

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

MINUTES  
JOINT MEETING  
MARCH 20, 2013 – 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. Michael Hawkins, Mr. Philip Balkema, Mr. William Butts, and Mr. Bill Aphenaar. Absent: 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 CBRE Clarion, and Mr. Joseph Carieri of Western Asset Management.

Mr. Balkema made the motion to excuse the absence of Mr. Gutowski. 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 February 20, 2013. The motion was seconded by Mr. VanderPloeg and carried.

Mr. Joseph Carieri, Client Service Executive, of Western Asset Management (WAM) presented his firm's annual report to Trustees. He provided Trustees with an update of WAM and its relationship with Legg Mason and noted that as of December 31, 2012 WAM has 865 staff members working in eight countries and \$461.9 billion under management. He reviewed his firm's investment management team, investment philosophy and process; WAM employs a long-term, fundamental value orientation and diversified strategies. Mr. Carieri provided a market review by noting that market sentiment was driven by: 1) global monetary easing; 2) reduced concerns over Europe; 3) continued muted U.S. economic growth expectations; 4) continued improving housing; and 5) presidential elections and concerns over the fiscal cliff. Some key investment themes were: risk assets outperformed, but spreads were volatile; the U.S. Treasury curve steepened modestly; and the U.S. dollar was weaker v. most developing and developed countries, except Japan. He commented on the recent excess returns by sector, U.S. Treasury yields, credit spreads and peripheral European spreads. Mr. Carieri provided Trustees with an overview on WAM's current agency pass-through strategy. He stated that high-grade credit fundamentals are peaking and financials have the most room to normalize. The outlook for 2013 includes the following global investment themes: interest rates will rise somewhere down the line; global recovery is ongoing; secular headwinds remain in developed countries; near-term inflation outlook is stable, despite longer-term concerns; and globally, the central bank policy should remain extraordinarily accommodative and exit strategies will be debated. He stated that with the likelihood that interest rates will rise somewhere down the line, Trustees may wish to talk with WAM regarding strategies to help mitigate this risk. The primary risks will be: renewed European concerns; geopolitical tensions and policy uncertainty; U.S. fiscal policy process; and excess global liquidity causing valuation bubbles. These risks will impact how WAM considers their strategies for the portfolios. Some strategies WAM will consider are: select investment-grade financials and high-yield credit; emerging markets, focus on U.S. dollar corporates and local

markets; remain neutral with respect to agency mortgages; tactical duration management; and utilize long duration U.S. Treasury securities as a risk diversifier. Mr. Carieri provided the following return statistics for both portfolios as of December 31, 2012:

	<u>YTD</u> <u>02/28/13</u>	<u>1 Yr.</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>Since</u> <u>Inception*</u>
General Retirement System	0.3%	10.4%	10.6%	8.3%	6.8%
Police & Fire Retirement System	0.3%	10.4%	10.6%	8.3%	6.7%
Barclays Aggregate Index	-0.2%	4.2%	6.2%	5.9%	5.5%

\*April 30, 2004

The report was received and filed by Chairman Scripps.

Mr. Mark Babiec, CFA, Senior Vice President and Head of Client Service, of CBRE Clarion Securities (CBRE) presented his firm's annual report to Trustees. Mr. Babiec commented that CBRE: has been 100% dedicated to real estate securities since 1984; has 80+ dedicated real estate securities professionals located in Philadelphia, Hong Kong, Tokyo, London and Sydney; employs a team-oriented approach; has the same lead portfolio managers since inception, and; experiences exceptionally low turnover of investment team personnel. CBRE is part of CBRE Group, Inc.; CBRE has \$24 billion in assets under management as of December 31, 2012. Mr. Babiec noted that in the next few months ING will be divesting its investment management business; however, CBRE is not a part of that business. The portfolios will continue on with no changes except that the name may change; there will be no changes to the fund or the sub-advisory capacity provided by CBRE. He provided Trustees an overview of CBRE's organization and process. CBRE's investment philosophy is to generate consistent outperformance v. passive strategies through building conviction-based portfolios. They aim to identify undervalued real estate in the listed markets through superior information and research and allocate capital to regions and sectors where they believe real estate fundamentals and valuations are most attractive. CBRE manages risk via intensive company due diligence and prudent security selection while maintaining a diversification of companies, property sectors and geography. He stated that the global universe of public real estate companies is large and diverse: 38% in the Americas; 49% in the Asia-Pacific region; 12% in Europe; and 1% in the Middle East/Africa. CBRE's global investment policy committee performs a top-down analysis while its global investment team performs a bottom-up analysis. The portfolio is well diversified by geography and property type. Investment returns as of 02/28/13 for the General and Police & Fire Retirement Systems' portfolios were reported as follows:

	<u>YTD 2013</u>	<u>Calendar</u> <u>Year 2012</u>	<u>Since Inception*</u>
General Retirement System	2.75%	26.22%	19.13%
Police & Fire Retirement System	2.75%	26.22%	19.13%
FTSE EPRA/NAREIT Developed Index	3.90%	28.65%	20.26%

\*Inception date – June 16, 2009

Mr. Babiec stated that underperformance in 2012 was 55% stock selection and 45% asset allocation. The majority of the underperformance was related to the apartment sector overweight and specific apartment stocks owned. This was the first time in the last 11 years the U.S. stock picking generated negative attribution. He provided an outlook for 2013 and noted that the macroeconomic environment is showing signs of modest improvement; limited new construction activity and healthy leasing and investment

demand should bolster real estate values; public real estate companies have tremendous cost/access to capital; attractive dividends are growing at least-in-line with earnings; stock valuations remain reasonable; and volatility and correlation trends are improving. The report was received and filed by Chairman Scripps.

There were no comments on items not on the agenda.

Mr. VanderPloeg provided Trustees an update on the securities litigation monitoring services that the Boards have. He noted that he and Ms. Korzen recently interviewed three potential additional securities litigation monitoring firms to complement Scott + Scott (Mr. Timkovich was also present for one of the interviews): 1) Abraham Fruchter & Twersky, LLP; 2) Bernstein Litowitz Berger & Grossmann, LLP (BLB&G); and 3) Wolf Haldenstein Adler Freeman & Herz, LLP. Mr. VanderPloeg stated that he and Ms. Korzen felt that BLB&G would provide the best fit given our needs, and that this firm would work well with Scott + Scott. Mr. Balkema clarified that the same terms that are in effect with Scott + Scott would apply to BLB&G; there are no fees to the Systems and they would pay for any up-front costs related to any securities litigation that the Systems may be involved in. Mr. Hawkins asked whether or not Trustees should review the three firms in question. Following Trustee discussion, Mr. VanderPloeg made the motion to hire BLB&G for securities litigation monitoring services subject to successful contract negotiations. The motion was seconded by Mr. Balkema and carried.

Ms. Korzen asked Trustees if they would be willing to form a committee to pursue hiring an outside consultant to assist in the disability case management for the Boards. She noted that she has found one company so far that provides disability case management. The Retirement Systems would receive a disability retirement application from a member and then turn it over to the disability case management firm, which would then collect all the pertinent records, coordinate I.M.E.s, have a physician review the reports and then send the packet of information to Trustees for their consideration. She requested that a committee be formed to explore this possibility before bringing it to both Boards. Chairman Scripps suggested that the Vice Chairman from each Board be on the committee; Ms. Korzen agreed but noted that Mr. VanderWall will be out of town for part of April and asked if Mr. VanderPloeg would be willing to be on the committee instead; Mr. VanderPloeg said yes. The committee will consist of Mr. Balkema, Mr. Tryc and Mr. VanderPloeg. Mr. Balkema asked if Ms. Korzen was aware of any other pension systems that use a disability case management firm; she said not as of yet, but she is not done doing her research. Mr. Timkovich asked what the name of the company is; Ms. Korzen stated it is Managed Medical Review Organization (MMro) and they are located on the east side of the state. Mr. Timkovich asked if the Boards would be obligated to send all disability applications to them if we contract with them; Ms. Korzen was not sure as of this point but this question will be reviewed by the committee. Chairman Scripps asked those who will be attending upcoming conferences to ask other systems what they do regarding this issue.

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, May 15, 2013, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen  
Executive Director  
General and Police & Fire Retirement Systems

03/20/13