

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

MINUTES
JOINT MEETING
MARCH 16, 2011 – 8:25 a.m.
233 East Fulton

The meeting was called to order by Mr. David Tryc. Other members present: Mr. Craig VanderWall, Mr. Martin Timkovich, Mr. Thomas VanderPloeg, Ms. Dianette Hight, Mr. Michael Hawkins, Mr. Philip Balkema, and Mr. Walter Gutowski. Absent: Chairman J. Patrick Scripps and Mr. James Stokes.

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, Mr. Bill Samuels of Wellington Management Company, and Mr. William Bensur of Wilshire Associates, Inc.

Mr. Balkema made the motion to excuse the absences of Chairman Scripps and Mr. Stokes. The motion was seconded by Mr. Gutowski and carried.

There were no public comments regarding agenda items.

Mr. VanderWall made the motion to approve the minutes of the Joint Meeting of February 16, 2011. The motion was seconded by Mr. VanderPloeg 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. Mr. Babiec commented that about one month ago, ING announced that CB Richard Ellis (CBRE) agreed to acquire the majority of ING Clarion investment management. The ING Clarion Real Estate Securities business will be part of this transition. It is expected that all of the businesses will be fully integrated by the end of 2011. Mr. Bensur asked if there will be any changes to the research and process at ING when it transitions; Mr. Babiec stated that CBRE has a research and management piece in the U.S. and ING will now have improved and faster access to CBRE's information. He stated that ING has had a lot of input on how the transition will transpire; there is a good fit between ING and CBRE and a very low overlap of business. As a result of this transaction, ING's senior investment team will own 25% of the business. Mr. Bensur asked if they have decided on the name for the business when the transition is complete; Mr. Babiec stated they are still working on that; however, he is fairly confident that they will retain the Clarion name. He provided Trustees an overview of ING CRES by noting that ING CRES has been dedicated to real estate securities since 1984, they have deep regional expertise with a team of 70+ dedicated real estate securities professionals located in Philadelphia, New York, Hong Kong, Tokyo and London, they have had the same lead portfolio managers since inception and they have \$19 billion in assets under management. Mr. Babiec reviewed his firm'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: 33% in the Americas; 51% in the Asia-Pacific region; 14% in Europe; and 2% in the Middle East/Africa. 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 in 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. Investment returns as of 02/28//11 for the General and Police & Fire Retirement Systems' portfolios were reported as follows:

	<u>4th Qtr 2010</u>	<u>YTD 2011</u>	<u>Since Inception*</u>
General Retirement System	6.05%	4.21%	32.28%
Police & Fire Retirement System	6.05%	4.21%	32.28%
FTSE EPRA/NAREIT Developed Index	6.15%	4.27%	33.69%

*Inception date – June 16, 2009

Mr. Babiec noted that in the U.S., fundamentals are improving, RE transactions are increasing, there is IPO potential and regional malls are attractively valued. In Europe, the sovereign debt crisis is not over yet and there is continued focus on earnings stability and balance sheet strength. In the Asia-Pacific region, landlords are preferred to developers, Australia has positive fundamentals attractive value and undervalued retail, Japan's real estate market should benefit from the Bank of Japan's equity purchase program and China is cautious due to continued policy risks. He commented that the exposure ING has in Japan is relatively low (10%) and ING will continue to monitor the situation in Japan post-earthquake. He provided Trustees with ING CRES's investment outlook by noting that the current economic recovery is fragile in mature economies, inflation is becoming an issue in emerging economies, and public real estate companies have tremendous cost/access to capital advantage over private organizations while private market real estate transaction activity shows signs of life. He commented that they are unsure about the following: 1) if quantitative easing part 2 will stimulate the U.S. economy into a self-sustained recovery; 2) will the Euro-Zone enter a recession due to the sovereign debt crisis; 3) will the emerging economies (China and Brazil) manage a soft landing; and 4) will interest rates globally rise more rapidly than consensus expectations. He noted that ING believes that real estate fundamentals bottomed in 2010 and will experience positive earnings growth in 2011, and global real estate securities have entered the early stages of the next long-term growth cycle for the asset class. Mr. Babiec commented that the economic recovery continues, earnings improvement continues, dividend yields are attractive and are well supported and expected to grow. The report was received and filed by Mr. Tryc.

Mr. Bill Samuels, Portfolio Advisor, of Wellington Management Company (WMC) presented his firm's annual report to Trustees. Mr. Samuels stated that WMC has \$634 billion of client assets under management: 45% in equities; 42% in fixed income; and 13% in multi-strategies. WMC has over 1,800 employees in 11 offices and over 1,900 institutional clients based in more than 50 countries. WMC is managed by 25 global industry analysts with 13 partners that have an average of 20 years of experience. WMC has \$65 billion in assets under management in its Small Cap 2000 portfolio and has 5-7% analyst turnover. WMC's Small Cap 2000 portfolio investment objective is to

outperform the Russell 2000 Index by having its industry weights close to the benchmark and utilizing the analysts' highest conviction ideas to construct a diversified and fully invested portfolio with primarily U.S. small cap stocks. WMC's small cap core orientation has no "style" drift and its stock selection and emphasized/industry bets are minimized through integrated risk management. Annualized investment returns for periods ending December 31, 2010 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	36.3%	6.3%	7.3%	8.9%	10.6%
Russell 2000	26.9%	2.2%	4.5%	6.3%	6.9%
	<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

Mr. Samuels provided a review of WMC's portfolio management team, how the portfolio is constructed and discussed the positive and negative contributors to performance in 2010. The report was received and filed by Mr. Tryc.

There were no comments on items not on the agenda.

Mr. Tryc, Trustees and staff expressed their condolences to Chairman J. Patrick Scripps on the recent passing of his wife, Jane.

Ms. Korzen reminded Trustees that there will be a Special Joint Board meeting on April 20, 2011 at 8:00 a.m. to hear presentations from FLAG Capital and Mesirow Financial for a possible additional private equity investment. She noted that Wilshire asked Mesirow if the product that was outlined in the Wilshire report last month would still be available if Trustees decided to invest. They stated that this particular product will close April 30, 2011. However, Mesirow will be offering another product later this year so it would still be of value to have them attend in April so that Trustees may learn about their company. Ms. Hight voiced her concern that if Mesirow won't have a product readily available to invest in, Trustees may wish to consider interviewing a different candidate that has an available product. Mr. Bensus commented that Trustees will always run into an issue of timing with this type of investment. He stated that Trustees can choose to interview candidates that have open products for investment or they can choose to interview companies that don't have an immediate product open for investment to glean knowledge from the company and ascertain if they would be a suitable partner in the future. Mr. Timkovich asked if Mesirow brings an annual fund to the market; Mr. Bensus stated that he can't speak to Mesirow's process specifically;

however, most private equity firms bring a new fund to the market every 12-18 months. He further stated that it is Wilshire's recommendation to further diversify the private equity allocation with other partners and FLAG and Mesirow are both suitable candidates. Mr. VanderPloeg stated that if Trustees like the presentation by Mesirow, then they can consider investing in the fund that will open later this year. Mr. VanderWall agreed and stated that the desire to invest with a given firm may require the Boards to adjust their timing slightly to fit the firm's schedule. Mr. Bensur noted that this type of situation is common among boards all over the country and Trustees need to be patient with the process. Ms. Hight stated her concern is that once Trustees listen to the presentations by both firms in April, they cannot select a firm based on its product if only one has an open fund. Mr. Hawkins asked when the funding for an additional private equity allocation would take place; Mr. Bensur stated that there is no rush to get another product in place and it can happen very naturally with their next offering and in Mesirow's case, it would likely be later in the year. He also stated that part of the reason to look at a different private equity firm is because its process and philosophy will be different than Adams Street Partners and that can be good for diversification purposes. Mr. Hawkins suggested that since the timeline for this type of investment can be lengthy perhaps Trustees should be interviewing candidates for the third allocation later this year. Mr. Bensur stated that Trustees need to pace themselves when making these investments so that by the time they commit to another investment in private equity they will hopefully be getting a return on the previous investment. He stated that in order to have a healthy private market, there has to be a healthy public market. Mr. VanderWall asked when Trustees should be considering the third allocation into private equity; Mr. Bensur stated this issue should be discussed later in the year depending on what is available in the marketplace.

The Executive Director commented that the transition from the Neuberger Berman (NB) accounts to their institutional mutual fund is moving forward. NB has been working very closely with Wilshire and Northern Trust to work out all of the details and the target date for the conversion is March 30, 2011. She stated that the paperwork for the transition should be coming through very soon and she and Ms. White will review it to ensure accuracy and obtain the necessary signatures. She provided Trustees with a communication from Mr. Keith Beaudoin at NB regarding the situation in Japan and how it relates to NB's portfolios.

Mr. Gutowski presented Ms. Korzen a letter signed by the Mayor and City Commission commending her and her family for their courageous decision to donate some of her husband's organs. Their heroic action has spurred hundreds of others in the state to sign up to become organ donors.

The meeting adjourned at 9:30 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, May 18, 2011, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems