GENERAL RETIREMENT SYSTEM
and
POLICE and FIRE RETIREMENT SYSTEM

BOARD OF TRUSTEES
CITY OF GRAND RAPIDS
MICHIGAN

MINUTES
JOINT MEETING
SEPTEMBER 15, 2010 – 9:42 a.m.
233 East Fulton

The meeting was called to order by Chairman J. Patrick Scripps. Other members present: Mr. David Tryc, Mr. Martin Timkovich, Mr. Thomas VanderPloeg, Mr. James Stokes, Ms. Dianette Hight, Mr. Michael Hawkins and Mr. Philip Balkema. Absent: Mr. Craig VanderWall 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 and Mr. Keith Beaudoin and Mr. Benjamin Segal of Neuberger Berman.

Mr. Balkema made the motion to excuse the absences of Mr. VanderWall and Mr. Gutowski. The motion was seconded by Mr. Tryc and carried.

There were no public comments regarding agenda items.

Mr. Tryc made the motion to approve the minutes of the Joint Meeting of August 18, 2010. The motion was seconded by Mr. Stokes and carried.

Mr. Keith Beaudoin, Senior Vice President and Mr. Benjamin Segal, CFA, Managing Director of Neuberger Berman (NB) presented their firm's annual report to Trustees. Mr. Beaudoin stated that NB was founded in 1939 and today is among the world's largest private employee-controlled asset management companies. NB has over 400 investment professionals with an average of 15 years experience and their portfolio managers have an average of 24 years of industry experience. NB has $169 billion in assets under management invested across multiple asset classes of which $75 billion is in equity Mr. Segal commented that NB's philosophy is as follows: 1) in depth strategic and financial research; 2) a carefully constructed portfolio of high quality stocks at low valuations, which should outperform at low risk; 3) there is no correlation between size and quality; 4) bottom-up fundamental analysis; 5) all-cap core style; and 6) manage risk to ensure that performance is driven by stock picking, not countries or sectors, and that the tracking error remains in the 4-7% range. Mr. Beaudoin reviewed the City of Grand Rapids Retirement Systems' objectives and portfolio guidelines and provided the following return statistics for both portfolios for periods ending July 31, 2010:

Annualized Returns

	3M	YTD	1 Yr.	3 Yr.	Since Inception 06/30/06
General Retirement System	(2.24)	0.86	16.80	(11.00)	(2.93)
Police & Fire Retirement System	(2.25)	0.86	16.78	(10.91)	(2.85)
MSCI ACWI Ex-U.S.	(3.53)	(2.72)	10.12	(7.56)	0.61

Calendar Returns

	2009	2008	2007
General Retirement System	32.52	(46.04)	3.08
Police & Fire Retirement System	35.48	(45.88)	3.55
MSCI ACWI Ex-U.S.	42.14	(45.24)	17.12

Mr. Segal reviewed the equity holdings, sector attribution, market cap attribution, regional and country attribution for the portfolios. Mr. Stokes commented that at last year's board meeting Mr. Segal stated Trustees should wait three years for the portfolios to turn around; he asked what his recommendation would now be. Mr. Segal stated that if NB's strategy does not appear to be working, then Trustees should not retain their services. He did note that over the past 12 months NB has outperformed the benchmark and pointed out the areas in the marketplace where the strategy is working. The report was received and filed by the Chairman. Chairman Scripps noted that Wilshire Associates continues to have confidence in Neuberger Berman.

Ms. Korzen next addressed the fee renewal request from The Northern Trust Company for custody, global custody, investment management services and benefit payments. The fee structure for the aforementioned services remains unchanged and will cover the period October 1, 2010 – September 30, 2013. Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to approve the fee renewal request as written by The Northern Trust Company for the period October 1, 2010 – September 30, 2013. The motion was seconded by Mr. VanderPloeg and carried. Mr. Tryc made the motion on behalf of the General Retirement System to approve the fee renewal request as written by The Northern Trust Company for the period October 1, 2010 – September 30, 2013. The motion was seconded by Mr. Timkovich and carried.

Mr. Hawkins provided Trustees with an update regarding the Executive Director's Contract Renewal Subcommittee by noting that each Trustee received communication from him summarizing the results of Trustee responses to five areas: 1) additions or deletions to the Executive Director's job description; 2) additions or deletions to the performance evaluation process; 3) what should be the compensation rate; 4) what items should or should not be included in the benefits package; and 5) what should be the length of the contract. Mr. Hawkins noted that overall Trustees commented that the Executive Director duties outlined in the Municipal Consulting Services (MCS) report were sufficient, however some additions were: to note that the Executive Director acts as liaison between the Retirement Systems and the City Commission and City management; to note that the Executive Director is responsible for verifying that IRS reporting requirements are being met; and to state that a degree in Finance is an acceptable educational requirement for the position. Mr. Hawkins stated that Trustees agreed that the performance evaluation guidelines provided in the MCS report were acceptable and that with respect to compensation, many Trustees provided salary ranges averaging from $81,069 to $99,373 and indicated that according to the MCS report the present position is overpaid and her current salary should be frozen. Mr. Hawkins noted that Trustees indicated the Executive Director position's benefits package should mirror that of employees in the Executive classification in the City, which would include the 20% premium sharing for health care. Mr. Balkema clarified that the summary was a fair representation of all Trustees; Mr. Hawkins agreed. Mr. Balkema asked if the salary range that was provided to Trustees is one that can be adjusted as time goes on. Mr. VanderPloeg commented that most of the sentiment from Trustees was to peg the position to range 21U in the City's non-bargaining executive classification. Mr. Balkema noted that if the Executive Director's salary range is pegged to the 21U range and the City amends that range does that automatically carry over to the Executive Director or is the current salary redlined and not increased until that range rises above it. Ms. Hight noted her opinion that the Executive Director's salary should not be tied to a City pay range because of these types of issues. Trustees should construct a salary range and then based upon performance make adjustments to the salary offer accordingly through the negotiation process. Mr. VanderPloeg commented that if the compensation and benefits package are separated and not both tied to a City pay range the process becomes very convoluted and it seems that it would be more prudent to either have both be at least somewhat tied to a City pay range or not tied to one at all. Chairman Scripps commented that he would like to see the position tied to a City pay range for both compensation and benefits as Trustees are not human resources experts and tying it to a City pay range would help ensure consistency; Mr. Stokes agreed. Ms. Hight stated that if Trustees decide to do this, she was unclear as to what would then need to be negotiated with the Executive Director. She noted that if Trustees wish to tie the Executive Director's compensation to a range 21U then perhaps the benefits should be treated separately to facilitate the contract negotiation process better. Mr. VanderPloeg commented that it would be better to tie both salary and benefits to a City pay range because if only one is and the City makes changes to that range during the year how does that impact the Executive Director; there may be instances where the Executive Director would experience the negative aspects (such as a pay increase for the executive class, but the Executive Director is locked into a contract with a lower salary rate). Ms. Korzen confirmed that her contract runs January 1 – December 31 and the executive class salaries run July 1 – June 30. Mr. Hawkins posed the question of whether or not to negotiate a contract with the Executive Director or would Trustees make an offer of a contract with no negotiation. Mr. Balkema stated that Trustees need to establish a salary range that Trustees are willing to pay the position and within that range, Trustees are free to negotiate whatever the salary is. He continued by stating that a provision could be put into the contract that allows for a performance or merit enhancement fee to make up for any changes in the Executive Director's benefits due to City benefit changes if they occur during a contract; Mr. VanderPloeg agreed. Mr. Balkema cautioned that this type of a provision would be holding the Executive Director harmless for mid-contract benefit changes that all other employees have to endure and it would more than likely not be a one-time provision. Ms. Hight reiterated her opinion that the Executive Director's compensation could be tied to a City pay range but the benefits should not be as the person in this position is an at will employee. Mr. Hawkins summarized the recommendation from the committee: 1) Trustees accept the performance evaluation process outlined in the MCS report; 2) Trustees are comfortable with tying the benefit package to that of the executive class benefit package at the City including the 20% premium sharing cost for health care; 3) Trustees accepted the position description in the MCS report with a few additions; 4) Trustees indicated that they believe the current position is overpaid and the present salary should be frozen until such time as it reaches the high end of the salary range (Mr. VanderPloeg commented that it was his recollection that the salary range was recommended by Trustees to be that of a 21U range); and 5) the contract term for the position should be one year. Mr. Balkema stated that in the City the appointed official positions have an established range, for example, $80,000 - $100,000 and the salary is set somewhere in between that range and later on when the range is adjusted for cost of living the salary doesn't necessarily increase with it. Mr. VanderPloeg commented that each year then there would be two discussions on this matter: 1) what the range will be; and 2) what the salary will be for the upcoming year. Chairman Scripps stated it was his understanding that Trustees would establish a salary range and then review performance to determine where the Executive Director's salary would fall within that range. If the current salary is above that number then it would be frozen until that particular salary range reached the current salary rate. Mr. Hawkins suggested a revised recommendation to make the salary range $77,500 - $98,500 which is close to the 21U range. Mr. Stokes commented if the Executive Director position was part of the City it would have made health insurance premium sharing payments of approximately $4,500 over the last few years; this did not happen and asked if that amount should be recouped. Trustees agreed that this amount would not be recouped and any health insurance premium sharing payments would be made by the Executive Director on a going forward basis once a contract has been negotiated. Mr. Balkema made the motion to accept the performance evaluation process as outlined in the MCS report and accept the job description in the MCS report with the proposed changes recommended by the committee. The motion was seconded by Mr. Stokes and carried. Ms. Hight clarified that Trustees would be accepting the performance evaluation process only outlined in the MCS report not the specific goals so Trustees can set their own goals. Ms. Korzen asked for clarification on the proposed added job duty of IRS Form 1099 reporting for the Retirement Systems' vendors. Mr. Timkovich stated that any payment made to any entity for more than

$600 ($3,000 for corporations) will require a Form 1099 and he feels that the Executive Director should ensure that these are being issued properly. Ms. Korzen asked if the City is doing this; Mr. Timkovich stated that this process has not been implemented yet. Ms. Korzen noted that this requirement may go away altogether. She would not mind taking care of this issue but did not know if it would be appropriate to put it in the formal job description. Chairman Scripps commented that there is language in the ordinance that states the Executive Director and staff are to ensure the proper administration of the Retirement Systems. Mr. VanderPloeg made the motion to establish the salary range for the Executive Director position of $77,500 - $98,500, with a one-year contract to be offered, and to freeze the salary of the Executive Director at her current annual rate of $103,414 for the one-year contract beginning January 1, 2011. The motion was seconded by Mr. Balkema and carried. Mr. Stokes made the motion that the non-salary benefits package for the Executive Director mirror that of the fringe benefit handbook that covers employees in the executive classification in the City. The motion was seconded by Mr. Hawkins and carried. Ms. Hight voted no. Mr. Balkema made the motion to authorize the committee, while working with the Deputy City Attorney, to prepare a contract proposal for the Executive Director with the aforementioned motions, and in addition that they have at their discretion to use as they see fit in the contract up to an additional $5,000 allowance for one year. Following Trustee discussion, Mr. Balkema withdrew the motion to allow Trustees to go through the performance evaluation process first. Ms. Hight clarified that this contract will be an offer and that Ms. Korzen will have the option to make a counter-offer. Chairman Scripps reminded Trustees that the new contract needs to be in place by November 30, 2010 and stated he would like to go through the evaluation process before a contract is put on paper. He asked Trustees to each send him their evaluation of the Executive Director, including goals, by September 30th. The evaluation committee consisting of Mr. Tryc, Mr. VanderWall and Chairman Scripps will meet shortly thereafter to summarize the results and a special joint board meeting will be held on October 20, 2010 to discuss the results with the full Board. It is his hope for Trustees to come to a consensus at the October meeting to put together a contract and make an offer to the Executive Director so that she can negotiate the contract with the committee prior to the November board meetings. Mr. VanderPloeg stated that the committee needs direction from the Board as a whole as to how the committee should proceed if the Executive Director makes a counter-offer. Mr. Balkema stated that if this happens the committee will then make a recommendation to the full Board.

There were no comments on items not on the agenda.

The meeting adjourned at 11:20 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, November 17, 2010, at 8:15 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems