

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT COMMITTEE MINUTES
WEDNESDAY, NOVEMBER 8, 2006**

A meeting of the City of Kalamazoo Retirement Investment Committee was held on Wednesday, November 8, 2006, in Room 207-A of the Kalamazoo County Administration Building. Chair Chuck Elliott called the meeting to order.

Members Present: Chuck Elliott, Randy Eberts, Ed Edwards, Bob Salisbury, and Dan DeMent

Others Present: Jason Gordon from BGI, Lee Kirk, Randy Schau, City Commissioner Mary Balkema, City Commissioner Barb Miller, Mark Stuhldreher, Jeanette Meyer and Chris Ruppel.

A motion was made and seconded to excuse Jan Van der Kley. Motion passed by voice vote.

Approval of Minutes

A motion was made and seconded to approve the minutes of the August 16, 2006 meeting, the October 5, 2006 special meeting and due diligence reports. Motion passed by voice vote.

Investment Portfolio

Mark Stuhldreher stated that the percentage of asset allocation to the allocation policy is almost perfect.

Investment Performance Review

Chris Ruppel stated that the portfolio increased from \$481.8 million to \$495.5 million during the third quarter of 2006 – an increase of \$13.7 million or 2.9%. The market value is net of \$3.6 million in benefit payments and \$54,000 in participant withdrawals. Employee contributions for the quarter were about \$350 thousand. The City made no contribution in the quarter. The weighted average return on the portfolio assets was a positive 3.6%. Total equities were at 69.9%. The equity portion of the portfolio gained 2.9% for the period; fixed income had a positive quarter increasing 5.0%. The quarter was unkind to U.S. Small Cap equities with U.S. Micro Cap losing 0.21% and U.S. Small Cap Value decreasing by 0.70%. International Small Cap was contrary to the U.S. Small Cap retrenchment posting a 2.3% gain. U.S. Large Cap performed well for the quarter returning 4.9%. The intermediate bond portfolio gained 3.3% and the long bond portfolio gained 6.7%.

Real estate gained 5.6% in the quarter.

The inflation-adjusted, or real return for the quarter was 2.8%. Since 1982, the return on the portfolio, net of manager fees, has been 13.1% nominal and 9.9% real.

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

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Reconciliation

Jeanette Meyer stated that there were some challenges in 2nd quarter reconciliation basically brought about through State Street not phasing out Denver Investments as requested. Each time that additional revenue was received the account for Denver was re-opened instead of just being moved to the cash account. The public fund accounting has moved to Kansas City and it appears that our concerns are being addressed. The third quarter was more straightforward. There is an unreconciled difference of \$3,200, which has to do with State Street and the accrual process that was done at the beginning of the year. The difference will be reconciled by the end of the year.

Cash Flow

Jeanette Meyer stated that cash flow for the quarter was as expected; employee contributions of approximately \$350,000. Investment income increased slightly. Withdrawals were lower.

She stated that liquidation in the amount of \$3.8 million for the quarter of November, December and January was needed. She also requested that she, Mark Stuhldreher and Chris Ruppel be allowed to do the reallocation based on the November numbers and are asking for \$1.3 million for November.

Chuck Elliott said that he thought the November liquidation should be made from Barclay's.

Motion to approve the November liquidation from BGI and allow the annual reallocation to be done by Meyer, Stuhldreher and Ruppel was made and seconded. The asset allocation policy following liquidity and annual allocation should be adhered to. Motion passed by voice vote.

Expenses

Jeanette Meyer discussed the expenses for the quarter. There was some discussion about the annual expense summary report presented by Chris Ruppel. He will be creating a report that shows a three year trend of the expenses.

A motion was made and seconded to approve the expenses.

Roll call vote:

Yes: Chuck Elliott, Randy Eberts, Ed Edwards, Bob Salisbury, Dan DeMent

No: None, **motion carried**

Due Diligence Visits and Client conferences

The schedule for 2007 was distributed and discussed. Chris Ruppel will be coordinating the travel requests and present them to Chuck Elliott.

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Audit

Mark Stuhldreher said that he would talk to Jan Van der Kley about the audit and asked that members let him know if they feel there is a need for a change in the scope of the audit.

Communications

Chris Ruppel and Jason Gordon discussed the derivative reports for BGI. The committee had no objections to the level or derivative usage or securities lending usage at Barclays.

Old/New Business

PA28

Lee Kirk discussed PA28 and stated that PA 28 is in direct conflict with the IRS code. In addition he stated that the ordinance is in the process of being revised, and the City brought into compliance with all aspects of the IRS code. The City of Kalamazoo will continue to explore other funding methods for Retiree Health Care. These may or may not include the use of pension assets. City Administration will be keeping all pertinent parties apprised. Discussion followed.

Around the Table

Chris Ruppel mentioned some articles of interest which he is posting on the Merion Capital website.

Mary Balkema brought up the matter of the 13th check. There was some discussion.

Closing Items

Future Meetings (all room 207A Kalamazoo County Administration Building)

Wednesday, February 21, 2007	9:00 a.m.
Wednesday, May 16, 2007	8:00 a.m.
Wednesday, August 15, 2007	9:00 a.m.
Wednesday, November 14, 2007	8:00 a.m.

There being no further business, Chairman Elliott adjourned the meeting.

Respectfully submitted,

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Mark D. Stuhldreher
Secretary