

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM  
INVESTMENT COMMITTEE MINUTES  
Wednesday, February 25, 2015**

A meeting of the City of Kalamazoo Retirement Investment Committee was held on Wednesday, February 25, 2015 in the Lawrence Conference Room of the Kalamazoo Community Foundation Building. Acting Chairman Jan Van Der Kley called the meeting to order at 8:45 a.m.

Members Present: Chair Robert Salisbury (via phone), Acting Chair Jan Van Der Kley, Dan DeMent, Sandi Doctor and Dean Bergy (via phone).

Others present: Chris Ruppel, Consultant; Barb Miller, City Commissioner; Clyde Robinson, City Attorney; Tom Skrobola, Chief Financial Officer; and Patricia Vargas, recording secretary.

Absent: Randy Eberts and Joel Wittenberg.

**Dan Dement motioned and Sandi Doctor supported excusing Members Randy Eberts and Joel Wittenberg. The motion passed by voice vote.**

### **2014 4<sup>th</sup> Quarter Meeting Minutes**

**Dan motioned and Sandi Doctor supported approval of the November 25, 2014 meeting minutes, subject to amendments. The motion passed by voice vote.**

### **Trip Reports**

None

### **Investment Portfolio**

#### Assets

Chris Ruppel and Bob Salisbury commented on the concise and well laid out report including the OPEB assets.

#### Investment Performance Review

Mr. Ruppel presented. The market value of portfolio assets increased from \$622.9 million to \$634.8 million during the fourth quarter of 2014, an increase of \$11.9 million or 1.9%.

The weighted average return for the quarter net of manager fees was 2.6%. The 1-year return was 6.9%. The return since October 1982, net of manager fees, through the end of the quarter has been 11.4%.

Equities comprised 69.9% of the City portfolio at the end of the quarter. The equity portion of the City portfolio returned 2.4% for the quarter and 5.9% year-on-year.

Fixed income comprised 24.7% of the City portfolio at the end of the quarter. Total fixed income returned 2.1% for the quarter and 7.0% year-on-year.

At the end of the quarter real estate investments were 5.3% of the portfolio. Real estate returned 7.9% for the quarter and 20.6% for the year.

The portfolio assets finished the quarter with 69.9% in equities, 24.7% in fixed income, 5.3% in real estate, and 0.1% in cash. The portfolio target allocation is 70% equities, 25% fixed income, and 5% real estate.

The inflation-adjusted or real return, for the quarter was 3.98% as the inflation rate for the quarter was -1.35%. With a year-on-year inflation rate of 0.76% the one year real return was 6.13%. Since October 1982 the return on the portfolio, net of manager fees, has been 11.4% nominal and 8.7% real.

Chris noted a liquidity score has been added to the graph page.

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM  
INVESTMENT COMMITTEE MINUTES  
Wednesday, February 25, 2015**

**Account Update**

2014 4th Quarter Cash Flow Report

Tom Skrobola summarized fourth quarter movement and noted that the ERI repayment was put directly into the investment account, anticipating the balance of repayment coming inbound as soon as the Crown Castle Cell Tower deal is consummated. Overall fees and expenses are as expected.

2014 4th Quarter Expense Report

Tom Skrobola commended Lora Ross, City Accountant responsible for pension as well as all other cash accounting in the City, on exceptional management and reporting of expenses.

**Sandi Doctor motioned and Dan DeMent supported to accept the 2014 4<sup>th</sup> Quarter total miscellaneous expenses by roll vote.**

**Bob Salisbury, Dean Bergy, Dan DeMent, Sandi Doctor and Jan Van Der Kley in favor. MOTION PASSED.**

2014 4th Quarter Liquidations

Tom Skrobola provided a summary of the 4<sup>th</sup> Quarter/Year End Rebalancing Liquidations.

**Audit**

Tom commented that the internal trial balance will be completed and to the auditors by end of March. Auditors will conduct field work in April, draft reports in early June and will be ready to publish late June, prior to June 30<sup>th</sup> State deadline. Jan Van Der Kley generously takes on the role of reviewing and editing the management discussion and analysis portion of the employees' retirement system and perpetual care fund.

**Due Diligence**

Chris Ruppel provided information from the Gabriel Roeder meeting yesterday evening and on upcoming due diligence conferences and meetings.

**Communications**

Derivatives Report

Mr. Ruppel indicated that nothing has changed.

Articles of Interest

The 4<sup>th</sup> Quarter articles of interest were acknowledged. Interesting articles provided by Sandi Doctor from Wisdom Tree.

PCIC Report

Chris Ruppel highlighted the City of Kalamazoo Perpetual Care Fund report items.

**New Business**

Dan DeMent discussed the request from Jennison regarding power of attorney for EFTs related to trade settlements.

The Review of System Experience dated January 1, 2009 through December 31, 2013 from actuaries Gabriel, Roeder, Smith (GRS) was reviewed by the Committee.

The recommendations by GRS include the following non-economic assumption/method changes:

Disability Rates: increase rates for Public Safety, Metro Transit, and AFSCME as indicated on page 8 of the attached "Review of System Experience".

**CITY OF KALAMAZOO EMPLOYEES' RETIREMENT SYSTEM  
INVESTMENT COMMITTEE MINUTES  
Wednesday, February 25, 2015**

Mortality: update the post retirement mortality assumption to use RP-2000 Mortality Combined Healthy Tables, projected 20 years with U.S. Population Scale BB.

Merit and Longevity Portion of Pay Increases: Change the rates of merit and longevity for Public Safety (Sworn and Non-Sworn) and the Transit Union groups as shown on page 12 of the attached "Review of System Experience".

Option Factors: changes as indicated on page 21 of the attached "Review of System Experience."

Optional form of benefit calculation: remove the current 1.00% reduction.

As a result of the 2013 Experience Study, the recommendations by GRS include the following economic assumption/method changes:

Interest Rate: no change from 7.5%. Recommended by RIC.

Price Inflation: decrease from 3.00% to 2.75%. Recommended by RIC.

Wage Inflation: decrease from 4.0% to 3.5%. Recommended by RIC.

Amortization Period: GRS recommended lengthening to 20 years from 10 years. RIC recommends amortization period remain at 10 years.

Administrative expenses: increase from 0.60% of payroll to 0.65% of payroll. RIC defers to City management on the increase in administrative expenses.

The RIC will make a recommendation to the City Commission regarding economic assumptions, and the City Administration will make a recommendation regarding non-economic assumptions. The City Administration will bring both recommendations forward to the City Commission together in March 2015.

**Sandi Doctor motioned and Dan DeMent supported a motion to adopt the economic assumptions proposed by GRS. The motion passed by voice vote.**

**Future Meetings (all Lawrence Conference Room Kalamazoo Community Foundation Building)**

Wednesday, May 27, 2015 @ 8:00 a.m.  
Wednesday, August 26, 2015 @ 8:45 a.m.  
Monday, November 23, 2015 @ 2:30 p.m.  
Wednesday, February 24, 2016 @ 8:45 a.m.

**Around the Table**

Tom responded to OPEB update request, advising that the OPEB bonds were priced in January, at 4.4% as opposed to the estimated 4.9%. The bonds were issued on January 23<sup>rd</sup> and by January 29<sup>th</sup> all funds were invested with exception of the REEF dollars, which will be invested as RREEF processes the acquisition of real estate.

**Adjourn**

There being no further business, Acting Chair Jan Van Der Kley adjourned the meeting at 9:20 a.m.



Thomas C. Skrobola,  
Secretary