

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

MINUTES
JOINT MEETING
JUNE 18, 2014 – 8:25 a.m.
233 East Fulton

The meeting was called to order by Chairman J. Patrick Scripps. Other members present: Mr. David Tryc, Mr. Thomas VanderPloeg, Mr. Martin Timkovich, Mr. Michael Hawkins, Mr. Philip Balkema, Mr. Walter Gutowski, and Mr. Bill Butts. Absent: Mr. Craig VanderWall 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, Ms. Heidi Schneider and Mr. Charles Groeschell of Baird Advisors, Mr. Alan Matijas and Ms. Joy Perry of Wellington Management Company, Mr. Gregory Sundstrom, City Manager, and Ms. Sara VanderWerff, City Comptroller.

Mr. VanderPloeg made the motion to excuse the absences of Mr. VanderWall and Ms. Hofmeyer. The motion was seconded by Mr. Balkema and carried.

There were no public comments regarding agenda items.

Ms. Korzen noted that Mr. Timkovich questioned the wording regarding taxation and MLPs. Ms. Balkema contacted Mr. Sefchok at Wilshire Associates for clarification and he stated that since the Retirement Systems are public funds, the tax risks are mitigated. Mr. Tryc made the motion to approve the minutes of the Joint Meeting of May 21, 2014, as amended. The motion was seconded by Mr. Timkovich and carried.

Mr. Alan Matijas, CFA and Relationship Manager and Ms. Joy Perry, Equity Portfolio Specialist, of Wellington Management Company (WMC) presented their firm's annual report to Trustees. Mr. Matijas stated that WMC's strengths are that they: 1) have a singular focus on investment management; 2) have comprehensive capabilities; 3) employ rigorous proprietary research; 4) have an open collaborative culture; and 5) have a long-term perspective of a partnership structure. He stated that WMC has \$869 billion of client assets under management: 43% in equities; 41% in fixed income; and 16% in multi-strategies. WMC has over 2,000 employees in 12 offices and over 2,100 institutional clients based in more than 50 countries. WMC is managed by 50 global industry analysts; this deep industry expertise creates a competitive advantage as their analysts have an average of 20 years of experience. He noted that effective July 1, 2014, Ms. Jean Hynes will join Mr. Phillip Perelmuter and Mr. Brendan Swords as a managing partner of WMC. WMC's Small Cap 2000 product team employs a dedicated bottom-up research approach that will assist in anticipating fundamental change and identifying pricing anomalies. They believe that they can beat the market by exploiting intra-sector dispersion and they are continuously improving their research team. Their portfolio investment objective is to outperform the Russell 2000 Index by keeping its industry weights close to the benchmark and utilizing the analysts' highest conviction ideas to construct a diversified and fully invested portfolio with primarily U.S. small cap stocks. WMC utilizes bottom-up stock picking by their analysts and their disciplined rebalancing adds value and reduces risk. Annualized investment returns through March 31, 2014 for the General and Police & Fire Retirement Systems' portfolios were reported as follows:

	<u>YTD</u>	<u>1 Yr.</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>10 Yrs.</u>	<u>Since Inception*</u>	
Ret. Systems	3.5%	30.4%	17.4%	32.5%	11.8%	12.4%	
Russell 2000	1.1%	24.9%	13.2%	24.3%	8.5%	8.6%	
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Ret. Systems	44.3%	19.7%	-1.9%	36.3%	44.4%	-39.0%	2.1%
Russell 2000	38.8%	16.3%	-4.2%	26.9%	27.2%	-33.8%	-1.6%
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>			
Ret. Systems	16.0%	9.4%	21.6%	39.4%			
Russell 2000	18.4%	4.6%	18.3%	47.3%			

*Inception date is 08/31/99

Mr. Matijas provided a review of WMC's portfolio management team, the partnership structure at WMC and the Small Cap 2000 portfolio construction. He commented on the top contributors and detractors for the one-year period ending 12/31/13 and for the three-month period ending 03/31/14. Mr. Matijas noted that the WMC Small Cap fund is now closed to new investors and has limitations on taking on additional funding from existing clients. Should the Retirement Systems desire to add additional funding to their portfolios, he asked that Ms. Korzen contact him to discuss the matter to determine if it will be possible. Ms. Perry provided Trustees with a review of the Wellington Management (WM) Commodities portfolios. She noted that WM's investment objective is to outperform their strategic benchmark (an equal sector-weighted custom commodities index). WM employs fundamental research-based active management. There are approximately 50 commodities in the opportunity set with maturities ranging between one month and ten years and they have sector allocation flexibility. The contribution-to-relative-risk approach guides portfolio positioning. The collateral is managed to achieve high quality and liquidity. She reviewed the commodities team, investment process and portfolio construction. Investment returns through March 31, 2014 for the General and Police & Fire Retirement Systems' portfolios were reported as follows:

	<u>1Q14</u>	<u>1 yr.</u>	<u>Since Inception</u>
Retirement Systems	3.5%	-6.7%	-10.1%
Strategic Benchmark	4.2%	-6.3%	-10.1%
Production-Weighted S&P GSCI	2.9%	1.1%	-2.2%
Dow Jones – UBS Commodity Index	7.0%	-2.1%	-4.7%

She reviewed the portfolios' performance attribution, sector positioning and characteristics. Ms. Perry commented that individual commodity markets are influenced by independent drivers and noted WM's market outlook on the various different commodities. The report was received and filed by Chairman Scripps.

Ms. Heidi Schneider, CFA, Senior Vice President and Mr. Charles Groeschell, Managing Director and Senior Portfolio Manager, of Baird Advisors (Baird) presented their firm's annual report to Trustees. Mr. Groeschell noted that Baird was founded in 1919 in Milwaukee and has total assets under management of more than \$22.1 billion. They have a disciplined, research driven approach. Baird has 2,900 associates and 100+ office locations in the U.S., Europe and Asia. He noted that Baird is ranked #1 "most trusted" research in the Greenwich Associates survey from 2004-2014 and they were the "Cross Border Deal of the Year" for 2012 according to *The M&A Advisor*. Mr. Groeschell 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 (accomplished by a duration neutral discipline); and 2) to add incremental value through a multi-step, risk-controlled process. Baird seeks positive convexity “tilt” with an expected return advantage and they avoid credit risk in a non-U.S. government structured product. Ms. Schneider provided Baird’s market outlook by stating that Baird believes the U.S. economy will be better in 2014, though growth will still moderate with continued headwinds, wages should remain benign with core consumer inflation below the Fed’s target, the Fed policy should remain extraordinarily accommodative, regarding fiscal policy, the deficits have improved but the gridlock is on hold with the upcoming mid-term elections, and the risk environment has improved overall though it continues to remain elevated with a shift in “risk mix.” She noted that the Treasury yield curve remains steep and spreads continue to tighten. The outlook for the bond market is that a strong portfolio yields advantages over respective benchmarks as the portfolios are positioned to benefit from the steep yield curve and to benefit from continued spread sector outperformance. Baird will continue to focus on risk control by employing strategies to maintain coupon advantage, and increased diversification. 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	7.00%	7.13%	4.22%
2013	-1.56%	-1.51%	-2.02%
2014 Q1	2.22%	2.23%	1.84%
April	0.90%	0.90%	0.84%
May*	1.18%	1.18%	1.14%
Year-to-Date	4.35%	4.37%	3.87%
<u>Since Inception</u>			
Cumulative Return	75.69%	75.62%	66.24%
Annualized Return	5.13%	5.13%	4.62%

*Preliminary performance.

The report was received and filed by the Chairman.

Ms. Korzen presented the renewal quote for the Fiduciary Liability insurance policy for the Retirement Systems for the period 07/01/14 – 06/30/15 from Arthur J. Gallagher. The premium for the policy, if renewed with the same terms, would increase from \$15,150 to \$15,967 (a 5.4% increase) for the Police & Fire Retirement System and from \$15,950 to \$16,753 (a 5.0% increase) for the General Retirement System. Ms. Korzen stated that the increases are partially due to higher asset values and partially due to a straightforward premium increase. Ms. Korzen recommended approval of the renewal quote. Mr. VanderPloeg made the motion on behalf of the Police & Fire Retirement System to renew the Fiduciary Liability policy with Federal Insurance Company as outlined by Arthur Gallagher Risk Management Services, Inc. The motion was seconded by Mr. Gutowski and carried. Mr. Timkovich made the motion on behalf of the General

Retirement System to renew the Fiduciary Liability policy with Federal Insurance Company as outlined by Arthur Gallagher Risk Management Services, Inc. The motion was seconded by Mr. Tryc and carried.

Ms. Korzen provided Trustees with an update on the transition process for the termination of Ziegler Capital Management (ZCM) that was approved by Trustees at the May 21, 2014 Joint Board meeting. She noted that Mr. Fumarolo stated the Retirement Systems have an ongoing agreement with The Northern Trust Company to utilize them for transition services; however, it was discovered that was not the case. Documents have been since put in place and signed by the authorized parties for the Retirement Systems to implement an ongoing transition agreement with The Northern Trust Company. This delayed the termination of ZCM slightly but Northern Trust was to receive a certified list of assets from ZCM yesterday and today they are making the necessary preparations for the transition of assets from ZCM to the NTAM, PIMCO and Western Asset Management accounts proportionately. The majority of assets will trade tomorrow and settle on Friday.

Mr. Gutowski introduced Ms. Sara VanderWerff, Comptroller for the City of Grand Rapids.

The Executive Director commented that at the Joint Board meeting on May 21, 2014, Trustees decided to have an MLP and TIPS manager come to the August 2014 Joint Board meeting for an educational session. She stated that the August meeting already has a full agenda so a special joint meeting will take place Wednesday, July 16, 2014 at 8:00 a.m. She noted that she received word from Mr. Bill Wallace of Neuberger Berman that Mr. Benjamin Segal will be moving to Singapore for a few years. Mr. Segal has offered to conduct visits to his clients prior to his departure. The meeting on July 16, 2014 will be for the purpose of the educational training for the MLP and TIPS managers and the annual presentation for Neuberger Berman.

The meeting adjourned at 9:55 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, July 16, 2014, at 8:00 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems