

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

MINUTES
JOINT MEETING
MARCH 17, 2010 – 8:05 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. James Stokes, Ms. Dianette Hight, Mr. Michael Hawkins, Mr. Philip Balkema, 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, Mr. Mark Babiec of ING Clarion, and Ms. Camilla Martin and Mr. Alan Matijas of Wellington Management Company.

There were no public comments regarding agenda items.

Mr. Timkovich made the motion to approve the minutes of the Joint Meeting of February 17, 2010. The motion was seconded by Mr. Balkema and carried.

Mr. Mark Babiec, CFA, Senior Vice President and Head of Client Service, of ING Clarion Real Estate Securities (ING CRES) presented his firm's annual report to Trustees. He provided Trustees an overview of ING CRES by noting that ING CRES has been dedicated to real estate securities since 1984, over 90% of its assets under management are invested in global mandates, its global investment track record is since November 2001-one of the longest in the industry-and its platform includes one of the largest direct real estate advisors in the world. ING CRES has over 70 dedicated real estate securities professionals located in Philadelphia, New York, Hong Kong, Tokyo and London, has had the same lead portfolio managers since inception, and low turnover of investment team personnel. ING Real Estate has \$96 billion in assets under management and \$17 billion of that amount is invested with ING CRES. Mr. Babiec reviewed ING CRES's investment philosophy which is to seek to generate consistent outperformance versus passive strategies by constructing portfolios of undervalued real estate identified through superior information and research and using conviction-based portfolio construction to ensure an acceptable risk/reward outcome. He stated that the global universe of public real estate companies is large and diverse; 27% in the Americas, 50% in the Asia-Pacific region and 23% in Europe. ING CRES employs a multi-stage investment process: they combine proprietary real estate market research and utilize in-depth and rigorous public company analysis. They add value two ways: 1) research driven asset allocation and 2) superior stock selection. Mr. Babiec commented that ING CRES's regional asset allocation is determined at regular meetings of the global investment policy committee, their security selection is disciplined based on extensive and rigorous fundamental analysis performed by their analyst team and the team selects securities they believe to have the most promising risk adjusted total return potential using a relative value analysis ranking system. Annualized investment returns for periods ending December 31, 2009 for the General and Police & Fire Retirement Systems' portfolios were reported as follows:

| | <u>4th Quarter 2009</u> | <u>Since Inception*</u> |
|----------------------------------|------------------------------------|-------------------------|
| General Retirement System | 5.15% | 32.88% |
| Police & Fire Retirement System | 5.15% | 32.88% |
| FTSE EPRA/NAREIT Developed Index | 4.40% | 30.74% |

*Inception date – June 16, 2009.

Mr. Babiec provided Trustees with ING CRES's investment outlook by noting that they believe global real estate securities have entered the early stages of the next long-term growth cycle for the asset class; however, this depends on the extent of the economic recovery and improvements in the credit markets. Fundamentals will likely bottom in 2010 with positive earnings growth expected in 2011, dividend yields are attractive and supported by underlying cash flows, real estate stock price volatility has subsided along with company balance sheet concerns, opportunistic capital raising activity is expected in 2010, and history suggests that REITs can be an effective way to play the up-cycles since the listed market anticipates economic recovery. Mr. Babiec also provided ING CRES's outlook for various global regions by commenting that they feel the Asia-Pacific region has the greatest leverage to an improving economic outlook, their long-term drivers of property fundamentals remain favorable and their residential market is at risk of government intervention, while their office market continues to show early signs of stabilization. In Australia, the RBA has begun gradually removing monetary stimulus, they expect continued rate rises in 2010 and their employment outlook has improved dramatically, which should bode well for demand for real estate. In Europe, the 2010 GDP growth is projected to be in the 1-2% range and property fundamentals are decelerating. In the Americas, they are experiencing decelerating property fundamentals, there is improvement in balance sheet quality and the capital market crisis has abated. The report was received and filed by the Chairman.

Ms. Camilla Martin, Portfolio Coordinator and Mr. Alan Matijas, Relationship Manager, of Wellington Management Company (WMC) presented their firm's annual report to Trustees. Mr. Matijas stated that WMC has \$537 billion of client assets under management: 47% in equities and 40% in fixed income and 13% in multi-strategies. WMC has over 1,750 employees in 10 offices and over 1,600 institutional clients based in more than 40 countries. WMC has 13 partners with an average of 19 years of experience, manages \$61 billion in assets under management and has between 5-7% staff turnover. WMC's Small Cap 2000 product is managed by 26 global industry analysts, employing multiple investment approaches and research disciplines and their investment objective and approach are to consistently outperform the Russell 2000 Index, add value through bottom-up stock selection, invest in primarily U.S. small cap stocks, maintain sector neutrality, and remain fully invested. Annualized investment returns for periods ending December 31, 2009 for the General and Police & Fire Retirement Systems' portfolios were reported as follows:

| | <u>1 Yr.</u> | <u>3 Yrs.</u> | <u>5 Yrs.</u> | <u>10 Yrs.</u> | <u>Since Inception*</u> |
|--------------|--------------|---------------|---------------|----------------|-------------------------|
| Ret. Systems | 44.4% | -3.5% | 2.7% | 6.9% | 8.4% |
| Russell 2000 | 27.2% | -6.1% | 0.5% | 3.5% | 5.1% |
| | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> |
| Ret. Systems | 44.4% | -39.0% | 2.1% | 16.0% | 9.4% |
| Russell 2000 | 27.2% | -33.8% | -1.6% | 18.4% | 4.6% |

| | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|--------------|-------------|-------------|-------------|-------------|-------------|
| Ret. Systems | 21.6% | 39.4% | -16.4% | 7.0% | 12.7% |
| Russell 2000 | 18.3% | 47.3% | -20.5% | 2.5% | -3.0% |

*Inception date is 08/31/99

Ms. Martin provided a review of WMC's portfolio management team, an update on its global industry research department, and a review of how the portfolio is constructed. She noted that the markets recovered somewhat in 2009. She then elaborated upon positive and negative contributors to performance in 2009. The report was received and filed by the Chairman.

Mr. Hawkins next provided Trustees with an update on the Executive Director's compensation and classification study by noting that the committee has obtained three proposals: 1) Beene Garter, 2) The Segal Company and 3) an individual, Ms. Janet Huyser. He stated that the committee is waiting on one more company's proposal before they are able to bring forth a recommendation to Trustees; however, he anticipates they will be able to do so in the next few weeks. Chairman Scripps reminded Trustees that the Executive Director's current contract expires July 31, 2010 and therefore a decision needs to be made regarding this issue by June 30, 2010. Mr. Balkema asked if the consultants have given any idea of time frames for completion of this study; Mr. Hawkins stated that they are stating it should take anywhere from two weeks to 30 days. Mr. Hawkins noted that if a firm can be engaged in April that should give enough time for the study to be completed and in May go over the results with the Executive Director and negotiate the contract. Ms. Hight asked if a special meeting could be called in order to facilitate this process since there is not another Board meeting until May. The committee wants to ensure that they complete this process thoroughly before making a recommendation to Trustees. Ms. Hight commented that the committee also wants to make sure that the consultant is looking at this process objectively and that once this process is in place Trustees will not have to go through it again. Mr. Hawkins stated that the committee would like to select a local firm; however, the final decision will rest with both Boards. Chairman Scripps asked how soon he anticipates receiving the last firm's information; Mr. Hawkins stated he hoped to have it by the end of this week. Mr. Gutowski stated that Trustees could tentatively hold two dates in mind, March 31st or April 14th and depending on how things progress, an email could be sent out to Trustees to firm up the date. Following Trustee discussion, they decided to call a special meeting either March 31, 2010 at 8:00 a.m. or April 14, 2010 at 8:00 a.m., depending on the recommendation from the committee.

There were no comments on items not on the agenda.

Ms. Korzen commented that it is a highly recommended practice that Boards of Trustees have an Ethics Policy in place. She stated that there has never been a formal policy in place and that she would be happy to draft one if Trustees wish. She stated that there haven't been any issues or problems, but she thinks it's a good idea to have a policy in place. Mr. Balkema commented that he has seen a few of these types of policies and some are quite convoluted; however, he thinks it is a good idea as it gives the Board guidance and protects Trustees in the long run. Following discussion, Trustees asked Ms. Korzen to draft an Ethics Policy and present it to them at a later date.

The Executive Director stated that it has been four years since an Experience Study has been conducted by the Systems' actuary, Gabriel, Roeder, Smith and Company (GRS). It has been past practice of the Boards to have experience studies done every five years to assess whether or not the assumptions that have been utilized are accurate. The fees quoted by GRS are \$8,400-\$9,800 for each system. Mr. VanderWall asked if this type of study is useful; Ms. Korzen responded yes. The study helps the actuary to form the basis for making suggestions going forward as it tells them whether reality matched

expectations. Mr. Timkovich asked if GRS would be looking at just the demographics side or the investment side as well; Ms. Korzen stated they would be looking at all assumptions. Mr. Balkema stated that an experience study could also be useful to Trustees in forming the basis of future asset allocations. Mr. Gutowski asked why the Retirement Systems pays for such a study; Mr. Balkema commented that they do because it is a tool that Trustees use to make sure that the systems are not getting out of sync with the assumptions that are utilized. Mr. Timkovich made the motion on behalf of the General Retirement System to hire Gabriel, Roeder, Smith and Company to perform an Experience Study for the five year period ending June 30, 2009 per the process and fee structure outlined in Mr. Hoffman's letter dated March 16, 2010. The motion was seconded by Mr. Tryc and carried. Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to hire Gabriel, Roeder, Smith and Company to perform an Experience Study for the five year period ending December 31, 2009 per the process and fee structure outlined in Mr. Hoffman's letter dated March 16, 2010. The motion was seconded by Mr. VanderPloeg and carried.

Ms. Korzen stated that another recommendation from several industry experts is to have an actuarial audit whereby a plan engages another actuarial firm that they don't work with to use the same data that is provided to the plans' actuary for the valuation to replicate the valuation. The purpose of this is to see if they come up with the same results. Ms. Korzen spoke to Mr. Hoffman at Gabriel, Roeder, Smith and Company (GRS) and he stated that the Retirement Systems have had GRS for more than 40 years and an actuarial audit would be a very good idea. The industry recommendation is to have an actuarial audit and an audit of the Experience Study to ensure that the assumptions are being used correctly and the data is accurate. She stated that this would be a recommendation after the Experience Studies have been completed. Mr. Balkema commented that this type of audit would more than likely be very expensive. Ms. Korzen agreed, but stated that there is a group, the Public Pension Coordinating Council that issues standards certificates for plans like the City's, and one of the requirements is that every 10 years an actuarial audit is performed. Mr. Hawkins asked if we would have a claim against GRS if a discrepancy was found; Ms. Korzen stated it would depend on the magnitude of the discrepancy. Ms. Korzen stated that no action is required at this time; she was merely making Trustees aware of this issue.

The Executive Director noted that concerns had been noted recently regarding the audit services provided by Plante & Moran (PM). She stated that she and Mr. Hawkins met with PM one year ago and they had promised that the relationship would improve; it did not. Ms. Korzen commented that she recently had a conversation with Mr. Rich Antonini, who is the head of PM in Grand Rapids and conveyed her concerns over the lack of customer service. The City has decided not to issue an RFP for auditing services this year. She commented that so far the Police & Fire audit has been going fine; however, the process is at the point where the communication has historically broken down. PM did confirm with her yesterday that they are still on track with the April 1st deadline and the financial statements are with their standards review area. She stated that if PM meets that deadline date, she will be satisfied. She wanted to update Trustees on how the relationship is progressing and commented that she does not recommend any changes at this time.

Ms. Korzen stated that two years ago a request was placed with the IRS to obtain qualified plan determination letters for each System and she stated that she finally received a response from the IRS. They have suggested some updates to the City Ordinances and these changes will be given to the City Commission. She noted that this process is in its end stages and determination letters should be issued soon. Mr. Stokes asked what triggered this request to the IRS. Ms. Korzen stated that a determination letter has not been received by the IRS since the early 1990s and it is a good idea to keep these letters current.

The Executive Director commented that she, Chairman Scripps and Mr. VanderPloeg recently conducted a due diligence visit to Adams Street Partners (ASP) and Lotsoff Capital Management (LCM).

She stated that LCM is still doing a great job for the plans and there have been no major firm changes. Ms. Korzen noted that they were very comfortable with ASP's process and they have a remarkable proprietary software system that they utilize. Mr. Timkovich asked if the next step was to review a contract with ASP; Chairman Scripps agreed. Ms. Korzen stated that Ms. White and Mr. Thomas Michaud have a copy of the contract and will review it and make recommendations to her.

Ms. Korzen provided Trustees with revised Executive Summaries from Wilshire Associates, Inc. for the quarter ending 12/31/09; these have been revised due to a securities pricing issue at Northern Trust. The revised Executive Summaries were received and filed by the Chairman.

The meeting adjourned at 9:25 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, May 19, 2010, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems