

GENERAL RETIREMENT SYSTEM  
and  
POLICE and FIRE RETIREMENT SYSTEM

BOARD OF TRUSTEES  
CITY OF GRAND RAPIDS  
MICHIGAN

MINUTES  
JOINT MEETING  
SEPTEMBER 19, 2012 – 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. Michael Hawkins, Mr. Philip Balkema, Mr. Walter Gutowski and Mr. William Butts. Absent: Mr. Thomas VanderPloeg and Mr. Bill Alphenaar.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Ms. Elizabeth White, Deputy City Attorney and Legal Advisor to the Boards, Mr. William Wallace, Mr. Brian Faleiro and Mr. Benjamin Segal of Neuberger Berman, Mr. Joseph Carieri of Western Asset Management, and Mr. Lawrence Fumarolo, Mr. Dennis Anosike and Mr. Brian Duhn from The Northern Trust Company.

Mr. Balkema made the motion to excuse the absences of Mr. VanderPloeg and Mr. Alphenaar. The motion was seconded by Mr. Tryc and carried.

There were no public comments regarding agenda items.

Mr. Tryc made the motion to approve the minutes of the Joint meeting of August 15, 2012. The motion was seconded by Mr. Balkema and carried.

Mr. William Wallace, CFA, Senior Relationship Manager, Institutional Client Group, Mr. Brian Faleiro, CFA, Vice President and Mr. Benjamin Segal, CFA and Managing Director of Neuberger Berman (NB) presented their firm's annual report to Trustees. Mr. Wallace provided an overview of NB and recent developments within the firm. Mr. Faleiro stated that NB was founded in 1939 and today is among the world's largest private employee-controlled asset management companies. NB has over 400 investment professionals with an average of 17 years of experience and their portfolio managers have an average of 26 years of industry experience. NB has over \$194 billion in assets under management, with \$7.7 billion in assets under management in the global equity strategy and more the 1,700 employees in 27 cities worldwide; he also reviewed the global equity team structure. Mr. Faleiro commented that NB's strategy is as follows: 1) belief that high returning, growing businesses trading at low valuations outperform over time; 2) in-depth fundamental analysis so they can identify great businesses across industries and geographies that span the market capitalization spectrum; 3) prudent risk management techniques to help optimize risk/return characteristics; 4) bottom-up fundamental analysis; 5) all-cap core style; and 6) manage risk to ensure that performance is driven by stock picking, not countries or sectors, and that the tracking error remains in the 4-7% range. Mr. Faleiro reviewed the City of Grand Rapids Retirement Systems' objectives and portfolio guidelines and provided the following return statistics for both portfolios for periods ending July 31, 2012:

**Annualized Returns**

	July				Since	
	<u>2012</u>	<u>YTD</u>	<u>1 Yr.</u>	<u>3 Yr.</u>	<u>5 Yr.</u>	<u>06/30/06</u>
General Retirement System	1.15	6.51	(10.44)	8.83	(4.89)	(0.38)
Police & Fire Retirement System	1.15	6.51	(10.44)	8.82	(4.85)	(0.32)
MSCI ACWI Ex-U.S.	1.44	4.62	(11.73)	4.63	(3.85)	1.06
MSCI EAFE Index	1.15	4.56	(10.99)	3.79	(5.14)	(0.58)

Mr. Segal reviewed the equity holdings, sector allocations and attribution, market cap allocation, and regional and country allocations for the portfolios. The report was received and filed by Chairman Scripps.

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 Legg Mason (WAM is a wholly owned subsidiary of Legg Mason, but has its own Board) and noted that as of June 30, 2012 WAM has 889 staff members working in eight countries and \$445.9 billion under management. He reviewed WAM's investment management team and their investment philosophy and process; they employ a long-term, fundamental value orientation and diversified strategies. Mr. Carieri provided a market review by noting that market sentiment has driven renewed concerns over Europe combined with the slow response by politicians, weakening U.S. economic growth expectations and politics/regulations. The key investment themes in the second quarter were: risk assets performed mixed; U.S. Treasury rates fell and the yield curve flattened; and the U.S. dollar was stronger v. most developed and developing countries. 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 the global recovery is ongoing, secular headwinds remain in developed countries, the inflation outlook is largely benign as there are longer-term concerns and globally, the central bank policy will likely remain extraordinarily accommodative. The primary risks will be the ongoing European crisis; China's slowdown and its potential impact; global political changes and policy uncertainty; and financial regulation/policy implementation. 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; overweight agency mortgages; tactical duration management; and long duration U.S. Treasury securities as a risk diversifier. Mr. Carieri provided the following return statistics for both portfolios as of June 30, 2012:

	<u>YTD</u>	<u>1 Yr.</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>Since Inception*</u>
GRS	5.3%	8.1%	14.7%	7.7%	6.6%
PFRS	5.3%	8.1%	14.7%	7.6%	6.5%
Barclays Agg. Index	2.4%	7.5%	6.9%	6.8%	5.6%

\*April 30, 2004

The report was received and filed by Chairman Scripps.

Mr. Lawrence Fumarolo, Vice President and Institutional Trust Relationship Manager, Mr. Dennis Anosike, Senior Vice President, Division Manager – Public Funds & Taft-Hartley Group and Mr. Brian Duhn, Second Vice President and Investment Relationship Manager of The Northern Trust Company (NT) presented an update to Trustees on NT. Mr. Anosike provided an overview of NT by noting: they were founded in 1889; they have \$4.56 trillion in assets under custody; they have \$1.5 trillion in assets under administration; and \$704 billion in assets under management. He noted that NT maintains a full array of capabilities to meet the needs of institutional investors: asset management; asset enhancement; asset reporting; asset administration; and asset processing. NT has 18 global locations; 13,139 staff members worldwide; services in 102 markets; and clients in approximately 40 countries. {Mr. Gutowski left the meeting at 9:31 a.m.} Mr. Anosike reviewed NT's financial profile and NT's Trust services. Mr. Fumarolo discussed the Retirement Systems' account structure and provided a benefit payments update which included a number of enhancements to their benefit payments system. He reviewed the Securities Lending program with NT and the process that they follow. He noted that NT has 358 participating clients in 50 worldwide markets; \$645 billion lendable securities with 24-hour trading via Chicago, Toronto, London and Hong Kong; and \$91 billion loans outstanding as of June 30, 2012. Mr. Fumarolo provided Trustees with the investment profile of the Core USA Cash Collateral Fund for the Securities Lending program as of June 30, 2012 and historical net earnings for each Retirement System; since 2006, the General Retirement System has cumulative net earnings of \$498,915 and the Police & Fire Retirement System has cumulative net earnings of \$429,641. Mr. Brian Duhn provided an overview of the

NTGI portfolios and organizational structure. NT has a global team of 28 portfolio managers with an average of 12 years of experience per team member. They seek to maximize liquidity and minimize market impact with a dynamic, customized, and risk-managed approach to index changes. Mr. Duhn provided the following return statistics for both portfolios as of August 31, 2012:

	<u>1 Mo.</u>	<u>3 Mo.</u>	<u>YTD</u>	<u>1 Yr.</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>10 Yrs.</u>
NTGI	2.25%	7.96%	13.54%	18.06%	13.72%	1.20%	6.49%
S&P 500 Index	2.25%	7.94%	13.51%	18.00%	13.62%	1.28%	6.51%

The report was received and filed by Chairman Scripps.

There were no comments on items not on the agenda.

Board approval was requested for attendance by Ms. Lisa Balkema at the following conference: 2012 Public Pension Financial Forum (P2F2) to be held October 7 - 10. Ms. Korzen stated that she felt this would be a good resource to glean important information and network with peers. Mr. Timkovich made the motion to approve attendance of the aforementioned conference by Ms. Balkema per the Trustee Training, Educational Development and Due Diligence policy. The motion was seconded by Mr. Balkema and carried.

The Executive Director noted that the new position classification of Retirement Systems Assistant had recently passed the Civil Service Board approval process and should be on the agenda for approval at the next City Commission meeting. Pending approval from the City Commission, the next step will be to develop test questions for the position.

Ms. Korzen noted that it was decided by Trustees to review both Annual Accountings at the same time each year, and since the Annual Accounting for the fiscal year ending 06/30/12 is complete for the General Retirement System, a committee has been established. Mr. Hawkins, Mr. Balkema and Mr. Butts volunteered to serve. Ms. Korzen will coordinate a time with the committee and staff to review the Annual Accountings.

The meeting adjourned at 9:52 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, November 14, 2012, at 8:10 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen  
 Executive Director  
 General and Police & Fire Retirement Systems