

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

MINUTES
JOINT MEETING
MARCH 16, 2016 – 8:14 a.m.
233 East Fulton

The meeting was called to order by Chairman Michael Hawkins. Other members present: Mr. David Tryc, Mr. Craig VanderWall, Mr. Martin Timkovich, Mr. Thomas VanderPloeg, Mr. Philip Balkema, and Mr. William Butts. Absent: Ms. Jane Hofmeyer, Mr. Jon O'Connor, and Mr. Phillip Mitchell.

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. Butts made the motion to excuse the absences of Ms. Hofmeyer, Mr. O'Connor, and Mr. Mitchell. The motion was seconded by Mr. VanderPloeg and carried.

There were no public comments regarding agenda items.

Mr. Timkovich made the motion to approve the minutes of the Joint Meeting of February 17, 2016. The motion was seconded by Mr. Butts and carried.

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 noted 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 has had the same lead portfolio managers since inception and has experienced exceptionally low turnover of investment team personnel. CBRE is part of CBRE Group, Inc., the world's leading real estate services firm, and had \$21 billion in assets under management as of December 31, 2015. CBRE's senior portfolio management team has average experience of 26 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: 42% in the Americas; 42% 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 12/31/15 for the General and Police & Fire Retirement Systems' portfolios were reported as follows:

	<u>Trailing 3-Years</u>	<u>Trailing 5-Years</u>	<u>Calendar Year 2015</u>	<u>Since Inception*</u>
General Retirement System	6.0%	7.5%	-0.7%	12.9%
Police & Fire Retirement System	6.0%	7.5%	-0.7%	12.9%
FTSE EPRA/NAREIT Developed Index	5.8%	7.2%	-0.8%	12.9%

*Inception date – June 16, 2009

Mr. Babiec provided a review of 2015 markets and stated that the global real estate stock returns were flat in 2015; good fundamentals were not reflected in share prices outside Europe, the U.K., and Australia; and takeover activity increased as listed real estate was too cheap to ignore. Global real estate stocks rebounded in the fourth quarter of 2015, but they were modestly negative for the year. Economic growth is improving, but at a meaningfully slower pace than in past recoveries. A low inflation, low interest rate environment is expected to persist which provides for continued demand for asset classes providing attractive income. Commercial property values are attractive v. fixed income. He noted that institutional demand remains healthy. CBRE's 2016 outlook is: 1) they expect high single-digit to low double-digit total returns for global property stocks over the next 12 months; 2) they believe the current property cycle is likely to be the longest in decades; and 3) earnings growth is expected to be in excess of 6% over the next two years while dividends are expected to grow approximately 7-8% in each of the next two years. Mr. Babiec reviewed CBRE's total return strategy, various statistical data, and top holdings by region. The report was received and filed by Chairman Hawkins.

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 noted that as of December 31, 2015 WAM has 827 staff members working in nine offices and \$433.7 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 global growth and inflation have moved lower, and downside risks persist. He stated that the accommodative monetary policy remains crucial for ongoing global recovery, the U.S. interest rate normalization will proceed, but very slowly, and spread sectors are expected to outperform government bonds. He commented that broad declines in commodity prices illustrate the sluggish demand that continues to weigh on global inflation and in the U.S., we don't yet see compelling signs of increased inflation. WAM believes that inflation will be lower than the Fed is forecasting. Europe is a positive story where the ECB monetary policy continues to gain traction, however, they will need to be accommodative for an extended period of time. China's growth rate continues to slow as it evolves from a manufacturing and investment-based economy to one based more on consumption. China's slowdown and evolution in demand have impacted commodities and emerging market currencies, and have increased uncertainty on global growth. WAM remains cautious in emerging markets, but they believe valuations have overshot the fundamental outlook and that there are attractive opportunities. Ms. Amici noted that they believe that spread sectors will outperform Treasuries going forward and the U.S. high-yield returns have had the potential for meaningful recovery. Mr. Carr reviewed the attribution statistics, sector and credit sector exposures and portfolio positioning and provided the following return statistics for both portfolios as of December 31, 2015:

	<u>1Mo.Ending</u> <u>01/31/16</u>	<u>1 Yr.</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>Since</u> <u>Inception*</u>
General Retirement System	0.3%	0.4%	2.6%	5.0%	5.7%
Police & Fire Retirement System	0.3%	0.4%	2.6%	5.0%	5.6%
Barclays Aggregate Index	1.4%	0.5%	1.4%	3.2%	4.5%

*April 30, 2004

The report was received and filed by Chairman Hawkins.

Board approval was requested for attendance at the following conferences: NCPERS Annual Conference to be held May 14 - 19, by Chairman Hawkins, Mr. VanderPloeg and Mr. VanderWall; the 2016 Spring MAPERS Conference to be held May 22 – 24 by Chairman Hawkins, Mr. Tryc, Mr. VanderWall, Mr. Mitchell, and Ms. Korzen; and the PIMCO Institute 4-day seminar to be held June 13 - 16 by Mr. Butts. Mr. Balkema made the motion to approve attendance of the aforementioned conferences by Trustees and staff per the Trustee Training, Educational Development and Due Diligence policy. The motion was seconded by Mr. Timkovich and carried. Mr. Butts stated that he would also try to conduct a due diligence visit to Western Asset Management before or after the PIMCO seminar.

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

Ms. Korzen noted that she recently received an invoice from BDO USA that was for professional service rendered in connection to the successor auditor review of their working papers for both Retirement Systems; the total invoice is \$820.00. Following Trustee discussion, Mr. Timkovich made the motion on behalf of the General Retirement System to approve the invoice from BDO USA for \$820.00 (\$410.00 per system). The motion was seconded by Mr. Tryc and carried. Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to approve the invoice from BDO USA for \$820.00 (\$410.00 per system). The motion was seconded by Mr. VanderPloeg and carried.

The Executive Director next addressed an email she received from Mr. Charles Groeschell at Baird Advisors (Baird). Mr. Groeschell noted that a few securities in the Retirement Systems' portfolios have been downgraded to below investment grade and represent exceptions to the investment guidelines in place. Baird is required to notify the Retirement Systems. Ms. Korzen spoke with Mr. Pease at Wilshire Associates and they agreed that there is no indication at this point that these securities will be detrimental to the portfolios; therefore, it would be prudent to allow Baird to continue holding the securities in the portfolios. No action is required of Trustees at this time.

Mr. Michaud provided Trustees with a report summarizing the recent publication of proposed regulations by the IRS regarding the "Normal Retirement Age" rules for governmental pension plans and the ability of members to receive distributions from a retirement system while continuing employment (i.e. – in-service distributions). The main issue is concerning the re-employment of retirees. Ms. Korzen stated that the Police & Fire Retirement System is in compliance as the lowest normal retirement age is 50. However, the General Retirement System does frequently rehire its retirees and could experience problems regarding this issue. The proposed regulations are anticipated to be effective no earlier than the first plan year beginning on or after January 1, 2017. Mr. Timkovich asked who is at risk when a retiree is re-employed by the City. Mr. Michaud stated the pension system is at risk as well as the individual retiree. The Retirement System has certain tax advantages from being a qualified plan, and if the IRS regulations are not being followed, this could be put in jeopardy. The individual could face potential taxability issues as well. Mr. VanderPloeg asked if the in-service distribution included DROP plans; Mr. Michaud said no. He stated that these regulations really apply to

someone who retires and goes back to work for the City right away, while receiving a pension benefit. The IRS is not concerned with how much money the retiree is making as a rehired employee or how many hours he/she works; if he/she works again for the City and is below what is considered to be normal retirement age, then that is considered an in-service distribution. Retirement benefits are meant to be used for retirement. The IRS had previously stated that age 62 would be considered the normal retirement age unless the industry supports a younger age. Mr. Butts asked how this information will be published; Mr. Michaud stated the bulletin regarding the regulation will be finalized soon. Mr. Balkema commented that the City is rehiring more and more retirees and the Retirement Systems should be cautious of this regulation. Ms. Korzen stated that Ms. Balkema receives a biweekly report of rehired retirees. Mr. Michaud stated he provided this information to Trustees to make them aware of the change in the tax code, that there are issues rehiring retirees, and issues should be reviewed on a case-by-case basis. Mr. Balkema asked Ms. Korzen to share this report with the Director of Human Resources for the City; she agreed.

The meeting adjourned at 9:28 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, May 11, 2016, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems