

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

MINUTES  
JOINT MEETING  
MAY 20, 2015 – 8:05 a.m.  
233 East Fulton

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

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Mr. Marlin Pease of Wilshire Associates, Inc., and Ms. Sara VanderWerff City Comptroller.

Mr. Scripps made the motion to approve the minutes of the Joint meeting of April 15, 2015. The motion was seconded by Mr. Balkema and carried.

Mr. Pease presented the quarterly performance report to Trustees. In a Capital Market update, Mr. Pease noted that the U.S. stock market was up for the quarter by 1.6%; the market has not suffered a down quarter in nearly three years and is up a cumulative 60% since the credit crisis recovery point in early 2012. Large cap stocks underperformed smaller cap stocks for the quarter while growth stocks led value stocks. There have been three major downward shifts in Treasury yields since the start of the last recession. Late 2008 brought the Citigroup bailout and quantitative easing. The bailout of Greece occurred in 2010 along with the possibility of more easing. Finally, 2011 included major political negotiations on raising the U.S. debt ceiling. In non-U.S. equity, global equity markets outside the U.S. started 2015 with strong gains, with European stock leading the charge. Despite Greece's ongoing fiscal woes, the Eurozone began to show signs of economic recovery; recent moves by European central banks to relax monetary policy, including quantitative easing bond-buying programs, sent stock prices soaring. In fixed income, the U.S. Treasury yield curve flattened during the first quarter; Treasuries benefited from investor unease over a possible U.S. economic slowdown accompanied by remarkably low inflation. Following a review of the capital markets, the Quarterly Funds Evaluation of the investment managers of the General and Police & Fire Retirement Systems was conducted.

**SUMMARY OF INDEX RETURNS**  
**PERIODS ENDED 03/31/15**

<u>Index</u>	<u>QTR.</u>	<u>1 YEAR</u>	<u>3 YEARS</u>	<u>5 YEARS</u>	<u>10 YEARS</u>
S&P 500	0.95	12.74	16.12	14.46	8.01
RUSSELL 2000	4.32	8.21	16.27	14.56	8.82
NAREIT GLOBAL RE INDEX	3.97	15.18	12.00	11.29	N/A
MSCI ACWI X-US	3.49	-1.01	6.40	4.82	5.27
BARCLAYS AGGREGATE	1.61	5.72	3.10	4.41	4.93
DJ UBS COMMODITY INDEX	-5.94	-27.04	N/A	N/A	N/A

**91 DAY T-BILLS****0.00****0.03****0.07****0.09****1.48****General Retirement System**Asset Commitments as of 03/31/15:

Domestic Equity	30.3%
Fixed Income	30.7%
Cash Equivalents	1.0%
Real Estate	5.3%
Private Equity	1.7%
Non-U.S. Equity	22.4%
Commodities	3.9%
MLPs	4.8%

Asset Allocation to Managers:

NTAM	17.7%
PIMCO	4.2%
Wellington Management Company	8.4%
Baird Advisors	15.4%
Western Asset Management	15.3%
Cash Account	1.0%
Neuberger Berman	15.1%
Harding Loevner	7.3%
CBRE Clarion	5.3%
Adams Street Partners	1.1%
FLAG Capital	0.5%
Wellington Commodities	3.9%
Harvest Fund Advisors	4.8%

**Quarterly Summary of the General Retirement System**

	<u>Market Value</u> <u>03/31/15</u>	<u>Market Value</u> <u>12/31/14</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$421.2 million	\$427.2 million	(\$6.0 million)	2.16%	56 <sup>th</sup> percentile
Total U.S. Equity	\$127.5 million	\$191.2 million	(\$63.7 million)	2.03%	58 <sup>th</sup> percentile
Total Non-U.S. Equity	\$94.3 million	\$60.4 million	\$33.9 million	4.98%	24 <sup>th</sup> percentile
Total Fixed Income	\$129.3 million	\$126.8 million	\$2.5 million	1.99%	24 <sup>th</sup> percentile
Total Real Estate	\$22.2 million	\$21.4 million	\$800 thousand	3.77%	41 <sup>st</sup> percentile
Total Private Equity	\$7.0 million	\$6.3 million	\$700 thousand	8.32%	N/A
Total Commodities	\$16.5 million	\$17.3 million	(\$800 thousand)	-4.94%	N/A
Total MLPs	\$20.3 million	\$0	\$20.3 million	N/A	N/A
NTAM	\$74.6 million	\$101.3 million	(\$26.7 million)	0.98%	66 <sup>th</sup> percentile
PIMCO	\$17.7 million	\$40.8 million	(\$23.1 million)	0.86%	80 <sup>th</sup> percentile
Wellington Mgmt. Co.	\$35.2 million	\$49.0 million	(\$13.8 million)	4.81%	27 <sup>th</sup> percentile
Neuberger Berman	\$63.7 million	\$60.4 million	\$3.3 million	5.55%	23 <sup>rd</sup> percentile
Harding Loevner	\$30.6 million	\$0	\$30.6 million	N/A	N/A
Baird Advisors	\$65.0 million	\$63.9 million	\$1.1 million	1.76%	39 <sup>th</sup> percentile
Western Asset Mgmt.	\$64.3 million	\$62.9 million	\$1.4 million	2.22%	9 <sup>th</sup> percentile
CBRE Clarion	\$22.2 million	\$21.4 million	\$800 thousand	3.95%	41 <sup>st</sup> percentile
Adams Street Partners	\$4.7 million	\$4.3 million	\$400 thousand	41.03%	N/A
FLAG Capital	\$2.3 million	\$2.0 million	\$300 thousand	2.57%	N/A
Wellington Commodities	\$16.5 million	\$17.3 million	(\$800 thousand)	-4.94%	N/A
Harvest Fund Advisors	\$20.3 million	\$0	\$20.3 million	N/A	N/A

**Police and Fire Retirement System**Asset Commitments as of 03/31/15:

Domestic Equity	31.0%
Fixed Income	30.2%
Cash Equivalents	0.6%

Asset Allocation to Managers:

NTAM	18.1%
PIMCO	4.5%
Wellington Management Company	8.5%

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Real Estate	5.4%	Baird Advisors	15.1%
Private Equity	1.7%	Western Asset Management	15.1%
Non-U.S. Equity	22.3%	Cash Account	0.6%
Commodities	4.0%	Neuberger Berman	15.1%
MLPs	4.8%	Harding Loevner	7.2%
		CBRE Clarion	5.4%
		Adams Street Partners	1.2%
		FLAG Capital	0.6%
		Wellington Commodities	4.0%
		Harvest Fund Advisors	4.8%

### **Quarterly Summary of the Police & Fire Retirement System**

	<u>Market Value</u> <u>03/31/15</u>	<u>Market Value</u> <u>12/31/14</u>	<u>Market</u> <u>Difference</u>	<u>Rate of</u> <u>Return</u>	<u>Universe</u> <u>Ranking</u>
Retirement System	\$402.2 million	\$406.7 million	(\$4.5 million)	2.16%	56 <sup>th</sup> percentile
Total U.S. Equity	\$124.7 million	\$183.2 million	(\$58.5 million)	2.02%	58 <sup>th</sup> percentile
Total Non-U.S. Equity	\$89.8 million	\$57.5 million	\$32.3 million	4.98%	24 <sup>th</sup> percentile
Total Fixed Income	\$121.6 million	\$119.2 million	\$2.4 million	1.98%	24 <sup>th</sup> percentile
Total Real Estate	\$21.6 million	\$20.8 million	\$800 thousand	3.77%	41 <sup>st</sup> percentile
Total Private Equity	\$7.0 million	\$6.3 million	\$700 thousand	8.32%	N/A
Total Commodities	\$15.9 million	\$16.7 million	(\$800 thousand)	-4.94%	N/A
Total MLPs	\$19.3 million	\$0	\$19.3 million	N/A	N/A
NTAM	\$72.7 million	\$97.1 million	(\$24.4 million)	0.97%	68 <sup>th</sup> percentile
PIMCO	\$18.0 million	\$39.1 million	(\$21.1 million)	0.86%	80 <sup>th</sup> percentile
Wellington Mgmt. Co.	\$34.1 million	\$47.0 million	(\$12.9 million)	4.81%	27 <sup>th</sup> percentile
Neuberger Berman	\$60.7 million	\$57.5 million	\$3.2 million	5.55%	23 <sup>rd</sup> percentile
Harding Loevner	\$29.1 million	\$0	\$29.1 million	N/A	N/A
Baird Advisors	\$60.9 million	\$59.8 million	\$1.1 million	1.75%	41 <sup>st</sup> percentile
Western Asset Mgmt.	\$60.7 million	\$59.4 million	\$1.3 million	2.22%	9 <sup>th</sup> percentile
CBRE Clarion	\$21.6 million	\$20.8 million	\$800 thousand	3.95%	41 <sup>st</sup> percentile
Adams Street Partners	\$4.7 million	\$4.3 million	\$400 thousand	41.03%	N/A
FLAG Capital	\$2.3 million	\$2.0 million	\$300 thousand	2.57%	N/A
Wellington Commodities	\$15.9 million	\$16.7 million	(\$800 thousand)	-4.94%	N/A
Harvest Fund Advisors	\$19.3 million	\$0	\$19.3 million	N/A	N/A

Mr. Pease next provided a report on a review of the CBRE Clarion Global Real Estate portfolios. He noted that a strategic investment into global REITs was recommended during the 2009 asset allocation study. CBRE was hired due to their deep, experienced and stable team of investment professionals; they had the world's largest commercial real estate investment management company; they had the longest track record managing global REIT portfolios; they had strong performance results with the exception of low quality rallies; and their portfolio provides downside protection in periods of market dislocation. The reasons for review are: 1) the strategy has trailed the benchmark over the last three and five year periods and 2) on a calendar year basis, the portfolio has trailed the benchmark in 2009, 2010, 2012 and 2014 (all periods of low quality rallies). Mr. Pease reviewed Wilshire's manager evaluation process and provided the following return summary for the CBRE account:

	<u>Qtr.</u>	<u>1-Yr.</u>	<u>3-Yrs.</u>	<u>5-Yrs.</u>	<u>7-Yrs.</u>	<u>10-Yrs.</u>
CBRE	3.95%	15.71%	11.99%	11.26%	5.40%	8.77%
FTSE EPRA/NAREIT	3.97%	15.18%	12.00%	11.29%	4.24%	7.18%

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
CBRE	14.92%	4.30%	26.17%	-4.80%	16.20%	36.95%	-41.75%	-5.62%
FTSE EPRA/NAREIT	15.02%	3.67%	27.73%	-6.46%	19.63%	37.13%	-48.16%	-7.39%

Mr. Pease noted that currently there are approximately 62 products in this area. He provided risk and return statistic information for CBRE and stated that since the financial crisis, CBRE has maintained a consistent large cap bias versus the benchmark. CBRE has maintained a lower yielding (i.e. higher quality) portfolio versus the benchmark. Mr. Pease stated that Wilshire expects that recent signs of more “normalized” listed property market behavior should bode well for active management. After a period of heightened correlation levels, global real estate correlations have been trending downward and are below the long-term average. Wilshire recommends maintaining the current investment with CBRE as they believe CBRE is a top-tier, institutional quality strategy. The factors that led to the Board’s decision to hire CBRE in 2009 are still intact. While CBRE’s performance has modestly trailed the benchmark over the past few years, the results can be attributed to an investment environment where valuations have been ignored. CBRE’s high quality emphasis, valuation discipline and top-down positioning is expected to provide positive results if the extended market rally for global REITs becomes challenged. Wilshire will continue to monitor CBRE and report back to the Board in a timely manner. Mr. Scripps stated that his concerns in the past have been that CBRE’s performance has consistently been below the index and they have experienced a number of organizational changes. Following Trustee discussion, Trustees agreed with Wilshire to stay the course with CBRE.

Mr. Pease next provided a report to Trustees detailing a Private Equity pacing model. Three annual commitment scenarios were created for Trustees’ consideration in this model: 1) 25%; 2) 30%; 3) 35% of the target allocation. Utilizing a start date of December 31, 2014, the beginning market value of the Private Equity portfolio was \$427.2 (General Retirement System, however both systems invest in a similar manner). The annual total fund return estimate is 6.50% and the annual net benefit payment, before investment gain/loss was assumed to be 4.0%. Capital commitments were modeled to be drawn at 16.67% annually for six years. Capital distributions were modeled to begin in year three and return 15.00% annually for 10 years. Mr. Pease provided an invested capital comparison and provided statistics on each of the three scenarios for the private equity pacing model. Wilshire believes successful private equity programs are built over time by consistently committing capital to the asset class. The annual pacing previews both the opportunity and the flexibility available to the investor as it ensures adequate vintage year diversification; the ability to commit to underrepresented segments of the market; adjusts for changing market dynamics; and the investor liquidity profiles may change. Based on the analysis presented, Wilshire recommends committing \$6-\$7 million per system to the Adams Street Global 2015 Fund. Adams Street Partners is among the top-tier private equity fund-of-funds providers. The firm is well resourced across investment and operational functions. The global offering is broadly diversified across venture capital, buyout, and mezzanine/distressed securities and includes allocations to secondaries and direct co-investments. While the firm raises \$1-\$2 billion a year in new fund-of-funds commitments, they have been diligent limiting availability to new investors. Adams Street Partners is accepting commitments until September 30, 2015. Mr. Pease provided a summary of Adams Street Partners with respect to their allocation and investment performance. He did note that starting July 1, 2015, Mr. Bon French’s title will change from CEO to Chairman; Mr. Jeff Diehl, current head of investments will assume the role of Managing Partner; and Mr. French and Mr. Diehl will transition responsibilities from now until December 31, 2017. Mr. Scripps made the motion on behalf of the General Retirement System to commit \$6.5 million to the Adams Street Global 2015 Fund. The motion was seconded by Mr. Tryc and carried. Mr. Scripps made the motion on behalf of the Police & Fire Retirement System to commit \$6.5 million to the Adams Street Global 2015 Fund. The motion was seconded by Mr. Balkema and carried.

Mr. Pease next provided Trustees with a draft updating the Investment Policy Statement for the General Retirement System and the Police & Fire Retirement System. Ms. Korzen noted that there will be a few changes that need to be made to the statements to ensure that all of the managers are reflected in the document, as well as implementing a numbering system for the sections. The revised statements will be presented to Trustees for approval at the August 19, 2015 Joint Board meeting.

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

The meeting adjourned at 8:57 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, June 17, 2015, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen  
Executive Director  
General and Police & Fire Retirement Systems