

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

MINUTES
JOINT MEETING
MAY 15, 2013 – 8:55 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, Mr. Michael Hawkins, Mr. Philip Balkema, Mr. Walter Gutowski, Mr. William Butts, and Mr. Bill Alphenaar.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Ms. Elizabeth White, Deputy City Attorney and Legal Advisor to the Boards, and Mr. William Bensus and Mr. J.M. Ruscetti of Wilshire Associates, Inc.

There were no public comments regarding agenda items.

Mr. VanderPloeg made the motion to approve the minutes of the Joint meeting of March 20, 2013. The motion was seconded by Mr. Tryc and carried.

Mr. Bensus presented the quarterly performance report to Trustees. In a Capital Market Update through May 10, 2013, Mr. Bensus noted that the Fed will continue to purchase \$85 billion per month in mortgage-backed securities and long-term treasuries; the April unemployment rate edged down to 7.5%; and GDP increased at an annual rate of 2.5% in the first quarter of 2013. Retail sales increased by 0.1% in April after a 0.5% decrease in March; personal income rose by 0.2% in March; and crude oil prices were trading near \$95 per barrel. In the U.S. Equity market, YTD, Health Care lead U.S. large cap sectors (up 20.6%), while Materials were the largest laggard (up 7.4%). YTD large cap stocks are outperforming small cap stocks and value stocks are leading growth stocks. In the Non-U.S. Equity markets, the Euro-area is suffering the longest recession since the single currency's creation; Cyprus received its first emergency aid payment and Greece won approval of 7.5 billion euros of rescue loans; and Chinese economic growth slowed to 7.7% in the first quarter of 2013. In the Fixed Income market the Fed Funds Target Rate is 0.0% to 0.25% and the Federal Discount Rate is 0.75%. Fed funds rate increases are not expected to change while the unemployment rate is above 6.5%. As of May 10, 2013, YTD, the S&P 500 was up 15.4%, the Russell 2000 was up 12.0%, the Wilshire 5000 was up 15.4%, the ACWI was up 7.7%, the Barclays Aggregate Bond Index was up 0.2% and the Wilshire RESI Index was up 15.5%. Following a review of market returns, the Quarterly Funds Evaluation of the Investment Managers of the General and Police & Fire Retirement Systems was conducted.

SUMMARY OF INDEX RETURNS
PERIODS ENDED 03/31/13

<u>Index</u>	<u>QTR.</u>	<u>1 YEAR</u>	<u>3 YEARS</u>	<u>5 YEARS</u>	<u>10 YEARS</u>
S&P 500	10.61	13.95	12.67	5.80	8.53
RUSSELL 2000	12.39	16.30	13.45	8.24	11.52
NAREIT GLOBAL RE INDEX	6.26	21.09	14.24	N/A	N/A
MSCI ACWI X-US	3.17	8.36	4.41	-0.39	10.93

05/15/13

BARCLAYS AGGREGATE	-0.12	3.77	5.52	5.47	5.03
91 DAY T-BILLS	0.02	0.12	0.11	0.34	1.75

General Retirement System

Asset Commitments as of 03/31/13:

Domestic Equity	46.1%
Fixed Income	28.0%
Cash Equivalents	0.7%
Real Estate	5.1%
Private Equity	0.6%
International Equity	14.9%
Commodities	4.5%

Asset Allocation to Managers:

NTGI	13.9%
PIMCO	5.6%
Wellington Management Company	12.4%
Ziegler Lotsoff Capital Management	14.1%
Baird Advisors	13.6%
Western Asset Management	14.5%
Cash Account	0.7%
Neuberger Berman	14.9%
CBRE Clarion	5.1%
Adams Street Partners	0.4%
FLAG Capital	0.2%
Wellington Commodities	4.5%

Quarterly Summary of the General Retirement System

	<u>Market Value</u> <u>03/31/13</u>	<u>Market Value</u> <u>12/31/12</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$384.8 million	\$366.7 million	\$18.1 million	5.98%	36 th percentile
Total U.S. Equity	\$177.2 million	\$180.4 million	(\$3.2 million)	11.32%	52 nd percentile
Total Non-U.S. Equity	\$57.5 million	\$55.1 million	\$2.4 million	4.33%	61 st percentile
Total Fixed Income	\$107.9 million	\$107.4 million	\$500 thousand	0.44%	37 th percentile
Total Real Estate	\$19.7 million	\$18.8 million	\$900 thousand	4.84%	33 rd percentile
Total Private Equity	\$2.4 million	\$2.4 million	\$0	0.20%	N/A
Total Commodities	\$17.3 million	\$0	\$17.3 million	-0.51%	
NTGI	\$53.6 million	\$57.7 million	(\$4.1 million)	10.66%	49 th percentile
PIMCO	\$21.7 million	\$20.5 million	\$1.2 million	11.34%	23 rd percentile
Wellington Mgmt. Co.	\$47.8 million	\$44.5 million	\$3.3 million	14.47%	5 th percentile
Ziegler Lotsoff Cap. Mgmt.	\$54.1 million	\$57.7 million	(\$3.6 million)	9.37%	86 th percentile
Neuberger Berman	\$57.5 million	\$55.1 million	\$2.4 million	4.33%	82 nd percentile
Baird Advisors	\$52.2 million	\$52.1 million	\$100 thousand	0.08%	48 th percentile
Western Asset Mgmt.	\$55.7 million	\$55.3 million	\$400 thousand	0.77%	7 th percentile
CBRE Clarion	\$19.7 million	\$18.8 million	\$900 thousand	4.84%	33 rd percentile
Adams Street Partners	\$1.7 million	\$1.4 million	\$300 thousand	8.46%	N/A
FLAG Capital	\$769 thousand	\$950 thousand	(\$181 thousand)	-21.50%	N/A
Wellington Commodities	\$17.3 million	\$0	\$17.3 million	-0.51%	N/A

Police and Fire Retirement System

Asset Commitments as of 03/31/13:

Domestic Equity	46.4%
International Equity	14.5%
Fixed Income	27.5%
Cash Equivalents	1.0%
Real Estate	5.4%
Private Equity	0.7%
Commodities	4.5%

Asset Allocation to Managers:

NTGI	14.2%
PIMCO	5.7%
Wellington Management Company	12.5%
Ziegler Lotsoff Capital Management	14.0%
Baird Advisors	13.1%
Western Asset Management	14.4%
Cash Account	1.0%
Neuberger Berman	14.5%
CBRE Clarion	5.4%

Adams Street Partners	0.4%
FLAG Capital	0.2%
Wellington Commodities	4.5%

Quarterly Summary of the Police & Fire Retirement System

	<u>Market Value</u> <u>03/31/13</u>	<u>Market Value</u> <u>12/31/12</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$357.8 million	\$339.6 million	\$18.2 million	6.01%	26 th percentile
Total U.S. Equity	\$165.9 million	\$167.5 million	(\$1.6 million)	11.31%	40 th percentile
Total Non-U.S. Equity	\$51.8 million	\$49.6 million	\$2.2 million	4.33%	61 st percentile
Total Fixed Income	\$98.5 million	\$98.1 million	\$400 thousand	0.44%	45 th percentile
Total Real Estate	\$19.4 million	\$18.5 million	\$900 thousand	4.84%	33 rd percentile
Total Private Equity	\$2.4 million	\$2.4 million	\$0	0.20%	N/A
Total Commodities	\$16.1 million	\$0	\$16.1 million	-0.51%	N/A
NTGI	\$50.8 million	\$53.5 million	(\$2.7 million)	10.67%	49 th percentile
PIMCO	\$20.4 million	\$18.8 million	\$1.6 million	11.34%	23 rd percentile
Wellington Mgmt. Co.	\$44.6 million	\$41.5 million	\$3.1 million	14.47%	5 th percentile
Ziegler Lotsoff Cap. Mgmt.	\$50.1 million	\$53.7 million	(\$3.6 million)	9.35%	87 th percentile
Neuberger Berman	\$51.8 million	\$49.6 million	\$2.2 million	4.33%	61 st percentile
Baird Advisors	\$46.9 million	\$46.9 million	\$0	0.09%	45 th percentile
Western Asset Mgmt.	\$51.6 million	\$51.2 million	\$400 thousand	0.77%	7 th percentile
CBRE Clarion	\$19.4 million	\$18.5 million	\$900 thousand	4.84%	33 rd percentile
Adams Street Partners	\$1.7 million	\$1.4 million	\$300 thousand	8.47%	N/A
FLAG Capital	\$769 thousand	\$950 thousand	(\$181 thousand)	-21.50%	N/A
Wellington Commodities	\$16.1 million	\$0	\$16.1 million	-0.51%	N/A

Mr. Bensur commented on the disappointing performance of Ziegler Lotsoff Capital Management (ZLCM). He noted that when Ziegler and Lotsoff combined their two entities, they had two equity products and kept them separate. They are now combining the two products. Wilshire feels that the product seems sound, and the returns for the new product are better than the one that the Retirement Systems are presently in. He stated that ZLCM should be monitored as this product will not be the one that Trustees initially bought. He noted that the recent underperformance was primarily due to stock selection. Chairman Scripps noted that their underperformance seemed to begin when Sy Lotsoff retired and the managers of the portfolio took on additional managerial duties; the underperformance has been going on for some time. Mr. Bensur stated that the large cap equity space is efficient and it is hard to add value. Mr. Balkema asked if the new ZLCM product changes the risk for the portfolio; Mr. Bensur stated he was not certain, but he felt that it should be pretty similar. He stated that Trustees may wish to give ZLCM a little time (toward the end of 2013) to see if they cyclically recover and then contemplate whether or not to change managers. Chairman Scripps asked Mr. Bensur to communicate to ZLCM that the boards are watching them very closely; Mr. Bensur agreed. The report was received and filed by the Chairman.

Mr. Ruscetti next presented a report to Trustees regarding an additional commitment to Private Equity (PE). He commented that annual commitment amounts to PE were modeled at 25%, 30% and 35% of the target allocation and provided an invested capital comparison based on each commitment level for the next ten years. Wilshire believes that successful PE programs are built over time by consistently committing capital to the asset class. Annual pacing provides both opportunity and flexibility to the investor because: 1) it ensures adequate vintage year diversification; 2) it provides the ability to commit underrepresented segments of the market; 3) it allows for adjustments for changing market dynamics; and 4) investor liquidity profiles may change. Wilshire recommended that the Retirement Systems commit between \$5 million and \$6 million per system before the end of September 2013. Mr. Bensur stated if Trustees do this, the full commitments would not be realized until 2019 or 2020.

Chairman Scripps asked if there is a scenario where a PE manager could ask for the full funding commitment up front; Mr. Ruscetti said there is an outside chance but it is highly unlikely. Mr. Ruscetti noted that Adams Street Partners is accepting commitments for the 2013 Global Program until June 28, 2013 and FLAG Capital has not begun raising funds for a new PE fund offering. Chairman Scripps asked if Trustees should invest with Adams Street Partners or if a search should be conducted to see which other firms are available; Ms. Korzen noted that if Trustees wished to conduct a search, they would not receive the materials in time to make a decision before the closing date for Adams Street Partners. Ms. Korzen clarified that the Adams Street Partners 2013 offering is similar in structure to their 2010 offering that the Retirement Systems is invested in. Following Trustee discussion, Mr. Timkovich made the motion on behalf of the General Retirement System to allocate an additional \$5.0 million to the Adams Street Partners 2013 Global Private Equity Program. The motion was seconded by Mr. Tryc and carried. Mr. VanderWall made the motion on behalf of the Police & Fire Retirement System to allocate an additional \$5.0 million to the Adams Street Partners 2013 Global Private Equity Program. The motion was seconded by Mr. Gutowski and carried. The funding will come from the equity allocations.

The Executive Director next addressed the current lease with the Masonic Center Building by noting that current lease expires June 30, 2013. She noted that she enlisted the assistance of a local real estate businessman to see if there is other suitable office space available at a lesser cost. He provided Ms. Korzen with a bound report outlining a comparison between current office space available for lease and the Masonic Center Building. The current lease covers everything (space, utilities, etc.) except for consumables (light bulbs), whereas the other sites did not at a reasonable cost. The Masonic Center is at a lower cost when all costs are factored in. She noted that the Retirement Systems pay \$16.28/square foot; total monthly rent is \$2,291.66. The representative for the Masonic Center originally quoted an annual escalator increase tied to the CPI index; however, they have held the rental rate steady for the last four years and have agreed to do so for the next five years. There would be an option to renew for another five years; this time period would include an escalator tied to the CPI. Ms. Korzen recommended approval of the lease with the Masonic Center. Mr. VanderPloeg made the motion to approve the lease with the Masonic Center for the next five years with the rental rate of \$2,291.66/month. The motion was seconded by Mr. Balkema and carried.

Ms. Korzen next commented that the contract with the Northern Trust Company should mirror the fee agreement and a document should be signed by the Trustees to extend the current contract with Northern Trust through September 30, 2013. Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to sign the document to extend the current contract with the Northern Trust Company through September 30, 2013. The motion was seconded by Mr. VanderPloeg and carried. Mr. Timkovich made the motion on behalf of the General Retirement System to sign the document to extend the current contract with the Northern Trust Company through September 30, 2013. The motion was seconded by Mr. Tryc and carried.

The Executive Director next presented Trustees with information on a disability case management firm. She commented that the recent disability cases have become increasingly more complex, and assistance from experts in the medical area would be very beneficial in some of these cases. She stated there is a company, Managed Medical Review Organization (MMro) that specializes in disability case management. They are the only firm she found that provides this service; they are located on the east side of the state. She stated that the Retirement Systems Office would receive the disability application from the member, along with the signed medical release and any records the member supplies, and send them to MMro. MMro would have a nurse review all of the information, collect more records if needed, and contact the member. They would coordinate all of the I.M.E. appointments and provide a packet of information including the I.M.E. reports to Trustees along with an objective recommendation. The Retirement Systems would also refer re-exams to MMro. The fee is \$545 per case in addition to the I.M.E. fees charged by the doctors. MMro is proposing a one-year contract; during that one year, every new disability retirement request and re-exam from that date forward will need to be sent to MMro. She

commented that the one-year period would be a good time frame to ascertain whether or not MMro's services will add value and clarity to the process. Mr. Alphenaar asked if their report would give a justification on whether or not they believe a disability is duty-related or not. Ms. Korzen stated they would give their opinion on that subject based upon all of the information collected on the case; however, it is still the Trustees' obligation to determine whether or not a disability is duty-related. Mr. Gutowski voiced his concern on whether or not the \$545 fee per case would be a prudent expenditure. Ms. Korzen stated she still needs to confirm with MMro that the wording on their recommendation reports would not preclude Trustees from making their determination on a duty-related disability. Mr. VanderPloeg asked about the separate fee charged for an appeals claim. Ms. Korzen stated that she was unsure if MMro would be involved in the appeals process unless the Retirement Systems Office receives the appeal packet from the attorney and it is submitted to MMro for an opinion. Mr. VanderPloeg asked for clarification on the appeals process; Ms. Korzen agreed to ask them to clarify that issue. Chairman Scripps asked Ms. Korzen to also clarify that the Trustees retain the right to determine who will be re-examined. Ms. Korzen stated that MMro would have a process whereby they would make a recommendation to Trustees on who should be re-examined; however, it still should be the Trustees decision on who to have re-examined. She did not believe that they would need to send a list to MMro for potential re-exams. Mr. Gutowski asked if Ms. Korzen felt that she and her staff are feeling overwhelmed by the disability retirement requests; she stated that they do take up a significant amount of time. Mr. Gutowski asked Ms. Korzen to inform Trustees on how much more time she and her staff are devoting to this process as compared to what it was in the past; she stated that is approximately 50% more now than in the past. He stated that in order for him to be comfortable to approve this expenditure, he would like to see a metric that would show how much more time would be freed up for staff if MMro was hired. Chairman Scripps stated that not only would hiring MMro free up more time for staff, but the expertise gained in this process would be beneficial. Mr. Timkovich commented that hiring MMro for the one-year period would give Trustees a lot of those metrics. His concern was that if Trustees deviate from MMro's recommendations that could lead to legal issues. Ms. White reiterated that they had asked MMro to soften their language on addressing causation; they agreed. Ms. Korzen agreed to clarify with MMro the appeals, re-exams and I.M.E. fees and bring this item and the new information back to Trustees at a future Board meeting.

The meeting adjourned at 10:40 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, June 19, 2013, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems