reasonable. Ms. Korzen stated she could ask for a quote showing a higher deductible; however, in the quote for the combined policy, increasing the deductible lowered the premium by less than \$1,000. Following Trustee discussion, Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to renew the Fiduciary Liability policy with Chubb, but have separate policies issued for each system as outlined in the renewal quote from Arthur J. Gallagher Risk Management Services, Inc. The motion was seconded by Mr. VanderWall and carried. Mr. Tryc made the motion on behalf of the General Retirement System to renew the Fiduciary Liability policy with Chubb, but have separate policies issued for each system as outlined in the renewal quote from Arthur J. Gallagher Risk Management Services Inc. The motion was seconded by Mr. Alphenaar 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, 2013. The report was received and filed by Chairman Scripps.

Ms. Korzen provided Trustees with the proposed fee schedule from Plante & Moran covering the audits from 2012 – 2014. She commented that their proposed fees are not so reasonable as there is a 26% increase in the fee charged for the General Retirement System and a 20% increase in the fee for the Police &

Fire Retirement System. She stated the fees may be in line with other audit firms but there is no way to know without issuing an RFP. She proposed renewing the contract with Plante & Moran for the 2012 General Retirement System audit only, and issuing an RFP to solicit other bids for future audits. Following Trustee discussion, Mr. Tryc made the motion to renew the auditing contract with Plante & Moran for the June 30, 2012 General Retirement System audit only, and issue an RFP prior to the December 31, 2012 Police & Fire Retirement System audit. The motion was seconded by Mr. Balkema and carried.

The Executive Director commented that Scott + Scott previously asked permission to pursue co-lead plaintiff status for both retirement systems in the Countrywide/Bank of New York lawsuit. They are now in the discovery phase and sent an attorney from their office to help identify the records that are required to be produced. The records are being assembled and sent to Scott + Scott to comply with the discovery process in the case.

The meeting adjourned at 9:28 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, August 15, 2012, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems