



City of Kalamazoo Employee's Retirement System

As of September 30, 2005

Report to the
Retirement Investment Committee

City of Kalamazoo

November 14, 2005
8:00 a.m.
Third Floor Conference Room, City Hall

REPORT TO THE RETIREMENT INVESTMENT COMMITTEE
OF THE CITY OF KALAMAZOO

**Performance of the Employees' Retirement Fund
For the Period Ending September 30, 2005**

The market value of portfolio assets increased from \$451.1 million to \$463.3 million during the third quarter of 2005, an increase of \$12.2 million or 2.7%. The market value is net of approximately \$3.4 million benefit payments and \$143 thousand in participant withdrawals. Employee contributions were about \$379 thousand. The City made no contribution in the quarter. The weighted average return for the quarter on portfolio assets was a positive 3.4%. The annualized return since October 1982, net of manager fees, through the end of the second quarter 2005 has been 13.2%.

Equities comprised 71.5% of the City portfolio at the end of the quarter. The equity portion of the City portfolio gained 5.3% for the period. Total fixed income had a negative quarter decreasing by 1.73%. The intermediate bond portfolio lost 0.5% for the third quarter and the long bond portfolio lost 2.9%.

Of the six equity managers, all posted gains. Having declined by 1.6% in the second quarter, International Small Cap lost contributed 10.8% in the third quarter to lead all funds for the period. U.S. Large Cap Value gained 4.2%, U.S. Micro Cap gained 6.8%, and Mid Cap Growth contributed 4.5% for the quarter.

The inflation-adjusted, or real return, for the quarter was 2.0%. Since 1982 the return on the portfolio, net of manager fees, has been 13.2% nominal and 10.1% real.

The plan remains fully funded from an actuarial and a market basis.

Respectfully submitted,
October 30, 2005

City of Kalamazoo Employee's Retirement System

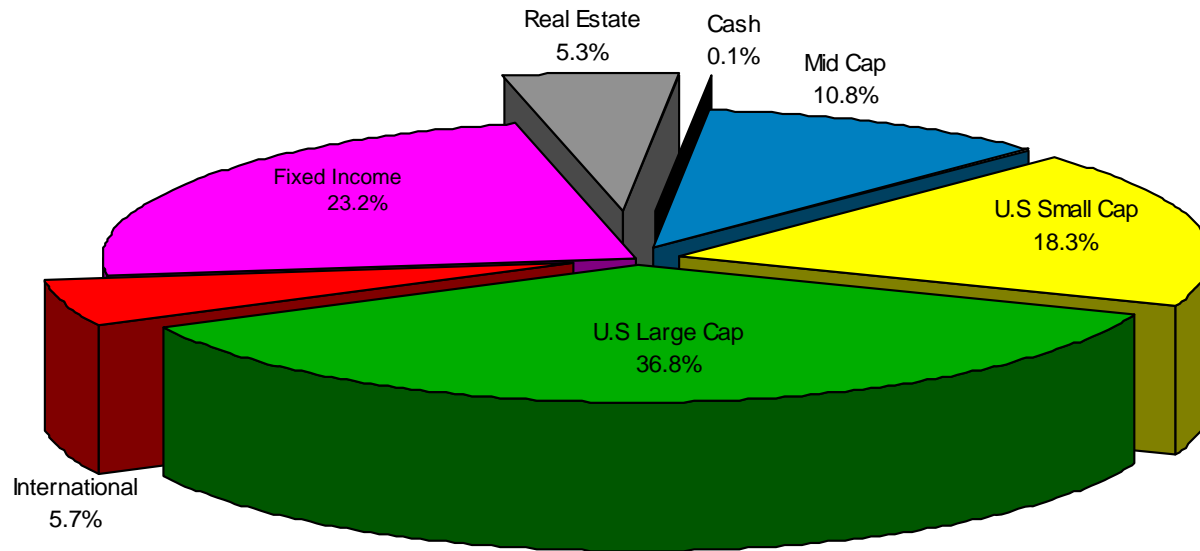
As of September 30, 2005

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Attachments:
None

City of Kalamazoo Employees' Retirement Funds

at September 30, 2005



Equity: 71.5%

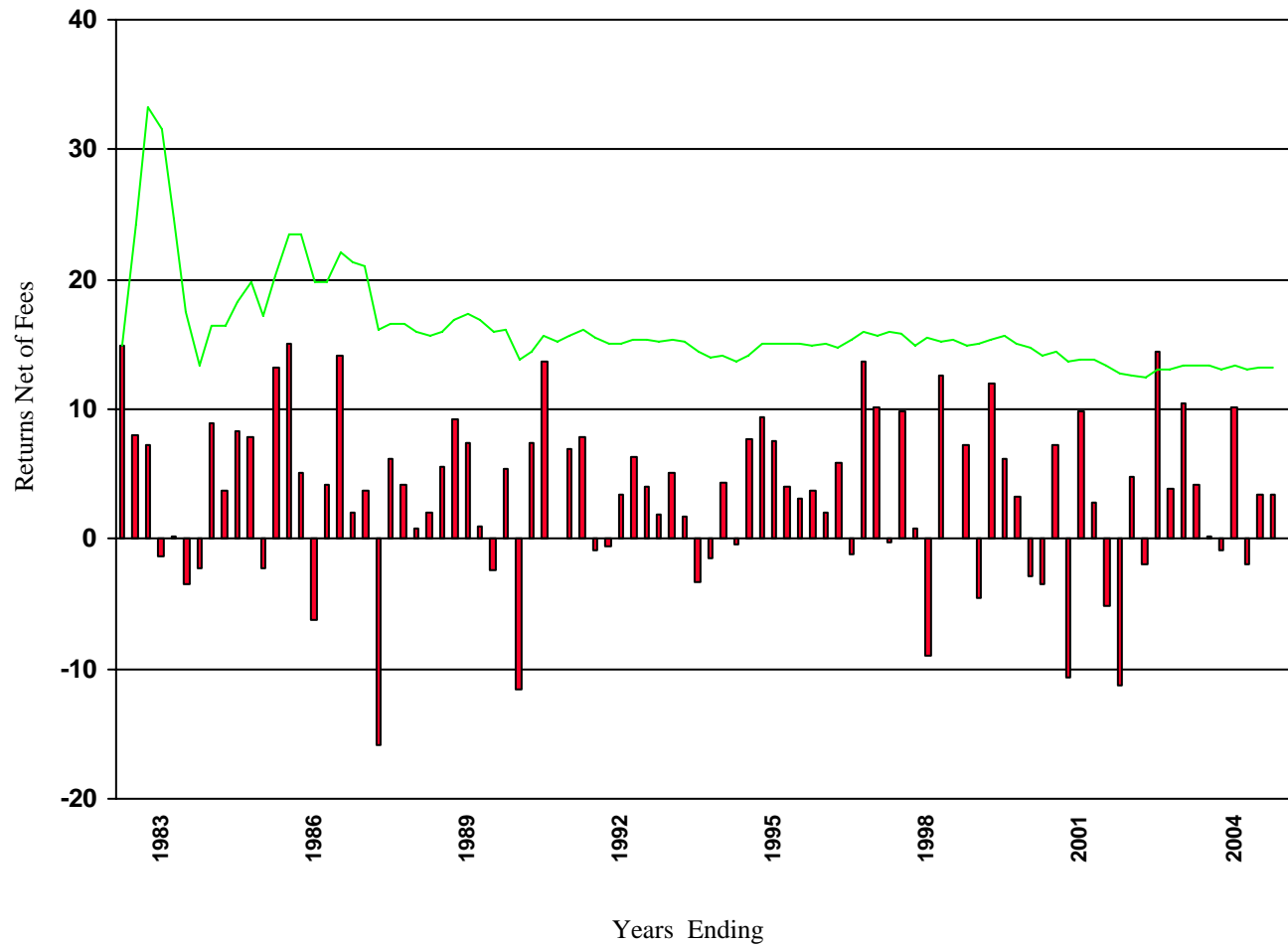
Market Value: \$463.3 Million

Inception-to-Date Net Return :	13.2%
Inception-to-Date Standard Deviation:	12.6%
Inception-to-Date Index Value:	17.4

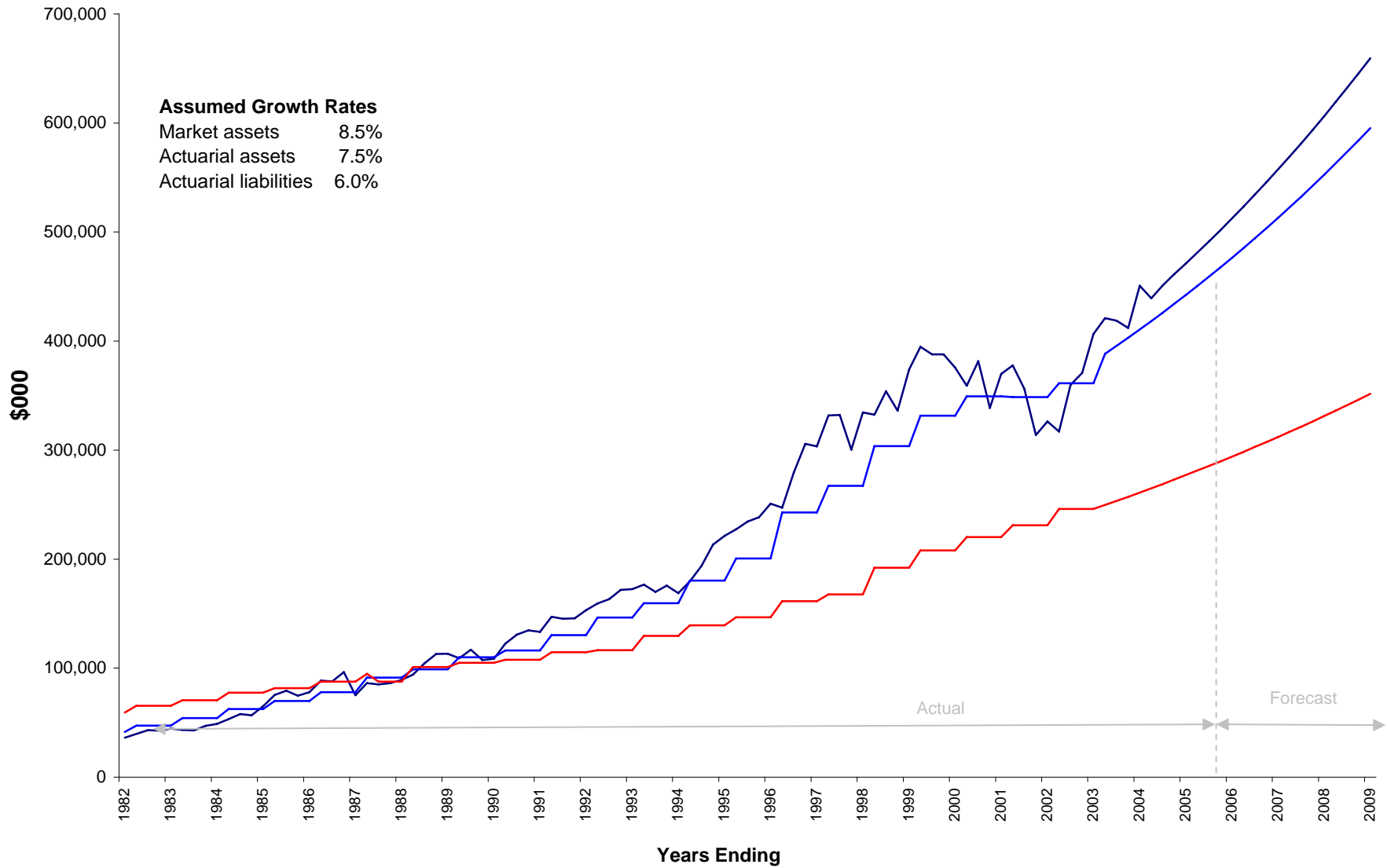
City of Kalamazoo Employee Retirement Fund

Quarterly vs. **Since-Inception** Net Returns

as of September 30, 2005



City of Kalamazoo Retirement System
Market Assets, Actuarial Assets, and Actuarial Liabilities
September 30, 2005



City of Kalamazoo Employees' Retirement System
Rates of Return by Manager and Asset Class--Net of Manager Fees

Period Ending September 30, 2005

(U.S. Dollars in Thousands)

	Inception: Oct-1982			Rates of Return(%) for Period Stated							
	Market Value \$	% at Market	Target	Quarter	Y-T-D	1 Year	3 Years	5 Years	10 Years	23 yrs	Years
Equities											
DFA U.S. Micro Cap	42,033	9.1%	9.0%	6.78	3.84	20.64	28.11	12.23	13.49	14.42	23.1
DFA U.S. Small Cap Value	42,713	9.2%	9.0%	6.16	6.20	22.24	31.29	18.42	15.99	NA	12.6
DFA Intl Small	<u>26,308</u>	<u>5.7%</u>	<u>5.0%</u>	<u>10.76</u>	<u>14.42</u>	<u>32.38</u>	NA	NA	NA	NA	1.8
Total Small Cap	111,054	24.0%	23.0%	7.45	7.10	23.86	31.24	16.12	15.19	16.73	
DIA Mid Cap Growth	49,995	10.8%	11.0%	4.51	0.55	16.31	19.05	(0.88)	9.46	NA	22.3
BGI S&P 500	125,337	27.1%	27.0%	3.62	2.79	12.27	16.71	(1.50)	9.36	13.63	23.1
DFA U.S. Large Cap Value	<u>44,947</u>	<u>9.7%</u>	<u>9.0%</u>	<u>5.69</u>	<u>8.80</u>	<u>21.73</u>	<u>22.39</u>	<u>10.89</u>	<u>11.95</u>	NA	12.6
Total Large Cap	170,284	36.8%	36.0%	4.16	4.31	14.63	18.22	1.76	10.14	13.53	
Total Equity	331,333	71.5%	70.0%	5.30	4.63	17.91	22.09	5.37	11.82	14.51	
Fixed Income											
Jennison Intermed. Bonds	52,595	11.4%	13.0%	(0.54)	3.29	4.70	4.32	7.03	NA	NA	6.8
Jennison Long Treasuries	<u>54,758</u>	<u>11.8%</u>	<u>12.0%</u>	<u>(2.92)</u>	<u>7.23</u>	<u>9.39</u>	<u>6.45</u>	<u>10.35</u>	<u>8.78</u>	<u>11.13</u>	23.0
Total Fixed Income	107,353	23.2%	25.0%	(1.73)	5.22	6.97	5.18	8.62	7.79	10.09	
Real Estate											
DFA REIT Securities	13,267	2.9%	2.5%	3.75	10.55	27.57	NA	NA	NA	NA	1.1
RREEF	10,967	2.4%	2.5%	2.22	NA	NA	NA	NA	NA	NA	0.6
Cash & Equivalents	388	0.1%	0%	0.83	2.12	2.60	1.59	2.41	4.15	4.65	
Total Plan--Nominal	463,308	100.0%	100.0%	3.42	4.97	15.60	17.35	6.68	10.93	13.19	23
<i>Total Plan--Real</i>				<i>1.95</i>	<i>1.27</i>	<i>11.67</i>	<i>14.42</i>	<i>4.10</i>	<i>8.36</i>	<i>10.09</i>	

City of Kalamazoo Employees' Retirement System
Total Returns (Net Manager Fees) vs. Benchmarks
 Period Ending September 30, 2005

	Last 3 Months	Y-T-D	Last 1 Year	Last 3 Years	Last 5 Years	Last 10 Years	Oct-82	Fees
DFA U.S. Micro Cap	6.78	3.84	20.64	28.11	12.23	13.49	14.42	56
Russell 2000	<u>4.69</u>	<u>3.38</u>	<u>17.95</u>	<u>24.12</u>	<u>6.45</u>	<u>9.37</u>	<u>12.12</u>	
Manager Over/(Under) Benchmark	2.09	0.46	2.69	3.99	5.78	4.12	2.30	
DFA U.S. Small Cap Value	6.16	6.20	22.24	31.29	18.42	15.99	NA	56
Russell 2000 Value	<u>3.09</u>	<u>4.02</u>	<u>17.75</u>	<u>24.89</u>	<u>15.18</u>	<u>13.33</u>	<u>14.92</u>	
Manager Over/(Under) Benchmark	3.07	2.18	4.49	6.40	3.24	NA	NA	
DFA Intl Small	10.76	14.42	32.38	NA	NA	NA	NA	69
MSCI EAFE Small Cap Cap App	<u>11.50</u>	<u>15.15</u>	<u>34.96</u>	<u>32.27</u>	<u>10.92</u>	<u>NA</u>	<u>NA</u>	
Manager Over/(Under) Benchmark	(0.74)	(0.73)	NA	NA	NA	NA	NA	
DIA Mid Cap Growth	4.51	0.55	16.31	19.05	(0.88)	9.46	NA	65
Russell Mid Cap Growth	<u>6.55</u>	<u>8.37</u>	<u>23.47</u>	<u>24.92</u>	<u>(4.50)</u>	<u>9.10</u>	<u>NA</u>	
Manager Over/(Under) Benchmark	(2.04)	(7.82)	(7.16)	(5.87)	3.61	NA	NA	
BGI S&P 500	3.62	2.79	12.27	16.71	(1.50)	9.36	13.63	6
S&P 500 Index	<u>3.61</u>	<u>2.76</u>	<u>12.25</u>	<u>16.72</u>	<u>(1.49)</u>	<u>9.49</u>	<u>13.65</u>	
Manager Over/(Under) Benchmark	0.02	0.03	0.02	(0.01)	(0.01)	(0.13)	(0.02)	
DFA U.S. Large Cap Value	5.69	8.80	21.73	22.39	10.89	11.95	NA	32
Russell 1000 Value	<u>3.88</u>	<u>5.72</u>	<u>16.69</u>	<u>20.48</u>	<u>5.76</u>	<u>11.52</u>	<u>14.68</u>	
Manager Over/(Under) Benchmark	1.81	3.08	5.05	1.90	5.13	NA	NA	
Jennison Intermed. Bonds	(0.54)	3.29	4.70	4.32	7.03	NA	NA	25
LB Aggregate Bonds	<u>(0.68)</u>	<u>1.83</u>	<u>2.80</u>	<u>3.96</u>	<u>6.63</u>	<u>6.55</u>	<u>9.15</u>	
Manager Over/(Under) Benchmark	0.14	1.46	1.90	0.36	NA	NA	NA	
Jennison Long Treasuries	(2.92)	7.23	9.39	6.45	10.35	8.78	11.13	25
ML LT Treas>15 yr	<u>(2.98)</u>	<u>6.14</u>	<u>7.89</u>	<u>5.47</u>	<u>8.95</u>	<u>8.24</u>	<u>10.75</u>	
Manager Over/(Under) Benchmark	0.06	1.09	1.50	0.99	1.40	0.54	NA	
DFA REIT Securities	3.75	10.55	27.57	NA	NA	NA	NA	39
DJ Wilshire REITs	<u>3.75</u>	<u>10.77</u>	<u>29.00</u>	<u>27.45</u>	<u>19.41</u>	<u>15.21</u>	<u>12.44</u>	
Manager Over/(Under) Benchmark	(0.00)	(0.22)	(1.43)	NA	NA	NA	NA	
RREEF	2.22	NA	NA	NA	NA	NA	NA	65
NCREIF Property	<u>4.80</u>	<u>14.27</u>	<u>19.59</u>	<u>13.18</u>	<u>11.03</u>	<u>11.66</u>	<u>8.49</u>	
Manager Over/(Under) Benchmark	(2.58)	NA	NA	NA	NA	NA	NA	
Cash & Equivalents	0.88	2.28	2.79	1.79	2.57	4.15	5.81	
U.S. 30 Day TBill	<u>0.83</u>	<u>2.05</u>	<u>2.50</u>	<u>1.55</u>	<u>2.27</u>	<u>3.69</u>	<u>5.18</u>	
Manager Over/(Under) Benchmark	0.05	0.22	0.29	0.24	0.31	NA	NA	

City of Kalamazoo Employees' Retirement System
Total Returns (Net Manager Fees) vs. Benchmarks
 Period Ending September 30, 2005

	Last 3 Months	Y-T-D	Last 1 Year	Last 3 Years	Last 5 Years	Last 10 Years	Oct-82	<i>Fees</i>
Total Plan--Nominal	3.42	4.97	15.60	17.35	6.68	10.93	13.19	34
Composite (70/25/5)-Nominal	2.52	2.93	11.09	14.04	2.01	9.59	12.72	
Total Plan--Real	1.95	1.27	11.67	14.42	4.10	8.36	10.09	
U.S. Inflation	1.47	3.71	3.93	2.93	2.59	2.57	3.09	
U.S. Inflation+5% annual	2.72	7.46	8.93	7.93	7.59	7.57	8.09	
Over/(Under) Goal of 5% Real	0.70	(2.48)	6.67	9.42	(0.90)	3.36	5.09	

Composite (70/25/5)

Composite is S&P 500 (70%)+LB Aggregate (25%)+DJ Wilshire REITS (5%)

City of Kalamazoo Employees' Retirement System
Summary Statistics vs Benchmarks on Gross Returns--5 Year Annualized
 Period Ending September 30, 2005

Monthly Data	Ending Index Value	Geometric Mean (%)	Arithmetic Mean (%)	Standard Deviation (%)	Sharpe vs S&P 500	Highest Return (%)	Lowest Return (%)	N Positive Months	N Negative Months	<i>Yrs</i>
DFA U.S. Micro Cap	1.816	12.68	15.16	24.24	0.541	13.80	(14.48)	36	23	23.1
Russell 2000	1.367	6.45	9.46	26.38	0.275	23.42	(21.40)	12	8	
DFA U.S. Small Cap Value	2.363	18.77	21.15	24.25	0.793	11.72	(15.60)	35	25	12.6
Russell 2000 Value	2.027	15.18	17.49	23.55	0.654	22.72	(21.29)	15	5	
DFA Intl Small Co (Sim)	1.515	26.79	27.47	13.51	1.927	7.21	(3.65)	15	6	1.7
MSCI EAFE Small+CapAppn	1.679	10.92	13.23	23.58	0.465	23.99	(16.48)	11	9	
DIA Mid Cap Growth	0.988	(0.25)	2.02	21.73	(0.012)	12.43	(17.14)	34	26	22.3
Russell Mid Cap Growth Idx	0.795	(4.50)	0.19	31.37	(0.067)	27.06	(27.80)	11	9	
BGI S&P 500	0.931	(1.43)	(0.27)	15.34	(0.168)	8.80	(10.87)	34	26	23.1
S&P 500 Index	0.928	(1.49)	0.18	18.68	(0.112)	15.40	(17.28)	12	8	
DFA U.S. Large Cap Value	1.696	11.14	12.49	17.52	0.596	9.41	(11.10)	35	24	12.6
Russell 1000 Value	1.323	5.76	7.23	18.03	0.277	17.27	(18.77)	15	5	
Jennison Intermed. Bonds	1.421	7.28	7.36	4.17	1.276	2.68	(3.40)	44	16	6.8
LB Aggregate Bonds	1.378	6.63	6.70	4.16	1.142	4.62	(2.44)	16	4	
Jennison Long Bonds	1.657	10.62	11.17	11.06	0.826	5.98	(9.42)	41	19	23.0
ML LT Treas>15 yr	1.535	8.95	9.41	10.34	0.709	12.69	(5.47)	12	8	
DFA REITS (Sim)	1.268	24.48	25.87	19.32	1.239	7.27	(8.37)	9	4	1.0
DJ Wilshire REITs	2.428	19.41	20.58	17.16	1.075	16.46	(10.30)	15	5	
RREEF	1.022	4.49	4.53	3.27	0.467	2.22	0.00	1	0	
NCREIF Property	1.610	10.55	10.57	2.47	3.373	5.34	0.67	19	0	
Cash & Equivalents	1.135	2.57	2.58	0.84	3.647	1.69	0.27	20	0	20.0
U.S. 30 Day T-Bill	1.119	2.27	2.27	0.78	0.000	1.58	0.22	20	0	
Total Plan	1.403	7.00	7.65	11.86	0.460	6.69	(7.61)	38	22	
Composite (70/25/5)	1.105	2.01	2.78	12.91	0.039	11.91	(10.71)	12	8	
DJ Wilshire 5000	0.974	(0.53)	1.33	19.89	(0.047)	16.50	(16.81)	12	8	
U.S. Inflation	1.136	2.59	2.60	1.56	0.194	1.82	(0.90)	16	4	
U.S. 30 Day Tbill	1.119	2.27	2.27	0.78	0.000	1.58	0.22	20	0	
Gold	1.729	11.58	12.18	11.84	0.837	12.14	(6.58)	15	5	

Notes:

DFA Intl Small Co simulated prior to 1/2004

DFA REITs simulated prior to 10/04

RREEF simulated prior to 4/15/2005

Composite (70/25/5)

Composite is s&p 500 (70%)+LB Aggregate (25%)+DJ Wilshire REITs (5%)

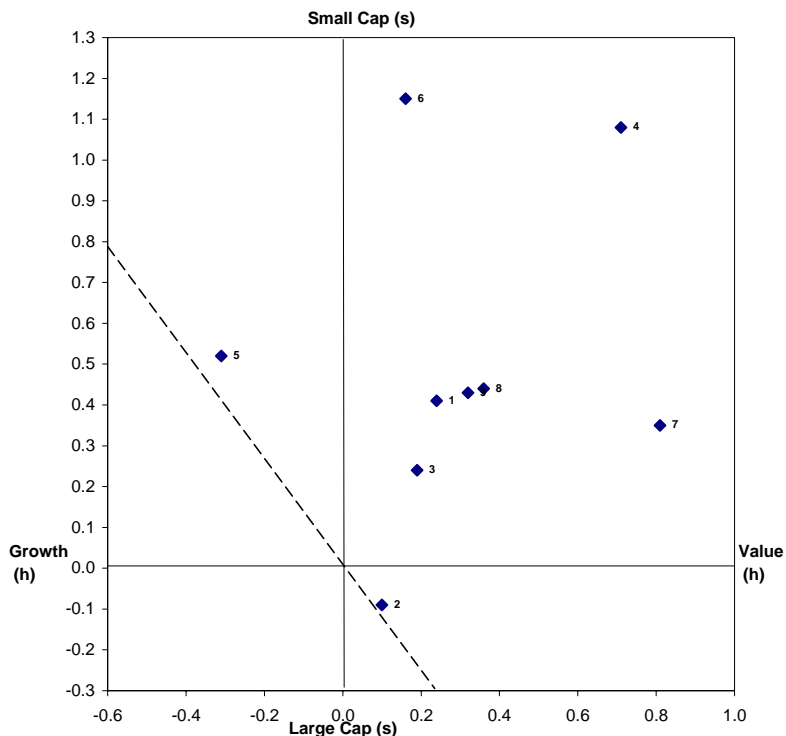
City of Kalamazoo Employees' Retirement System
Risk Adjusted Performance
Five Years Ending 9/30/2005

	Alpha	Beta	Sharpe Ratio	Treynor Ratio (%)	Jensen's Alpha (%)	Sortino Ratio	M-Squared (%)
DFA U.S. Micro Cap Russell 2000	0.038 0.0223	1.271 1.2474	0.4704 0.2746	11.1339 5.8085	15.7836 9.4646	0.8187 0.362	11.9388 7.7028
DFA U.S. Small Cap Value Russell 2000	0.0508 0.0223	1.1688 1.2474	0.6849 0.2746	17.1945 5.8085	20.6745 9.4646	1.3128 0.362	16.7679 7.7028
DFA Intl Small Co (Sim) MSCI EAFE Small+CapAppn	0.0384 0.0311	1.2703 0.9249	1.5527 0.4648	20.2494 11.7605	15.8289 12.2999	12.3825 0.7674	15.4419 11.7524
DIA Mid Cap Growth Russell Mid Cap Growth Idx	0.0065 -0.0002	1.2535 1.5472	0.0221 -0.0666	0.4559 -1.346	3.1641 1.1428	-0.0487 -0.1491	2.6902 1.0116
BGI S&P 500 S&P 500 Index	0.0002 0	1.0035 1	-0.1075 -0.112	-2.0096 -2.0919	0.0824 0	-0.2392 -0.2448	0.2593 0.1766
DFA U.S. Large Cap Value Russell 1000 Value	0.0307 0.0172	0.8709 0.8585	0.5255 0.2769	12.5045 5.8024	11.9688 6.5621	0.7474 0.2961	12.848 7.6777
Jennison Intermed. Bonds LB Aggregate Bonds	0.0179 0.0164	-0.1243 -0.1266	1.455 1.1419	-47.728 -41.0478	4.6835 4.0665	2.4015 1.5316	30.0944 24.2776
Jennison Long Bonds ML LT Treas>15 yr	0.0266 0.0229	-0.264 -0.2786	0.9298 0.7091	-36.0881 -27.9521	7.8456 6.3153	1.8438 1.2577	20.9072 16.3078
DFA REITS (Sim) DJ Wilshire REITs	0.0189 0.0477	1.6218 0.5063	1.0809 1.0746	17.0851 35.7835	9.2092 17.9738	3.3414 2.4086	14.364 25.4681
RREEF (Sim) NCREIF Property	-0.0136 0.0255	0.991 0.015	0.5004 3.3734	1.4911 261.634	-5.4466 8.0722	0.5999 59.7834	4.5238 87.7142

Three-Factor Regression Results

Quarterly - Adjusted for Risk-free Rate Data: Oct 2000 - Sep 2005

CITY OF KALAMAZOO



Label	Manager	E(R)%	a	Beta (b)	Size (s)	Adjusted		R ²	Start Date	End Date	
						Btm (h)	Symbol				
1	KCL_TTEquity	2.66	-0.34	0.99	0.41	0.24	0.996	TTEq	0.996	Oct-00	Sep-05
2	KCL_BGI500	0.16	-0.52	1.00	-0.09	0.10	0.994	S&P 5	0.995	Oct-00	Sep-05
3	KCL_TTPlan	-0.89	0.24	0.67	0.24	0.19	0.985	TTPla	0.987	Oct-00	Sep-05
4	KCL_DFSVX DFA Small Value	8.04	-0.35	1.05	1.08	0.71	0.970	DFSVX	0.975	Oct-00	Sep-05
5	KCI DIA MCG	-0.32	0.25	0.91	0.52	-0.31	0.967	MCG	0.972	Oct-00	Sep-05
6	KCL_DFSCX DFA MicroCap	4.49	0.19	0.92	1.15	0.16	0.961	DFSCX	0.967	Oct-00	Sep-05
7	KCL_DFLVX DFA Large Cap Value	5.44	-1.15	1.01	0.35	0.81	0.956	DFLVX	0.963	Oct-00	Sep-05
8	KCL_DFISX (Sim)DFA Intl Small	1.38	1.39	0.75	0.44	0.36	0.619	DFISX	0.679	Oct-00	Sep-05
9	KCL_DFREX (Sim) DFA REITs	-1.59	2.14	0.42	0.43	0.32	0.384	DRFEX	0.482	Oct-00	Sep-05

Expected returns calculated using Fama/French average annual returns(1927-2004):
Market minus T-Bill = 8.30 Size Factor = 3.79 Style Factor = 4.97

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Box in above right table indicates significant result (t-stat greater than 2.0).

Assuming a beta value of 1.00: Managers along the dotted line have expected returns over the market of 0.00%, managers to the right of the line have positive expected returns over the market and managers to the left of the line have negative expected returns over the market.