

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

MINUTES
JOINT MEETING
JANUARY 16, 2013 – 8:15 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. Michael Hawkins, Mr. Philip Balkema, Mr. Walter Gutowski, Mr. William Butts, and Mr. Bill Alphenaar. Absent: Mr. Craig VanderWall.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Ms. Elizabeth White, Deputy City Attorney and Legal Advisor to the Boards, Mr. Geoff LeMieux of FLAG Capital, and Ms. Mariko Boswell of Pacific Investment Management Company.

Mr. VanderPloeg made the motion to excuse the absence of Mr. VanderWall. The motion was seconded by Mr. Hawkins and carried.

There were no public comments regarding agenda items.

Mr. Balkema made the motion to approve the minutes of the Joint Meeting of December 19, 2012. The motion was seconded by Mr. VanderPloeg and carried.

Mr. Geoff LeMieux, Vice President and Investment Relationship Manager of FLAG Capital (FLAG), presented his firm's annual report to Trustees. Mr. LeMieux noted that FLAG was founded in 1994, is solely dedicated to private capital strategies, has over \$6.0 billion in assets under management, has over 75 full-time professionals and is an independent and employee-owned company. Mr. LeMieux commented that on December 31, 2012, FLAG acquired the business of Squadron Capital, a Hong Kong-based private equity investment manager with \$1.5 billion of assets under management, of which more than \$900 million is committed/invested in Asia private equity. He also provided an overview of Squadron Capital. Mr. LeMieux reviewed FLAG's investment management organization, people and process. He noted that FLAG's private equity philosophy is to focus on the less efficient lower middle market; utilize operationally-oriented managers with demonstrated track records; have an emphasis on regional and/or sector-focused funds and maximize the potential for future alpha generation across private capital asset classes. FLAG is globally diversified across a number of dimensions as their Global Partnership Program is allocated to multiple FLAG strategies, creating additional layers of diversification across geography; markets; investment strategy; and vintage year. Mr. LeMieux reviewed FLAG's current fund manager commitments and underlying portfolio characteristics. The report was received and filed by Chairman Scripps.

Ms. Mariko Boswell, Vice President, Account Manager and CFA of Pacific Investment Management Company (PIMCO), presented her firm's annual report to Trustees. Ms. Boswell provided Trustees with an overview of PIMCO's organization, people and process. PIMCO has \$1.92 trillion in assets under management as of September 30, 2012 with 2,215 employees, of which, 689 are investment professionals. The following returns were reported for the period ending September 30, 2012:

	<u>10 yrs.</u>	<u>5 yrs.</u>	<u>3 yrs.</u>	<u>1 yr.</u>	<u>6 mo.</u>	<u>9 mo.</u>	Since <u>09/30/87</u>	Since <u>Inception*</u>
StocksPLUS L.P.	8.7%	2.5%	16.2%	38.0%	6.6%	22.3%	9.3%	8.4%
S&P 500	8.0%	1.1%	13.2%	30.2%	3.4%	16.4%	8.6%	7.7%

*Inception date: 08/31/00

Ms. Boswell noted that U.S. rates ended 2012 slightly lower as the Fed and ECB entered the market; Treasuries ended the quarter on a familiar note as flight-to-quality trade resumed; short-dated Eurozone sovereign yields dropped over the last quarter; and short maturity real yields declined the most amid higher gasoline and crude oil prices. The higher beta sectors outperformed in the third quarter due to additional quantitative easing that was announced. Ms. Boswell commented that PIMCO will continue to retain its defensive posture, favoring high quality sources of income, and that opportunities to capture high quality sources of structural yield persist. The outlook for the StocksPLUS account is attractive over the near and longer term. PIMCO sees an equal chance for near normal GDP growth rates; the impact of the U.S. fiscal cliff will be contained; monetary policy will spur corporate activity; there should be a shallow global recession; and the fiscal policy will be disappointing. They forecast below consensus real growth of 1.5-2.0% for the world economy over the next 12 months and they believe global inflation is set to moderate over the cyclical horizon. Ms. Boswell noted that the housing recovery is taking shape and the U.S. housing market may actually face a housing shortage in the coming years. She provided a review of the fiscal cliff and its implications. PIMCO expects the Fed to continue its accommodative policies and by prioritizing full employment over stable inflation, the Fed will try to generate growth with the possible benefit of some inflation, but this strategy will not be without risks. The report was received and filed by Chairman Scripps.

Ms. Korzen commented that in November 2012, The Northern Trust Company (NT) notified her of a change to the Securities Lending Collateral Pool that the Retirement Systems utilizes. NT is no longer using the non-cash collateral piece in this strategy; they will only be using cash collateral. If Trustees wish to continue using non-cash collateral, a separate agreement will need to be signed. There is no cost differential to do so, but over the past three years, the Retirement Systems have earned approximately \$176,000 in securities lending income and of that amount, only about \$1,800 came from non-cash collateral. Ms. Korzen recommended staying in the current collateral pool, without non-cash collateral. Following discussion, Trustees decided to stay in the current collateral pool without non-cash collateral.

There were no comments on items not on the agenda.

Ms. Korzen updated Trustees on the commodities process by noting that the contracts have been reviewed and signed and are in place. It was not possible to fund the account by December 31, 2012, so the majority of the funding will be sent on January 31, 2013 and the remainder on February 1, 2013.

The meeting adjourned at 9:18 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, February 20, 2013, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems

01/16/13