

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

MINUTES  
JOINT MEETING  
JUNE 17, 2015 – 8:05 a.m.  
233 East Fulton

The meeting was called to order by Chairman Hawkins. Other members present: Mr. J. Patrick Scripps, Mr. David Tryc, Mr. Martin Timkovich, Mr. Thomas VanderPloeg, Mr. Philip Balkema, Mr. William Butts, Ms. Jane Hofmeyer, and Mr. Elias Lumpkins, Jr. Absent: Mr. Craig VanderWall.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Mr. Charles Groeschell and Mr. Jeffrey Simmons of Baird Advisors, Mr. Alan Matijas and Mr. Bradley Huggins of Wellington Management Company, Mr. Benjamin Segal and Mr. Bill Wallace of Neuberger Berman, and Ms. Sara VanderWerff, City Comptroller.

Mr. Scripps made the motion to excuse the absence of Mr. VanderWall. The motion was seconded by Mr. Balkema 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 20, 2015. The motion was seconded by Mr. Butts and carried.

Mr. Charles Groeschell, Managing Director and Senior Portfolio Manager, and Mr. Jeffrey Simmons, CFA, Managing Director and Senior Portfolio Manager, of Baird Advisors (Baird) presented their firm's annual report to Trustees. {Ms. Hofmeyer arrived at 8:07 a.m.} Mr. Groeschell noted that Baird was founded in 1919 in Milwaukee and has total assets under management of more than \$33.9 billion. They have a disciplined, research driven approach. Baird has 3,100 associates and 1,800 employee shareholders. He noted that Baird is ranked #1 "most trusted" research in the Greenwich Associates survey from 2004-2014 and they were one of the best places to work in *Money Management* for the third consecutive year. Mr. Simmons 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 bottom-up, risk-controlled process. Baird seeks to utilize a holistic approach in order to achieve the optimal portfolio structure. Baird's internal research and security selection are the primary drivers of incremental return as they identify value from the bottom up. Mr. Simmons reviewed statistics on Baird's corporate holdings. Mr. Groeschell provided Baird's market outlook by stating that Baird believes the U.S. economy will likely experience growth after a weak first quarter; wages should remain benign with core consumer inflation well below the Fed's target; the Fed policy should remain focused on timing and path for rate increases; regarding fiscal policy, the deficits have improved but limited progress is expected by Congress; and the risk environment remains elevated as "risk mix" continues to shift. The emerging market countries are no longer driving global growth, Treasury yields are falling despite defying consensus, which is contributing to making U.S. Treasuries attractive to global investors. Lower commodity prices have helped more than they have hurt and spreads were mixed in 2014 but were modestly tighter to start 2015. Mr. Simmons reviewed the City of Grand Rapids Retirement Systems' objectives, risk controls, portfolio guidelines and characteristics, and provided the following return statistics for the portfolios:

	<u>General Retirement System</u>	<u>Police &amp; 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	6.99%	6.99%	5.97%
2015 YTD	1.46%	1.46%	1.24%
<u>Since Inception</u>			
Cumulative Return	82.76%	82.65%	71.69%
Annualized Return	5.08%	5.07%	4.54%

He noted that Baird's investment outlook is: 1) there are attractive portfolio yield advantages over respective benchmarks; 2) the portfolios are positioned to benefit from spread sector outperformance; 3) the portfolios are positioned to modestly benefit from continued flattening of the yield curve; and 4) Baird continues to focus on risk control for the portfolios. The report was received and filed by Chairman Hawkins.

Mr. Alan Matijas, CFA and Relationship Manager and Mr. Bradley Huggins, Assistant Vice President and Investment Director, of Wellington Management Company (WMC) presented their firm's annual report to Trustees. Mr. Matijas stated that WMC has \$939 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 11 offices and over 2,100 institutional clients based in more than 50 countries. WMC has 591 investment professionals; this deep industry expertise creates a competitive advantage as they collectively have an average of 18 years of experience. Mr. Matijas commented that he will be transitioning off the relationship with the Retirement Systems. His role with WMC is evolving and he will be taking a broader role in the Canadian market and the Retirement Systems' portfolios will be serviced from WMC's Chicago office. Mr. Huggins 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. Mr. Matijas noted that the objective for the WMC Small Cap 2000 is to outperform the Russell 2000 Index and they have 23 global industry analysts to help achieve this. They believe that: companies in the same industry can perform very differently over time; dedicated bottom-up research can anticipate fundamental change and identify pricing anomalies; and they can beat the market by exploiting intra-sector dispersion. He reviewed the WMC Small Cap 2000 global industry analyst team, research portfolios, the top 10 overweight positions, and portfolio characteristics as of March 31, 2015. Annualized investment returns through March 31, 2015 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	4.8%	11.7%	20.3%	18.8%	12.2%	12.3%
Russell 2000	4.3%	8.2%	16.3%	14.6%	8.8%	8.6%

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Ret. Systems	10.3%	44.3%	19.7%	-1.9%	36.3%	44.4%	-39.0%
Russell 2000	4.9%	38.8%	16.3%	-4.2%	26.9%	27.2%	-33.8%

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Ret. Systems	2.1%	16.0%	9.4%	21.6%	39.4%
Russell 2000	-1.6%	18.4%	4.6%	18.3%	47.3%

\*Inception date is 08/31/99

Mr. Huggins provided a review of the Wellington Management (WM) Commodities portfolios. He 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. He reviewed the commodities team, investment process and portfolio construction. Investment returns through March 31, 2015 for the General and Police & Fire Retirement Systems' portfolios were reported as follows:

	<u>1Q15</u>	<u>1 yr.</u>	<u>Since Inception</u>
Retirement Systems	-4.7%	-20.5%	-15.1%
Strategic Benchmark	-5.6%	-22.6%	-16.1%
Production-Weighted S&P GSCI	-8.2%	-40.3%	-22.1%
Bloomberg Commodity Index	-5.9%	-27.0%	-15.8%

  

	<u>YTD</u>	<u>2014</u>
Retirement Systems	-4.7%	-13.6%
Strategic Benchmark	-5.6%	-14.6%
Production-Weighted S&P GSCI	-8.2%	-33.1%
Bloomberg Commodity Index	-5.9%	-17.0%

He reviewed the portfolios' performance attribution, sector positioning, characteristics, and views on short and intermediate-term drivers. Mr. Huggins 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 Hawkins.

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 provided an overview of the firm and noted that NB was founded in 1939; they were voted the 2<sup>nd</sup> best place to work in money management for 2014 among organizations with over 1,000 employees by *Pensions and Investments*; and they are 100% owned by 465 employees. Mr. Segal noted that he has been living in Singapore for almost one year now and he may remain there for another 1-2 years; the portfolios are still being run as efficiently as before. Mr. Segal noted that NB has over \$251 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. Segal 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, 2015:

**Annualized Returns**

	YTD				Since Inception
	<u>May</u>	<u>1 Yr.</u>	<u>3 Yr.</u>	<u>5 Yr.</u>	<u>06/30/06</u>
General Retirement System	8.32%	3.85%	14.02%	10.83%	3.60%
Police & Fire Retirement System	8.32%	3.85%	14.02%	10.83%	3.64%
MSCI ACWI Ex-U.S.	7.29%	-0.47%	13.10%	8.56%	4.14%
MSCI EAFE Index	8.93%	-0.06%	16.13%	10.44%	3.82%

Mr. Segal reviewed the equity fund characteristics, holdings, sector allocations and attribution, market cap allocation, and regional and country attribution for the portfolios. He also reviewed the top 10 contributors and top 10 detractors for the portfolios as of May 31, 2015. The report was received and filed by Chairman Hawkins.

Ms. Korzen presented the renewal quote for the Fiduciary Liability insurance policy for the Retirement Systems for the period 07/01/15 – 06/30/16 from Arthur J. Gallagher. The premium for the policy, if renewed with the same terms, would increase from \$15,967 to \$16,760 (a 5.0% increase) for the Police & Fire Retirement System and from \$16,753 to \$17,993 (a 7.4% increase) for the General Retirement System. Ms. Korzen stated that the increases are mainly due to higher asset values. She stated that she has spoken with another agent that represents a number of public pension plans in the state (they are based in Lansing) and they are actively seeking additional quotes. Ms. Korzen stated that the present coverage ends June 30, 2015, and recommended approval of the renewal quote and if the additional quotes come back more favorable, a change can be made later. Mr. Scripps stated he is disappointed with Gallagher and their process of indicating that there is only one provider for this type of insurance when that is clearly not the case. 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. Butts and carried. Mr. Scripps 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 Ms. Hofmeyer and carried.

Mr. Scripps provided Trustees with an update from the Operations Committee. He commented that the committee made the following technology recommendations: 1) replace the current server; and 2) hire Quixotic Computing and Quantum Leap to provide IT and telephone services. He stated that the current server is more than seven years old (the life expectancy is five years) and Microsoft is discontinuing support for the server's operating system next month. The cost, including installation, is \$3,000. Mr. Scripps stated that there is concern regarding the safekeeping of retirement system data, as well as the cost of IT services provided by the City. The committee looked into a couple of different providers and compared their products and services. Quixotic services two other businesses in the Masonic Center building. If the Retirement Systems move to Quixotic they will be able to have better oversight of data, and save on IT costs. Ms. Korzen noted that she just learned yesterday that the monthly cost for IT services with the City will be increasing by more than 20% on July 1, 2015. Chairman Hawkins asked if there was any explanation given regarding such a large increase; Ms. Korzen stated she was given no explanation. Mr. Balkema asked if Ms. Korzen explained to the City that the Retirement Systems are looking for other options regarding IT and telephone services and give them an opportunity to be more competitive and/or lower the rate. Ms. Korzen stated she spoke with the City Manager, Mr. Gregory Sundstrom, and he stated he understood this decision as other departments have obtained their own IT services (i.e. – 61<sup>st</sup> District Court and the Library). He did not mention changing the rates but did note from a timing standpoint the City Commission just approved the budget yesterday for FYE 2016 and would prefer if the Retirement Systems waited one year before switching. The total portion that the Retirement Systems would pay for this upcoming fiscal year in relationship to that budget item is only 0.3%. Mr. Balkema

asked how any transition to a new IT and telephone service provider would affect the interface with other departments within the City with respect to the internet or data sharing. Ms. Korzen stated that the Retirement Systems does not share data with other departments and the Retirement Systems will continue to have a website and post documents and reports online, just under a different domain. Mr. Sundstrom has indicated that the Retirement Systems will be able to keep the phone numbers they presently have but calls to City departments would be an outside call. Mr. VanderPloeg commented that one of the services that is included in the fee is for a redundant internet line so if services are interrupted with one provider, the Retirement Systems will still have service; this service is not provided by the City. Mr. Scripps stated that Trustees have a duty to safeguard the Retirement Systems' data and transitioning to Quixotic for IT services that would prevent anyone in the City from obtaining the Retirement Systems' data. Chairman Hawkins commented that he feels that hiring Quixotic and Quantum Leap would be cost effective and in the best interest of the Retirement Systems. Mr. VanderPloeg stated that an additional future benefit to Trustees will be to access the Board meeting materials through their own electronic devices by means of a secure application. Mr. Tryc asked what the timing would be for all of this to take place; Ms. Korzen stated that they should be able to have the Retirement Systems office up and running within a month. The server will only take several days to get in and the phone system may take a bit longer to ensure all issues are addressed. She stated that a few pieces of this transition process could be completed by July 1, 2015. Chairman Hawkins asked if Quixotic and Quantum Leap have provided assurances that they have the proper processes in place to safeguard the integrity of the Retirement Systems' data; Ms. Korzen responded yes that they have discussed their firewall protections and she has obtained referrals to these companies from businesses within the Masonic Center building. Mr. Michaud commented that the IT servicing is also an item to discuss with the Retirement Systems' insurance carrier. Mr. Lumpkins noted that there has been a strain between the Retirement Systems' Boards and City Hall and asked if another attempt could be made to ascertain if the City would be willing to be more competitive in their IT pricing for the Retirement Systems; this would seem to put forth a good will gesture. Ms. Korzen stated that Mr. Sundstrom was aware this would be discussed at the Board meeting today and she told him she would relay his concern regarding the timing, but he understands that the Boards need to do what is in the best interest of the plans and had no problem with this being done as other departments have done so in the past. Mr. Scripps stated that this issue is unrelated to the previous strains between the Retirement Systems' Boards and the City. On behalf of the Operations Committee, Mr. Scripps made the motion to replace the server for a total cost not to exceed \$3,000, hire Quixotic for IT services and Quantum Leap for telephone services for an up-front cost including labor of \$7,000 and annual costs of \$12,500. The motion was seconded by Mr. VanderPloeg and carried. Mr. Scripps next addressed the Trustee Training, Educational Development and Due Diligence Policy. Ms. Korzen reviewed the changes with Trustees, noting that the committee recommends keeping the per diem rate at \$150 per day for out-of-state locations, rather than require receipts for airport parking, baggage fees, ground transportation, etc. The daily per diem rate for Michigan locations and one-day events will be \$45. Participants will be provided with a 1099-MISC for all amounts received in excess of the U.S. GSA rate in effect at the time of travel. The GSA rate will be determined for the location of the due diligence visit/conference and any amount of the \$150 that is over and above the GSA rate for that location will trigger a 1099-MISC to be issued to the participant. Mr. Balkema asked if participants will be provided with that rate prior to arranging their travel; Ms. Korzen stated that rates are available online, so they will be known in advance of any travel. Ms. Korzen stated that the revisions to this policy, if approved, would be effective July 1, 2015. Mr. Balkema stated that it might be prudent to issue the 1099-MISC for the entire calendar year regardless of the July 1, 2015 implementation date as participants are responsible for the reimbursements whether or not a 1099 is issued. Mr. Tryc commented that those who traveled this year out of state may not have kept receipts and this may be difficult to substantiate later as they were not told to keep receipts. Chairman Hawkins stated it may not be too difficult to obtain the receipts as most people put expenses on their credit/debit cards. Ms. Korzen stated that the rate of \$45 for in-state travel is under the GSA rate and therefore a 1099-MISC would not be generated. Ms. Korzen stated that under the policy section, subsection seven, spousal/guest registration will be the responsibility of the participant and the wording regarding advances has been eliminated. Mr. Scripps made the motion to amend the Trustee Training, Educational Development and Due Diligence Policy as written. The motion was seconded by Mr. Tryc and carried. Chairman Hawkins noted that this policy was one of the areas that the City wanted Trustees to research and revise and hoped these changes to this policy will be satisfactory to the City.

Mr. Michaud commented that the one-year contract with Managed Medical Review Organization (MMro) will expire at the end of June and they have asked that the contract be extended. MMro has presented an addendum which would extend the contract and if Trustees had any desire at any point to terminate the contract they may do so with a 30-day notice. There have been some changes to the fee schedule; the fee that MMro charges for each case will remain the same; however, the fees for the independent medical evaluations (I.M.E.) will increase as MMro has been absorbing a lot of the costs for these I.M.E.s. Mr. VanderPloeg asked if MMro merely passes through the costs of the I.M.E.s; Ms. Korzen said yes, there is no markup. Mr. Michaud stated that the proposed contract language appears to be reasonable and appropriate. Mr. Timkovich made the motion to approve the proposed contract extension with MMro. The motion was seconded by Mr. Tryc and carried.

Mr. Timkovich disclosed that a number of Trustees attended a dinner last evening with Mr. Matijas, Mr. Huggins, Mr. Groeschell, Mr. Simmons and Mr. Wallace. This was an excellent opportunity to better understand the people behind the investment management companies.

There were no public comments on items not on the agenda.

The meeting adjourned at 10:01 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, July 15, 2015, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen  
Executive Director  
General and Police & Fire Retirement Systems