

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

MINUTES
JOINT MEETING
MARCH 18, 2015 – 9:12 a.m.
233 East Fulton

The meeting was called to order by Chairman Hawkins. Other members present: Mr. David Tryc, Mr. Craig VanderWall, Mr. Martin Timkovich, Mr. Thomas VanderPloeg, Mr. Philip Balkema, Mr. William Butts, and Mr. Elias Lumpkins, Jr. Absent: Mr. J. Patrick Scripps and Ms. Jane Hofmeyer.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Mr. Mark Babiec of CBRE Clarion, and Ms. Veronica Amici and Mr. Travis Carr of Western Asset Management.

Mr. VanderWall made the motion to excuse the absences of Mr. Scripps and Ms. Hofmeyer. The motion was seconded by Mr. VanderPloeg and carried.

There were no public comments regarding agenda items.

Mr. Butts made the motion to approve the minutes of the Joint Meeting of February 18, 2015. The motion was seconded by Mr. Tryc and carried.

Ms. Veronica Amici, Head of Public/Multi-Employer Relationships and Mr. Travis Carr, Product Manager of Western Asset Management (WAM) presented their firm's annual report to Trustees. Ms. Amici provided Trustees with an update of WAM and its relationship with Legg Mason and noted that as of December 31, 2014 WAM has 824 staff members working in eight countries and \$466.0 billion under management. She reviewed their firm's investment management team, investment philosophy and process; WAM employs a long-term, fundamental value discipline and diversified strategies. Ms. Amici reviewed the risk strategies that WAM employs for the portfolios. Mr. Carr provided a market review by noting that the Fed's guidance is inherently subjective; essentially making a judgment call. The risks to the Fed's outlook are all global: 1) oil prices; 2) U.S. dollar appreciation; 3) global central bank easing; 4) global inflation is falling; and 5) potentially higher wages. He stated that at this time, investment flexibility is important. The U.S. yields are lower than Fed guidance and the spread product is likely to remain attractive. U.S. core inflation is lower than the Fed forecast while the U.S. unemployment rate is stronger than the Fed forecast. With respect to falling oil prices, the outlook is that lower oil prices will be due to supply shock, which will boost growth and temporarily lower inflation. The risk from this is that lower oil prices will be due to demand shock. He stated WAMs outlook that the U.S. dollar appreciation will reflect a healthy U.S. economy; however, this appreciation lowers inflation, or reflects "flight-to-safety" capital flows. Ms. Amici commented on the recent excess returns by sector, U.S. Treasury yields, credit spreads and peripheral European spreads. The European Central Bank and Bank of Japan's easing will boost financial conditions, allowing the Fed to tighten but further central bank easing fails to support risk markets and/or growth. Global inflation is falling and low inflation supports growth and easy monetary policy abroad but the U.S. may import deflation from other countries. Falling unemployment rates lead to higher wages which could help move inflation up towards Fed targets however the acceleration in wage increases could result in unexpectedly high inflation. Political events in 2015 may create volatility due to the rise of nationalism

in Europe and the likelihood of more vetoes and executive actions from President Obama in the U.S. Mr. Carr provided the following return statistics for both portfolios as of December 31, 2014:

	<u>1Mo.Ending</u> <u>01/31/15</u>	<u>1 Yr.</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>Since</u> <u>Inception*</u>
General Retirement System	2.0%	8.2%	5.9%	7.8%	6.2%
Police & Fire Retirement System	2.0%	8.2%	5.9%	7.8%	6.1%
Barclays Aggregate Index	2.1%	6.0%	2.7%	4.4%	4.8%

*April 30, 2004

The report was received and filed by Chairman Hawkins.

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 provided background on CBRE, VOYA Investments and ING and noted that CBRE is a sub-advisor to VOYA for the portfolios. VOYA performs the administrative and operational functions for the portfolios. He noted that this process has not changed and he does not anticipate any change in the future. Mr. Babiec commented that CBRE: has been 100% dedicated to real estate securities since 1984; has 85+ dedicated real estate securities professionals worldwide; and employs a team-oriented approach with individual accountability. CBRE is part of CBRE Group, Inc., the world's leading real estate services firm and has \$25 billion in assets under management as of December 31, 2014. CBRE's senior portfolio management team has average experience of 25 years. 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: 43% in the Americas; 41% in the Asia-Pacific region; 14% in Europe; and 2% 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 02/28/15 for the General and Police & Fire Retirement Systems' portfolios were reported as follows:

	<u>Trailing</u> <u>1-Year</u>	<u>Calendar</u> <u>Year 2014</u>	<u>Since Inception*</u>
General Retirement System	15.80%	15.00%	15.80%
Police & Fire Retirement System	15.80%	15.00%	15.80%
FTSE EPRA/NAREIT Developed Index	15.60%	15.00%	16.00%

*Inception date – June 16, 2009

Mr. Babiec stated that in the U.S., real estate stocks continue to benefit from a favorable environment of continued low interest rates, limited new supply, and improving demand for real estate space leading to higher occupancies, rents and values. In the Eurozone, the ECB has acted aggressively to provide a backstop to economic conditions with the recent announcement of significant quantitative easing. In Japan, market participants await further progress on Prime Minister Abe's "third arrow" of structural reform focused on improving the economy's long-run growth rate. In Asia ex-Japan, decelerating economic growth in mainland China and government policies aimed at the residential sector have led to

an increased level of volatility. In Australia, continued softness in economic growth is impacting fundamentals for office and retail. CBRE expects high single to low double-digit total returns for property stocks over the next 12 months due to limited new construction activity combined with healthy leasing and investment demand bolstering real estate values and stock valuations are attractive. Mr. Babiec stated that earnings growth is expected to remain in a healthy 6-7% range over the next two years. Dividend yields are attractive v. fixed income alternatives and yield spreads are wider than normal in many regions. Dividends are expected to grow approximately 7% in each of the next two years, in line with earnings. CBRE believes that current valuations are sustainable; supported by improving U.S. economic conditions, rising commercial property values, and relatively attractive dividend yields. {Mr. VanderPloeg left the meeting at 10:15 a.m.} REITs have historically generated positive returns in rising interest rate environments. Mr. Babiec reviewed the strategy for portfolio and various statistical data. The report was received and filed by Chairman Hawkins.

Chairman Hawkins next addressed the issue of the duty disability physician policy that was tabled at the February 18, 2015 Joint Board meeting. He stated that based on a concern brought to Trustees' attention at the January 21, 2015 General Retirement System Board meeting by an attorney representing a member applying for a duty disability retirement, Trustees agreed to review the current policy with respect to the selection of a member's physician in a duty disability retirement request. Mr. Michaud reviewed the current medical committee selection process by noting that the member selects a physician, the Board selects a physician and if need be, those two physicians jointly select a third physician. He stated that Trustees should be concerned with having doctors rendering an objective opinion in the case. He recommended that the member have full discretion on selecting who he/she feels is the best physician to represent his/her interest on the medical committee. If that physician happens to be the same physician that he/she utilized for a Worker's Comp case or in some other capacity due to his/her employment with the City, this will be a decision for the member to make. He stated he does not have any concerns with a member doing this and it appears to be in line with the ordinance language. Mr. Michaud stated that the Board's physician should not be someone who is affiliated with the City or Worker's Comp carrier. He noted this is also typical of what other public pension systems allow. He recommended allowing the member to select his/her physician in a request for disability retirement regardless of whether it is a duty or non-duty related case; Trustees agreed that this would be the policy going forward. Ms. Korzen will notify Attorney Schaefer.

Chairman Hawkins commented that there is a need to enter into closed session to discuss pending litigation. Mr. VanderWall made the motion to go into closed session for the purpose of discussing information that is exempt from the Freedom of Information Act as it pertains to pending litigation, and to include Ms. Korzen, Mr. Michaud and Ms. Balkema. The motion was seconded by Mr. Butts and carried. Roll call vote: yeas: 7, nays: 0. Following the closed session, Mr. Tryc made the motion on behalf of the General Retirement System that, based on the confidential litigation report provided by legal counsel, the System accepts and approves the terms of the proposed resolution of the Public Funds' Objections and related appeal rights in the Article 77 proceedings captioned *In re Bank of New York Mellon (as trustee) Case no. 651786/2011*. The motion was seconded by Mr. Butts and carried. Mr. Tryc made the motion to approve Ms. Korzen as the authorized signer for the settlement on behalf of the General Retirement System. The motion was seconded by Mr. Timkovich and carried. Mr. VanderWall made the motion on behalf of the Police & Fire Retirement System that, based on the confidential litigation report provided by legal counsel, the System accepts and approves the terms of the proposed resolution of the Public Funds' Objections and related appeal rights in the Article 77 proceedings captioned *In re Bank of New York Mellon (as trustee) Case no. 651786/2011*. The motion was seconded by Mr. Balkema and carried. Mr. VanderWall made the motion to approve Ms. Korzen as the authorized signer for the settlement on behalf of the Police & Fire Retirement System. The motion was seconded by Mr. Balkema and carried.

There were no public comments on items not on the agenda.

The meeting adjourned at 10:49 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, April 15, 2015, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems